

REPORT

**STATE COMMITTEE FOR FINANCIAL
MONITORING OF UKRAINE**

2009

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DEAR COLLEAGUES!

One more year of State Committee for Financial Monitoring of Ukraine activity had passed. It was the fifth year when SCFM operated as a central agency of executive authority.

The “laundering” effect has a negative impact on society by breaking principles of legal business and reputation of its’ separate segments and participants, undermines society’s confidence in whole financial system, being a threat for normal operation of credit and financial institutions of the country. Moreover, its cross-border nature creates certain threat to economical security of any country.

That’s why SCFM of Ukraine always does its best to fulfill its prior objectives – collection and processing reports from entities of financial monitoring on transactions to conduct further analysis to detect transactions, which could be related to money laundering or terrorism financing. This report represents results achieved by SCFM of Ukraine in 2009.

Since 2003 SCFM of Ukraine has developed amendments to the Law of Ukraine “On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime” to adapt legislation of Ukraine to international standards in the AML/CFT sphere.

Despite all efforts made by SCFM of Ukraine amendments were not adopted.

On September – October, 2008 3rd Round MONEYVAL Mutual Evaluation was carried out in Ukraine. The visit of international experts to Ukraine foresaw verifying actual AML/CFT system as well as its effectiveness.

Evaluation ratings were low because of absence of amendments to legislation.

Thus, SCFM again began work on introducing amendments to the Law of Ukraine “On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime”.

This Law is aimed to strengthen counteraction to money laundering by implementing FATF Recommendations in national legislation.

Recommendations of FATF are the major source of international standards in this sphere and they also accumulate the best world experience in fighting against money laundering and terrorism financing and define basic principles of National frameworks on this issue.

When elaborating the Draft Law SCFM defined as one of the goals to consider needs of financial markets of Ukraine and at the same time to comply international standards.

SCFM considers financial institutions as partners and cooperates with them in counteraction to legalization (laundering) of proceeds from crime and terrorist financing.

STATE COMMITTEE

FOR FINANCIAL MONITORING OF UKRAINE

1. ABOUT SCFM

Combating money laundering shall be considered as an issue of national security for every state.

Before the beginning of the new century Ukraine failed to have the proper AML/CTF system. And it only slightly corresponded to separate FATF Recommendations.

FATF standards appeared to be the basis for national legislation improvement in many countries.

Committing the establishment of legal grounds for execution of set standards and to make the financial system correspond to international requirements, Ukraine plays an active role in development international AML/CTF system.

In order to operate undertaken obligations before international community and especially FATF in January 2002 the Government of Ukraine established the key element of the current system, its coordinating agency – the Financial Intelligence Unit, starting as State Department and following as a State Committee for Financial Monitoring. This was the first stage in AML/CTF system construction.

In the end of 2002 the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime" was adopted (further – Law), which entered into force on June 12, 2003. It became a framework for AML/CTF system development as well as legal background for further legislation improvement.

At the same time, with a purpose to create overall internal coordinated legal framework the proper amendments to the laws, which regulate banking sector and financial services activity, have been made, providing correspondence of Ukrainian legislation and international standards.

Adopted AML/CTF legislation was new for constant Ukrainian legal system and fully corresponded with best European practices for that time.

Today the SCFM is a specially authorized agency of executive power on financial monitoring issues and plays an active role in AML/TF area.

Committee operates as a national financial intelligence center with relevant authorities, being a link of governmental AML/CTF system engaging other financial institutions, state control agencies and law enforcement authorities.

Financial institutions operate as information sources; state control agencies monitor and regulate; law enforcement authorities operate according to detected offences. Financial Intelligence Unit collects and analyze information on financial transactions, subject to suspicion and submits it to law enforcement agencies.

SCFM role is to process STRs received and submits relevant law enforcement agencies with case referrals where suspicions on ML or TF may rise.

Peculiarity of assigned work consists of active monitoring process of financial transactions, which potentially may be connected with ML or TF.

SCFM acts on the basis of the Constitution and laws of Ukraine, acts of the President and the Cabinet of Ministers of Ukraine, international treaties and the Statute of the State Committee for Financial Monitoring of Ukraine.



Symbol of the State Committee for Financial Monitoring of Ukraine

Financing of SCFM expenditure in 2009 was carried out from the State Budget within the limits under the Law of Ukraine «On the State Budget of Ukraine for 2009».

In 2009 according to assignments, funds in amount of UAH 34 943,8 were assigned to SCFM from the State Budget. Structure of use of mentioned funds is given in the table below.

Structure of use of budget assignments by SCFM in 2009

Direction of expenditures	Amount (thousands UAH)
Wages and wage upholding	28 936,7
Payment for public utilities and energy consumptions	2 288,2
Business trip expenditures	91,8
Maintenance of SCFM Training Centre	1 343,7
Other expenditure for providing activity and functioning of the State Information and Information-Analytical System of SCFM	2 283,4
Total	34 943,8

The rate and structure of remuneration of SCFM employees is defined by the Cabinet of Ministers of Ukraine. Average SCFM employee' salary in 2009 constituted UAH 4 700 and SCFM chief expert' salary - UAH 4 450.

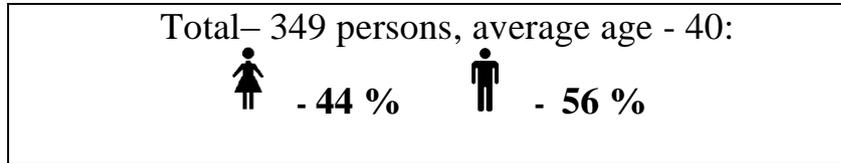
SCFM staff is **338** persons, including **162** in regions.

As of December 31, 2009 SCFM actually encountered **349** employees, including **16** employees according to the signed labour contract (**183** – in central

office, **166** – in regional subdivisions). During 2009 the amount of employees increased on **42** persons.

Gender division of SCFM staff represents: **195** men and **154** women. Among senior management - **60** men and **27** women.

The average age of employees of the SCFM of Ukraine is **40** years.

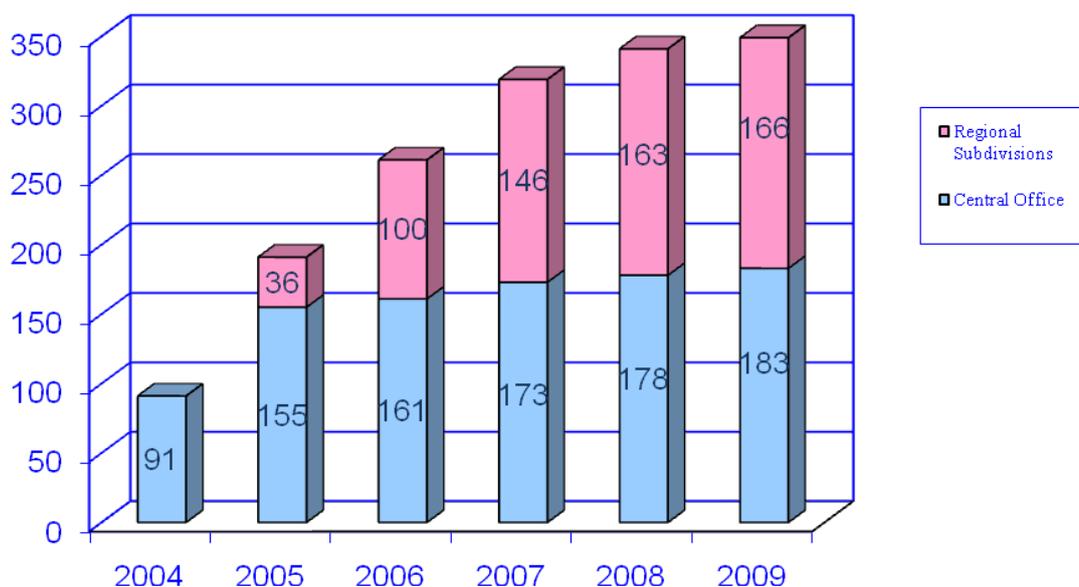


SCFM staff consists of high qualified specialists with higher education.

SCFM staff is appointed via competition under the Statute of conducting Competition. Information on competition and its terms are submitted to the mass media and also placed at SCFM official web-site.

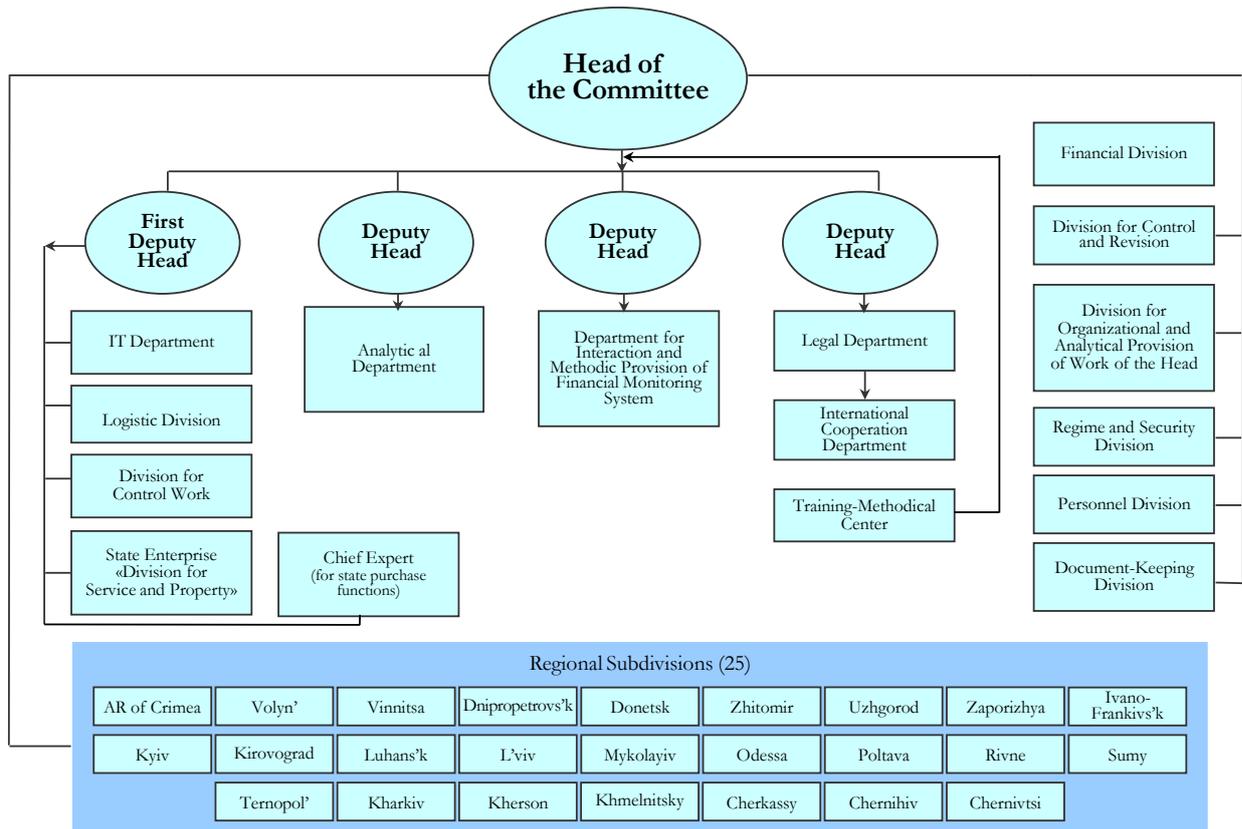
In 2009 **5** meetings of competitive commission for vacant seats of civil servants were carried out in SCFM, **38** persons participated in competitions and **33** persons were employed under competition results. Besides, **9** persons were transferred to SCFM from other agencies under the results of probation period. The probation of civil servants was carried out by SCFM to gain practical experience, examine the professional level and in a view of carrier development in SCFM **8** employees were promoted.

