



**Report**  
**of the State Committee**  
**for Financial Monitoring**  
**of Ukraine**  
**2008**



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## Dear Colleagues!

One more year of the State Committee for Financial Monitoring of Ukraine (hereinafter referred to as the SCFM of Ukraine) activity is over. In its competence SCFM of Ukraine as a financial intelligence unit permanently improves its methods of investigation of financial transactions as regards to their connection to money laundering and/or terrorist financing.

It should be mentioned, that passed 2008 was remarkable for two main events in the activity of SCFM of Ukraine.

Firstly, on September 25, 2008

the Verkhovna Rada of Ukraine approved the Draft Law of Ukraine "On Introducing Amendments to the Law of Ukraine on Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime" in first reading, 76, 7 % of deputies voted for this act.

Draft Law was elaborated by the SCFM of Ukraine jointly with all participants of the system for counteraction to legalization of the proceeds from crime and terrorist financing with the aim of implementation of international AML/CTF standards, as well as for fulfillment of FATF Recommendations.

Adoption of this Draft Law shall



assist to improve the normative legal provision of the National AML/CTF system.

Secondary, from September 22 to October 1 the III MONEYVAL Evaluation Round took place.

Ukraine have always been a reliable and consistent partner of international organizations on counteraction to financial crimes, which is proved by successful conducting of two previous evaluation rounds of our country by MONEYVAL experts. Similar evaluations of our country were performed repeatedly not only by the MONEYVAL, but also by FATF, EBRD, World Bank, IMF and other institutions.

At the same time, SCFM continues active cooperation with FIUs of different countries of the world and express its gratitude to all its partners in more than 100 countries, which assist to revealing and counteraction to money laundering and terrorist financing.

That is why, for more effective participation of central agencies of executive power in activities of international organizations, the member of which Ukraine is, by Resolution of the Cabinet of

Ministers of Ukraine "On the Procedure for Participation of Central Agencies of Executive Power in Activities of International Organizations, the member of which Ukraine is", as of September 13, 2008 №1371, the Cabinet of Ministers of Ukraine empowered SCFM of Ukraine to represent the interests of our country in Egmont Group.

Necessity of introducing amendments is determined by representation of interests of the State by SCFM in international organizations, involved in the AML/CTF sphere, and namely with the Egmont Group.

Accordingly, the current report contains results of laborious activity of SCFM experts (Financial Intelligence Unit) during 2008. Development of National AML system will continue in future and SCFM will provide fulfillment of taken obligations.

Head of the State Committee  
for Financial Monitoring  
of Ukraine



Igor Cherkaskyi



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## 1. About SCFM of Ukraine

For every state counteraction to money laundering is a national security issue.

Decree of the President of Ukraine "On Additional Measures for Strengthening Fight against the Concealment of Nontaxable Profits, and Laundering of the Proceeds from Crime" dated on 22.06.2000 № 813 became the first step on the path of creation of AML system in Ukraine having organizational features. According to Decree State Tax Administration of Ukraine provide the exposure of facts of concealment from taxation or disguise of illegal origin of proceeds, exposure of their real origin and sources of acquisition, location and moving, size, use, in that number for realization of enterprise, other economic, investment, charity activity, calculation and credit operations.

In the end of 2002 to create an integral national system of AML proceeds from crime the Law Of Ukraine "On

Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime" was adopted. It defines main tasks, functions and rights of the State Committee for Financial Monitoring of Ukraine. Adopted law came into force on 12.06.2003 and was further elaborated and amended.

To provide maximum independence in making decision by financial intelligence unit of Ukraine the Decree of the President of Ukraine dated 28.09.2004 № 1144 "On the State Committee for Financial Monitoring of Ukraine" on the base of the State department for financial monitoring within the Ministry of Finance of Ukraine there was established the State Committee for Financial Monitoring of Ukraine – central body of executive power having special status.

SCFM acts according to the Law of Ukraine On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime, uses recommendations of international organizations on AML from crime and TF.

SCFM of Ukraine examines financial transactions in order to identify if they are connected with ML and/or TF. Meanwhile, SCFM submits law-enforcement agencies with information on financial transactions, which potentially may be connected with ML or TF as well as information on connected financial transactions.

The process of legalization of proceeds from crime often is rather complicated branchy scheme of proceeds turnover as a result of which the origin of proceeds from crime is hidden. Therefore effective counteraction of legalisation (laundering) of the proceeds from crime is possible under the proper coordination of actions of

The Symbolic of SCFM of Ukraine



all participants of national AML system on national as well as on regional level.

### Financing

Financing of expenditure of SCFM of Ukraine in 2008 came from state budget within the budgetary provisions under the Law of Ukraine "On 2008 State Budget of Ukraine".

In 2008 according to received budgetary provisions SCFM spent 49 158,1 thousand UAH. The structure of using defined funds is introduced below.

**The structure of using budgetary provisions by SCFM of Ukraine in 2008**

Sphere of consumption	Sum, in thousands HUA
Wage payment and extra charge	31 410,8
Payment of public utilities and energy carriers	2 152,1
Business trip expenditure payment	504,7
Maintenance of SCFM training centre	1 398,5
Other expenditure for providing functioning and financing State information and analytical system of SCFM of Ukraine	13 692,0
<b>Total</b>	<b>49 158,1</b>

### Remuneration of labour

The rate and structure of remuneration of SCFM employers is defined by the Cabinet of Ministers of Ukraine. Under corresponding Government Resolution dated 1.02.2008 in SCFM specialists' and middle range managers' salary was extend up to 45%. Average SCFM employee' salary in 2008 is 4 900 UAH. Comparing with 2007 the average specialists' and middle range managers' salary by November 2008 increased by 25%.

### Stuff quantity

The stuff of SCFM of Ukraine constituted **338** people, **162** in regional divisions, as of December 31, 2008. In SCFM of Ukraine work **341** employees, including **3** employees according to the signed labour contract (**178** – in central administration, **163** – in regional subdivisions). During 2008 amount of employees increased on 72 persons.

Gender division of the employees in SCFM constitutes **196** men and **145** women. Among senior management – **61** men and **26** women.

**Total amount – 341 people, the average age is 37 years**



– 43%



– 57%

The average age of employees of SCFM of Ukraine is **37** years.

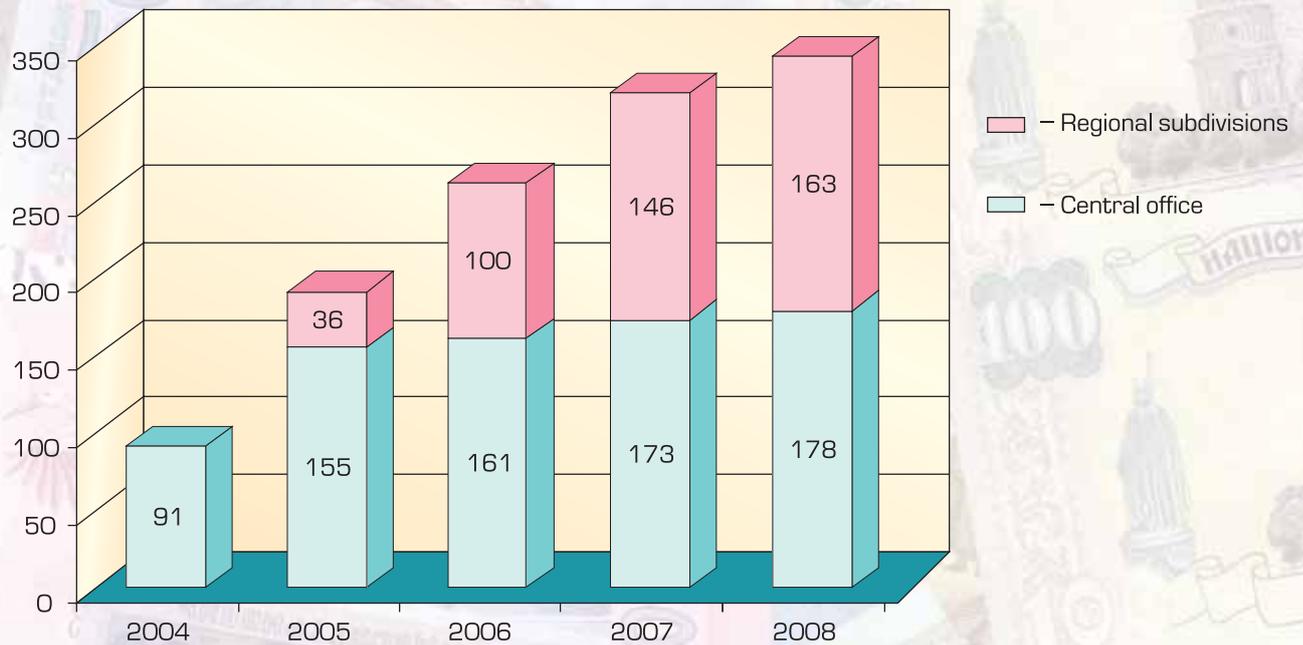
Staff of the SCFM consists of high qualified specialists having higher education.

In SCFM stuff appointment is performed by means of Vacancy commission under the Statute of conducting Vacancy commission. Information concerning conduction of Vacancy commission and its terms are printed in mass media and also placed on the SCFM of Ukraine web-site.

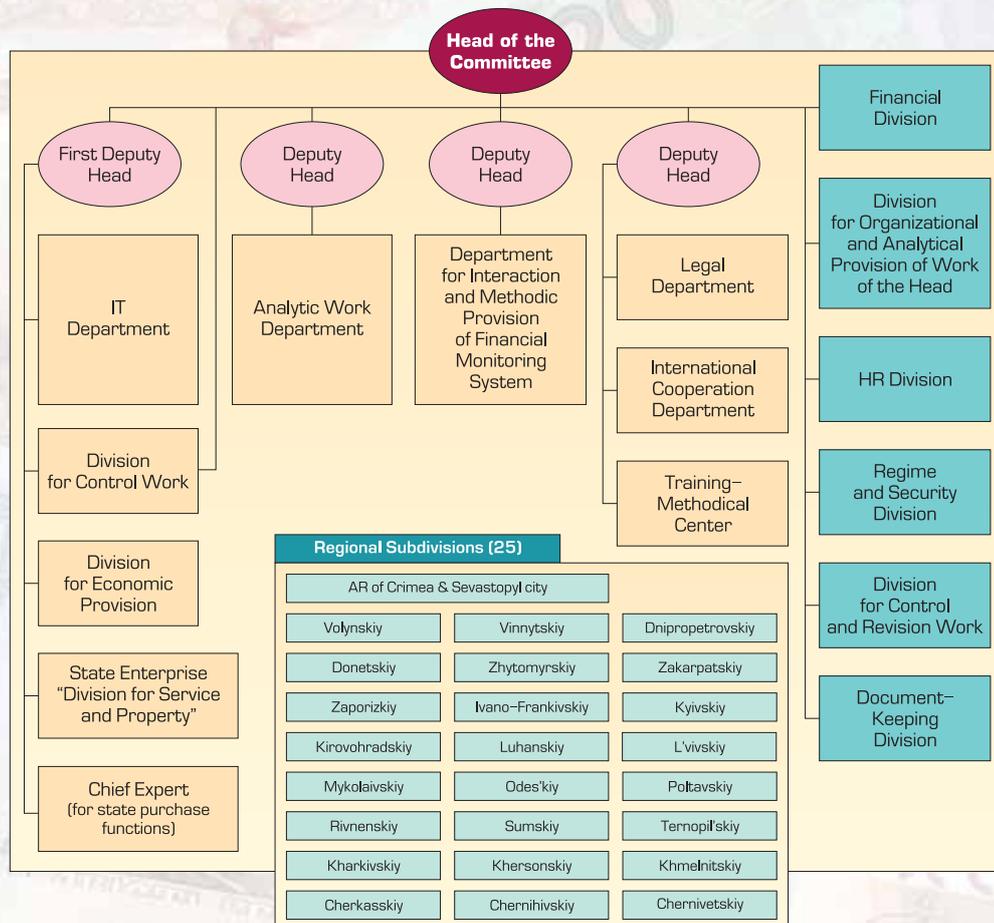
In 2008 SCFM held **6** meetings of the Vacancy commission. **79** people took part in this competition. Under the results of competition **72** people were assigned and **2** civil servants of SCFM of Ukraine were promoted.

SCFM of Ukraine conduct training of civil servants to get practical experience, check professional level and for promotion

## Staff quantity dynamics of the State Committee for Financial Monitoring of Ukraine in 2004–2008



## The structure of the State Committee for Financial Monitoring of Ukraine



and under its results **12** employees of SCFM were promoted.

By January 1, 2008, **25** regional subdivisions of SCFM function in regions: AR of Crimea, Vinnitsa, Volyn, Dnipropetrovs'k, Donetsk, Zhytomyr, Zakarpattya, Zaporizzhia, Ivano-Frankivs'k, Kyiv, Kirovograd, Lugans'k, Lviv, Mykolaiv, Odessa, Poltava, Rivne, Symi, Ternopil, Kharkiv, Kherson, Khmelnyts'kiy, Cherkasy, Chernivtsy and Chernigiv regions.

### For public consultations

To accomplish Decree of the President of Ukraine dated 31.07.2004 № 854/2004 "On Providing Conditions for Wider Participation of Public in Shaping and Realization of the State Policy" and the Resolution of the Cabinet of Ministers No 1378 "On Certain Issues Providing for Participation of Public in Shaping and Realization of the State Policy", dated

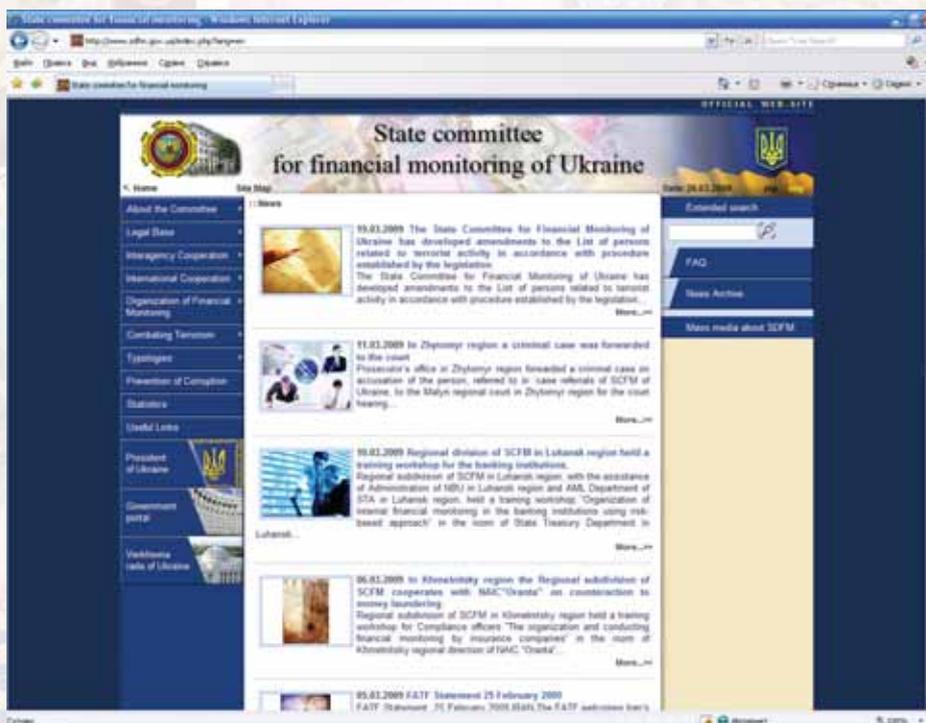
15.10.2004 within the SCFM function the Public Council.

It should be mentioned that in 2008 under the Resolution of the Public Council 2 new representatives were included, in particular from Ukrainian National Committee of International Chamber of Commerce and Association of electronic business of Ukraine. Thus, at present Public Council consist of representatives of 9 public organizations.

