

# REPORT

THE STATE FINANCIAL MONITORING  
SERVICE OF UKRAINE, 2016







**REPORT**  
**THE STATE FINANCIAL MONITORING**  
**SERVICE OF UKRAINE**

2016



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## List of Abbreviations

- FATF – Financial Action Task Force
- MONEYVAL – the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
- Basic Law – Law of Ukraine “On prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction”
- PGO – Prosecutor General’s Office of Ukraine
- SFMS – the State Financial Monitoring Service of Ukraine
- SFS – State Fiscal Service of Ukraine
- UIS – Unified Informational System in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction
- EU – European Union
- NABU – National Anti-Corruption Bureau
- NCSRFSM – National Commission for the State Regulation of Financial Services Markets of Ukraine
- NBU – National Bank of Ukraine
- NSSMC – National Securities and Stock Market Commission
- NRA – National Risk Assessment
- OSCE – Organization for Security and Cooperation in Europe
- AML/CFT – prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction
- FIU – Financial Intelligence Unit
- SSU – State Security Service of Ukraine
- SDFM – the state financial monitoring entity
- FIS – Foreign Intelligence Service of Ukraine
- RE – the reporting entity









## ADDRESS OF THE HEAD OF THE STATE FINANCIAL MONITORING SERVICE OF UKRAINE IGOR CHERKASKYYI

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### Dear Colleagues!

I am pleased to present you the State Financial Monitoring Service of Ukraine Annual report for 2016, which highlights the main results of our agency in the fight against legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction.

It is worth mentioning that the last 2016 was outstanding in the activities of the SFMS.

We have conducted the first National Risk Assessment in the fight against money laundering and terrorist financing. The NRA was carried out under the support of the OSCE Project Coordinator in Ukraine to implement the FATF Recommendations. On December 15, 2016 a public presentation of the NRA report was held.

Throughout the year, active preparation for the 5th round of mutual evaluation of the national system of financial monitoring by the Committee of MONEYVAL, which will take place in spring 2017, was carried out. In the view to preparing to this event, in 2016 the SFMS conducted daily interaction with all state and law enforcement agencies of Ukraine engaged in the system.

The reporting year was the result of 15 years of the activity of the SFMS, which was celebrated on January 10, 2017.

Thus, the SFMS was established at the beginning of 2002 as the State Department for Financial Monitoring in the Ministry of Finance of Ukraine and was responsible for the implementation of the state policy in the area of counteraction to legalization (laundering) of the proceeds from crime. During those 15 years, the SFMS has been systematically securing new spheres of the national economy in order to achieve maximum transparency of financial flows in the state, ensure the safety of public funds and prevent illegal transactions and the financing of terrorism.

Unfortunately, nowadays, prevention of performing illicit transactions and the financing of terrorism is a burning issue in Ukraine that often goes beyond national borders.

Within its core functions, the SFMS continues to pursue active work on investigation of the facts of laundering of the proceeds from corruption, embezzlement and misappropriation of the state funds and property by the former President of Ukraine V. F. Yanukovich, his close persons, officials of the former government of Ukraine and related to them persons, as well as persons involved in the organization of the intentional mass murder of people in Ukraine.

**It should be mentioned that the SFMS as of today has blocked funds in the equivalent exceeding USD 1.5 billion on the accounts of individuals and legal entities that have a relationship with the former President of Ukraine and former higher officials.**

Also, the SFMS has carried out significant and effective work aimed at identifying and blocking of funds of persons who finance terrorism (separatism) and persons who publicly call for violent change or overthrow of the constitutional order or change of the boundaries of the territory or the state border of Ukraine.

**Only during the reporting period the SFMS together with the Security Service of Ukraine suspended over UAH 340.4 million that are related to money laundering and the financing of terrorism (separatism).**

In addition thereto, recognizing the threat that corruption risks pose, the SFMS established the constructive cooperation with the newly established National Agency for the Prevention of Corruption.

In the last year the international cooperation in the area of financial monitoring was also successful:

- representatives of the SFMS in February 2016 took part in the meetings of FATF and the Egmont Group of Financial Intelligence Units;
- delegation of Ukraine actively participated in three Plenary meetings of the Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering and the Financing of Terrorism (MONEYVAL);
- in August of the reporting year a Memorandum of understanding between the SFMS and the FIU of Sri Lanka was signed.

We are determined to continue the constructive work on improving the national system of financial monitoring.