SCFM actual staff quantity dynamics in 2004 - 2009



On December 31, 2009 all 25 SCFM regional subdivisions are fully operational: AR of Crimea, as well as in Vinnitsa, Volyn, Dnipropetrovs'k, Donetsk, Zhitomir, Zakarpatia, Zaporizhia, Ivano-Frankivs'k, Kyiv, Kirovograd, Lugans'k, Lviv, Mykolaiv, Odessa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Kherson, Khmelnyts'kiy, Cherkasy, Chernivtsy and Chernigiv regions.

SCFM STRUCTURE



2. AML/CTF LEGISLATION DEVELOPMENT

During 2009 SCFM provided proposals to improve AML/CTF legislation.

During the reporting year, SCFM adopted **182** orders on the main activities issues, **33** directives and signed **7** Memoranda of Understanding in AML/CFT area with:

- United States Financial Crimes Enforcement Network, Bureau of the Department of the Treasury concerning Cooperation in the Exchange of Information Related to Money Laundering and Terrorist Financing;
- Australian Transaction Reports and Analysis Centre (Australia) concerning Cooperation in the Exchange of Financial Intelligence Related to Legalization (Laundering) of Proceeds from Crime and Terrorism Financing;
- Administration for the Prevention of Money Laundering and Terrorist Financing of Montenegro concerning Cooperation in the Area of Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing;
- Financial Crime Unit of the Isle of Man Constabulary concerning Cooperation in the Area of Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing;
- Cook Islands Financial Intelligence Unit concerning Cooperation in the Area of Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing;
- Service d' Information et de Contrôle sur les Circuits Financiers of the Principality of Monaco concerning Cooperation in the Area of Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing;
- Financial Information Agency of San-Marino concerning Cooperation in the Area of Counteraction to Legalization (laundering) of the Proceeds from Crime and Terrorist Financing.

At the present, SCFM coordinated the final concordance of Memoranda of Understanding with several foreign FIUs.

At the same time, during 2009, the SCFM participated in processing proposals and amendments to the Draft Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing" (reg. № 3062 August 19,2008) (New Law) with a purpose of its' further consideration by the Parliament of Ukraine in the second reading.

It is worth mentioning, that under results of MONEYVAL III round evaluation, which was held in Ukraine in September-October 2008, the international experts' recommendations were considered and reflected in the Draft of New Law.

Thus, on November 6, 2009 mentioned Draft Law was passed as a Law by the Parliament of Ukraine in the second reading and on November 23 directed to the President of Ukraine for signing.

On December 8, 2009 with Presidential veto the Draft Law was returned to Verkhovna Rada of Ukraine to be elaborated for reconsideration of the Law by Verkhovna Rada of Ukraine.

The New Law combined the both positive international experience and practical experience of national enforcement institutions in AML/CTF area, granted positive expert conclusion from the Council of Europe, passed an FATF expertise and meets all the requirements of international organizations, which collaborate in the mentioned area.

It should be mentioned once more, that the New Law aimed to improve existing financial monitoring system and to meet world standards. Its' provisions once more confirm, that the SCFM goals are non-interference to financial sector activity but detection of suspicious transactions and individuals, carrying them out.

The New Law by its nature enlarges the reporting entities list by virtue of DNFBPs and requires 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 PEPs and foreign financial institutions (FATF 6 Recommendation).

Due to extension of the reporting entities list the number of entities of state financial monitoring responsible for regulation and supervision is also enlarged. They include the Ministry of Justice, the Ministry of Finance, the Ministry of Transport and Communications, the Ministry of Economy and the Specially Authorized Agency of executive power on financial monitoring issues.

The novel of the New Law provides transaction results risks management, evaluation of such risks and taking appropriate measures, including enhanced CDD (FATF 5, 8 Recommendations).

The current Law also implements the mechanism for suspension financial transactions related to money laundering, which will provide the ability to freeze funds on the accounts, which is essential to prevent first of all of their outflow abroad. This measure is expected to enhance the efficiency of law-enforcement agencies will have all the conditions to prevent such offences (FATF 3 Recommendation).

Adoption of the Draft Law will enable:

- to fulfill all obligations, undertaken by Ukraine before world community;
- to adjust national financial system to international legal transparency standards;
- to encourage investment flow into national economy from economically-developed countries;
- to decrease the share of shadow economy sector;
- to increase the possibility of financial system of Ukraine to counteract to the laundering of "dirty" money and terrorist financing.

At the same time, during the year the activity was also aimed at development of the acts of the Cabinet of Ministers of Ukraine.

Thus, in order to bring the Statute of the State Committee for Financial Monitoring of Ukraine, approved by the Resolution of the Cabinet of Ministers of Ukraine on 31.01.2007 № 100 in line with the requirements of the Law of Ukraine on the Cabinet of Ministers of Ukraine on 16.05.2008 № 279-VI and Article 116 of the Constitution of Ukraine the SCFM elaborated the Draft of the Resolution of the Cabinet of Ministers of Ukraine On Amending the Resolution of the Cabinet of Ministers of Ukraine on 31.01.2007 № 100, approved by the Government on 27.05.2009 by the Resolution № 520.

Great step in coordination of joint AML actions was adoption on October 21, 2009 of the Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine № 1119 on Approving of the AML/CFT Action Plan for 2010 elaborated by more than 50 state agencies of Ukraine.

The main purpose of the joint resolution is taking measures aimed at implementation of the MONEYVAL experts' recommendations under the results of III round of mutual evaluation and implementation into the national legislation of FATF 40 Recommendations and 9 Special Recommendations on terrorist financing and other international standards in order to develop AML system through taking of the range of practical measures by state agencies.

On implementation of the Resolutions of the Cabinet of Ministers of Ukraine relevant measures were also taken during the reporting year. Thus, on implementation of the paragraph 5 of the Resolution of the Cabinet of Ministers of Ukraine as of June 17, 2009 № 599 "Issues of consultative, deliberative and other subsidiary bodies established by the Cabinet of Ministers of Ukraine" the State Committee for Financial Monitoring of Ukraine developed draft of resolutions of the Cabinet of Ministers of Ukraine "Issues of ensuring of operating of the Unified State Information System in the AML/CFT area" and "On establishing of the Council on researching of methods and trends in money laundering and terrorist financing". Under results:

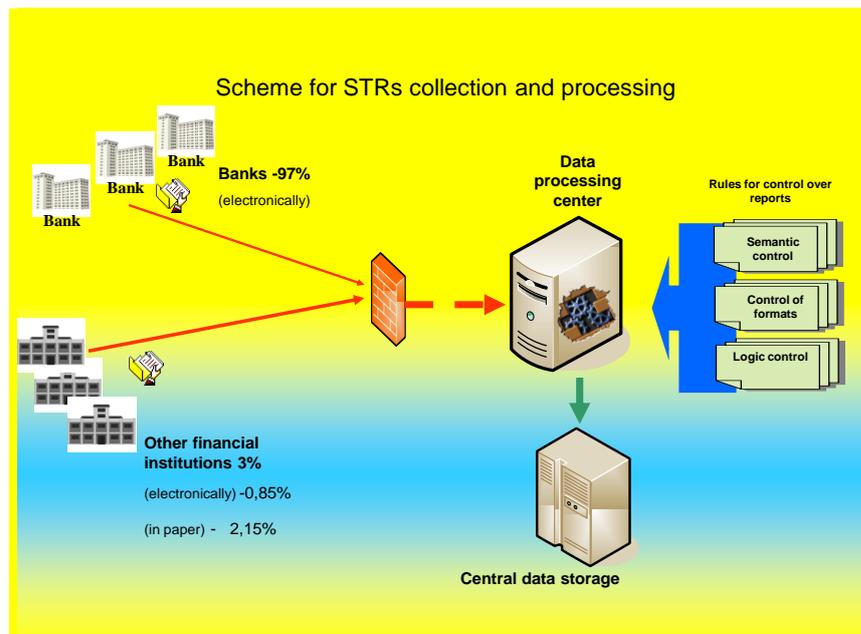
– On November 25, 2009 the draft Resolution of the Cabinet of Ministers of Ukraine "Issues of ensuring of operating of the Unified State Information System in the AML/CFT area" was approved during the session of the Cabinet of Ministers of Ukraine № 1268;

– On December 1, 2009 the draft Resolution of the Cabinet of Ministers of Ukraine "On establishing of the Council on researching of methods and trends in money laundering and terrorist financing" was approved during the session of the Government Committee for Legal Policy, Defense and Law Enforcement Activity and adopted during the session of the Cabinet of Ministers of Ukraine on January 6, 2010.