During the meetings of the Public Council regulations worked out by SCFM of Ukraine and carried out for public consideration, current issues on SCFM activity and reporting entities' problems i.e. problems of representatives of Public Council are discussed.

Official web-site of the SCFM contains the information on the activities of the SCFM of Ukraine. Moreover, to provide transparency of its activities the SCFM of Ukraine covers the information in mass media.

Official web-site of the State Committee for Financial Monitoring of Ukraine (<http://www.sdfm.gov.ua>)



## 2. Development of the AML/CTF Legislation

During 2008 the SCFM of Ukraine worked to develop legislative framework regulating legal relationship in AML/CFT area. During this year the SCFM adopted orders, memoranda, introduced suggestions and remarks to draft laws and draft Resolutions of the Cabinet of Ministers of Ukraine.

Thus, during the reporting year the SCFM of Ukraine adopted 280 orders on the main activities, 100 directives and 6 memoranda of understanding in AML/CFT area.

Together with the National Bank of Ukraine in order to improve legal regulation of national AML/CFT system, draft Law of Ukraine On Amending the Law of Ukraine On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing was elaborated.

This Draft Law was elaborated to implement into national legislation new edition of FATF 40 + 9 Recommendations and the provisions of Directive 2005/60/EU of the European Parliament and of the Council of October 26, 2005 On the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. Draft law was agreed with 13 interested parties – central agencies of executive power and the National bank of Ukraine.

On August 6, 2008 draft Law On Amending the Law of Ukraine On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing was approved during the sitting of the Cabinet of Ministers of Ukraine and on August, 18 it was forwarded for consideration to the Verkhovna Rada of Ukraine where it was

registered under № 3062 of 19.08.2008.

On September 25, 2008 this draft law was passed by the Verkhovna Rada of Ukraine as the base in the first reading, with 345 deputies voting for.

Draft law provides for building of efficient AML system to prevent penetration of criminal proceeds into legal business through implementation of new edition of FATF Recommendations and 9 FATF Special Recommendations.

This new draft law was elaborated taking into consideration last amendments into the international law, remarks and suggestions to the previous draft laws provided by Scientific and Expert Division of the Verkhovna Rada of Ukraine and deputies.

This draft law introduces a new approach for defining the reporting entities (financial intermediaries). Thus, this draft law is aimed:

1. to require the reporting entities to take enhanced due diligence measures to high-risk money laundering and terrorist financing customers. Particularly, these measures should be applied while establishing business relations with foreign Politically Exposed Persons and foreign financial institutions.

2. to extend the list of the reporting entities with notaries, lawyers, entrepreneurs providing legal services, real estate agents, post offices (in the part of money order), precious stone and precious metal traders, auditors, audit firms, businesses conducting lotteries, business entities that provide accounting services and other designed non financial businesses and professions.

3. due to extension of the list of the

reporting entities the list of state financial monitoring entities responsible for supervision and oversight should also be extended. The list of public regulators is expected to be added with the Ministry of Economy, the Ministry of Justice, the Ministry of Finance, the Ministry of Transport and Communications, and Specially authorized agency on financial monitoring.

Therefore, the state Committee for Financial Monitoring of Ukraine is defined as state regulating agency of the financial intermediaries that are not subject to any state regulator (until such regulating agency is determined).

4. to implement the procedure for allocating seized (confiscated) assets obtained through legalization (laundering) of the proceeds or terrorist financing, pursuant to which the proceeds obtained by Ukraine in conformity with the agreement on allocation of seized assets shall be forwarded to state budget.

5. to implement the mechanism for suspending financial transactions related to money laundering.

In order to execute IX FATF Special Recommendation on terrorist financing State Tax Service is obliged to notify about the instances of transporting cash, circulating money and credit instruments, precious stones, precious metals, goods made out of them, and cultural values through the state border of Ukraine.

This draft law implements the mechanism for suspending financial transactions related not only to terrorist financing, but to money laundering as well. Pursuant to a new draft law, the SCFM of Ukraine is authorized to suspend suspicious transaction for 19 working days.

Implementation of the mechanism for suspending financial transactions

suspected in money laundering will provide the possibility to freeze funds on the accounts that is vital to prevent flow of money abroad. This measure is expected to enhance the efficiency of all financial monitoring system, for the law-enforcement agencies will have all the conditions needed to ensure seizure of dirty money in the future.

A new risk management approach was also designed under the results of the financial transactions, assessment of these risks and taking required measures which will result in enhanced customer identification.

The State Committee for Financial Monitoring of Ukraine with the agreement of appropriate state regulators is authorized to participate in preparation and carrying out verifications of the activities of financial intermediaries in AML/CFT area.

Adoption of this draft law will enable:

- to fulfill all commitments assumed by Ukraine before world community;
- to adjust national financial system to international legal transparency standards;
- to boost investment flow into national economy from economically-developed countries;
- to decrease the share of shadow economy;
- to make financial system able to counteract laundering of the proceeds from crime and possible instances of its using for terrorist financing.

In addition to that, the SCFM of Ukraine under its own initiative drafted Resolution of the Cabinet of Ministers of Ukraine "On Adding paragraph 3 of the list of central agencies of executive power responsible for meeting the obligations undertaken in the framework of Ukrainian participation in international organizations", adopted by

the Cabinet of Ministers of Ukraine of October 8, 2008 under № 900.

Adoption of this Resolution is called forth by the necessity to present the interests of state by the SCFM of Ukraine in the international organizations in AML/CFT area. This Resolution is aimed to ensure efficient participation of the

SCFM in the international organizations, the member of which is Ukraine, and provides for extension of the list of the international organizations, not included to UNO system, with Egmont group of FIUs. The representative of Ukraine in this organization shall be the SCFM of Ukraine.

### 3. Statistics of reports received

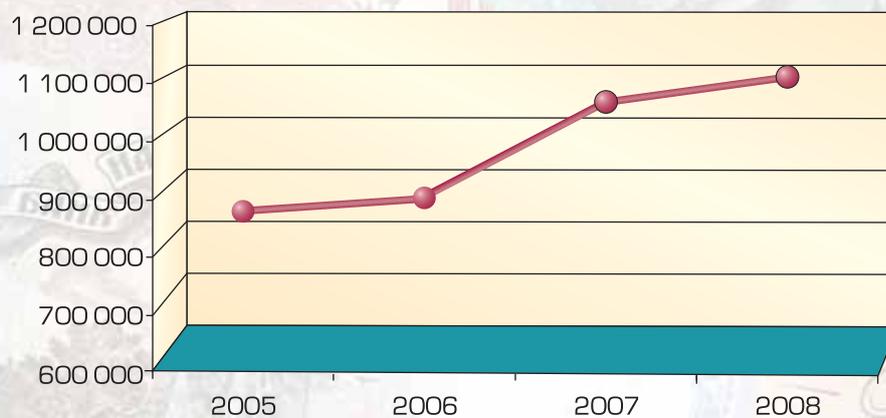
#### 3.1. General dynamics of received STRs

The State Committee for Financial Monitoring of Ukraine receives from financial intermediaries the information of the financial transactions that are subject to obligatory financial monitoring pursuant

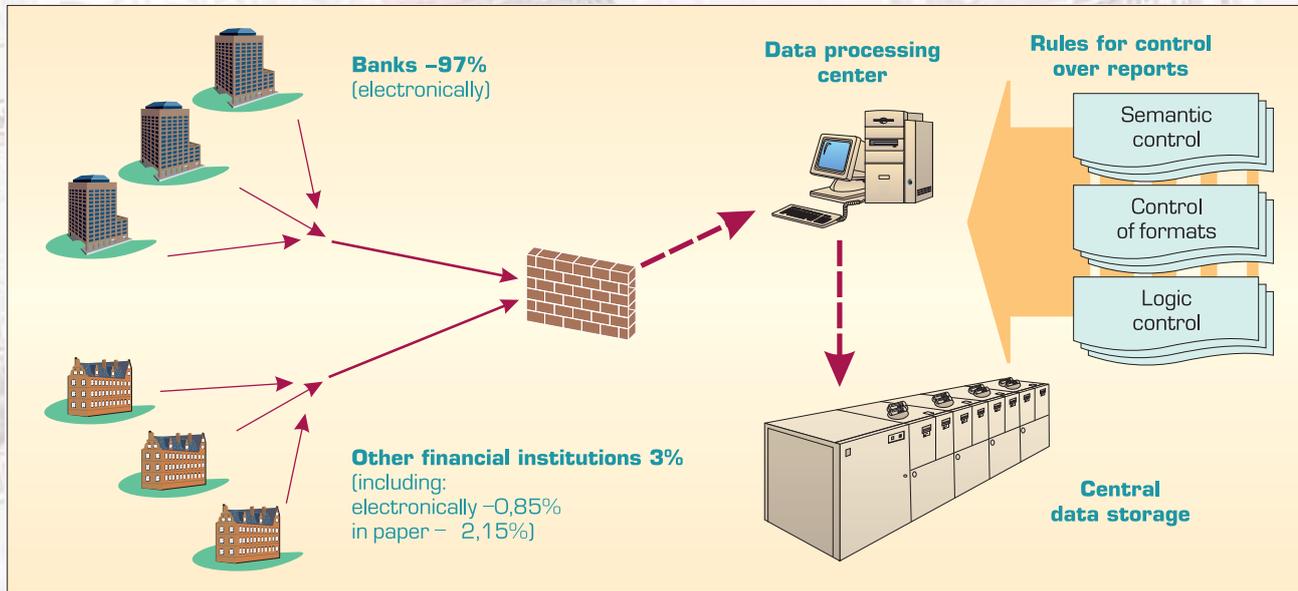
to the legislation or suspected in money laundering and terrorist financing.

The overall number of STRs received from the beginning of using this system constitutes **4 713 301**, out of them during 2008 **1 083 461** STRs were received and processed.

The dynamics of reporting the financial transactions in 2005–2008



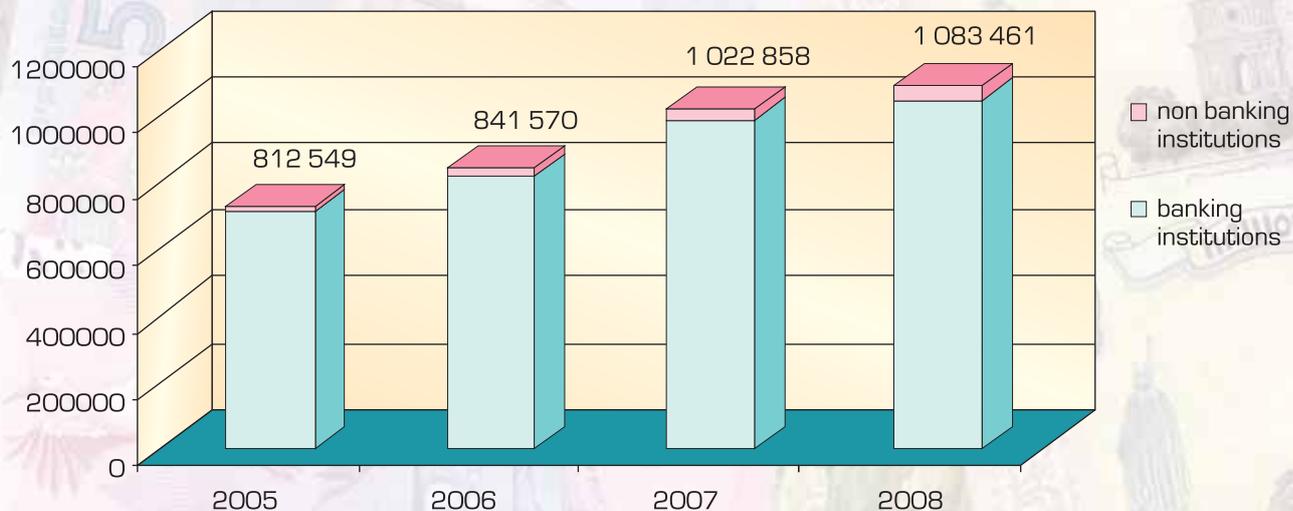
### Scheme of collection and processing of reports on financial transactions



### Monthly dynamics of STRs registered in 2007–2008



**Dynamics of received financial transactions reports from banks and non-bank institutions in 2005-2008**



During 2005-2008 a number of STRs submitted by the reporting entities to the SCFM of Ukraine keeps increasing.

Moreover, in comparison with the previous years a lion's share of mistakes in STRs keeps decreasing.

**3.2. Dynamics of STRs received from the reporting entities**

Specially authorized agency, in conformity with the legislation, is powered

to collect, process and analyze the information on the financial transactions submitted by the reporting entities.

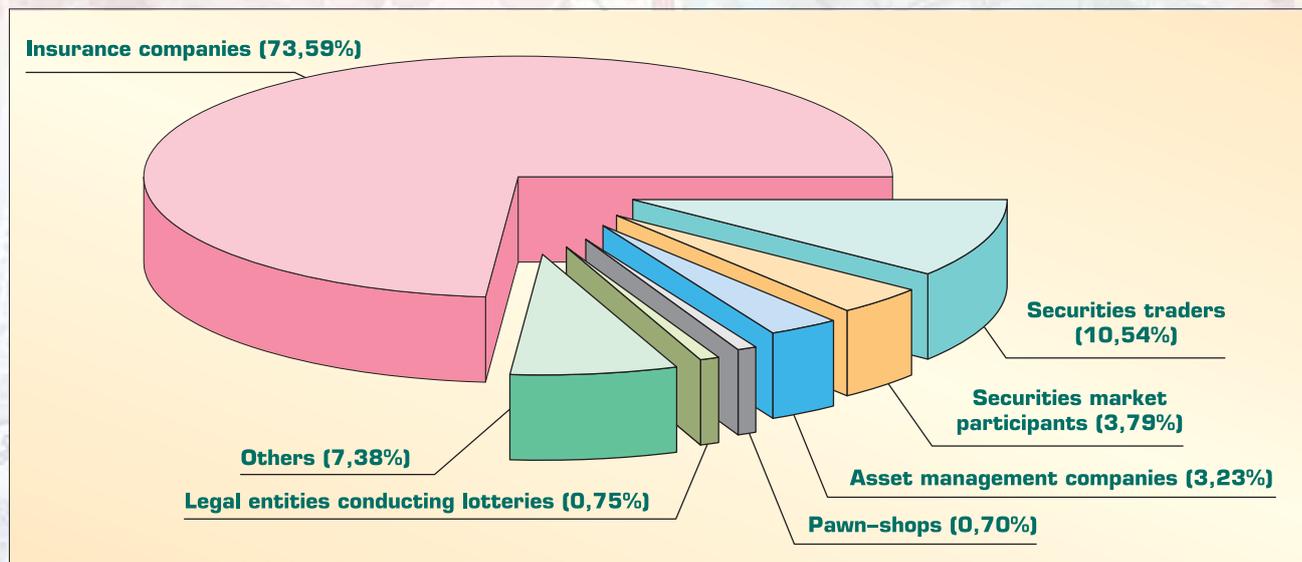
The most active entities in the reporting system are banking institutions that provide a main share of STRs. Thus, during 2008 banking institutions provided 96,7% of STRs, including:

*In the electronic form:*

- from banking institutions - 1 048 197
- from non-banking institutions - 25 254

*In the paper:*

**The share of STRs received by the SCFM of Ukraine from thereporting entities in 2008**



– from non-banking institutions – 10010.

Among non banking institutions the most active reporting entities are insurance companies. The share of such financial transactions subject to financial monitoring in total number of STRs of non banking sector constitutes 73,6 %.