The SFMS remains a reliable partner, open to cooperation with relevant state authorities, private sector, NGOs and other organizations operating in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction in Ukraine and outside.

Sincerely,



**Igor Cherkaskyi**



1.

# ABOUT THE SFMS

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## 1.1. The role of the SFMS in the AML/CFT system

The key element of the national system of financial monitoring is the State Financial Monitoring Service of Ukraine that is the central executive body which implements the state AML/CFT policy.

The functions and competence of the SFMS are stipulated in the Law of Ukraine “On prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction” and its Statute.

Pursuant to the Statute of the State Financial Monitoring Service of Ukraine, approved by the Resoltuion of the Cabinet of the Ministers of Ukraine of July 19, 2015 No. 537, the activity of the SFMS is regulated and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Finance of Ukraine.

The SFMS implements the state AML/CFT policy and ensures coordination of activities of state agencies in this area.

One of the main tasks of the SFMS is drawing up the proposals on improvement of legislation in the abovementioned area, implemented through the Ministry of Finance of Ukraine.

Furthermore, in accordance with the Law of Ukraine “On ratification of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism” the SFMS is the body authorized by Ukraine to perform functions of the FIU, one of the main tasks of which is collecting, processing and analysing of information on financial transactions that are subject to mandatory financial monitoring or other financial transactions and information that might be related to the suspicion of legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction.

Establishing constructive cooperation with the international organizations and foreign counterparts, that are in charge of organization of efficient counteraction to legalization (laundering) of the proceeds from crime and terrorist financing, is one of the priorities in the activity of the SFMS.

The SFMS as the FIU exchanges information with foreign counterparts on the reciprocity principles under the Charter of the Egmont Group of FIUs and Memoranda of Understanding.

Pic. 1.1. The emblem and the flag of the SFMS



Pic. 1.2. Building of the SFMS



## 1.2. Human resources

The human resources policy of the SFMS is conducted pursuant to the requirements of the Constitution of Ukraine, legislation on the public service, principles of prevention and counteraction to corruption, other legal regulations under which the state provides conditions for the citizens to realize the right to work, for personnel training and professional development according to social needs. On Pic. 1.3. below there is the structure of the State Financial Monitoring Service of Ukraine.

The authorized personnel complement of the SFMS is 237 persons. As of January 1, 2017, 198 employees actually work in the SFMS. Dynamics of the actual number of employees of the SFMS in 2011-2017 is provided in Pic. 1.4:

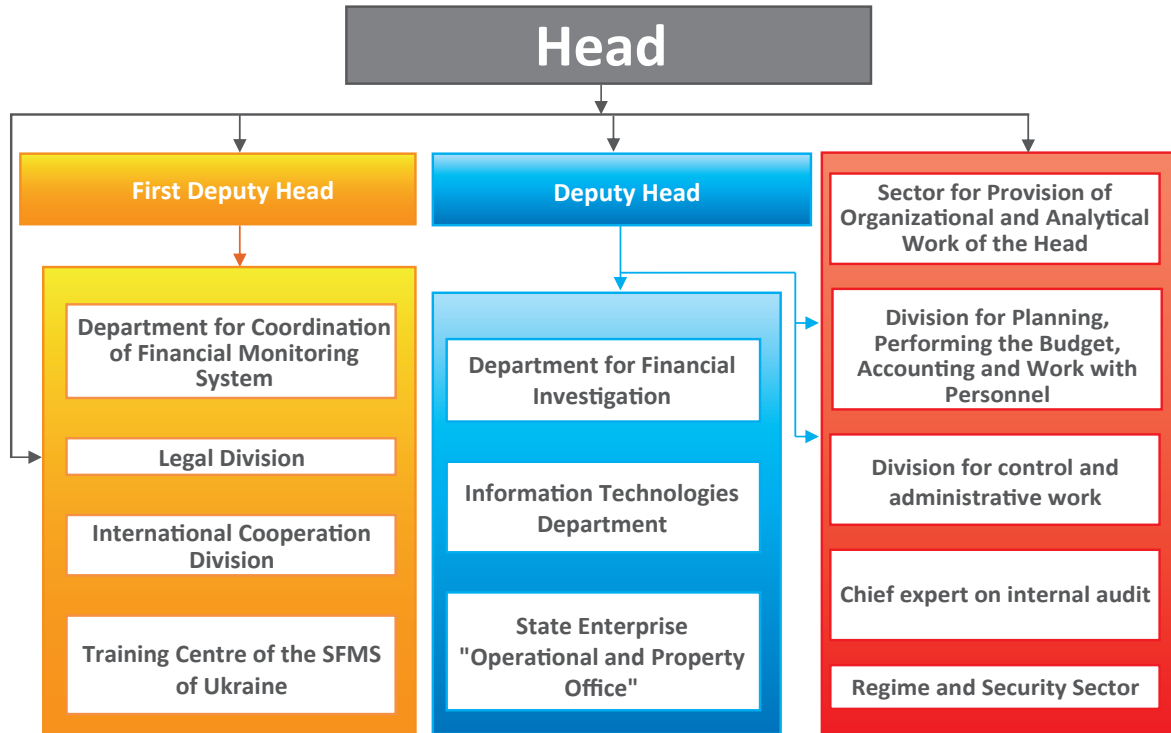
Gender distribution of employees of the SFMS is the following: 72 men (36,6%) and 126 women (63,7%). Among the senior management there are 32 men and 35 women.