3. STR STATISTICS

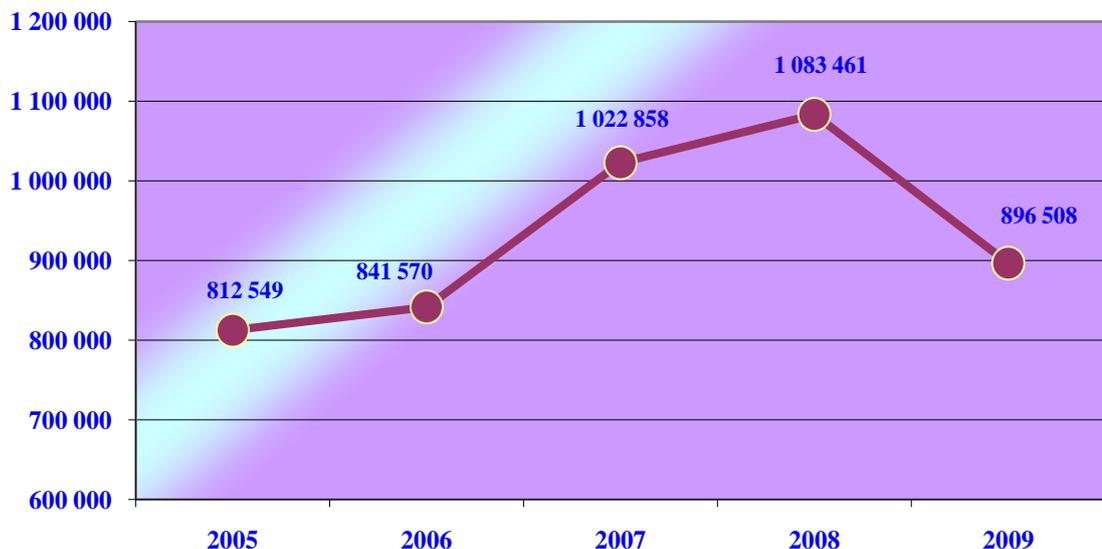
3.1. General STRs dynamics

SCFM receives from financial intermediaries the information of the financial transactions subject to obligatory financial monitoring pursuant to the legislation or suspected in money laundering and terrorist financing.

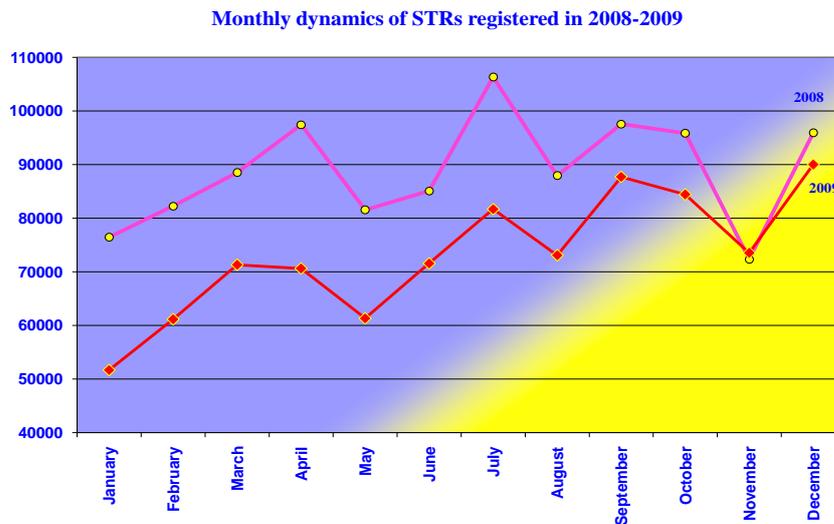


From the beginning of the system exploitation there were received **5 651 757 reports** on financial transactions subject to financial monitoring, **896 508** of which were received and processed in 2009.

Dynamics of reporting on financial transactions in 2005-2009



It should be mentioned that in 2009 a number of STRs received by SCFM decreased on 17,26 % in comparison with 2008 that is justified with an influence of the world economic crisis on Ukrainian economy.



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

3.2. Reporting Entities STRs Dynamics

The Specially Authorized Agency, according to Ukrainian legislation, is empowered 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 2009 banking institutions provided 96,9% of STRs, including:

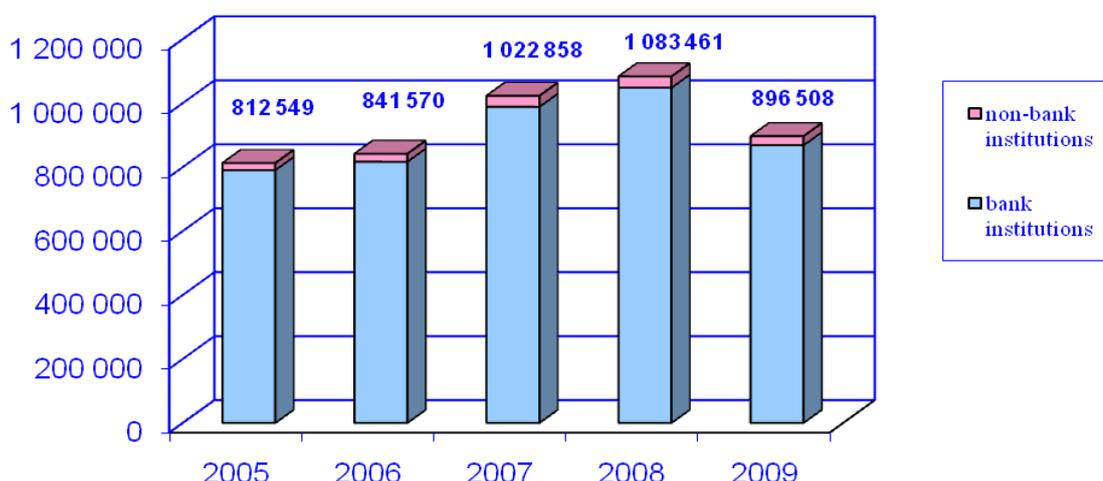
In electronic form:

- from banking institutions – 868 357
- from non-banking institutions – 22 267

On paper carriers:

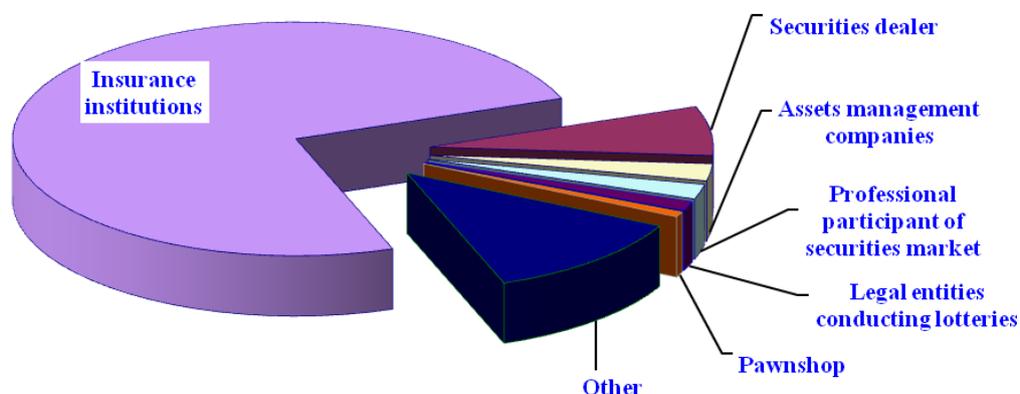
- from non-banking institutions – 5 884

Dynamics of reporting on financial transactions by bank and non-bank institutions in 2005-2009



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 74,9 %.

The share of reports under types of non-banking financial sector entities received by the SCFM in 2009



The share of such financial transactions subject to financial monitoring in total number of STRs of non-banking sector submitted by other types of reporting entities-on-banking institutions constitutes:

Insurance institutions	21`237	74,93%
Securities dealer	1`927	6,80%
Assets management companies	660	2,33%
Professional participants of securities market	568	2,00%
Legal entities conducting lotteries	360	1,27%
Pawnshop	202	0,71%
Other	3`388	11,95%

4. ANALYTICAL ACTIVITY

4.1. Information Analysis Process

SCFM within its competence provides collecting and proceeding of information received from financial intermediaries on financial transactions subject to financial monitoring.

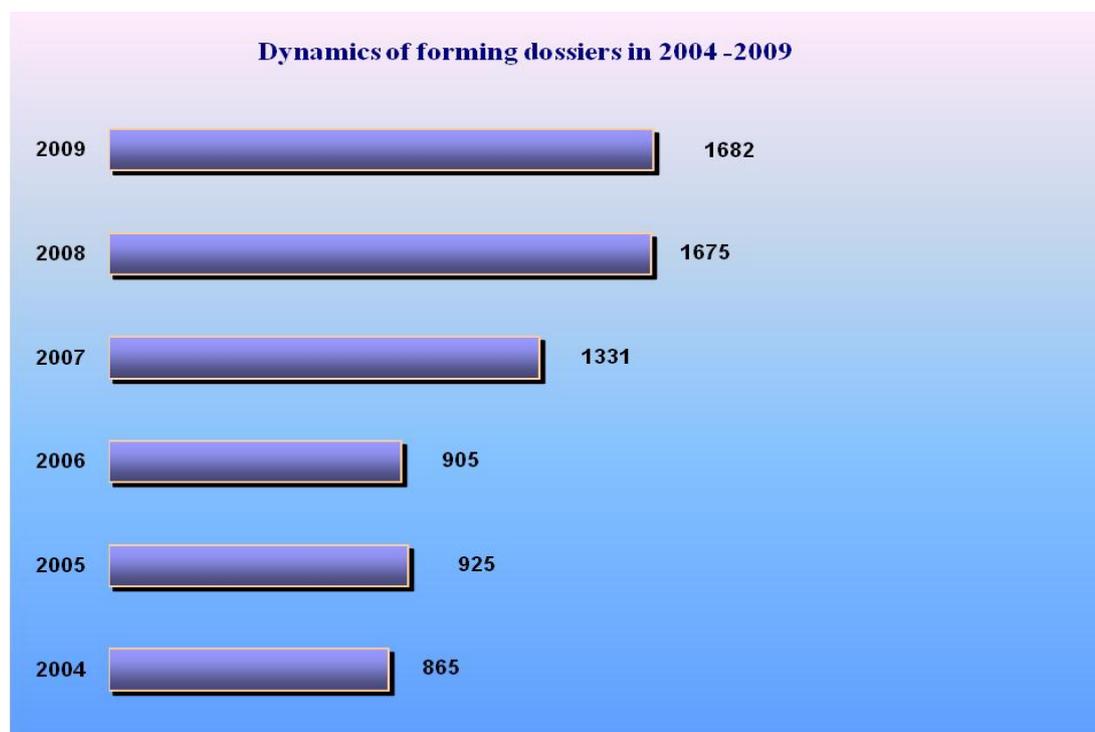
Information for analyses is received from the following sources:

- Financial monitoring entities;
- Law enforcement agencies;
- Regulators and other state agencies;
- Financial Intelligence Units of other countries;
- Open sources (Internet, commercial data bases).