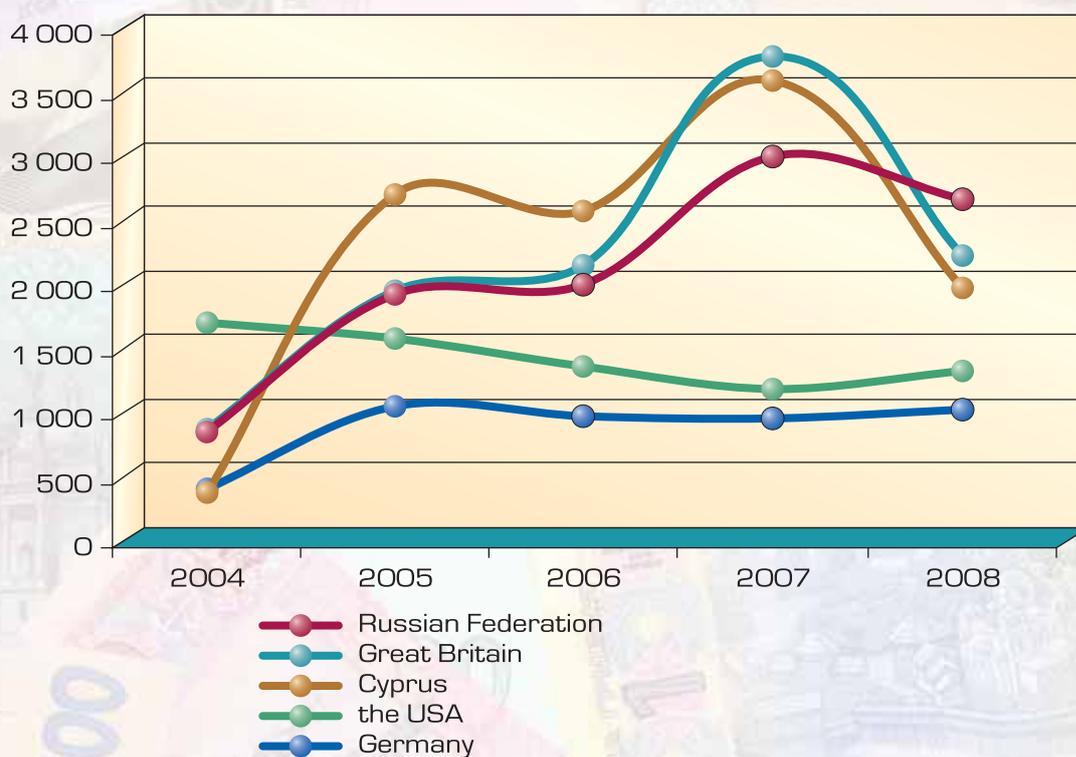
In 2008 the most frequent STRs were

provided by natural persons and legal entities of the Russian Federation, Great Britain, Cyprus, the USA, Germany, British Virgin Islands, Lithuania, Israel, Poland and Turkey.

A number of financial transactions subject to financial monitoring and the residents of 10 top countries during 2004–2008:

The country of registration or citizenship of the financial transaction originator	A number of STRs				
	2004	2005	2006	2007	2008
Russian Federation	773	1871	1877	2993	2598
Great Britain	742	1865	2008	3724	2160
Cyprus	320	2548	2493	3624	1973
The USA	1553	1409	1243	1033	1210
Germany	319	1045	845	781	967
British Virgin Islands	439	709	697	1261	941
Lithuania	667	755	327	158	734
Israel	164	350	286	801	637
Poland	101	276	192	253	369
Turkey	100	176	176	264	352

**A number of the financial transactions subject to financial monitoring conducted by the residents of other countries in 2004–2008**



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## 4. Analytical Activity

### 4.1. Information Analyzing Process

SCFM of Ukraine in frameworks of its authorities provides collecting and proceeding of information received from financial intermediaries about financial transactions subject to financial monitoring.

Information for analyses incomes from the following resources:

- Financial monitoring entities;
- Law enforcement authorities;
- Regulatory and other state agencies;
- Financial intelligence units of other countries;
- Open resources (Internet, commercial data bases).

SCFM of Ukraine reflects grounding of money laundering suspicion in case referrals, basing not only on its own conclusions but also using approving documents, information of law enforcement agencies and foreign colleagues.

If it was revealed indicators of possible legalization (laundering) of the proceeds from crime or terrorist financing, the case

referral shall be prepared which will be bring into consideration of expert commission.

In 2008 **1 062 373** references about financial transactions were registered. One reference can contain several indicators for monitoring simultaneously.

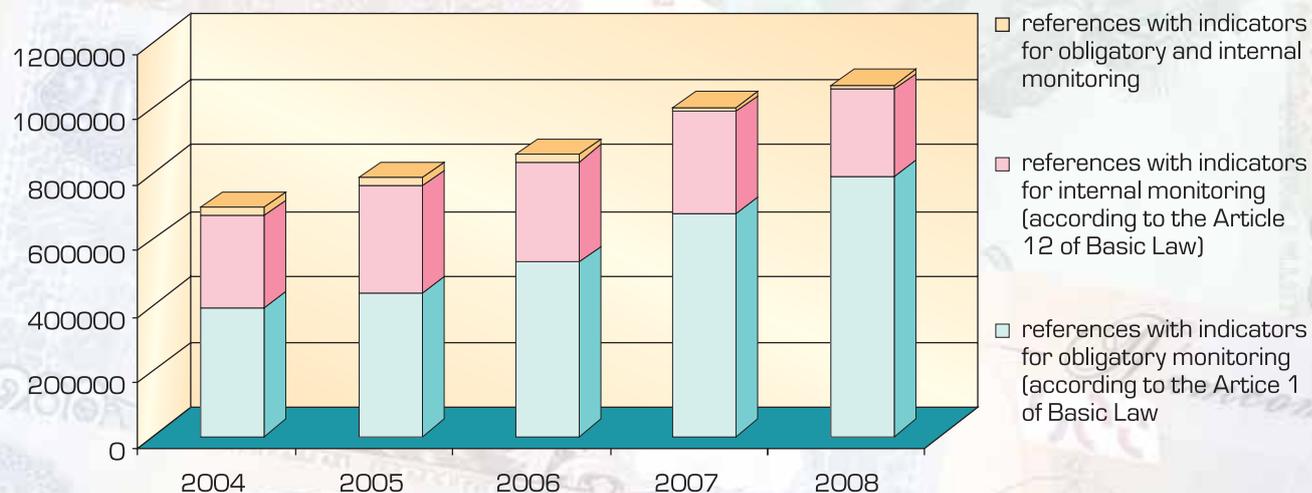
The structure of registered in reporting year references divided under the indicators for financial monitoring has the following view:

- Under the indicators for obligatory monitoring – 72,8% (773 371);
- Under the indicators for internal monitoring – 26,3% (279 736);
- Under the indicators for obligatory and internal monitoring – 0,9% (9 266).

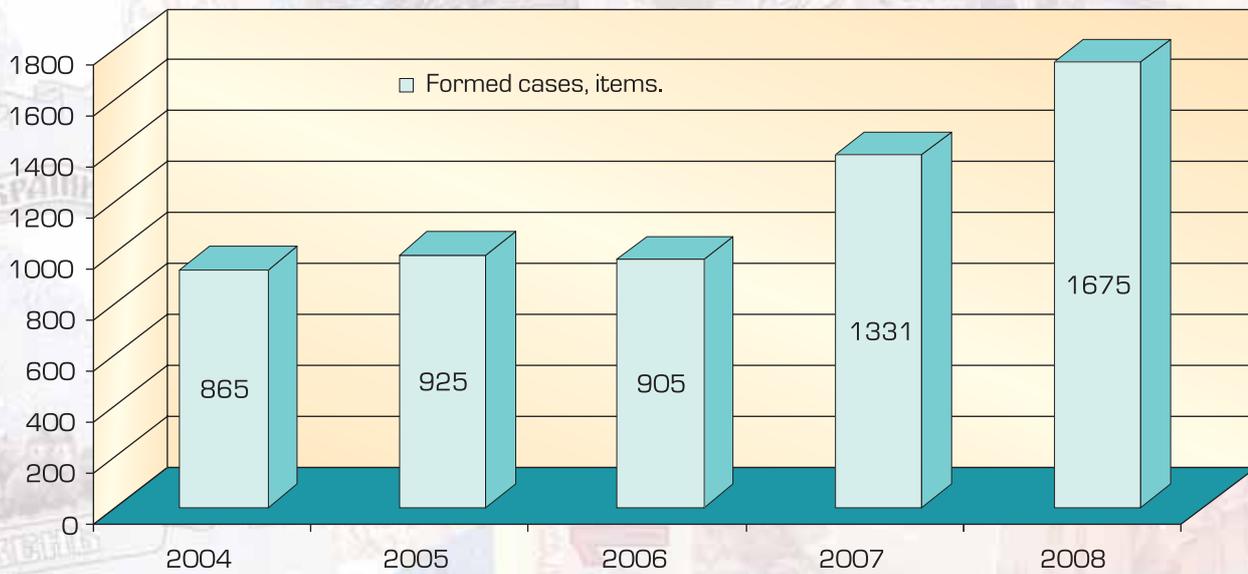
SCFM of Ukraine analyses financial transactions gradually increasing the level of active analyses of financial transactions and cases formed on their bases.

During reporting period **156 144** reports were chosen for active proceeding, which became the bases for forming **1 675** cases. It is on **25,9%** more than in relevant period in 2007.

Dynamics of received references by the indicators for financial monitoring in 2004–2008



Dynamics of forming cases in 2004–2008



#### 4.2. "Laundering" schemes

The most spread present schemes of laundering contain a lot of different elements and instruments for realization. Revealing schemes of laundering request deep complex examination of executed transactions, complex examination of their participants as well as cooperation of different law enforcement authorities, initial financial monitoring entities. For today among existing mechanisms of legalization of the proceeds from crime the followings deserve for special attention: activity of "converting < centers", unproductive funds outflow abroad, transactions with "trash" securities, transactions related to purchase/sale of land and real estates.

Example 1.

##### "Funds outflow abroad"

SCFM of Ukraine paid attention to the references about transactions under which on one bank account large amounts were transferred.

While analyzing, it was revealed that **Citizen of Latvia M** came to Ukraine for one day. During this day she opened currency account in Ukrainian **Bank** and made the power of attorney on the right to use and dispose of her currency account to some **Citizen of Ukraine N**.

The fact of visit of mentioned **Citizen M** to the territory of Ukraine, where she stayed only for one day, was approved by the Frontier Service of Ukraine.

During the following 6 months after opening account **Citizen N** transferred **UAH 521,5 mln (\$104,3 mln)** to the account opened in **Lithuanian Bank**. Funds were transferred as private transfer.

It should be noted that according to the received references about financial transactions the sources of funds in Ukraine were funds received from the same account opened in **Lithuanian Bank** and which belonged to the same **Citizen of Latvia M**.

And it was possible to suggest that here is enable usual "carousel scheme" of funds movement.

So, providing further investigation

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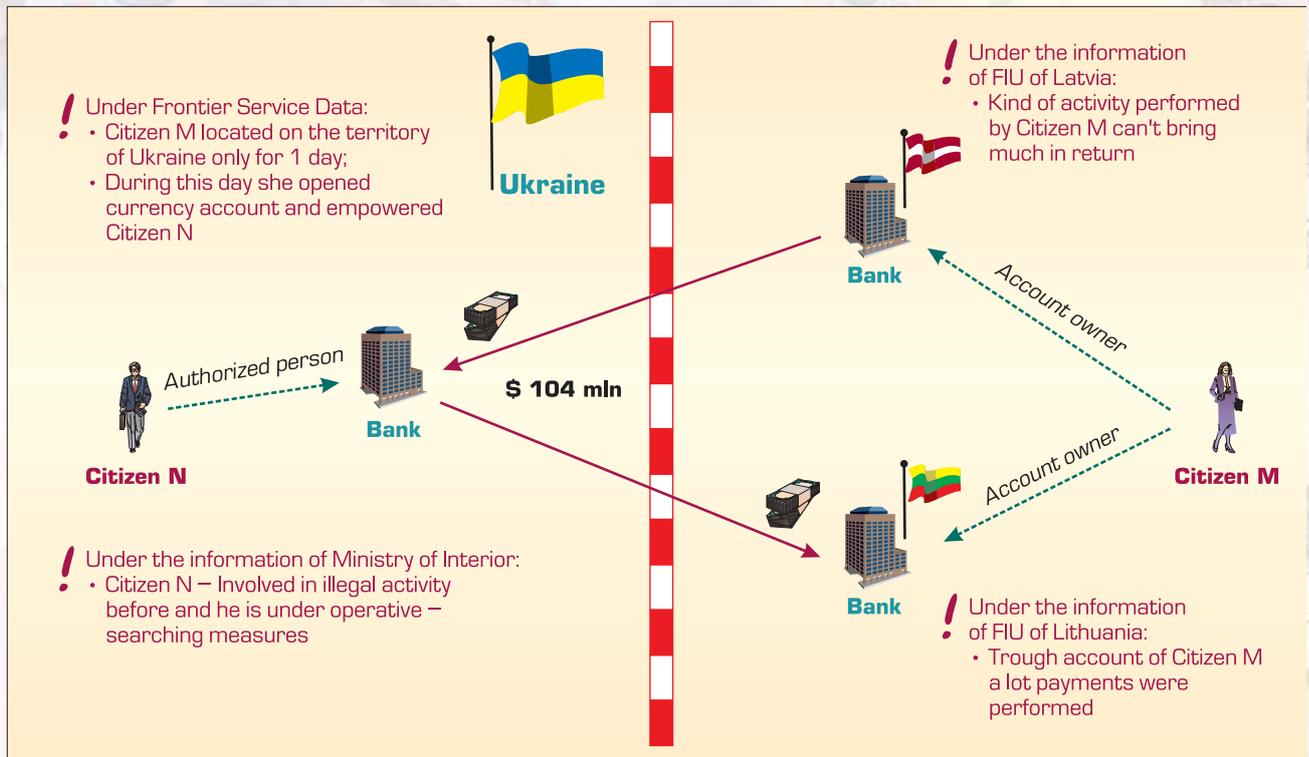
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### Scheme "Funds outflow abroad"



Ministry of Interior submitted the information that **Citizen N** who uses and disposes the currency account of **Citizen of Latvia M** previously was related to the illicit activity and he is under operative – searching measures.

At the same time, State Tax Service of Ukraine approved that **Citizen of Latvia M** never provides entrepreneur activity on the territory of Ukraine and doesn't receive the profits.

Also Financial Intelligence Units of Lithuania and Latvia submitted information concerning **Citizen of Latvia M**.

So, under information of FIU of Lithuania – through the account of this citizen great number of payments were provided to the accounts of offshore Companies of Western Europe, countries of Baltic and Asia, and FIU of Latvia informed that the type of economic activity which is provided by the citizen of Latvia can't bring such large profit.

Case referrals and additional materials on this case were submitted to the State Tax Administration of Ukraine. Simultaneously FIU of Latvia showed interest in this case.

The investigation is under way.

### Example 2. "Outflow of funds abroad"

SCFM of Ukraine revealed the "converting center", which acted within one of Ukrainian banks and provided services on the legalization of the proceeds from crime, in particular, provided conversion of cash and (or) non-cash funds in national currency to cash and (or) non-cash funds in foreign currency.

So, **Trader R** on his own account accumulated some funds and transferred them to the British **Company S** on the account opened in Ukrainian **Bank X** as

payment for securities. At the same time, **Company S** was selling shares value of which is practically equals to the "O" for essentially overvalued price.

Received from securities sale profit in the amount of **UAH 1,4 bln (\$288 mln)** **Company S** transfers to the own accounts opened in the Cyprian affiliate of Ukrainian bank as repayment investments and stops illicit activity in the part of outflow funds abroad from the territory of Ukraine.