Persons from 35 to 40 years old constitute the most numerous age group within the age structure of employees of the SFMS.

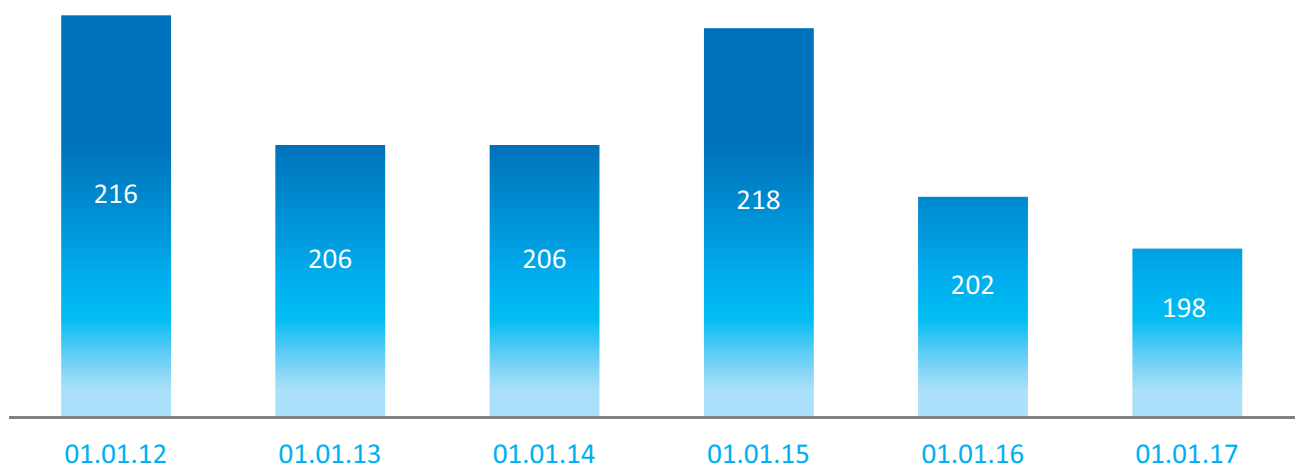
The SFMS staff consists of high qualified specialists with complete higher education. 8 employees of the SFMS have scientific degree and 4 of them have academic degree. 11 employees of the SFMS have a Master's degree in Public Administration.

In 2016 the SFMS held 3 competitive selections for filling civil servants vacancies, where 79 applicants participated. Following the results of the competitive selection, 48 persons were appointed.

Pic. 1.3. Structure of the State Financial Monitoring Service of Ukraine



Pic. 1.4. Dynamics of the actual number of employees of the SFMS in 2012-2017



### 1.3. Financing of the SFMS

In 2016 the SFMS was financed from the state budget within the budgetary allocations pursuant to the Law of Ukraine “On State Budget of Ukraine for 2016”.

In 2016 according to obtained budgetary allocations, the SFMS expended UAH 27 011, 3 thousand. The structure of funds expenditure is provided in Chart 1.1 below.

Chart 1.1. The structure of the SFMS budgetary allocations in 2016

Expenditures	Sum in UAH thousand
Salaries and charges	23 317,2
Utility services and energy carriers expenditures	1 514,5
Business trip expenditures	0,0
Other expenditures to ensure activity and maintenance of the State Information System and Information and Analytical System of the SFMS	2 179,6
Total	27 011,3



# 2.

## DEVELOPMENT OF THE AML/CFT LEGISLATION

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## Development of the AML/CFT legislation

In 2016 the SFMS took measures for the development of proposals to improve legislation in the AML/CFT area.