Grounds for money laundering suspicion SCFM reflects in case referrals based not only on its own conclusions but using proving documents, information from law-enforcement agencies and foreign counterparts.

If the money laundering or terrorist financing indicators are revealed, the case referral shall be prepared submitted under consideration of expert commission.

In 2009 **877 443** reports on financial transactions were registered. One report can simultaneously contain several indicators for monitoring.



The breakdown of received STRs in reporting year in the context of financial monitoring indicators is the following:

- with obligatory monitoring indicators– 74,1% (650 172);
- with internal monitoring indicators– 25,1% (220 618);
- with obligatory and internal monitoring indicators– 0,8% (6 653).

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

During reporting period **143 919** reports were chosen for active work, which became the bases for **1 682** dossiers.

4.2. ML schemes

The most prevailing current ML schemes contain a great range of different elements and instruments for realization. Revealing of ML schemes requires in-depth complex research of circumstances of executed transactions, complex examination of participants involved as well as cooperation of different law enforcement agencies and reporting entities. For today among existing ML mechanisms the following deserve for special attention: “converting centers” activity, unproductive outflow of funds abroad, transactions with “trash” securities, transactions related to purchase/sale of land and real estates.

Example 1

SCFM analyzing financial transactions received as reports from banking institutions, revealed the chain scheme of converting non-cash funds into cash through cash desk of affiliate of one Ukrainian bank.

Thus, number of LLC transferred funds to the accounts of private enterprises, in particular **Company A** and **Company B**, as *payment for executed works, building materials, goods and services*.

In further, initially from **Company A**, and then after a while from **Company B** mentioned funds in large amounts were transferred to the account of **Citizen P**, as *payment under agreement of commission for purchase of agricultural production*.

Essential part of such funds – **UAH 0,78 mln (\$ 0,10 mln.)**, was immediately withdrawn in cash by **Citizen P** for purchase of agricultural production, and other was transferred in parts to the accounts of two individuals – **Citizen S** and **Citizen R**, as “repayment of financial assistance” .

Received funds in the same day under order were withdrawn in cash from accounts of these individuals in the cash desk of affiliate of one Ukrainian bank. So, **Citizen K** and **Citizen L** withdrew **UAH 12,15 mln (\$ 1,54 mln.)** under order from account of **Citizen R**, and **Citizen M** also under order withdrew **UAH 4,1 mln (\$ 0,52 mln.)** from account of **Citizen S**.

According to comments of affiliate of mentioned Ukrainian bank concerning financial transactions related to withdrawing of cash, one can reveal systematic withdrawing of large amounts of cash from accounts of customers in day of their entry to these accounts or the next day, and there is obvious discrepancy of incoming and out-coming payments address.

SCFM providing further deep analysis revealed that:

- Passport, under which identification of natural person – bank customer **Citizen R** and withdrawing of cash were performed, is considered to be lost;
- **Citizen S** and **Citizen R**, from accounts of whom cash was withdrawn, are founders, directors and accountants of number of LLC which transferred these funds to the accounts of **Company A** and **Company B**;
- **Citizen M**, who withdrew cash under order from the account of **Citizen S**, is accountant and founder of **Company A**;
- There are affinity between **Citizen K**, **Citizen L** and **Citizen M**.

On the grounds of executed analyses SCFM elaborated relevant case referrals and submitted them to the Ministry of Interior of Ukraine. Currently the operative and search activity in criminal case are being performed.

Example 2

SCFM paid attention to reports on financial transactions submitted by **Bank Z**, under which during one day three Ukrainian companies obtained credits on the total amount of **UAH 170 mln. (\$ 21,5 mln.)**

Under SCFM analysis results the following was revealed.

Credit agreements, under which **Bank Z** gave credits to the mentioned companies, were concluded in one day and even have consecutive register numbers.

As obligation security for all three credit agreement the land slot is used which according to the agreements: has total square 20 hectares; is located near big city in one of the central oblasts of Ukraine; has certain **cadastre number N** and belong as private property to some citizen of Ukraine.

All three Ukrainian companies are registered in other oblast of Ukraine then **Bank Z** is located which provided credit and land slot used as security. In addition, two of mentioned companies were registered in one day and on one address.

Performing further analyses SCFM received additional information from regional registering subdivision “Centre of state land cadastre”, according to which information about land slot with **cadastre number N** is absent in automate data base of State Land Cadastre.

On the ground of SCFM analysis relevant case referrals were submitted to the Security Service of Ukraine and the Ministry of Interior of Ukraine.

For the present moment investigation of criminal case is to be continued. The forgery and fraud with financial resources are in place.

Example 3

Analyzing financial transactions subject to financial monitoring SCFM revealed illicit schemes introduced by officials of Ukrainian bank with purpose of misappropriation of funds of this bank by giving credits to commercial entities controlled by these officials.

So, according to analyzed financial transactions, **Group of Ukrainian companies** with small statutory fund during short period of time obtained from Ukrainian **Bank X** credit funds on the total amount of **UAH 406 mln (\$ 50,75 mln)**. Majority of companies from this group were newly established.

According to scheme, funds obtained by Group of Ukrainian companies in the same day and in full scope were transferred to the **Company C** under agreements of commission and no-interest loan that is doubtful as for obtaining economic profit and repayment of credits.

In further, through number of **Transit companies** by performing no-goods transactions funds were accumulated on the accounts of **Company A** and **Company B** under two schemes – «simple» and «complicate».

«Simple» scheme contained that during short period of time – about 45 minutes – funds were transferred from **Bank X** through **Group of Ukrainian companies** and **Company C** to the final recipient, in particular to **Companies A and B**.

All the same companies participated in «complicate» scheme, but funds were transferred to **Companies A and B** only after **Company C** performed number of financial transactions on purchase (sale) of securities by circle through **Securities Traders**.

It is possible that these securities were “trash” as SCFM had already submitted to law enforcement authorities relevant materials in previous years about mentioned **Securities Traders**. *Under these materials, proceeds from crime were legalized by purchase (sale) of “trash” securities, these proceeds were transferred abroad as repayment of investments. Law enforcement authorities initiated criminal case under results of consideration of which about UAH 9 mln. (\$ 1,8 mln.)¹ were seized.*

SCFM performed further comprehensive analysis and revealed that **Group of Ukrainian companies, Transit Companies** and **Companies A and B** were connected not only by same address but also by founders.

So, officials in mentioned companies were actual or former employees of **Bank X** for the moment of providing credit.

¹ In 2007-2008 average course of US dollar constituted UAH 5.

In addition, in relevant credit agreements there were no clauses what exactly property shall secure execution of obligation of **Group of Ukrainian companies**.

Important fact is that after receiving credit the **Group of Ukrainian companies** carried out number of action aimed at concealing their activity, in particular: changes in address, founders' membership, advocate and lawyer were assigned directors, and accounts were transferred from bank – creditor to other banks.

Relevant case referrals concerning revealed scheme were submitted to the Security Service of Ukraine. For the present moment the SSU provide operative and search activity.

4.3. Typologies

SCFM typologies generalized disclosed schemes, experience of foreign competent authorities, financial, law enforcement and other competent state authorities of Ukraine – participants of national AML/CTF system considered in 2008-2009 were related to money laundering by withdrawing cash as well as tactical study and practical investigation were performed on this issue.

Providing this study is caused by essential social danger and threat for Ukraine containing in specific weight of cash in structure of total monetary aggregates, and accordingly possibilities of criminal to legalize their illicit proceeds using cash.

Main function of both cash and non-cash funds – serve as payment measures. In many countries cash funds are strictly limited by legislation, their maximal limit providing transaction shall not exceed established by legislation threshold (amount).

Regularity also is that circulation of non-cash funds is easier to regulate than circulation of cash. Funds transferred from one account to another can be controlled by banking institutions, supervisory and law enforcement authorities. In such way cash is most comfortable because of absence of strict legal control.

So, for realization of schemes of legalization (laundering) of the proceeds from crime so called “chain breaking” transactions are usually used. These transactions are used with purpose of masking signs of illicit origin of funds by changing owner, their physical location and withdrawing cash.

Using transactions on withdrawing cash in ML schemes also is caused by necessity of reaching certain tasks as following:

- Hiding signs of origin of criminal proceeds;
- Hiding persons who received (are receiving) illicit proceeds and persons who initiate laundering process;

- Providing handy and operative access to criminal proceeds;
- Creating conditions for safe and handy using of the proceeds from crime;
- Creating conditions for safe investing into legal business.

It also known that criminals attempt to save their assets in liquid form, one of them is cash.

In fact it is “zero” (starting) point in laundering process prior to stage of “placement” on which criminals attempt to minimize risks related to possible confiscation of non-cash funds.

Presence of this stage is typical for transferring non-cash funds into cash in the process of misappropriation of budget funds, using e-money, etc.

Cash can be further legalized using other schemes and used for multiplying shadow assets, giving bribes to officials of different levels, etc.

Additionally, transactions on cash withdrawal also used at last stage of laundering, when already legalized funds are transferred into cash for more liquidity.

The following can be reasons for illicit converting funds into cash in Ukraine:

- Providing illicit activity and as reason – bribes to officials of state authorities;
- Creating financial basis for functioning of criminal business: human trafficking, drug trafficking, etc;
- Performing agreements using cash without their reflection in financial reporting, in such way firm evade compulsory payments to budget.