But accounts of **Company S** continues to be used as transit accounts for accumulating the proceeds from crime.

**Company S** through **Bank X** transfers accumulated funds to the new British **Company T** as payment for securities value of which is practically equals to the "O". And already **Company T** from the account in **Bank X** transfers the profit in the amount of **UAH 8,5 bln (\$1 661 mln)** to the own accounts in

Kirgiz, Latvian and Lithuanian banks as repayment of the investments.

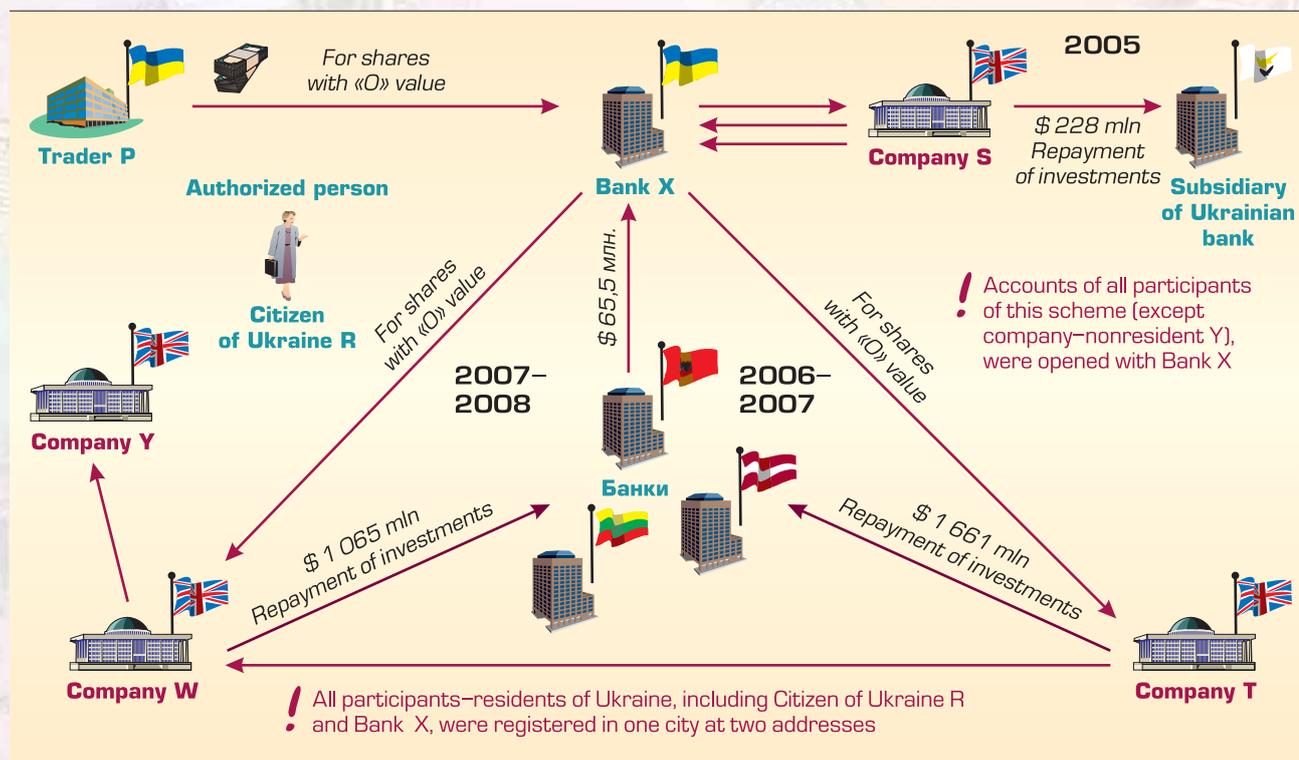
The part of funds – **UAH 327,5 mln (\$65,5 mln)**, from accounts in Kirgiz bank returns to Ukraine, to the accounts of Ukrainian companies opened in the same **Bank X**.

Other part of funds – from the accounts in Latvian and Lithuanian banks was transferred to the British **Company W**.

According to the scheme on this stage **Company T**, suspends illicit activity in the part of outflow funds abroad from territory of Ukraine, and **Company S** starts to transfer accumulated funds through the **Bank X** to mentioned British **Company W** as payment for securities, value of which is practically equals "O".

And again as on previous stages **Company W** from the accounts in **Bank X** transfers profit on the amount of **UAH 5,3 bln (\$1 065 mln)** to the own accounts in Kirgiz, Latvian and Lithuanian

**Scheme "Outflow of funds abroad"**



banks as repayment of investments. At the same time it is known that from accounts in Latvian bank **Company W** transfers funds to the group of non-residents including some **Company Y**. Here attention should be paid to that authorized person of **Companies S, T and Y** is **Citizen of Ukraine R**.

In addition, the important fact is that all participants – residents of Ukraine and **Bank X** were registered only at two legal addresses, in one big city and the accounts of all participants were opened in **Bank X**.

Providing examination there were received information from law enforcement authorities of Ukraine which approved that group of natural persons have established illicit plot with officials of **Bank X** and that securities which were sold for overvalued prices to fictitious companies, and received profit were taken out abroad as repayment of investments.

SCFM of Ukraine watched over the circumstances of this scheme for over two years. During this period the relevant case

referrals were submitted to the law enforcement authorities and only if certain corpus delicti was available the law enforcement authorities initiated criminal case and attached the funds on the amount of **UAH 15 mln (\$3 mln)**.

In addition, the investigation of SCFM of Ukraine called interest of FIUs of Baltic countries, which initiated relevant criminal cases and attached the funds on the amount of **UAH 6,5 mln (\$1,3 mln)**.

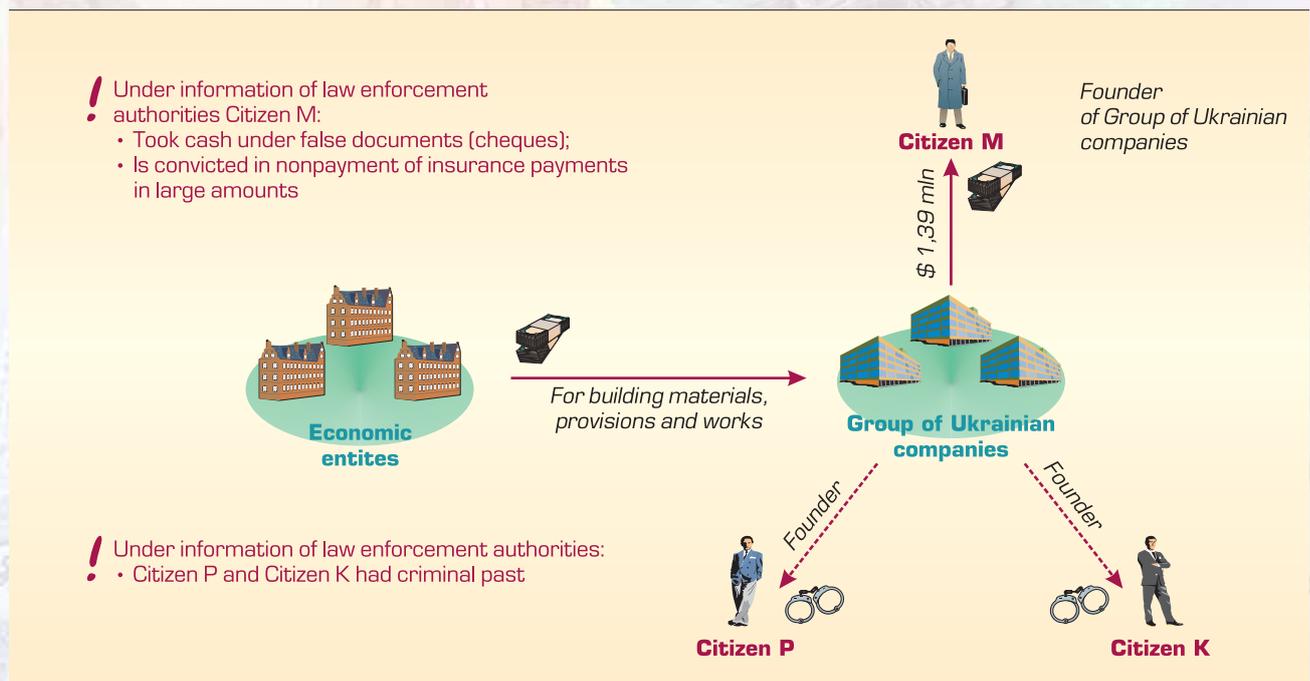
Example 3.

### Transactions of "converting" center

The separate category of "instruments" for laundering is usage of fictitious firms. Such firms are used in the work of illicit "converting centers".

SCFM of Ukraine paid attention to the references about financial transactions under which non-cash funds were transferred to the accounts of Ukrainian Group of companies from other economic

Scheme "Transactions of "converting" center"



entities for building works, provision and executed works.

After the beginning of receiving funds to the accounts, **Citizen M**, who was one of the founders of this company, withdrew them in cash at once. Thus, **Citizen M** received funds on total amount of **UAH 6,94 mln (\$1,39 mln)**.

Providing further analyses it was revealed that founders and managers of Group of Ukrainian companies are also **Citizens P** and **K** who has criminal past under information received from law enforcement authorities.

At the same time law enforcement authorities informed that **Citizen M** withdrew cash under falsified documents (cheques) and is convicted in non-payment of insurance payment in large scales.

Under submitted to the law enforcement authorities case referrals the criminal case was initiated. In further criminal case was considered in court and under the court decision officials of **Group of Ukrainian companies** in quantity of 4

persons were sentenced to deprivation for terms from 4 up to 6 years with confiscation of property.

#### Example 4 Using securities in fraud activity

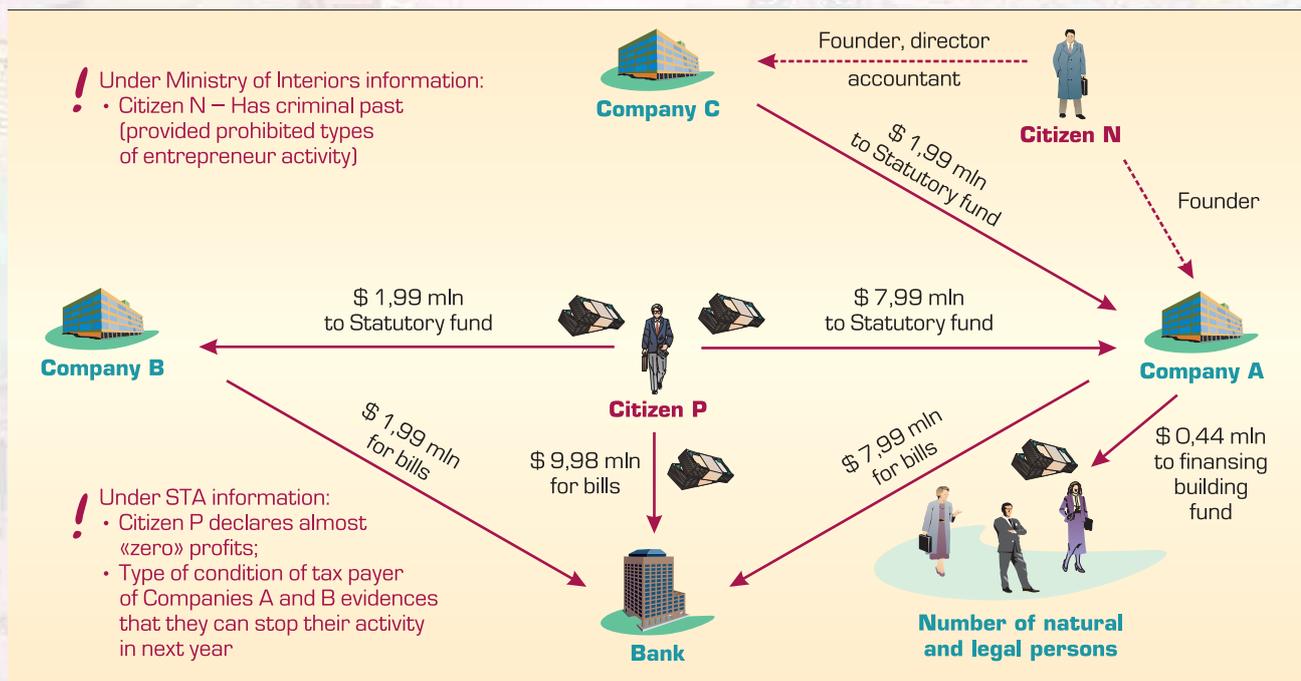
SCFM of Ukraine paid attention to the references about financial transactions participants of which were two "building" companies. These transactions caused suspicion on forming statutory capital as well as on purchase (sale) blank endorsement bills<sup>1</sup>.

So, **Citizens P** and **N** established **Company A** and **Company B**, to statutory funds of which Citizen P transferred large amount of funds – **UAH 49,92 mln (\$9,98 mln)**.

Here, usual transactions on forming statutory fund caused suspicious. because

<sup>1</sup> Blank endorsement bill is the bill in which the person, who can present it for payment and receive money under it, is not defined.

Scheme "Using securities in fraud activity"



the mentioned funds **at once after receiving were fully used for purchase** in certain **Bank Y** of "doubtful" blank endorsement **bills**.

Together with adding of huge amounts of funds to the statutory funds, the **Citizen P** as well purchases "doubtful" bills in the same **Bank Y** with the purpose of which he transfers funds in the amount of UAH **49,92 mln (\$9,98 mln)**.

During the same period of time, the some **Company C** was established with the status of professional participant of securities market, in particular managing assets company, and one of the founders was already known **Citizen N**. Mentioned company also transfers funds to the statutory fund of **Company A**, and the last one uses this funds for purchase "doubtful" bills in the same **Bank Y**.

I.e., funds of **Citizen P** and **all three** related Companies were transferred to the one **Bank Y**.

It also attracted attention that **Bank Y, Companies A, B** and **C** were registered at one legal address and, it is not excluded, that mentioned financial transactions could be executed directly under **managing of** or **with participating of employees of Bank Y**, because exactly **Bank Y** received essential funds for "**doubtful**" bills.

Our suspicions found approving when, at first, SCFM of Ukraine began to receive references about financial transactions under which **Company A provided** active **collecting** non-cash and cash funds for investors – **natural and legal persons** for participating in financing house building, and, at second, State Tax Administration informed that the condition of **Companies A** and **B** evidences that they are almost bankrupts and can disappear from market.

**The totality of mentioned facts gives grounds to consider that**

**obligations taken by officials and founders of these companies on financing house building before the citizens of Ukraine can be not executed.**

Noted conclusions were approved by those facts that one of the founders, **Citizen C**, has criminal past – provided prohibited type of entrepreneur activity, and another founder – **Citizen P**, who placed large amounts of funds to the statutory funds of **Companies A, B** and **C** and purchased bills on large amounts of funds, **declared almost "zero" profits**. Thus, the real source of funds origin used in described scheme has "doubtful" character.

It is not excluded that **funds** used for affected forming of statutory funds of noted companies and for fraud activity with investors funds **were received from "criminal activity"** and exactly these funds provided purchase of "**doubtful**" bills which can be **transferred into cash with participating of Bank employees** in any time.