Thus, in order to achieve compliance of the legal system of Ukraine in counteraction to money laundering and financing of terrorism and proliferation of weapons of mass destruction, taking into account the criteria established by the European Union (EU) to the states, and to implement agreements within the memorandum with the IMF, the Ministry of Finance of Ukraine jointly with the SFMS developed a draft law “On amending some legislative acts of Ukraine on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction”.

The draft law provides:

- increase of threshold where initial financial monitoring measures shall be taken;
- optimizing the number of features of mandatory financial monitoring;
- ensuring the transition to the risk-based approach during identification and reporting to the SFMS by the reporting entities;
- change of the approach of applying enforcement measures for violations of the AML legislation by the reporting entities;
- improvement of legislation on ensuring the confidentiality of the receipt and fulfilment of the requests and orders of the SFMS by the reporting entities and as a result protection of the reporting entities from threats, discriminatory behaviour and other negative consequences associated with the implementation of initial financial monitoring measures.

Moreover, in order to implement the requirements of the Basic Law there were adopted in 2016 (list is provided in Appendices A and B):

- 4 acts of the Cabinet of Ministers of Ukraine, 2 of which were developed by the SFMS and 2 by the Ministry of Finance of Ukraine;
- 5 orders of the Ministry of Finance of Ukraine, developed by the SFMS;
- 2 joint orders of the Ministry of Finance of Ukraine with other state authorities, developed by the SFMS;
- 14 acts of the SFMS.

In addition, during 2016 the SFMS adopted 163 orders of organizational and administrative nature, as well as processed 55 draft legal regulations submitted by the state authorities, 50 of which were approved as presented, after the coordination of the SFMS position with the Ministry of Finance of Ukraine.

# 3.

## STATISTICS ON RECEIVED REPORTS

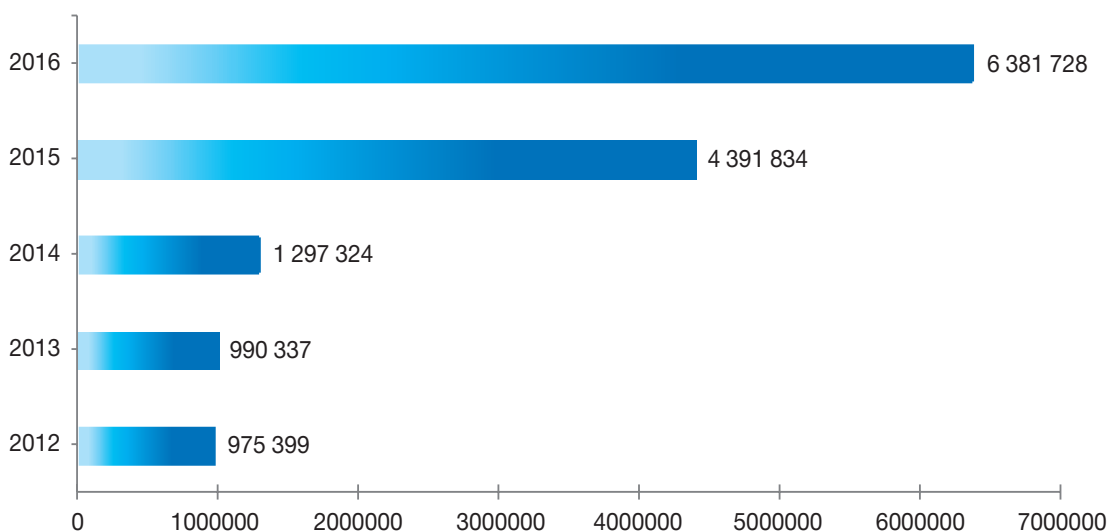
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### 3.1. General dynamics of received reports

Pursuant to the Basic Law financial intermediaries submit to the SFMS information on financial transactions that are subject to mandatory financial monitoring under the legislation or suspected to be related to money laundering or terrorist financing.