Illicit actions related to converting funds into cash have number of negative consequences influencing on monetary system of country. It may cause damage of its stability.

Under the results of 2008 – 2009 law enforcement authorities note increasing of crimes caused by economic crime and predict such trend for 2010. Entrepreneurs often use illicit converting funds into cash using fictitious agreements with companies established specially for these purposes.

For the present moment illicit converting of funds is rather profitable and broadened illicit business for serving organized crime. Key link in this process is fictitious firm registered on men of straw. One of the main tasks of organizers of such economic entities during their registration and using is avoiding of criminal liability. For this purpose men of straw are assigned as leadership of fictitious firms.

Fictitious firms have almost no differences from legal economic entities, but more often they are registered using identification data of poor citizens, old aged people. Transaction on transferring funds into cash is legal transaction. But

criminals use transferring funds into cash as effective measure for realization of ML schemes.

Fictitious firms are established by groups of persons who have experience in such activity and connected with financial institutions. Accounts of such firm are often opened in under-control banking institutions where money flows transferred through “transit” firms can be controlled in full scope. In such way funds transferred from customers to accounts of such firms are most secured.

It should be mentioned that efficiency of AML system requires close cooperation of operative subdivisions of law enforcement authorities and the SCFM as Specially Authorized Agency on Financial Monitoring Issues.

I.e., effective functioning of AML system, including withdrawing cash as one of laundering element, can be reached only with consolidated functioning of criminal – legal control mechanism and financial monitoring mechanism.

5. CASE REFERRALS

5.1. Case referrals consideration by law-enforcement agencies

The procedure for submission by SCFM case referrals on suspicious financial transactions and receiving information on their processing is regulated by joint orders of SCFM with law enforcement agencies.

SCFM Expert committee on consideration of the case referrals, prepared for submitting to law enforcement agencies, takes decision concerning submitting such materials to law enforcement agencies, in case of reasonable grounds. Specialists of subdivisions of law enforcement agencies are involved to participating in meeting of Expert committee as experts.

It should be mentioned that in 2009 amendments to the Procedure of submitting and consideration of case referrals, approved by interagency order of SCFM and law enforcement agencies, were introduced which sufficiently improved procedure of preparing and submitting of case referrals.

Daily SCFM information base receives around 3 000 STRs.

Basic objects of SCFM attention are still transactions of illegal drawing funds abroad, conversion transactions, 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 2009 summarized and submitted to law enforcement agencies **1 134** materials, among them **626** case referrals and **508** additional materials. These case referrals were summarized on the base of **180 768** STRs.

Out of them submitted to:

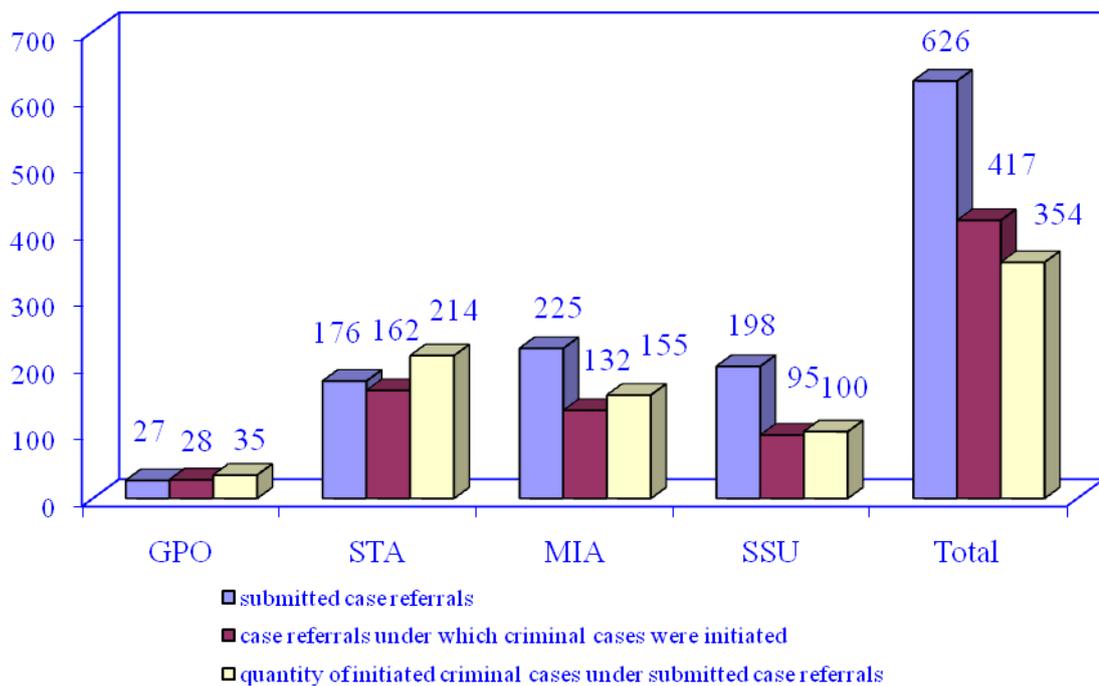
- the General Prosecutor’s Office of Ukraine (GPO) – **41**;
- the State Tax Administration of Ukraine (STA) – **350**;
- the Ministry of Interior of Ukraine (MIA) – **375**;
- the Security Service of Ukraine (SSU) – **368**.

Total amount of possible legalization – **UAH 59,9 bln.**

Besides, **282** case referrals were submitted to law enforcement agencies, financial transactions of which are related to cash-in for the sum of **UAH 32,4 bln.**

According to reports from law enforcement agencies received during 2009, under results of criminal cases investigation law enforcement agencies imposed arrest on total amount of **UAH 4819,2 mln.** (among them – **UAH 4 665,9 mln** – securities) and seized on total amount of **UAH 742,2 mln.** (among them – **UAH 690 mln.** – securities).

Consideration of case referrals by law enforcement authorities in 2009



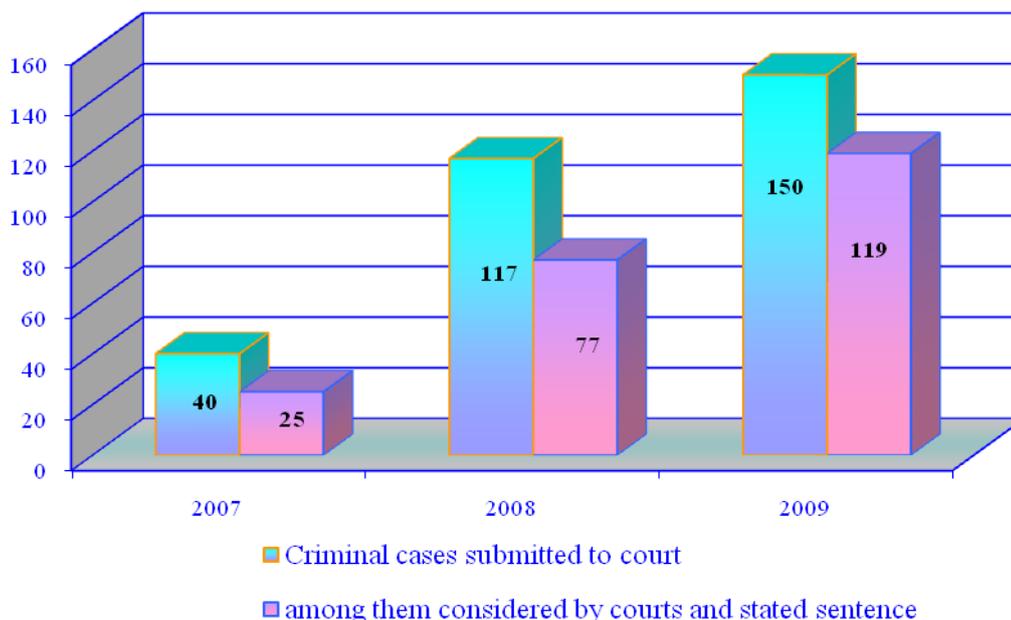
Under results of examination of **417** case referrals (including submitted in period of 2003 – 2008):

- **162** criminal cases are initiated and **255** materials were used in **342** criminal cases.

- **150** criminal cases were submitted to court.

Other criminal cases are at the investigation stage.

Dynamics of consideration of criminal cases submitted to court



It is worth mentioning that a number of criminal cases forwarded to the court in 2009 (taken into account the cases forwarded in 2003-2008) increased in comparison to 2008 by 1,3 times. And number of criminal cases considered by the court and convictions delivered increased by 1,5 times.

Consideration of case referrals by law enforcement agencies in 2003-2009

INDEX	2009					Total for 2003-2009				
	GPO	STA	MI	SSU	TOTAL	GPO	STA	MI	SSU	TOTAL
CR submitted	27	176	225	198	626	228	790	813	905	2736
CR, under which criminal cases were initiated (or used in initiation)*	28	162	132	95	417	180	511	370	283	1344
CR, under which initiation of criminal cases is refused according to Article 6 of CPC of Ukraine *	31	120	84	78	313	85	273	250	150	758
Number of criminal cases initiated under submitted CR (or where CR are used) *	35	214	155	100	504	157	601	414	282	1454
Criminal cases submitted to court *	13	78	38	21	150	31	164	89	43	327
Those considered by courts and delivered verdicts*	11	65	32	11	119	24	114	55	31	224

* - in information on taken decisions under results of case referrals consideration for 2009 information on case referrals submitted during 2003-2009 is described as well.

5.2. Example of court sentence

SCFM received from the reporting entities STRs on conducting by private enterprises E and K during 2005-2007 of financial transactions to the total amount of UAH 0,92 million that are subject to financial monitoring.

Moreover, the information was received that joint efforts of the law enforcement agencies clarified the fact of appropriation and embezzlement of public funds in especially large amount and further legalization thereof.

According to the Article 13 of the Law of Ukraine On Prevention and Legalization (Laundering) of the Proceeds from Crime, case referrals on the financial transactions related to obtaining money in the form of fees to the statutory fund of private entrepreneur "E" from citizen "SH" were forwarded.

The information contained in the case referrals was verified in the course of pretrial investigation in a criminal case initiated by the agency of internal affairs in Volyn region regarding director of a private enterprise E under the signs of appropriation of the property through power abuse, official forgery and money laundering.