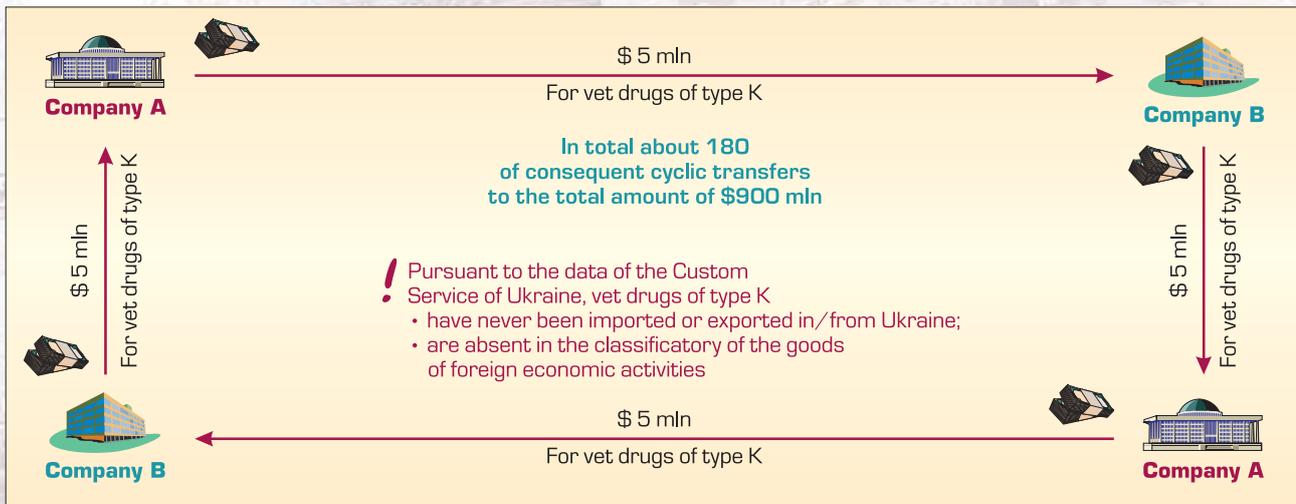
For prevention of the crime which can be related to the fraud with natural persons' financial resources **invested in house building**, SCFM of Ukraine submitted the relevant case referrals to the law enforcement authorities for further investigation.

For present time the relevant law enforcement authorities perform operational and search measures within initiated criminal case.

#### Example 5 **Technical non-commodity transactions**

SCFM of Ukraine paid attention to the references received from several financial

### Scheme "Technical non-commodity transactions"



intermediaries in the same time concerning the same financial transactions. Financial intermediaries detected different directions of funds flow that made impossible their detection.

Providing further analyses, there were revealed that the transactions had complicated character and had no economic sense because of non-commodity transactions between mentioned companies.

During several months the group of enterprises executed nearly 180 consecutive transfers for veterinary preparations on total amount of **UAH 4 500 mln (\$900 mln)**.

Transfers were executed cyclical in amounts of **UAH 25 mln** each, i.e. by the circle from one company to another, and they were executed in the same or the next business day after receiving.

Likewise under the information of the State Customs Service of Ukraine this veterinary preparation never was imported to the territory of Ukraine and exported from it, as well as it is absent in the classifier of foreign economic activity commodities.

Providing further analyses there was

detected that almost all enterprises used in the scheme are related by the founders and majority of these enterprises were registered in the same day.

As the result of such financial plot the losses of the State set **UAH 52 mln (\$10 mln)**.

The relevant case referrals were submitted to the law enforcement authorities of Ukraine. For present time the criminal case is initiated.

#### Example 6 Transit monetary corridors of transnational nature

SCFM of Ukraine paid attention to the references about financial transactions related to withdrawing of large amounts of funds by natural persons from their accounts. The funds on the accounts of natural persons were received from a number of enterprises.

After durable examining, SCFM of Ukraine initiated the investigation of criminal group activity, in which participated fictitious enterprises and natural persons with criminal past. Since

### Scheme "Transit monetary corridors of transnational nature"



2005 these persons formed the scheme for converting non-cash funds flows into cash.

In future the criminals re-qualified the scheme from domestic into international scope and began to transfer funds to non-residents abroad from Ukraine, including offshore jurisdictions.

So, Russian companies transferred Russian roubles to the accounts of Ukrainian private companies as payments for commodity or as building investments. These roubles further were converted into domestic currency. Noted funds on amount of **UAH 2 225 mln (\$445 mln)** were received by authorized persons in cash.

During some period of time the transactions on transferring funds abroad of Ukraine were executed through the accounts of 2 enterprises used in converting non-cash funds into cash.

Russian companies transferred funds to the accounts of Ukrainian private companies as payments for commodity and as building investments on the total amount of **RUR 14 150 mln (UAH 2 830 mln**

**or \$566 mln)**, which were converted into US dollars and transferred to the nonresidents registered in different countries – Belize, Panama, Cyprus, India and British Virgin Islands. Majority of nonresidents located in offshore zones.

The currency funds were transferred to the accounts of nonresidents opened with banking institutions of Latvia, Lithuania, Estonia, Cyprus and Netherlands.

The total amount of funds transferred abroad of Ukraine set **UAH 1 569 mln (\$313 mln)**. The delivery of commodity to the territory of Ukraine was not even foreseen.

Providing analytical examination the information was received from FIUs of other countries under which:

- Opening accounts by nonresidents with banking institutions of Lithuania and Estonia were provided by the citizens of Ukraine who used lost passports;
- Three nonresident companies registered on British Virgin Islands had the same registration agent;
- One of the nonresident companies

was previously interested Bulgarian party and the embassy of Germany in Venezuela.

Besides the FIU of Lithuania interested the activity of one of the participants of this scheme – nonresident company registered on British Virgin Islands.

On the ground of analyses of nonresident on the territory of Lithuania the Ministry of Interior of Lithuania initiated criminal case under the Article 216 of the CC of Lithuania – "Laundering of money or assets from crime" and blocked **\$2,7 mln (UAH 103 mln)** of assets on the account of this company–nonresident.

For the present time under the relevant materials submitted by SCFM of Ukraine to the Prosecutor's Office of Ukraine the criminal case was initiated.

### 4.3. Typologies

Typologies, summarized by SCFM of Ukraine, taking into consideration schemes disclosed by it, law enforcement and other competent state authorities of Ukraine – participants of national system of prevention and counteraction to legalization (laundering) of the criminal proceeds and financing terrorism in 2007–2008 considered real estate market, used by criminals or criminal arrangements for laundering their illegal proceeds.

Basic task the Committee aimed at while forming these typologies – to provide maximal information and present general view of ways to use real estate market for legalization (laundering) the criminal proceeds or financing terrorism.

Among main goals, pursued at preparing

typologies, two may be distinguished:

- to investigate methods, that allow to direct and legalize the criminal proceeds through real estate market;

- to develop recommendations that will help to disclose and prevent facts of legalization of the illegal proceeds through real estate market.

Given typologies describe those properties of real estate market that make it vulnerable and attractive to use by criminals or criminal arrangements on purpose of legalization (laundering) of the criminal proceeds or financing terrorism.

It is well-known that "dirty" funds can be easily concealed in numerous legal transactions and real estate market makes no exclusion. Ukraine implemented international standards in area of counteraction to money laundering and financing terrorism basically within financial sector, whose participants are banks, credit unions, insurance companies etc. As a result, currently we can observe a trend of gradual transferring illegal activity to areas where risk of disclosing such crimes is relatively low.

The typology describes certain indicators of conduction of risk transactions on real estate market that might witness for possible transactions of legalization (laundering) of the proceeds or financing terrorism or related to such activity. These indicators can help to entities of initial financial monitoring to classify certain types of transactions with use of real estate with proper wariness while analyzing new, as well as existing clients, to law enforcement authorities on investigations and other state bodies, participating in the national system of prevention and counteraction to ML/FT activity.

## 5. Case Referrals

### 5.1. Law enforcement observation of case referrals

Procedure of submission by SCFM of Ukraine case referrals on suspicious financial transactions and receiving information on their processing is regulated by joint orders of SCFM of Ukraine with law enforcement authorities.

All materials are submitted to law enforcement authorities subject to preliminary consideration and approval of Expert committee on consideration of the case referrals submitted to law enforcement authorities, whose members are representatives of all law enforcement authorities.

Every day information base of SCFM of Ukraine receives around of 3 thousand reports on financial transactions that might be related to ML/FT activity.

Basic objects of attention of SCFM are still transactions of illegal drawing funds abroad, conversion transactions, pseudo export, real estate investments, securities

transactions of non-residents, purchase and sale of land, transactions subject to requests of law enforcement authorities, other FIUs.

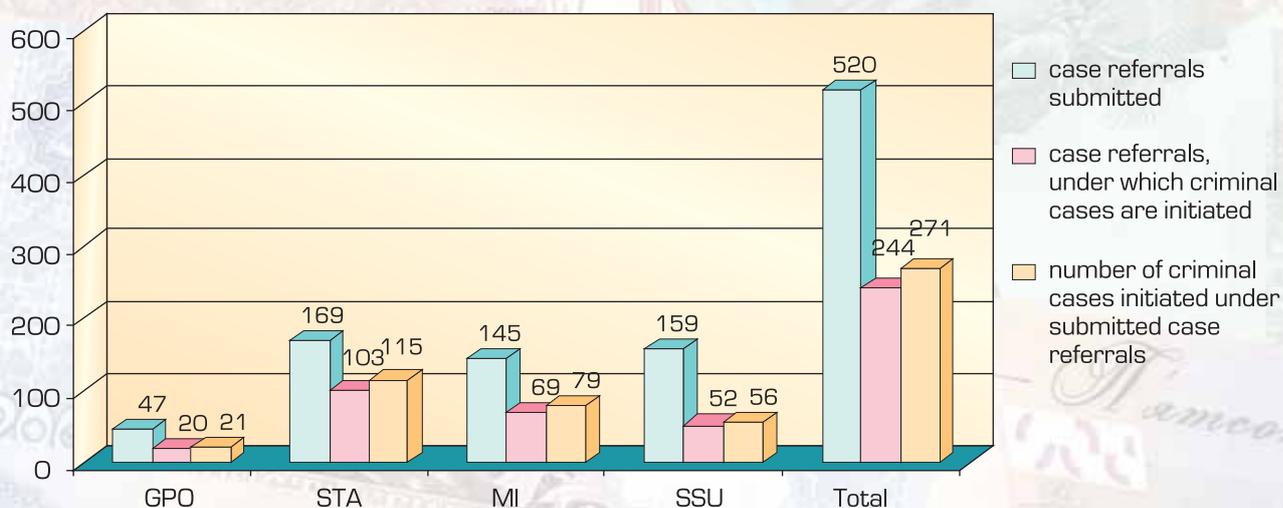
Under results of conducted analysis of received reports SCFM in 2008 summarized and submitted to law enforcement authorities **641** case referral. That is **23,3%** more in comparison with the same period of 2007. These case referrals were summarized on the base of **228 577** reports on financial transactions subject to financial monitoring.

Out of them submitted to:

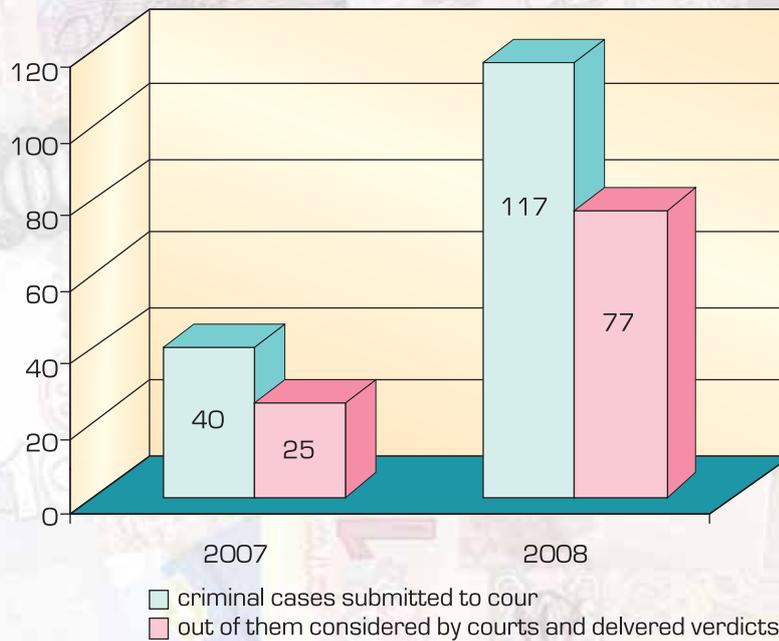
- General Prosecutor's Office – **30**;
- State Tax Administration of Ukraine – **207**;
- Ministry of Interior – **175**;
- Security Service of Ukraine – **229**.

Total sum of possible legalization – **65,2 bln. UAH**. That is **22,3% more** in comparison with the same period of 2007.

Consideration of case referrals by law enforcement bodies in 2008



### Dynamics of consideration of criminal cases submitted to courts



Besides, **296** case referrals were submitted to law enforcement authorities, financial transactions of which are related to cash-in for the sum of **28,8 bln. UAH**.

According to reports from law enforcement authorities that were

received during 2008, under results of criminal cases investigation law enforcement authorities imposed arrest on total sum of **46,3 mln UAH**, including that on accounts of **12,8 mln. UAH**, including money funds of **12,77 mln. UAH**.

### Consideration of case referrals by law enforcement authorities in 2003–2008

Showing	2008					Total for 2003–2008				
	GPO	STA	MI	SSU	Total	GPO	STA	MI	SSU	Total
CR submitted	30	207	175	229	<b>641</b>	201	614	413	478	<b>1469</b>
CR, under which criminal cases were initiated (or used in initiation)*	54	136	78	58	<b>326</b>	152	349	238	188	<b>927</b>
CR, under which it is refused to initiate criminal cases according to Article 6 of CPC of Ukraine*	30	72	78	43	<b>223</b>	54	153	166	72	<b>445</b>
Number of criminal cases initiated under submitted CR (or where CR are used)*	36	166	89	63	<b>354</b>	122	387	259	182	<b>950</b>
Criminal cases submitted to court*	12	58	32	14	<b>116</b>	18	86	51	21	<b>176</b>
• Those considered by courts and delivered verdicts*	11	35	19	8	<b>76</b>	13	49	23	19	<b>104</b>

\* – in information on taken decisions under results of case referrals consideration for 2008 information on case referrals submitted during 2003–2007 is described as well

Under results of examination of **326** materials law enforcement authorities investigate **354** criminal cases, **117** of which are submitted to court. Other criminal cases are at the investigation stage.

It is worth to pay attention 3 times increase in comparison with 2007 of criminal cases submitted to courts, as well as court consideration of criminal cases and deliveries of verdicts.

## 5.2. Examples of court verdicts

SCFM of Ukraine conducted analysis of bank reports on conduction of more than 100 financial transactions by Ukrainian enterprises. Total sum of funds suspected to be included into legalization made **23,5 mln UAH (\$4,7 mln)**

In the course of additional collection of information it was disclosed that law enforcement authorities suspect figurants of case referrals of committing predicate crimes.

In accordance with Article 13 of the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Criminal Proceeds" case referrals are submitted for consideration to MI of Ukraine.

Information contained in the case referrals was checked in the course of pre-trial investigation in a criminal case, initiated by a special department of investigation office of MI Administration in Donetsk region under indicia of crimes envisaged by Articles 205 p.2, 209 p.2,

366, 366 p.2 of CC of Ukraine (fictitious entrepreneurship, legalization (laundering) of the criminal proceeds, abuse of power or official position and service falsification).

With consideration of SCFM of Ukraine materials it was established that members of organized group created fictitious commercial companies, whose accounts accumulated funds that later were cash-drawn with cheque books. Further cash was handed to clients of "conversion centre" in two offices. During search there were confiscated seals, document forms of fictitious companies, computers and office equipment, cash funds and arrest imposed on settlement accounts of these companies.

Figurants of the case were charged under Articles 205 p.2, 209 p.2, 366 p.2 of CC of Ukraine, the case is submitted to court.

In the course of trial the accused were pled guilty and it was established that their actions resulted in state loss of more than **1,5 mln UAH (\$0,3 mln)**.