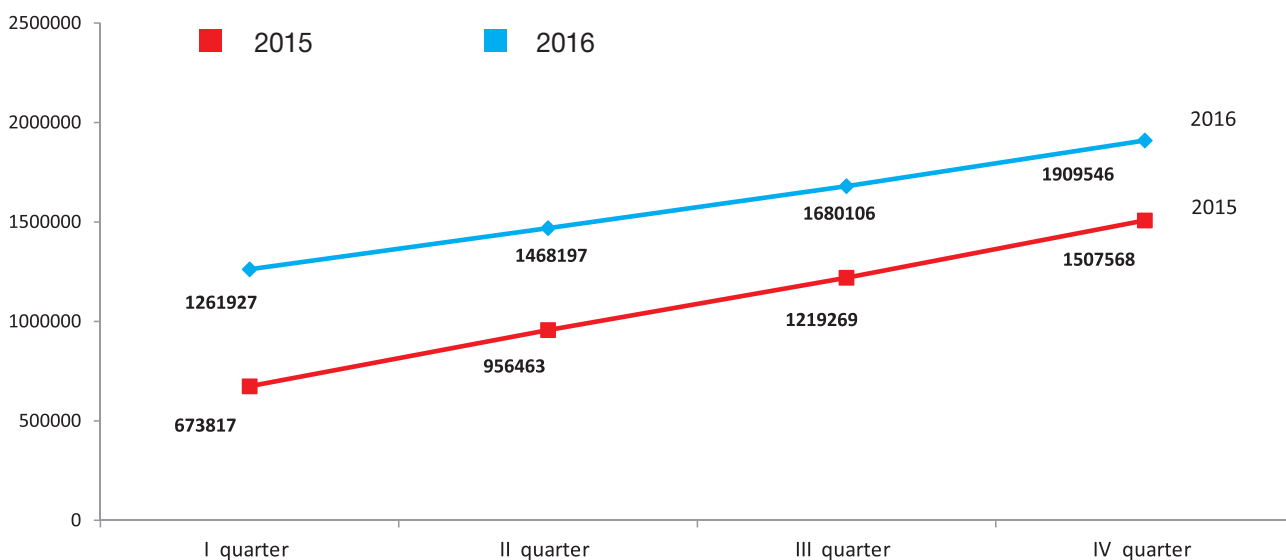
From the start of exploitation of informational and analytical system, the SFMS received and processed 19 327 697 reports on financial transactions that are subject to financial monitoring, including 6 381 728 reports in 2016 (pic. 3.1).

**Pic. 3.1. Dynamics of financial transactions reporting in 2012-2016**



It should be mentioned that in 2016 the SFMS registered 6 319 776 reports on financial transactions, an increase of 45,05% over the figure in 2015 (pic. 3.2).

**Pic. 3.2. Dynamics of registered reports on financial transactions in 2015-2016**

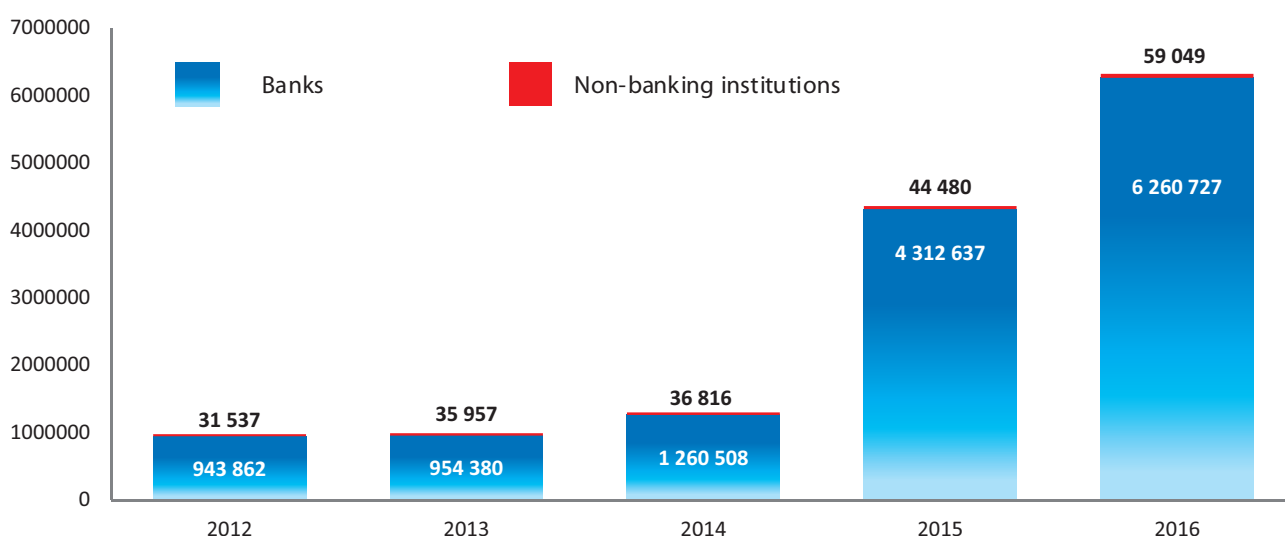


## 3.2. Dynamics of received reports in the context of the reporting entities

The most active reporting entities in the reporting system are banks that provide the majority of reports on financial transactions, that are subject to financial monitoring.