Considering SCFM materials was revealed that director of the private enterprise E, knowing about allocation of public funds for reconstruction of State enterprise, acting under prior collusion with the director of this enterprise, chief accountant, director of private enterprise K and other natural persons, organized embezzlement of public funds to the amount of UAH 249,9 thousands.

So, false information concerning reconstruction of State Enterprise was mentioned in work acceptance certificate and in certificate on work value.

Thus, mentioned in documents works were not carried out. Funds transferred to private business entity were withdrawn in cash.

The figurants of this case were charged, and the case was forwarded to the court.

In the course of trial proceedings and analysis of evidence gathered by the pretrial investigation agencies the defendants were found guilty and was clarified that their actions inflicted the damages to the state to the amount of more than **UAH 1,5 million** (out of which UAH 387, 8 thousand were reimbursed willingly by the defendants in the course of pretrial investigation).

The court of Volyn region convicted 6 defendants, found them guilty: director of private enterprise E – in fraud and money laundering, 2 defendants – in appropriation of the property though power abuse, official forgery, 3 defendants were found guilty in power abuse or malfeasance with conviction to several types of punishment, including real imprisonment.

Moreover, the court decision obliged the defendants to reimburse, corresponding to their level of fault, the losses into the income of state that was left unreimbursed to the total amount of UAH 1,1 million.

6. INFORMATION SYSTEMS DEVELOPMENT

6.1. Unified Information System Development

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

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

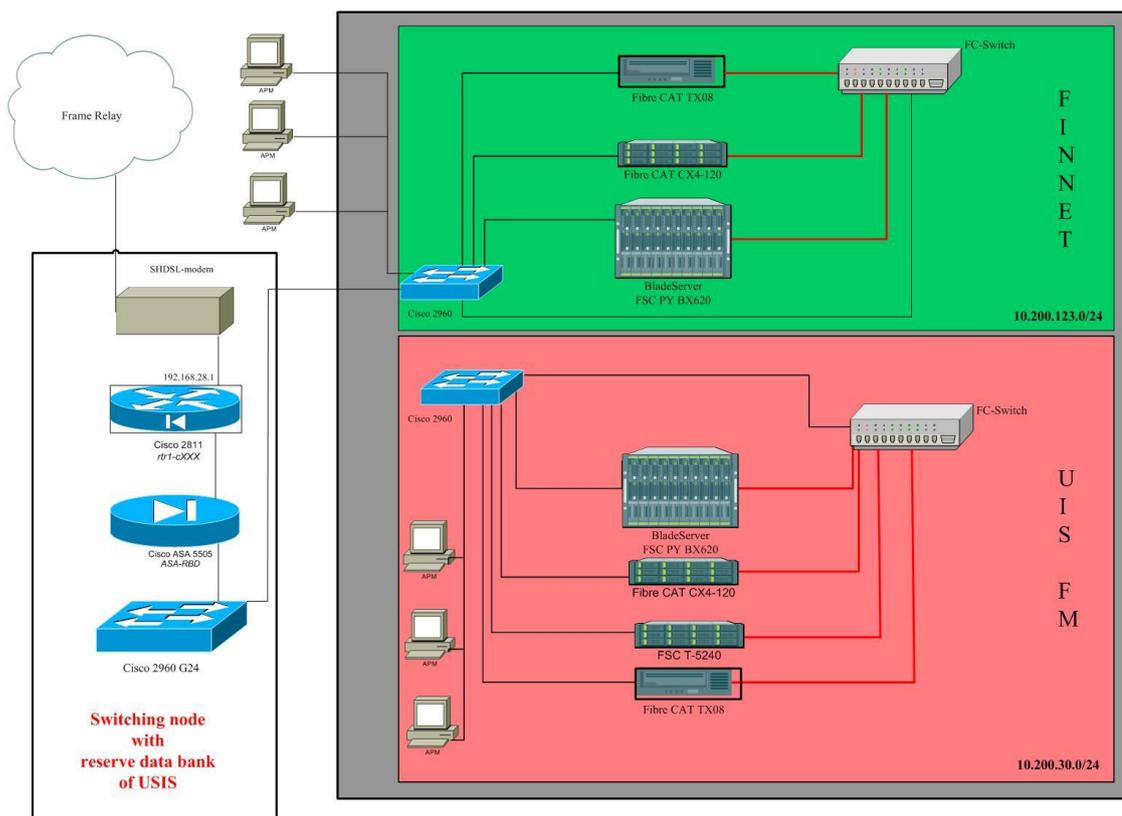
In accordance to these tasks development of SCFM information systems is conducted in two directions on creating:

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

To provide a reliable functioning of Unified state information system in 2009 within the framework of MOLI-UA-2 Project a reserve data bank - the FINNET was established.



General information model of FINNET and USIS reserve data bank is depicted.

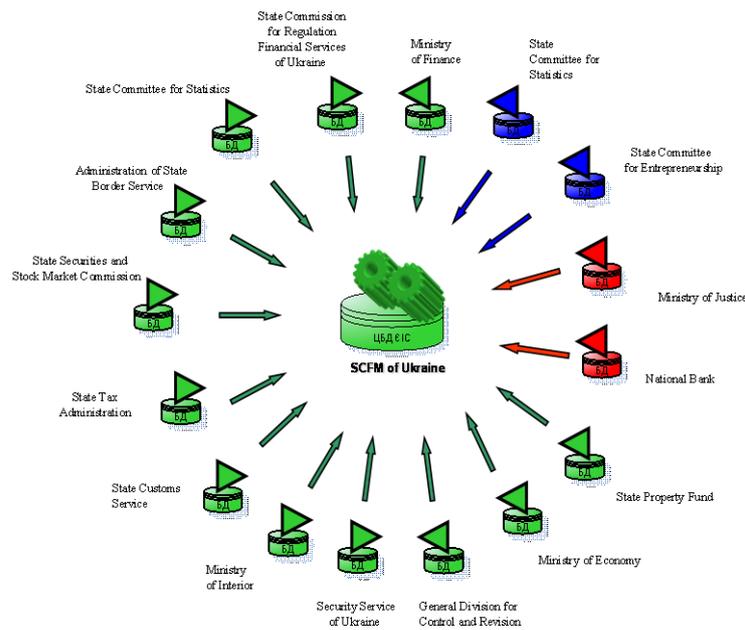


UNIFIED INFORMATION SYSTEM ON FINANCIAL MONITORING

In 2009 exploitation of Unified State AML/CFT Information System was continued. Functional subsystem of Unified Information System in the Ministry of Finance was launched.

In order to increase efficiency of large volume data processing functional subsystems of the State Custom Service, the State Tax Administration, the Ministry of Interior, the Administration of State Border Service and State Committee of Statistics within MOLI-UA-2 have had their disc space expanded through establishment of additional disc array suitable with acting facilities.

During the reporting year more than 2,6 million requests on obtaining additional information on the persons – participants of financial transactions subject to financial monitoring and objects of such transactions were forwarded and processed by the functional subsystems of state agencies – subjects of Unified Information System.



6.2. Establishment of automated corporate system FINNET

To execute functions assigned to SCFM Central Office and regional subdivisions, SCFM multiservice automated corporate system (FINNET) was launched in 2009.

SCFM secure multiservice automated corporate system 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 SCFM leaders 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 2009 the certificates of compliance of complex information protection system FINNET with the requirements of information protection regulations of Ukraine were received.



7. REGIONAL SUBDIVISIONS ACTIVITY

7.1. Interaction with reporting entities

Interaction of SCFM regional subdivisions with financial intermediaries at the regional level in 2009 was conducted in following ways:

- keeping of register of current reporting entities;
- clarification of information on reporting entities;
- determining problematic issues for prompt solving by methodical way;
- provision of methodical assistance with consultations and written explanations;
- conduction of regional trainings.

Within framework of this work during the reporting period SCFM experts with assistance of regional subdivisions conducted **304** trainings. In the named trainings **7 993** representatives of the reporting entities, state and law enforcement agencies participated.

Besides, in 2009 regional subdivisions provided to reporting entities and their separate structural subdivisions **5 169** explanations (consultations) of the current AML legislation and organization of initial financial monitoring.

7.2. Interaction with regional subdivisions of state agencies

In 2009 SCFM regional subdivisions managed:

- to conclude **40** acts at the regional level (agreements, memoranda, protocols) on interaction and information exchange with territorial law enforcement and other state agencies, and to sign **25** additional protocols to previously concluded agreements;

- within the framework of interaction development, maintenance of case referrals to conduct meetings with the leadership of the law enforcement agencies and other state agencies, territorial regulatory and supervisory agencies;

- to organize and hold in the regions in order to coordinate the actions of the reporting entities **285** trainings for the experts in the sphere of financial monitoring with participation of **7 223** persons.

7.3. Interaction with regional subdivisions of law enforcement agencies

At the end of reporting period regional subdivisions of law enforcement agencies were considering **2066** case referrals – almost 75,5 % of total number of submitted materials. Most of case referrals are submitted to law enforcement agencies in:

Kiev	–	410
Dnipropetrovs’k region	–	219
Lugansk region	–	191
Donetsk region	–	150
Mykolayiv region	–	129
Odessa region	–	123

Case referrals submitted by the SCFM of Ukraine to law enforcement authorities as of December 31, 2009

Region	GPO	STA	MIA	SSU	Total
AR Crimea and Sevastopol city	3	23	17	24	67
Vinnyts’ka	2	7	6	12	27
Volyns’ka	1	10	4	10	25
Dnipropetrovs’ka	17	89	60	53	219

Region	GPO	STA	MIA	SSU	Total
Donets'ka	42	53	30	25	150
Zhytomyrs'ka	5	7	23	6	41
Zakarpats'ka	4	6	9	6	25
Zaporiz'ka	11	28	28	23	90
Ivano-Frankivs'ka	2	3	7	6	18
Kyivs'ka	12	27	26	25	90
Kirovograds'ka	0	19	18	1	38
Lugans'ka	11	87	39	54	191
Lvivs'ka	6	27	29	23	85
Mykolayivs'ka	6	66	42	15	129
Odess'ka	9	39	38	37	123
Poltavs'ka	3	15	18	4	40
Rivnens'ka	1	9	7	10	27
Sums'ka	3	4	6	0	13
Ternopils'ka	4	8	4	9	25
Kharkivs'ka	5	23	25	26	79
Khersons'ka	3	11	12	8	34
Khmelnys'ka	0	9	8	8	25
Cherkass'ka	3	17	8	11	39
Chernivets'ka	0	7	7	15	29
Chernigivs'ka	0	9	10	8	27
Kyiv city	39	136	143	92	410
Total	192	739	624	511	2066
Central office	36	51	189	394	670
Total	228	790	813	905	2736