Under court verdict all persons are pled guilty in committing crimes, envisaged by Articles 205 p.2, 366 p. 2 of CC of Ukraine and sentenced to deprivation of liberty and deprivation of right to occupy certain positions, related to distribution of values and funds, their keeping and account on enterprises of all forms of ownership.

Material evidence of the case – funds of **280,8 th. UAH. (\$56,2 th.)** and **7,5 th. UAH (\$1,5 th.)** were returned to state's profit.

## 6. Information System Development

### 6.1. Development of UIS FM

According to Article 13 of Law of Ukraine "On prevention and counteraction to legalization (laundering) of the criminal proceeds" one of basic tasks of SCFM of Ukraine defining directions of creation, functioning and development of its information systems are:

- collection, processing and analysis of information on financial transactions subject to compulsory financial monitoring;
- creation and provision of functioning of unified state information system in AML/CFT area.

In accordance to these tasks development of information systems of SCFM of Ukraine is conducted in two directions of creating:

- Unified state information system in AML/CFT area (UIS FM);
- Protected multi-service automated corporate system (FINNET).

General information model of interaction of Corporate system FINNET and UIS FM is described on a picture.

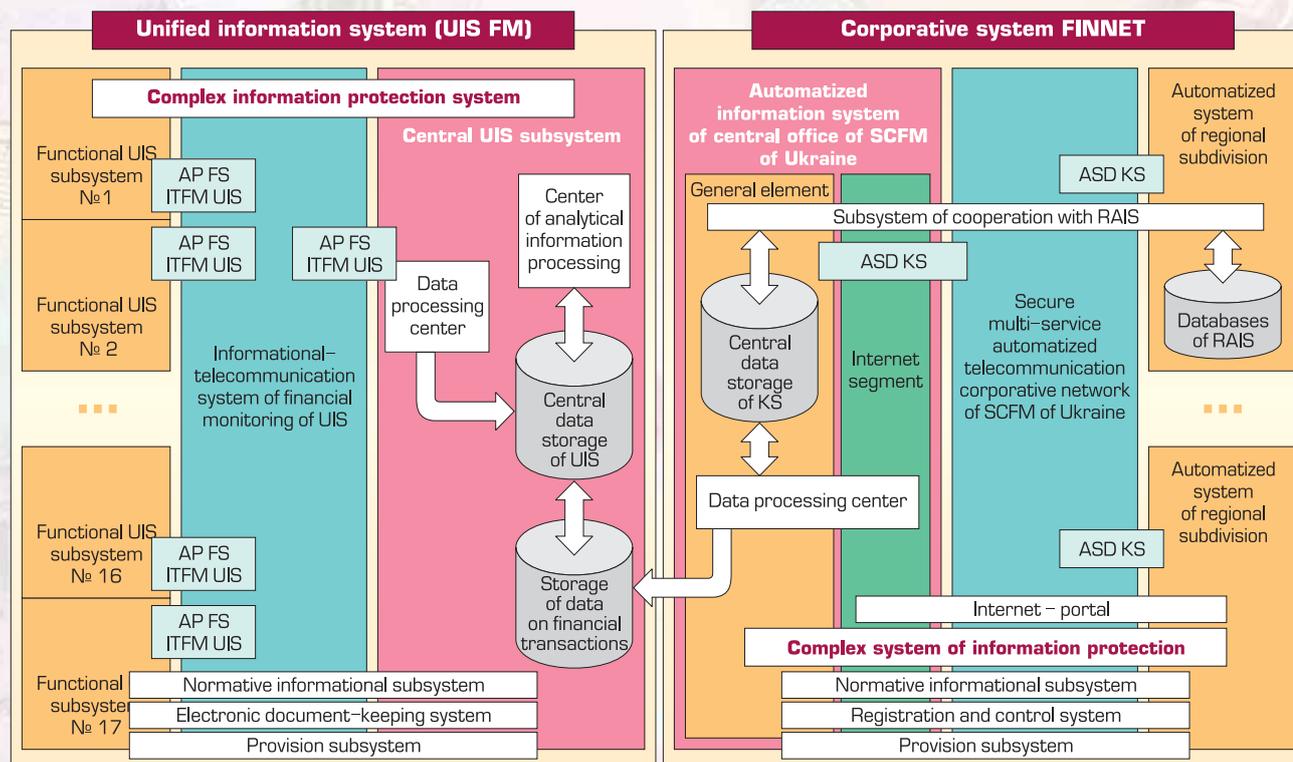
#### Unified information system UIS FM.

In 2008 industrial exploitation of Unified information in AML/CFT area continued.

Unified information system is composed from constantly functioning:

- central subsystem;
- informational telecommunication system of financial monitoring;
- provision subsystem;
- complex system of information protection;

General informational model of Corporative interaction system FINNET and UIS FM



• functional subsystems of the state bodies, interacting with central subsystem.

Since 2007 lasts industrial exploitation of functional subsystems of UIS FM, allocated in Ministry of Interior of Ukraine, Ministry of Economics of Ukraine, State Tax Administration of Ukraine, State Customs Service of Ukraine, State Committee on Regulation of Financial Service Markets of Ukraine, State Committee on Securities and Stock Market of Ukraine, Main Control and Revision Office of Ukraine, Security Service of Ukraine, State Property Fund of Ukraine, State Committee on Statistics of Ukraine.

During year functional subsystems of the state bodies – entities of UIS DM submitted and processed more than 4,3mln of requests on additional information on person–parties of financial transactions subject to monitoring or objects of such transactions.

## 6.2. Creation of automated corporate system FINNET

For providing functions put on Central Office and regional subdivisions of SCFM of Ukraine, in late 2004 it was initiated stepwise creation of protected multiservice automated corporate system of SCFM of Ukraine (FINNET).

Protected multiservice automated corporate system of SCFM of Ukraine has a key significance for information exchange within Committee activity. Development of Corporate system is aimed at creation of conditions for making rational, agreed and effective management decisions of leaders of SCFM and its regional subdivisions, improving effectiveness of their activity on the base of results of complex automated

processing of operational, statistical, inquiry, analytical and expert data, received from different sources.

In 2004–2005 it was performed research work on development of concept and draft project of protected multiservice automated corporate system of SCFM of Ukraine, under results of which in 2005 it was implemented first set of FINNET that covered central office and 7 regional subdivisions of SCFM.

In 2006–2007 continued works on creation of FINNET, in particular creation of regional automated information systems of the second and third set of the protected multi–service automated corporate system and creation and implementation of the technical protection sub–system.

In 2008 it was conducted experimental exploitation of FINNET, under results of which there were conducted final processing of developed complexes and preparation for its implementation. At the same time there was conducted an experimental exploitation and examination of complex system of information protection FINNET.

Starting from 2009 Protected multi–service automated corporate system (FINNET) is planned to be utilized.

Therefore SCFM of Ukraine has provided stepwise formation of unified territorially dispersed information space for conduction of joint activity and interaction of central office and regional structure subdivisions of SCFM of Ukraine, there were developed relevant information technologies of interaction with regional subdivisions, created protected connection channels between central and regional subdivisions.

In frames of creation of FINNET in SCFM of Ukraine there was introduced an electronic interaction with entities of initial

financial monitoring, that allowed to decrease work time needed for forming a request and processing of reply. It also allowed excluding technological operations of formation and submission of paper

letters to reporting entities, as well as processing and scanning of paper replies. Average time of request formation decreased from 3–4 hours to 10–15 minutes.

## 7. Regional Subdivisions

### 7.1. Results of work of regional subdivisions

In 2008 regional subdivisions of SCFM managed to:

- form and constantly update registers of current entities of initial financial monitoring and their separate regional subdivisions;
- compose and submitted to court 43 protocols on committing by entities of initial financial monitoring, responsible for conduction of financial monitoring, administrative violations, related to non-submission or untimely submission of reports of financial transactions, subject to financial monitoring.

#### 7.1.1. Interaction with entities of initial financial monitoring

Interaction of regional subdivisions of SCFM of Ukraine with financial intermediaries on regional level in 2008 was conducted in such ways:

- keeping of register of current entities of initial financial monitoring;
- clarification of information on entities of initial financial monitoring;
- determining problematic issues on purpose of their prompt solving by methodical way;
- provision of methodical assistance with consultations and written explanations;



Trainings in Lviv

– holding regional trainings.

Within framework of this work during the reporting period experts of SCFM of Ukraine with the help of regional subdivisions conducted 185 trainings. In the named educational measures participated around of 5520 representatives of the reporting entities, state and law enforcement bodies.

In 2008 regional subdivisions provided to entities of initial financial monitoring and their separate structural subdivisions 6448 explanations (consultations) of the current legislation on AML and organization of initial financial monitoring.

## 7.2. Interaction with regional subdivisions of the state bodies

On purpose of providing practical assistance on cooperation and information exchange with territorial subdivisions of the state bodies in AML/CFT area the practical assistance is provided and problematic issues of work of Regional departments of SCFM of Ukraine are clarified.

In particular, during 2008 there were held 4 trainings for workers of Regional departments and SCFM of Ukraine officials:

- on formation of Registers of entities of initial financial monitoring by the Regional departments
- peculiarities of interaction with non-banking financial institution and bodies for regulation and supervision.

Also for coordination and methodical support there was developed and sent to regional departments of SCFM of Ukraine guidance for improving coordination and

methodical provision of the reporting entities on AML/CFT issues.

In 2008 regional departments of SCFM of Ukraine:

- signed **44** acts (agreements, memoranda, protocols) on interaction and information exchange with territorial law enforcement and other state bodies on local level, as well as **22** supplement protocols to previous agreements;
- in the frames of establishing interaction, support of the case referrals work meetings with heads of law enforcement and other state bodies, territorial bodies of regulation and supervision;
- on purpose of coordination of actions of the reporting entities, regional departments of SCFM of Ukraine organized and held **162** regional educational measures for experts in FM area, in which **3 706** persons participated.

### 7.2.1. Interaction with regional subdivisions of law enforcement bodies

Regional subdivisions of law enforcement authorities are considering **1547** case referrals – almost **73, 3%** of total number of submitted materials bodies: Most of CR are submitted to law enforcement bodies in:

Kiev	– <b>268</b>
Dnipropetrovs'k region	– <b>170</b>
Lugansk region	– <b>147</b>
Donetsk region	– <b>117</b>
Odesa region	– <b>102</b>

## 8. Interagency cooperation

### 8.1. Interaction with regulators and other state agencies

SCFM of Ukraine constantly cooperates with agencies of executive power, other state authorities on AML/CFT issues.

One of aspects of interagency interaction and cooperation is signing and realization of interagency agreements on cooperation with law enforcement agencies, regulatory and supervisory agencies, state authorities and other organizations in AML/CFT area.

Such agreements (memoranda, protocols) on central level are signed with 26 authorities and organizations including law enforcement agencies, regulatory and supervisory agencies.

In the framework of realization of interagency agreements on cooperation it is provided information exchange with State Commission on Financial Services Markets Regulation, State Commission on Securities and Stock Market and National Bank of Ukraine.

On purpose of realization of Concept for developing AML/CFT system for 2005 – 2010, approved by directive of Cabinet of Ministers of Ukraine on 3 of August 2005 No.315-p SCFM of Ukraine during year conducted coordination of work of the state agencies on execution of Action Plan on Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing for 2008 and alongside with it, there was prepared and agreed with all relevant state bodies Action Plan on Prevention and Counteraction to Legalization (Laundering) of the

Proceeds from Crime and Terrorist Financing for 2009, which was approved by joint resolution of Cabinet of Ministers of Ukraine and National Bank of Ukraine on 10.12.2008 No 1077.

The named Action Plan is basic program of activity of national AML/CFT system, that will provide during next year implementation of joint coordination measures of the state bodies and financial authorities in order to minimize risks of abuse of economical and financial system of the state on purpose of laundering the criminal proceeds and terrorist financing.

In 2008 SCFM of Ukraine provided monthly provision of information to the entities of state financial monitoring on:

- reporting entities, regulation and supervision on which they conduct, and which do not submit reports on financial transactions subject to financial monitoring;
- general statistical information on number of submitted by the entities reports on suspicious financial transactions;
- possible cases of violation of AML legislation by the entities.

During 2008 SCFM of Ukraine conducted measures on execution of the Program of interaction of National Bank of Ukraine, General Prosecutor's Office, Ministry of Interior of Ukraine, Security Service of Ukraine, State Committee of Financial Monitoring of Ukraine, State Tax Administration of Ukraine on prompt detection of transactions, related to violation of bank area legislation in 2007–2008.

Moreover, in 2008 SCFM of Ukraine prolonged active cooperation with:

– Ministry of Justice of Ukraine on developing new legal acts, envisaged by new legislation of Ukraine, VR resolutions, directives of the President of Ukraine, acts of Cabinet of Ministers and directives of the Prime-Minister of Ukraine, after approval of the estimated plan of legislative activities.

– Committee of Verkhovna Rada of Ukraine on issues of combating corruption and organized crimes in the part of reporting on results of activity of SCFM of Ukraine;

– Security Service of Ukraine on execution of p.40 of the Directive of the Cabinet of Ministers on 26.07.2005 No. 37521/4/1-05 to i.2 of the instruction

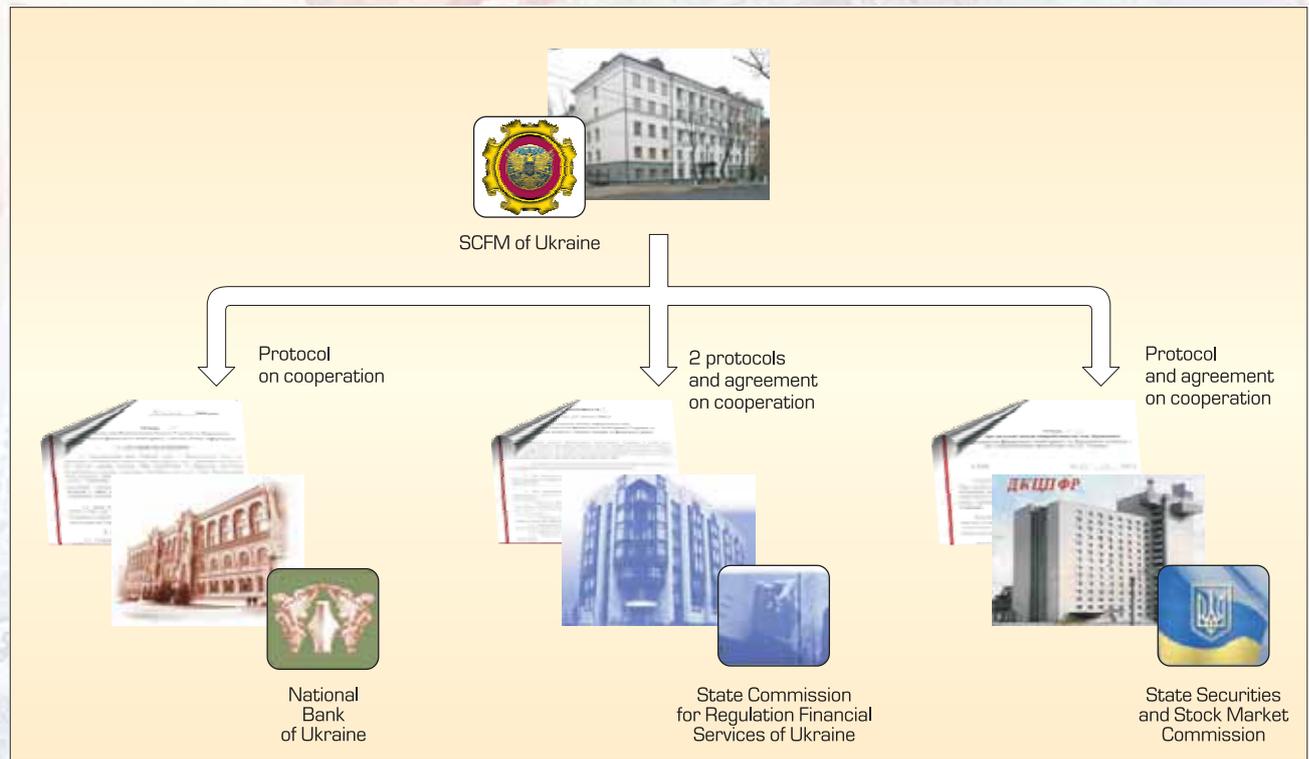
of the President of Ukraine on 19.07.2005 No. 1-1/708;

– Ministry of Foreign Affairs of Ukraine and National Centre on Euro-Atlantic integration in part of conduction of measures, envisaged by the Target plan Ukraine – NATO for 2008 in the frames of Action Plan Ukraine – NATO etc.