In 2016 banks provided 99,07% of the total number of reports on financial transactions (pic. 3.3).

**Pic. 3.3. Dynamics on financial transactions informing by banks and non-banking institutions in 2012-2016**



Also, it should be mentioned that the proportion of errors in the reports is 0,97% from the total number of reports on financial transactions received by the SFMS during 2016.

Thus, the percentage of reports on financial transactions submitted by the reporting entities to the SFMS in correct way constitutes 99,03% from the total number of reports.

**Chart 3.1. Number of reports on financial transactions registered by the SFMS, in the context of means of submitting as of 01.01.2017**

Type of institution	Number of reports in electronic form	Number of reports in paper form
Banks	6 260 727	–
Non-banking institutions	58 605	444

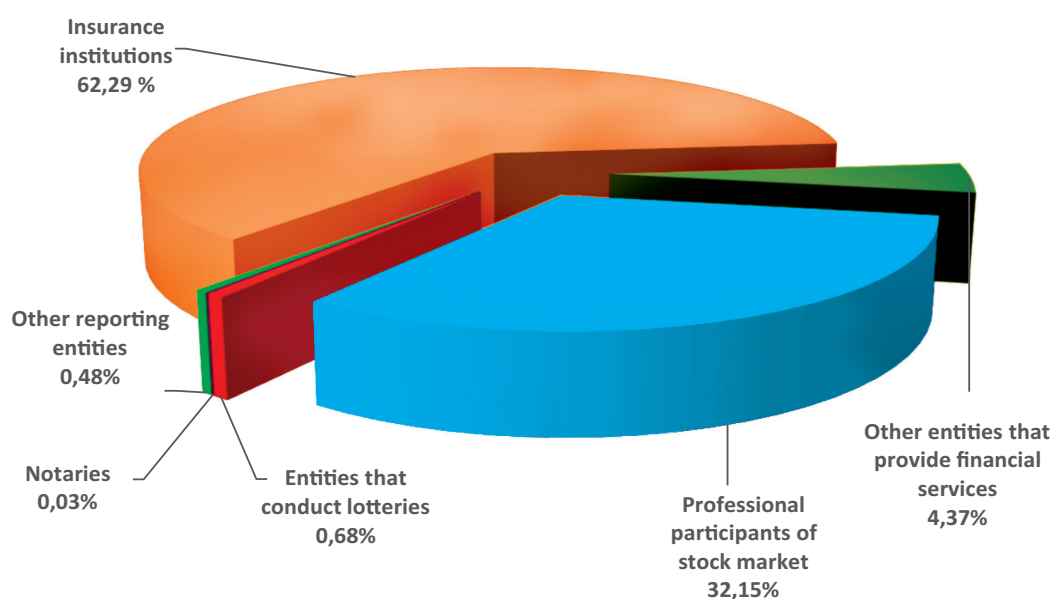
In 2016 the number of reports on financial transactions received by the SFMS in electronic form from non-banking institutions increased in comparison with 2015 by 33,53 % and constitutes 98,7 % from the total number of transactions received by the SFMS from the mentioned category of reporting entities (chart 3.1).

The most active reporting entities among non-banking institutions are insurance companies. The share of such reports in the total number of registered reports on financial transactions received by the SFMS from non-banking sector constitutes 62,29 % (chart. 3.2, pic. 3.4).