8. INTERAGENCY INTERACTION

8.1. Interaction with regulators and other state agencies

SCFM continues AML/CFT cooperation with agencies of executive power, other state authorities on following directions:

- submission of monthly analytical reviews, considering activity of reporting entities, which are under supervision and regulation of the National Bank of Ukraine, the State Commission on Financial Services Markets Regulation and the State Commission on Securities and Stock Market;

- providing the National Bank of Ukraine, the State Commission on Financial Services Markets Regulation and the State Commission on Securities and Stock Market with information about possible cases of violation, committed by subjects of AML legislation and with a list of entities, which fail to submit SCFM with STRs;

- coordination of draft acts, elaborated by the National Bank of Ukraine, the State Commission on Financial Services Markets Regulation and the State Commission on Securities and Stock Market;

In its turn, the National Bank of Ukraine, the State Commission on Financial Services Markets Regulation and the State Commission on Securities and Stock Market quarterly submit SCFM with the following information:

- lists of reporting entities with a breakdown on types of entities, which refer to the sphere of State Commission on Financial Services Markets Regulation and State Commission on Securities and Stock Market supervision and regulation;

- the list of banks and transactions, which can be operated due to the license and National Bank of Ukraine permission;

- information on inspections of reporting entities, conducted by National Bank of Ukraine, State Commission on Financial Services Markets Regulation and State Commission on Securities and Stock Market supervision and regulation.

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

8.2. Reporting entities actions coordination

SCFM coordination of reporting entities actions envisages conducting of direct or through other state agencies of influence on the reporting entities and their regulation in the part of normative provision.

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

- preparation and submission of analytical reviews to entities of the state financial monitoring with analysis of effectiveness of AML/CTF measures, taken by the reporting entities;

- providing to state regulators information on possible cases of violations by the reporting entities of the AML legislation and list of entities which fail 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 the 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 working group on problems of non-banking institutions;
- hot-line consultations;
- 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 interaction between SCFM, state regulators and financial institutions the SCFM conducts:

- organizational provision of functioning of Interagency work group on analysis of ML methods and trends;
- 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 AML/CTF;
- cooperation with SRO.

During 2009 state regulators received:

- 12 analytical reviews on effectiveness of measures of the reporting entities to the State Commission on Securities and Stock Market (SCSSM);
- 12 analytical reviews on effectiveness of measures of the reporting entities to the State Commission for Financial Services Markets Regulation (SCRFMSM);
- 12 analytical reviews on effectiveness of measures of the reporting entities to the National Bank of Ukraine (NBU).

Besides, SCFM approved legal acts of the subjects of financial monitoring concerning compliance to the Basic Law:

- 1 regulation of the NBU;
- 11 regulations of the SCSSM;
- 3 regulations of the SCFSMR;
- 1 regulations of the Ministry of Finance of Ukraine.

At the same time, SCFM constantly takes measures on disclosure of cases of inopportune submission of STRs by the reporting entities. In case of disclosing the such cases the SCFM provides submission of such information to state regulators, the National bank of Ukraine, the State Commission for Financial Services Markets Regulation and the State Commission on Securities and Stock Market in order to take the relevant measures on regulation and supervision.

Thus, in 2009 SCFM detected and informed SCFSMR on **354** insurance institutions suspected in violation of requirements of the Article 5 of the Basic Law

in part of non-submission to SCFM of reports on financial transactions with indicators of the obligatory financial monitoring.

The similar information on **210** violators out of professional participants in securities market is submitted by SCFM to SCSSM as well.

In order to execute Article 12¹ of the Law of Ukraine “On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime”, in 2009 SCFM three times received information from Ministry of Foreign Affairs on Amendments to the List of persons, related to terrorist activity.

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 approved Amendments to the List of persons, related to terrorist activity (Order № 34 of 19.03.2009, Order № 58 of 21.05.2009, Order № 118 of 03.09.2009).

Under SCFM Order „On approval of the procedure of informing of the reporting entities on the List of persons, related to terrorist activity” of April 26, 2006 № 84, mentioned amendments to the List of persons, related to terrorist activity, were brought by the SCFM to attention of **4 579** reporting entities, including:

- **186** to banking institutions;
- **4 385** to non-banking institutions;
- **8** to state agencies (State Commission on Financial Services Markets Regulation and State Commission on Securities and Stock Market, National Bank of Ukraine, Security Service of Ukraine, Ministry of Foreign Affairs of Ukraine, State Custom Service of Ukraine, Ministry of Transport and Communication of Ukraine and Custom Service Administration of Ukraine).

8.3. Activity of Interagency Working Group

In light of functioning of Interagency Working Group on analysis of ML methods and trends, which was established under the Resolution of the Cabinet of Ministers of Ukraine № 1565 of 02.10.2003, 12 meetings of Interagency Working Group (IWG) were held in 2009.

The following problematic and important issues were considered during IWG meetings:

- prevention use of securities (bills of exchange) in ML schemes;
- results of consideration of information received by SCFM from banks and other financial institutions on transactions subject to financial monitoring, especially on SCFM requests for additional information related to financial transactions subject to financial monitoring and results of SCFM case referrals consideration by law-enforcement agencies;

- report on evaluation of national AML/CTF system efficiency during 2007-2008;
- results of MONEYVAL III round evaluation;
- on fulfillment status of Interaction Program of the National Bank of Ukraine, the General Prosecutor's Office of Ukraine, the Ministry of Interior of Ukraine, the Security Service of Ukraine, SCFM, the State Tax Administration on timely detection of transactions conducted with banking law violations for 2007-2008;
- determination of legal position of case referrals and application of common methods of their further processing by law enforcement agencies;
- plan on implementation of MONEYVAL III evaluation round of recommendations;
- on conducted analysis of schemes and methods that can be used for the legalization (laundering) of the proceeds from crime and terrorism financing due to official offences (during allocation of land, in building sector, during realization of projects, which are financed by state budget, etc.), including bribery taking into account methods and all the terms of such crimes;
- on problematic and important issues, that arise in practical activity of law enforcement agencies during pre-trial investigation of crimes involving legalization (laundering) of the proceeds from crime and terrorist financing; pre-trial investigations of such crimes, especially concerning receiving of documents and information, necessary for investigation of mentioned crimes; on proposals for solutions and other issues.

It is worth mentioning, that during 2009, SCFM participated in Permanent Acting Interagency Working Group on combating money laundering of the General Prosecutor's Office of Ukraine, which provided the following:

- systematic monitoring of law enforcement agencies involved in investigation of crimes connected with laundering of criminal proceeds;
- collecting and systematization of information, criminal schemes, used in laundering of criminal proceeds;
- operating complex of measures against increase of organized criminal groups and corrupted officials involving banking and credit institutions;
- implementation of common methodology of activity evaluation;
- preparation of proposals concerning improvement of cooperation between law enforcement and other state bodies;
- development of amendments to normative-legal acts on combat against criminal proceeds laundering.

Among this, in assistance of IWG, Guidelines for detecting and investigation of laundering (legalization) of criminal proceeds (Article 209 of the

CC of Ukraine) were developed by the Ministry of Internal Affairs of Ukraine and the General Prosecutor's Office of Ukraine.

8.4. Methodical provision, training of reporting entities

The main direction of methodical provision in 2009 was developing methodical recommendations for banking institutions concerning: preparation and dissemination of information on financial monitoring by reporting entities – banking institutions; implementing AML/CTF risk-based approach related to personnel by banks; main ML risks in bank funds transfer.

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.

With purpose of methodical provision of reporting entities, SCFM organized and held **304** trainings with participation of **7 993** representatives.

During reporting period SCFM took the following measures:

- Prepared and submitted **5 169** letters –methodical responses under the requests of reporting entities;
- Provided daily nearly **25-30** hot-line consultations for financial intermediaries on application of AML/CFT legislation;
- Performed work on improvements of SCFM official web-site structure, as well as its systematizing. In particular, the Regulation of publication at the official web-sites of executive power authorities of implementation of the State targeted program of community informing on Euro-Atlantic integration of Ukraine on 2008-2011 and issues of Euro-Atlantic integration of Ukraine was considered, as well as introduced amendments to the structure of SCFM official web-site in order to include the new heading “Euro-Atlantic integration”, that cover the following sections: “Official documents”, “Informational materials” and “Useful links”.

Also, the information at SCFM web-site was being permanently updated during the reporting period. In particular, international recommendations and standards, notifications of recommendation and exploration for reporting entities on more widespread problem issues arising in course of implementing by reporting entities of the legislation requirements on financial monitoring were published.

Furthermore, SCFM elaborated the Order № 147 “On amendments to Requirements to qualifications of AML/CFT compliance officers of reporting entity” as of October 15, 2009 which came into force on January 11, 2010 and was registered in the Ministry of Justice on December 22, 2009 under № 1238/17254.

This order shall be applied to reporting entities of non-banking institutions, which are regulated and supervised by the State Commission on Securities and Stock Market and the State Commission on Financial Services Markets Regulation of Ukraine.

Adopted Order improves legal regulation of reporting entities, provides implementation of FATF 40 Recommendations and Directive 2005/60/EC of the European Parliament and of the Council as of October 26, 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, as well as considered recommendations stated in III Round Mutual Evaluation Report on Ukraine.

Mentioned Order provides changes to AML/CTF qualification requirements of compliance officers (except banks), approved by the Order No. 46 of SCFM of 12.05.2003.

Changes provide the following:

- provisions, which establish qualification requirements for compliance officer concerning level of education, work experience, complex of knowledge and skills;
- forms of trainings for compliance officer;
- defining terms “long-term professional development” “short-term professional development”;
- establish general requirements for business reputation of compliance officer;
- level of position for compliance officer;
- improvement of professional development procedure for compliance officer.