### 8.2. Coordination of actions of the entities of financial monitoring

Coordination by SCFM of activity of the reporting entities envisages conducting of direct or through other state agencies of influence on the reporting entities and

#### Cooperation with state regulators



their regulation in the part of normative provision.

1. For bringing into compliance with legislation on financial monitoring of activity of entities SCFM conducts:

- preparation and submission of analytical reviews to entities of the state financial monitoring with analysis of effectiveness of measures, taken by the reporting entities for prevention and counteraction to legalization (laundering) of the proceeds from crime and terrorist financing;

- providing to state regulators information on possible cases of violations by the reporting entities of the AML legislation and list of entities which do not report to SCFM on financial transactions subject to financial monitoring;

- composing protocols on administrative violations on officials of the entities, related to violations disclosed by SCFM at submission by the entities of information on financial transactions subject to financial monitoring;

- consideration of issues in the framework of activity of the work group on problems of non-banking institutions;
- consultations by the phone "hot" line;

- conducting training seminars for the reporting entities;

- participation in training process of the SCFM Training Centre etc.

2. For bringing into compliance the legislation and approval of procedures FIU conducts approval of the normative legal acts of the entities of state financial monitoring.

3. For establishing interconnection

between SCFM, state regulators and financial institutions SCFM conducts:

- organizational provision of functioning of interagency work group on analysis of methods and trends of laundering the criminal proceeds;

- organizational provision of functioning of interagency work group on consideration of the problematic issues of the reporting entities – non-banking institutions and analysis of effectiveness of measures taken by them on AML/CFT purposes;

- cooperation with self-regulated organizations.

During 2008 state regulators received:

- 12 analytical reviews on effectiveness of measures of the reporting entities to State Commission on Securities and Stock Market (SCSSM);

- 12 analytical reviews on effectiveness of measures of the reporting entities to State Commission for Financial Services Markets Regulation (SCRFMS);

- 12 analytical reviews on effectiveness of measures of the reporting entities to National Bank of Ukraine (NBU).

Besides, SCFM of Ukraine approved:

- 13 regulations of SCSSM;
- 3 regulations of SCFSMR;
- 2 regulations of Ministry of Finance of Ukraine.

With the aim of effective counteraction to laundering of the proceeds from crime and terrorist financing on November 26, 2008 SCFM of Ukraine signed Memorandum with Professional association of managing

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financial companies on general principles of cooperation on AML/CFT.

During 2008 SCFM of Ukraine organized and conducted 4 meetings of the Work group on consideration of problematic issues of the reporting entities – non-banking institutions with representatives of the League of insurance organizations of Ukraine, Ukrainian association of pawn-shops, Association of the credit unions of Ukraine, Professional association of registrars and depositaries, Federation of insurance intermediaries of Ukraine, Ukrainian association of gambling industry actors, State Commission on Securities and Stock Market, State Commission for Financial Services Markets Regulation and State Tax Administration of Ukraine.

Besides, during 2008 there was conducted analysis of the mistakes made by the reporting entities – non-banking institutions while submitting information to SCFM of Ukraine and under its result were prepared Methodical recommendations for the reporting entities – non-banking institutions on filling the registry forms and submitting information related to financial monitoring conduct<sup>1</sup>.

SCFM of Ukraine constantly takes measures on disclosure of cases of inopportune submission of reports by the reporting entities. In case of disclosing the named cases SCFM provides submission of such information to state regulators, National bank of Ukraine, State Commission for Financial Services Markets Regulation and State

Commission on Securities and Stock Market in order to take the proper measures on regulation and supervision.

Thus, SCFM of Ukraine in 2008 indicated 150 insurance institutions suspected in violation of requirements of the Article 5 of the Basic Law in part of non-submission to SCFM of Ukraine of reports on financial transactions with indicators of the obligatory financial monitoring. Information on suspects was submitted to the State Commission for Financial Services Markets Regulation.

The similar information on violators out of professionals in securities market is submitted by SCFM of Ukraine to SCSSM as well.

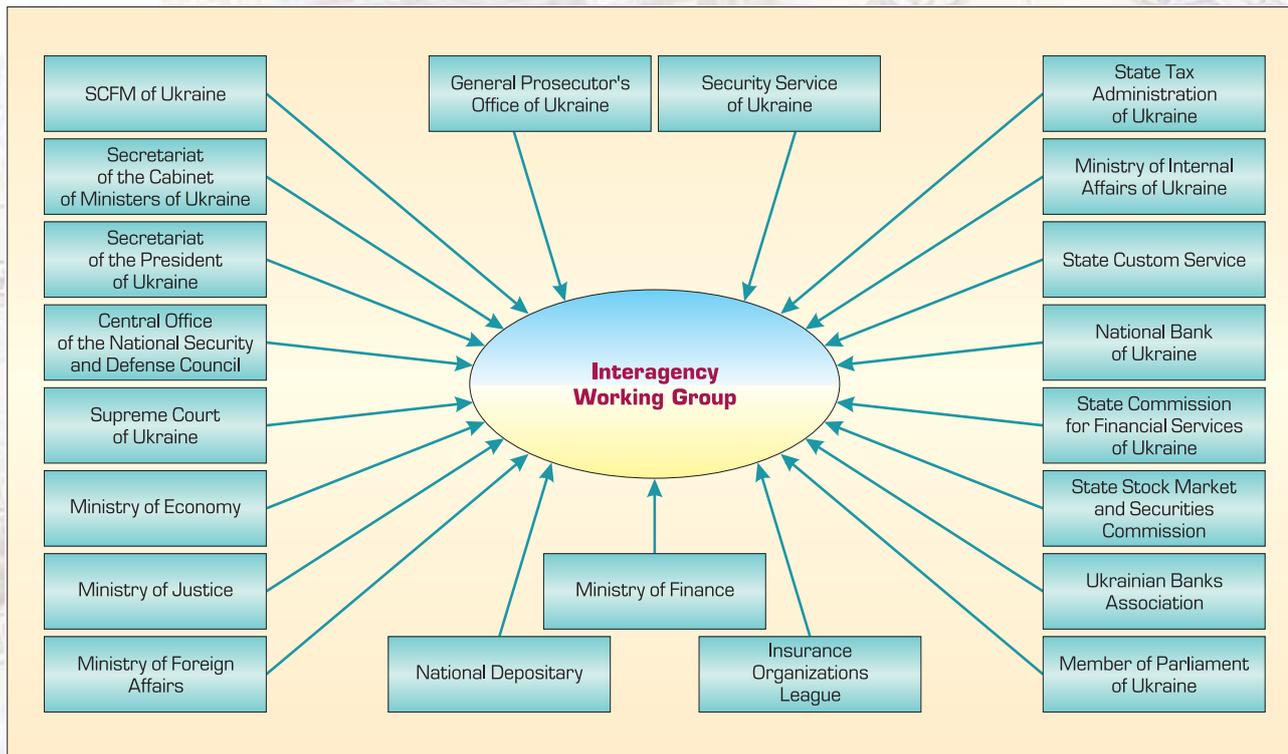
Moreover, SCFM of Ukraine during reporting period submitted to prosecutor's offices 221 reports on non-compliance (improper compliance) by the reporting entities (separated subdivisions) with requirements of AML legislation, 9 reports to administration of the National Bank of Ukraine in Lviv region and 1 to the National Bank of Ukraine.

According to Procedure of formation of list of persons related to terrorist activity, approved by the Resolution of the Cabinet of Ministers of Ukraine No. 751 on May 25, 2006, SCFM of Ukraine approved Amendments to the List of persons, related to terrorist activity (6 orders).

Amendments to the List of persons, related to terrorist activity, were brought by SCFM to attention of **4 437** entities of the financial monitoring<sup>2</sup>.

<sup>2</sup> Order of SCFM of Ukraine "On approval of the Procedure of informing of the reporting entities as regards to the List of persons, related to terrorist activity" of April 26, 2006 № 84.

<sup>1</sup> Approved by the Order of SCFM of Ukraine on June 26, 2008 No. 145.



### 8.3. Activities of Interagency Working Group

11 meetings of Interagency Working Group (IWG) were held in 2008.

The following problematic and important issues were considered at the meetings of IWG:

- providing monitoring over agreements, concluded by the securities traders, one of the party of which is persons registered in offshore zones, and analyses of financial transactions with securities executed through the offshore zones with the purpose of revealing and suspending the activity of legalization (laundering) of the proceeds from crime;
- preparing to III MONEYVAL evaluation round of Ukraine;
- providing access by banks to the data base of lost identification documents;
- analyses of schemes and methods that can be used for the legalization

(laundering) of the proceeds from crime and terrorist financing under the results of analyses of criminal cases, considered in 2007;

- results of considering by SCFM of Ukraine and law enforcement authorities of information about transactions subject to financial monitoring received from banks and other financial institutions;
- considering and approving the List of domestic AML/CFT effectiveness indicators;
- preparing Draft Action Plan for 2009 on Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing;
- revealing new financial technologies that can be used for legalization (laundering) of the proceeds from crime and terrorist financing and taking measures for prevention of their usage for noted purpose and other issues.

#### 8.4. Methodological provision, training of financial monitoring entities

The main direction of methodological provision in 2008 was developing methodological recommendations for the most numerous groups of reporting entities concerning implementing risk-based approach. So, 5 types of methodological recommendations were developed concerning general approaches of ML/FT risk management, providing financial monitoring over card accounts, implementation of risk-based approach by banks, providing internal financial monitoring by the professional participants of securities market and insurance institutions using risk criteria.

The mistakes in submitting information made by reporting entities – non-bank institutions were analyzed. Under the results Methodological Recommendations on Filling Registration Forms and Submitting Information Related to Financial Monitoring were developed.

Also specialists of SCFM of Ukraine prepared materials and in 2008 with assistance of Follow-Up Project against Money Laundering and Terrorist Financing in Ukraine MOLI-UA-2 (Program of European Union TACIS for Ukraine) published the guidance Counteraction to the Legalization of Proceeds from Crime and Terrorist Financing.

With purpose of methodological provision of the entities of financial monitoring, SCFM of Ukraine organized and held 246 trainings, in which 7 086 representatives took part.

During reporting period SCFM of Ukraine took the following measures:

- Prepared and submitted 3 753 letters – answers of methodological character under the requests of the entities of financial monitoring;
- Provided within "hotline" for financial intermediaries of nearly 25–30 consultations per day on application of AML/CFT legislation issues;
- Prepared and placed on the official web-site of SCFM of Ukraine nearly 113 explanations on the most wide-spread issues about complying of AML/CFT legislation:
  - Organization of financial monitoring;
  - Appointment and activity of the compliance officer;
  - Customers identification;
  - Financial transactions subject to obligatory financial monitoring;
  - Financial transactions subject to internal financial monitoring;
  - Registration of financial transactions and submitting information to SCFM of Ukraine and other issues.



Training seminar of SCFM of Ukraine.

## 9. Training-Methodical Center of SCFM of Ukraine

Personnel of the Training Center constitute 19 persons, including 1 Doctor of science and 1 Candidate of science. 58 lecturers were attracted, including 1 Doctor of science, 2 Professors, 17 Candidates of science.

In 2008 Training Center took the following measures:

- According to the plan of training activity on increasing qualification of specialists on financial monitoring issues, in 2008 the following specialists passed trainings:

**470** specialists at the expenses of State Budget of Ukraine, including:

- Representatives of the entities of state financial monitoring – 299 persons;
- Representatives of law enforcement and judicial authorities – 171 persons;

**54** compliance officers of reporting entities.

- Developed and approved the program of course "Counteraction to

Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing" for training and professional development of representatives of reporting entities, which do not have any state regulatory or supervisory agency.

- Published training guidance "Counteraction to the Legalization of the Proceeds from Crime and Terrorist Financing".

- Concluded the agreement on cooperation concerning training financial monitoring specialists with State Commission for Securities and Stock Market.

- Received the license of Ministry of Education and Science of Ukraine on providing training services by the Lviv Regional Subdivision of Training Center.

- Established Kharkiv Regional Subdivision of Training Center.

- During the year with assistance of the Follow-Up Project against Money Laundering and Terrorist Financing in Ukraine (MOLI-UA-2) there were prepared and held 7 training seminars with participation of international experts for Prosecutor's Office employees, non-bank supervisory agencies, law enforcement agencies, reporting entities as well as the Second Annual Conference on Counteraction to Money Laundering and Terrorist Financing "Financial monitoring in conditions of globalizing world economy" was organized and held.

- Started the work on establishing Odessa Regional Department of Training Center.



Training seminar of SCFM of Ukraine.

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## 10. International Cooperation

One of the important constituent of SCFM of Ukraine's activity is establishment of constructive cooperation with international institutions and foreign partners responsible for organization of effective counteraction to money laundering and terrorist financing.

### 10.1. Cooperation with international organizations

During reporting period SCFM of Ukraine actively cooperated with leading AML/CTF international organizations, such as Financial Action Task Force (FATF), FATF style regional bodies – MONEYVAL, EAG, Council of Europe and European Commission, UNODC, Egmont Group, World Bank, IMF etc.

In 2008 representatives of SCFM conducted 32 international visits, hosted

9 delegations of foreign FIUs and representatives of foreign institutions and international organizations.

SCFM of Ukraine as specially authorized agency of executive power on financial monitoring concludes interagency international agreements (memoranda of understanding) with foreign FIUs.

From the beginning of its activities as per December 31, 2008 the SCFM of Ukraine concluded 41 Memoranda of Understanding with foreign FIUs, including 17 MOUs with FIUs of EU member-states and 17 MOUs with NATO member-states.