Chart 3.2. The share of reports in the total number of registered reports on financial transactions, received by the SFMS from non-banking sector in 2016

Type of institution	Number	Share
Insurance institutions	36 782	62,29 %
Other entities that provide financial services	2 583	4,37 %
Professional participants of stock market	18 987	32,15 %
Entities that conduct lotteries	399	0,68 %
Notaries	20	0,03 %
Other reporting entities	278	0,48 %

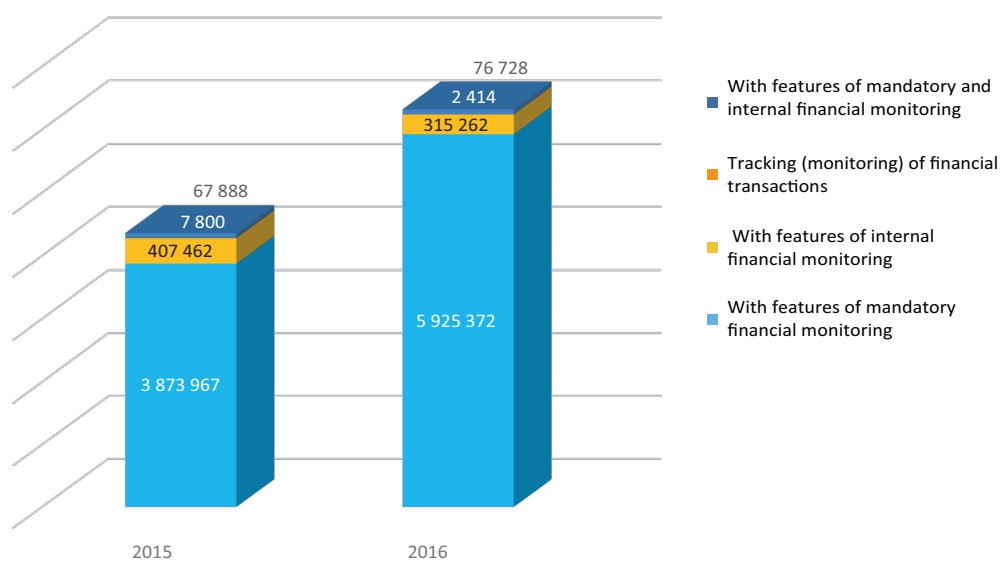
Pic. 3.4. Share of reports registered by the SFMS in 2016, by types of non-banking sector entities



Allocation of reports, registered by the SFMS in 2016, in the context of financial monitoring features, is as follows (pic. 3.5):

- with features of mandatory financial monitoring – 93,76% (5 925 372);
- with features of internal financial monitoring – 4,99% (315 262);
- with features of mandatory and internal financial monitoring – 1,21% (76 728);
- financial transactions which were received under the request on tracking (monitoring) of financial transactions – 0,04% (2 414).

Pic. 3.5. Dynamics of received reports in the context of features of financial monitoring in 2015-2016



According to part 1 of Article 6 of the Basic Law the reporting entities are required to register in the SFMS.

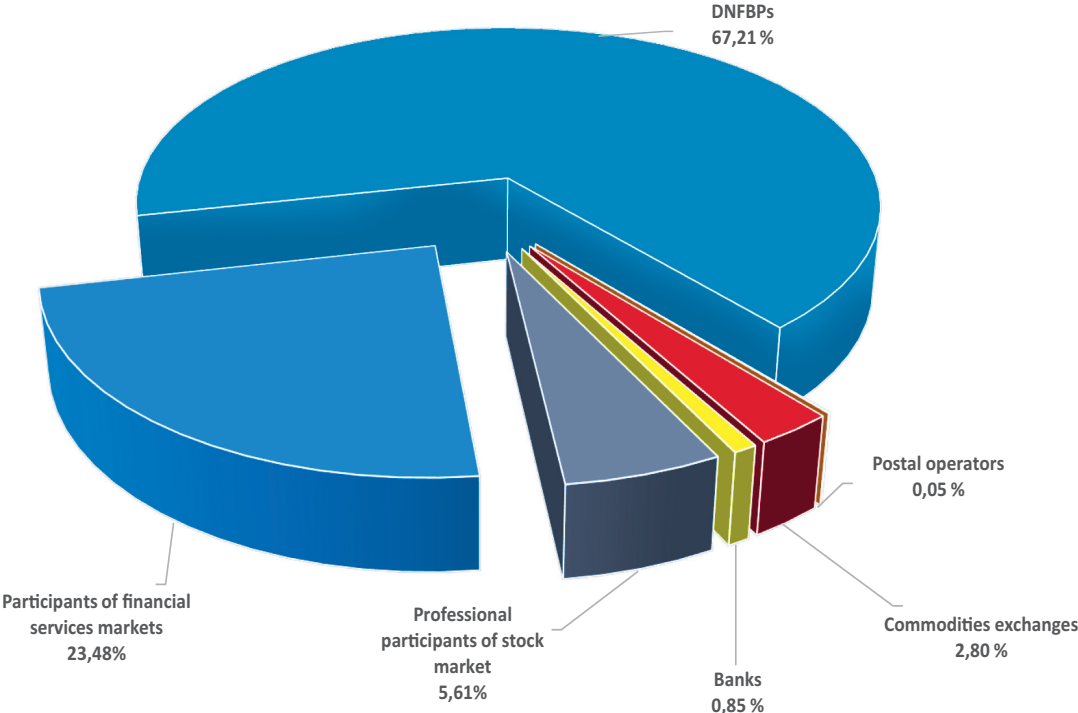
There have been 23 656 reporting entities (including 12 174 separate subdivisions) registered in the SFMS as of 01.01.2017 (chart 3.3, pic. 3.6).