Among that, during 2009, four meetings of Working Group on problematic issues of reporting entities – non-bank institutions and analysis of efficiency of AML/CTF measures were held, where problematic issues on conduction and execution of financial monitoring were discussed.

9. SCFM TRAINING CENTER

Personnel of the Training Center constitutes 25 persons, including 2 DPhil, 2 Professors, 11 Senior Lecturers, 23 Candidates of science. 73 lecturers were attracted.

In 2009 Training Center took following measures:

544 specialists were trained at the expense of general fund of the State budget of Ukraine, including:

- representatives of the entities of state financial monitoring - **284** persons;

- representatives of law enforcement and judicial authorities - **260** persons;
58 compliance officers of reporting entities.

- Concluded agreement with the State Commission on Securities and Stock Market on cooperation regarding certification of specialists on financial monitoring in connection with determining of the Training Center as an examination center on carrying out of qualification exam of specialists on financial monitoring of professional participants of securities market (the Resolution of the SCSSM as of September 16, 2009 № 1075 “On Introducing Amendments to the Resolution of the Commission as of March 04, 2004 № 74”).

- Concluded agreements on cooperation with the International Training and Methodical Center for Financial Monitoring (Russian Federation) and the Central-Eastern European Institute on Financial Monitoring (Republic of Poland). Concluding of the named agreements will assist to more effective training of highly qualified specialists on carrying out of financial monitoring and provide a unified approach to implementation of educational events, taking into consideration requirements of international standards. On the base of concluded agreements training centers will share AML/CFT expertise, perform science and search developments, implement educational programs and other informational and analytical systems in this area etc.

- Moreover, the agreement on cooperation with the International Training and Methodical Center of Financial Monitoring of Russian Federation provides implementation of programs of technical contribution to development of national systems of member-countries and supervisors of Eurasian Group on prevention to the legalization of the proceeds from crime and terrorist financing. 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 3 training seminars with participation of international experts for Prosecutor's Office employees, non-banking supervisory agencies, law enforcement agencies, reporting entities as well as the Conference on Counteraction to Money Laundering and Terrorist Financing “New technology tasks – approach of Central and Eastern Europe countries” was organized and held.

Training seminar on vital issues of organization of financial monitoring system of bank institution for compliance officers on financial monitoring of regional directorates of open-end company “Reiffeisen Bank Aval” was held jointly with SCFM on May 28, 2009.

- Representatives of the Training Center participated in the International seminar on AML/CFT banking supervision held by Eurasian Group in Kishinev (Republic of Moldova) on November 2-3, 2009.

- The Scientific and Practical Conference on Criteria of Effectiveness of Functioning of the AML/CFT System” was held on December 21, 2009.

- The representative of the Training Center participated in the 11th Plenary Meeting of the Eurasian Group held in Guilin (China) in the period from 7 to 9 December 2009.

- Training visit of the National Bank and the Service of Supervision and Regulation of Financial Market of the Republic of Kirghizia to Ukraine was organized on November 2009.

10. INTERNATIONAL COOPERATION

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

10.1. Cooperation with international organizations

During reporting period SCFM actively cooperated with leading AML/CTF international organizations, such as Financial Action Task Force (FATF), FSRBs - MONEYVAL, EAG, Council of Europe and European Commission, UNODC, Egmont Group, World Bank, International Monetary Fund etc.

Cooperation with international organizations:

During 2009 SCFM representatives conducted 22 international visits, hosted 24 foreign FIUs delegations and representatives of foreign institutions and international organizations.

SCFM 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 activity as per December 31, 2009 SCFM concluded 48 Memoranda of Understanding with foreign FIUs, including 17 MOUs with FIUs of EU member-states and 18 MOUs with NATO member-states.

10.1.1. Cooperation with FATF

In 2009 SCFM representatives actively participated in FATF meetings.

Thus, SCFM representatives twice participated in sessions of Europe/Eurasia FATF Regional Review Group.

In order to participate in FATF meetings the SCFM delegation visited Paris, France in October 2009, and Strasbourg, France in December 2009.

Moreover, during 2009 SCFM sent to Financial Action Task Force Group on Money Laundering (FATF) 3 AML/CFT Progress Reports of Ukraine, annual report of the Committee on 2008, as well as informed relevant organizations regarding adoption of the new Law On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing.

10.1.2. Cooperation with Egmont Group

SCFM representatives continuously participate in Egmont Group Plenary and Working Groups meetings. Accordingly, in 2009 SCFM representatives 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 Doha, Qatar, in Kuala-Lumpur, Malaysia.

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 MONEYVAL Plenary Meetings, which take place thrice a year.

Effective implementation of the 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 was completed.

Besides, during reporting period 1 international seminar and final session of the Steering Committee during which the project was officially completed were held.

10.1.4. Cooperation with Eurasian Group

According to the Decree of the President of Ukraine on September, 30, 2004 № 1156/2004 SCFM was determined as an agency responsible for cooperation with Eurasian Group (EAG). SCFM representatives continuously participate in sessions of all Working Groups and EAG events.

During 2009 SCFM representatives participated in the session of Temporary Working Group on development of operational guidance on introduction and implementation FATF Recommendations in EAG member-states

and in the seminar on typologies in Moscow, Russian Federation (October 2009), and also in 10th and 11th EAG Plenary meetings held in Saint Petersburg, Russian Federation (June 2009) and in Guilin, People's Republic of China (December 2009).

10.1.5. Other international events

In 2009 SCFM actively participated in the events organized in the framework of Ukraine - NATO cooperation.

On May 14- 15, 2009 the Committee held the NATO-Ukraine Joint Meeting of Working Group on economic and financial aspects of fight against terrorism organized by SCFM and NATO Defense and Security Economics Directorate of NATO International Secretariat. The meeting of the Working Group has been held in order to strengthening of AML/CFT national systems, sharing of experience in counteraction to the mentioned crimes and to continue effective cooperation between FIU and other law enforcement agencies, involved in AML/CFT system of NATO member-states and partner-states. On December 8, 2009 representatives of SCFM visited Brussels, Kingdom of Belgium in order to participate in the NATO Economic Committee on Cooperation with Ukraine. The main aim of participation was informing of Committee members regarding final legislative amendments in the AML/CFT area, as well as discussion of further cooperation with NATO.

On December 13-18, 2009 the SCFM representative visited Sarajevo, Bosnia and Herzegovina. The main aim of the visit was participation in Pilot course on fight against corruption held in frameworks of NATO Initiative to build integrity in defense establishments. The goal of the named course has been to strengthen the foundation for leadership, integrity, good governance and management within the defense security sector by sharing experiences, best practices among nations (whether established, transitional or developing), to enhance professionalism.

During the reporting period Memoranda of understanding on cooperation in the AML/CFT area with FIU of US, Australia, Montenegro, Isle of Man, Cook Islands, Principality of Monaco and the Republic of San-Marino have been signed. Moreover, 6 Memoranda are prepared to be signed.

10.1.5.1. Provision of technical assistance to other FIUs

During 2009 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 process of SCFM sponsorship regarding joining of FIU of Kyrgyz Republic to Egmont Group was successfully completed. During the Egmont Group Plenary in Doha, Qatar, the Heads of Egmont Group FIUs approved joining of the abovementioned FIU to this organization with a full-member status.

For the present, SCFM shall be a sponsor to Kazakhstan FIU, Azerbaijan FIU and Iran FIU.

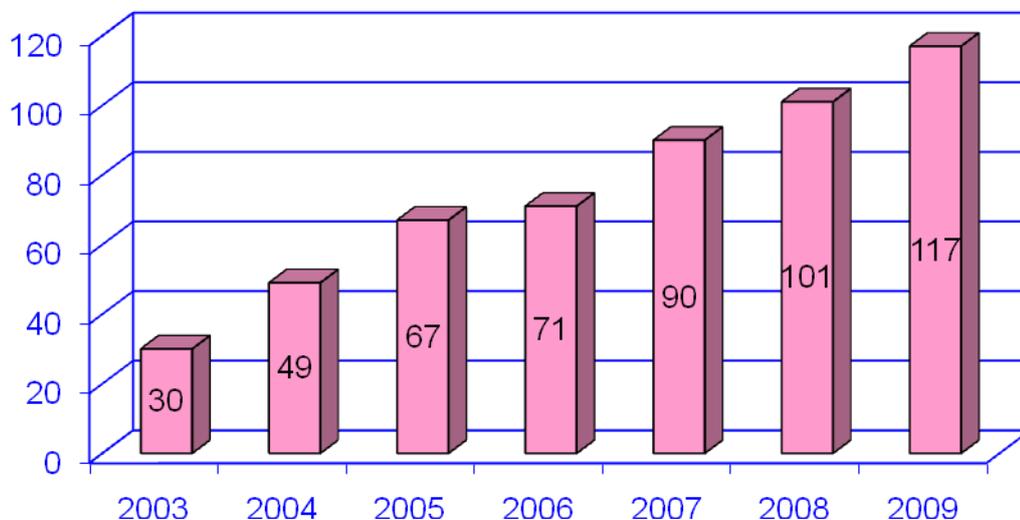
10.2. Information exchange with foreign FIUs

SCFM receives from foreign colleagues financial information, which may be related to illegal activity. This affords to investigate intricate transnational schemes more efficiently and in larger scale.

Since being founded SCFM closely cooperates in AML/CFT area with 117 countries and their quantity constantly increases.

The most active information exchange in 2009 was held with FIUs of Latvia, Lithuania, Cyprus, USA, United Kingdom, Poland, Russian Federation, Germany, Estonia, British Virgin Islands and Moldova.

The quantity of countries the information exchange is carried out with



In the framework of information exchange with foreign FIUs SCFM performed the following during 2009:

- sent **572** requests to **61** foreign colleagues and received **498** responds;
 - received **146** requests from foreign FIUs, **143** of them were responded.
- The average time of responding to requests of foreign colleagues constitutes **17,9** days.

11. PLANS FOR 2010. DEVELOPMENT PROSPECTS.

Long-term objectives for the State Committee for Financial Monitoring for 2010 are:

- adaptation of Ukrainian legislation to international standards requirements;
- implementing new financial monitoring procedures including risk-based approach after introducing amendments to the legislation;
- organizing new training for financial monitoring entities;
- enhancing partner relations with private sector concerning counteraction to the money laundering and terrorist financing.

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