#### 10.1.1. Cooperation with FATF

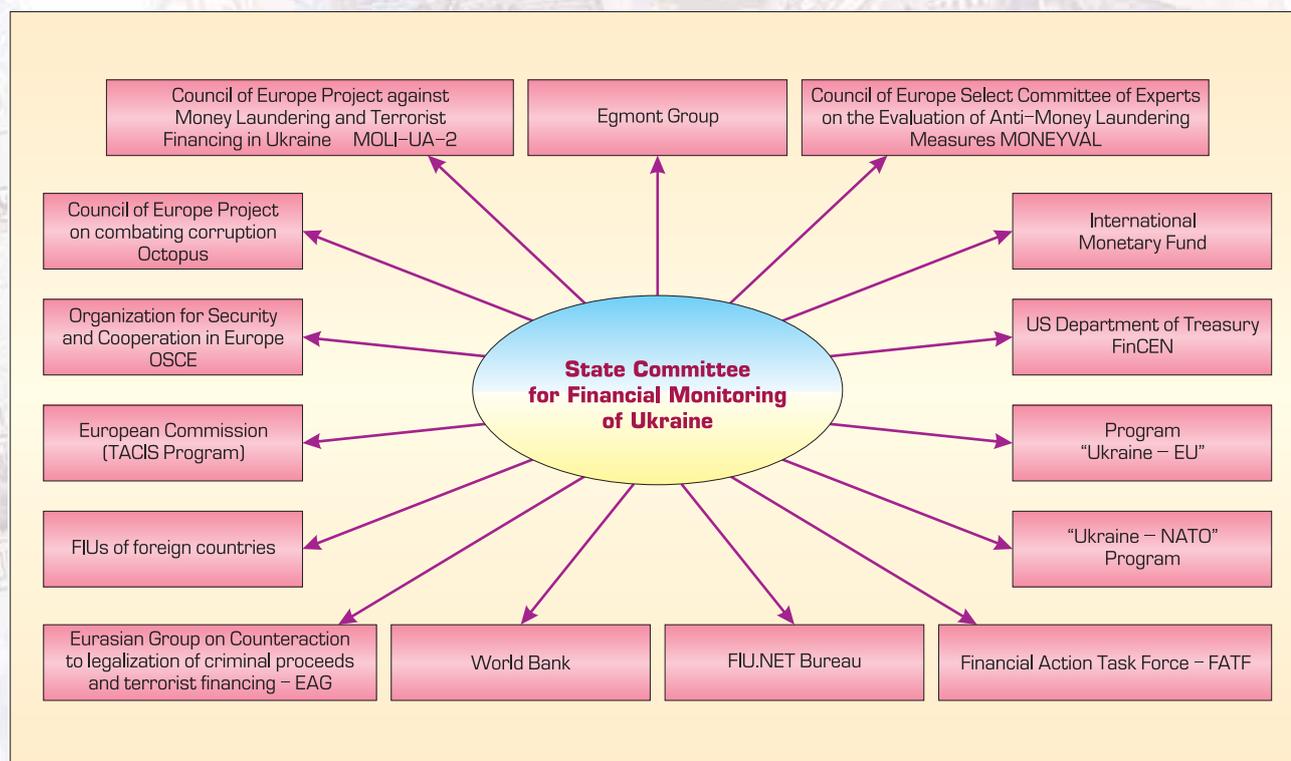
In 2008 representatives of SCFM of Ukraine actively participated in measures, organized by FATF.

Thus, representative of SCFM of



Planned in-site session of experts in the course of 3rd Round of MONEYVAL Evaluation in Lviv

## Cooperation with international organizations



Ukraine participated in 2nd Plenary FATF Meeting held in Paris, France (February, 2008) and in Joint FATF/MONEYVAL Experts Meeting on Typologies in Monte-Carlo, Monaco (November, 2008).

### 10.1.2. Cooperation with Egmont Group

Representatives of SCFM of Ukraine continuously participate in Egmont Group Plenary and Working Groups meetings. Accordingly, in 2008 representatives of SCFM of Ukraine took part in the meetings of Outreach Working Group, IT Working Group, Operational Working Group, Legal Working Group, Training Working Group, and in the meetings of Egmont Committee held in Santiago, Republic of Chile, in Seoul, Republic of Korea and in Toronto, Canada.

Besides that, in the framework of Egmont Working Groups Meetings (Santiago, Republic of Chile) SCFM of Ukraine signed a range of international agreement (Memoranda).

### 10.1.3. Cooperation with the Council of Europe / the European Commission

Within the framework of cooperation with the Council of Europe starting from 2002 SCFM experts constantly participate in the MONEYVAL Plenary Meetings, which take place thrice a year.

One of the key international events in 2008 was 3rd MONEYVAL/FATF Evaluation Round hold from September 22 to October 1, 2008.

Effective implementation of the Follow-up Project against money

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**Seminar in Yalta within the framework of Follow-up Project against Money Laundering and Terrorist Financing in Ukraine (MOLI-UA-2) implemented by the Council of Europe and financed by the European Commission**

laundering and terrorist financing in Ukraine (MOLI-UA-2) implemented by the Council of Europe and financed by the European Commission is being continued. Besides, during reporting period 2 international seminars, 3 working visits and 2 training visits were held (total amount of participants – 158 persons).

Ukraine became the first out of TACIS countries starting from summer 2006 active implementation of the European Commission instrument on technical assistance and information exchange TAIEX.

In particular, from March 17 to March 20, 2008 SCFM of Ukraine visited Vilnius, Lithuania, in order to participate in seminar "Financial intelligence methods in investigation of ML and VAT fraud" organized within TAIEX program.

Furthermore, in June 2008 SCFM of Ukraine with assistance of TAIEX program organized seminar on the topic "Fraud with illegal VAT-compensation", visited by representatives from Moldova,

Latvia, Lithuania, Israel, Hungary, Estonia, Byelorussia, Czech Republic, Belgium and EUROPOL.

#### **10.1.4. Cooperation with Eurasian Group**

According to the Decree of the President of Ukraine from September, 30, 2004 № 1156/2004 SCFM of Ukraine was determined as an agency responsible for cooperation with Eurasian Group (EAG).

The experts of the SCFM permanently participate in all EAG working groups meetings and events.

During 2008 the representatives of the SCFM took part in 8th Plenary and Working Groups Meetings and training seminar for representatives of competent authorities of EAG member-states, held in Bulan-Sogotu (Kyrgyz Republic, July 2008) and in 9th EAG Plenary meeting, in Working Groups meetings and consultations of representatives of competent authorities of EAG member-states with

private sector, held in Moscow (Russian Federation, December 2008).

Moreover, in April, 2008 SCFM of Ukraine hosted a seminar for FIUs' analysts of EAG member-states. Experts from Byelorussia, China, Kyrgyz Republic, Russia, Tajikistan, the USA, EAG Secretariat and representatives of Training Centre of FIU of Russian Federation participated in the seminar.

#### 10.1.5. Other international events

In 2008 SCFM actively participated in the events organized in the framework of Ukraine – NATO cooperation.

Thus, SCFM representatives participated in consultations NATO-Ukraine on AML/CTF issues, held in Brussels, Belgium (June, 2008).

These consultations were held in the context of decision adopted on NATO Summit in Bucharest on strengthening high level dialogue with Ukraine and conducting of active consultations, and considering attention of NATO member-states to implementation of NATO-Ukraine Annual 2008 Target plan, particularly part 1.2.8 concerning combating corruption, organized crime, legalization of the proceeds from crime and terrorist financing.

SCFM delegation on the invitation of the Mission of Ukraine to NATO participated in informal working group meeting on financial aspects of terrorism and prevention to collection of financial resources by terrorist organizations, held in Brussels, Belgium (October, 2008).

Briefings of experts from the Department of investigation of financial

crimes of the Ministry of Finance of Turkey and appropriate Directorate of the Ministry of Interior of Turkey concerning CTF practical problems were held during the visit.

During reporting period Memoranda of Understanding on cooperation in AML/CTF with FIU of Armenia, the Philippines, Latvia, Liechtenstein, Syria and the Netherlands were signed. Besides, near 10 Memoranda are being prepared to be signed.

##### 10.1.5.1. Provision of technical assistance to other FIUs

During 2008 the SCFM experts provided technical assistance to foreign colleagues to establish and develop national AML/CTF system in the framework of Egmont Group, EAG and in the framework of realization of technical assistance projects of the Council of Europe (MOLICO).

The joining of Moldova FIU to Egmont Group supported by SCFM was completed successfully. In the course of Plenary meeting of Egmont Group on May 27, 2008 the heads of FIUs of Egmont Group approved joining of the abovementioned FIU to this organization with a full-member status.

Moreover, SCFM of Ukraine provides appropriate assistance to FIU of Kyrgyz Republic (in the framework of EAG and Egmont Group). Thus, in December 2008 Ukrainian delegation visited Bishkek, Kyrgyz Republic, in order to provide assistance to Kyrgyz FIU to join the Egmont Group.

Expert assistance included evaluation of legal acts, approved by the Parliament

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of Kyrgyz Republic in sphere of AML and CTF, and evaluation of operating status of FIU of Kyrgyz Republic.

## 10.2. Information exchange with foreign FIUs

For the present day SCFM of Ukraine has a great range of possibilities to receive financial information relating to criminal activity from foreign colleagues. This affords to investigate intricate transnational schemes more efficiently and in larger scale.

SCFM work efficiency was recognized by majority of FIUs, including FIU of the USA, Latvia, Lithuania, other European countries. The USA stated that Ukraine is a regional leader in information exchange on financial crimes between FIUs.

Since being founded SCFM of Ukraine closely cooperates in AML/CFT field with 100 countries and their quantity constantly rises.

Together with increase of the quantity of cooperating countries the quantity of received information from foreign counterparts to requests is also growing.

Totally from the beginning of its activity SCFM of Ukraine submitted **2 499** requests to foreign colleagues and received **2 236** responds.

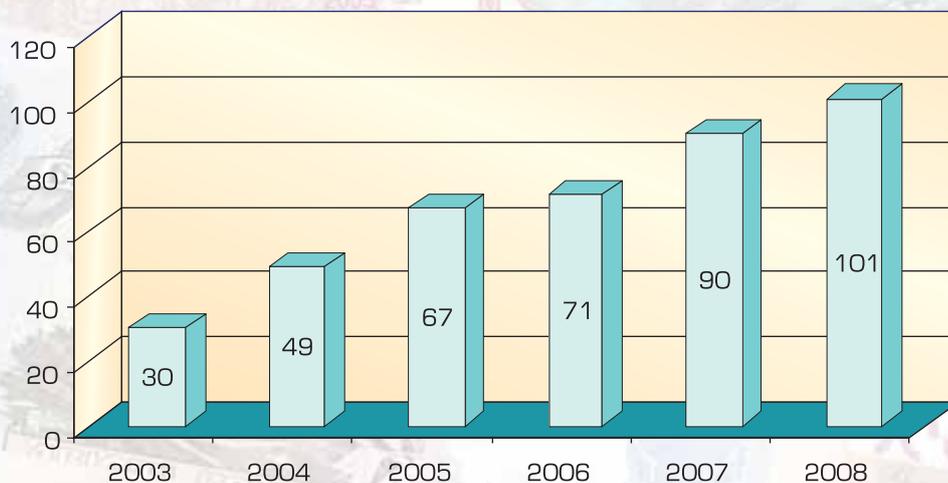
In its turn the SCFM of Ukraine received **683** requests from **64** FIUs and they all were responded.

At the same time during 2008 of Ukraine conducted the following work on information exchange with foreign FIUs:

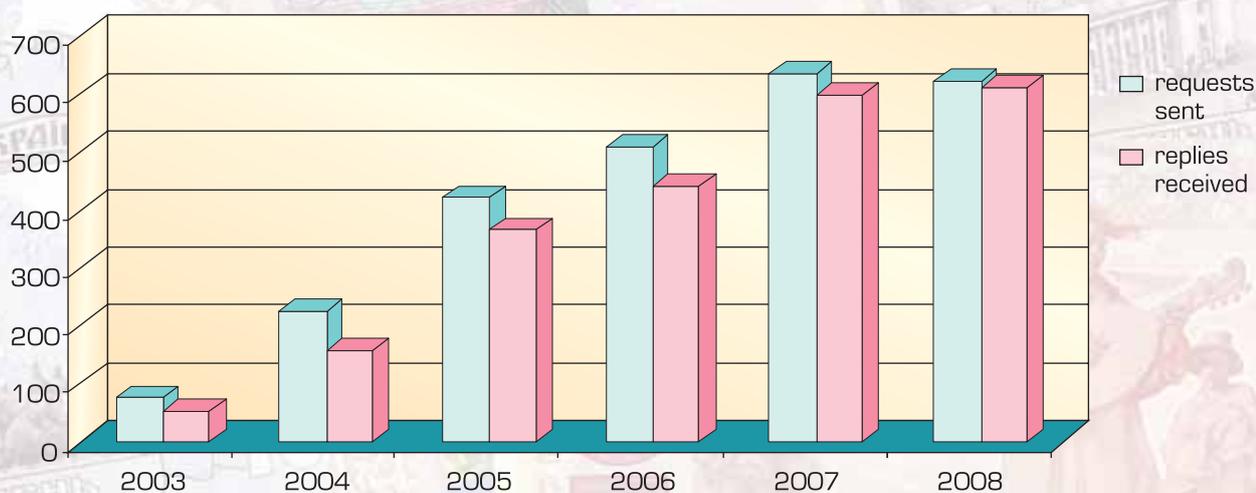
- submitted **630** requests to **64** foreign FIUs and received **615** responds;
  - received from foreign FIUs **132** requests, all of them were responded.
- The average time needed to respond to the request of a foreign FIU is **18,8** days.

At the same time to comply with IX FATF Special Recommendation with the aim of counteracting to illicit trans-border transfer of currency SCFM

The quantity of countries the information exchange is carried out with



The number of requests sent and replies received



established cooperation with the State Custom Service to counteract illicit transfer of currency through Ukrainian border.

SCFM submits informative letters to foreign FIUs on non-residents who violated custom rules on the Ukrainian

border while import (export) of foreign or national currency or other currency values. In 2008 the SCFM submitted **42** informative letters to **15** foreign FIUs. Communication with the countries that have common borders with Ukraine is the most active.

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## 11. Plans for 2009. Development Perspectives

Taking into account the 3rd MONEYVAL Evaluation Round of AML/CFT system effectiveness the key objectives for Ukraine for the next 2009 year are the following:

- processing and summarizing of recommendations provided by experts according to the results of the 3rd MONEYVAL Evaluation Round;
- submission of these recommendations for the consideration of regulators and participants of National AML/CTF system, and state agencies;
- development of Action Plan for implementation recommendations defined in MONEYVAL Evaluation Report.

To improve quality of processing and analysis of information, the objectives of SCFM of Ukraine are the following:

- improvement of information and analytical system as well as normative framework to complete automation of the process of information exchange with financial intermediaries;
- prevention the use of Ukrainian financial system for the purposes of money laundering and terrorist financing.

Besides:

- Review of SCFM normative legal acts and upon necessity to develop proposals to introduce amendments and elaboration of the new normative legal acts in order to ensure implementation of the Law of Ukraine "On Introduction of Amendments

to the Law of Ukraine On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime" after adoption of the Verkhovna Rada of Ukraine.

- Collect and process of information on financial transactions subject to financial monitoring submitted by reporting entities. Improving processing algorithms considering normative and legal provision of financial monitoring.
- Provide functioning of information systems UIS FM and FINNET.
- Continue work on elaboration and conclusion of international agreements (memoranda) on cooperation in AML/CTF sphere with foreign FIUs.
- Strengthen the level of cooperation with General Prosecutor's Office to provide proper and effective reacting for violation of AML/CTF legislative requirements by reporting entities officials.
- Provide revealing and submitting to state regulators of information for examination and application of relevant regulatory measures for failure to submit (inopportune submission) to SCFM of STRs subject to obligatory financial monitoring by banks, insurance companies and professional participants of securities market.
- Provide training and professional development of financial monitoring experts in AML/CTF area according to approved schedules and budget financing for 2009.

## List of abbreviations

- FATF** – Financial Action Task Force
- MOLI-UA-2** – Follow-up Project against Money Laundering and Terrorist Financing in Ukraine
- MONEYVAL** – Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures basic Law – the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime "
- GPO** – General Prosecutor's Office of Ukraine
- SCFM** – State Committee for Financial Monitoring
- SCFSMR** – State Commission on Regulation of Financial Services Market of Ukraine
- SCSSM** – State Securities and Stock Market Commission
- STA** – State Tax Administration of Ukraine
- EAG** – Eurasian Group on combating money laundering and financing of terrorism
- EBRD** – European Bank for Reconstruction and Development
- UIS** – Unified State Information System in the area of prevention and legalization (laundering) of proceeds from crime and terrorist financing
- MI** – Ministry of Interior
- NBU** – National Bank of Ukraine
- FIU** – financial intelligence unit
- SSU** – Security Service of Ukraine
- Reporting entity** – entity of initial financial monitoring
- CR** – case referral
- FINNET** – secured multi-service automated corporate system of SCFM of Ukraine
- FM** – financial monitoring

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