Chart 3.3. Share of the reporting entities registered in the SFMS as of 01.01.2017

Type of the RE	Number*	Share
Banks	99	0,85 %
Participants of financial services markets	2 719	23,48 %
Professional participants of stock market	650	5,61 %
Commodities exchanges	324	2,80 %
Postal operators	6	0,05 %
DNFBPs	7 784	67,21 %

\* data without considering separate subdivisions

Pic. 3.6. Share of the reporting entities registered in the SFMS in the context of types





# 4.

## ANALYTICAL ACTIVITY

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## 4.1. Information Analysis Process

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The SFMS according to its competence performs on a regular basis collection, processing and analysis of information on financial transactions that are subject to financial monitoring, financial transactions or other information that may be related to suspicion of legalization (laundering) of the proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction.

Information for analysis comes from the following sources:

- reporting entities;
- law enforcement agencies;
- SDFM and other state authorities;
- foreign FIUs.

The SFMS performs a comprehensive analysis of the received information and identifies suspicious financial transactions performed with the assistance of financial and non-financial intermediaries in the public and commercial sector.

Initial processing and analysis of the information are carried out in the research segment of the UIS.

All reports, received by the SFMS depository, are divided by risk levels and are subject to subsequent analysis, taking into account all available information. Following the results

of the analysis, dossiers shall be created for conducting financial investigations.

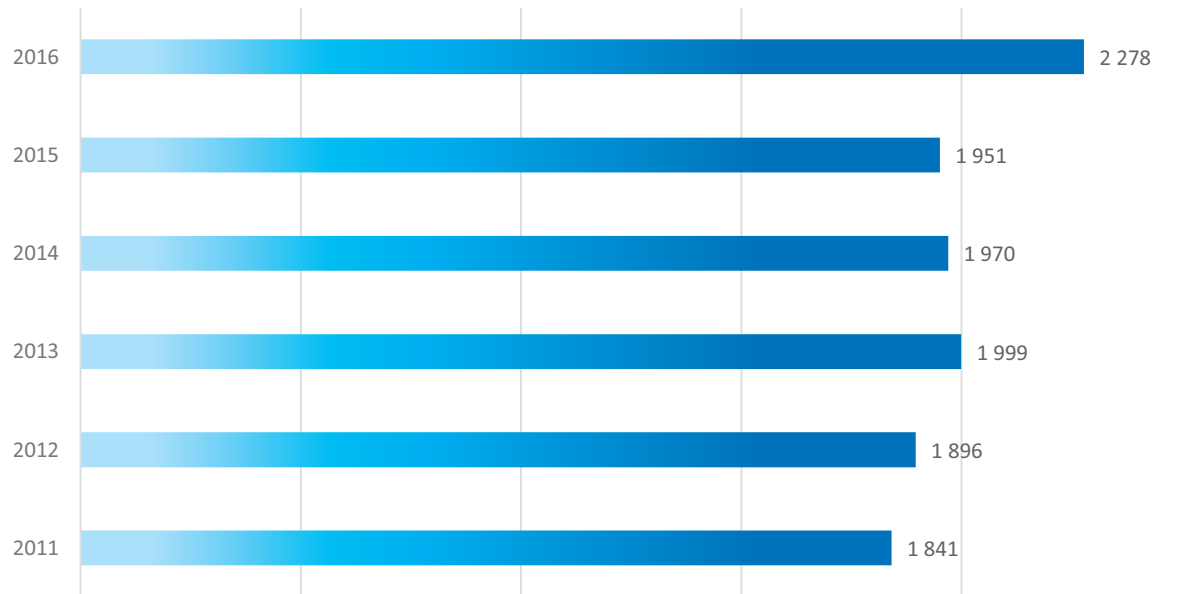
Thus, throughout 2016, 288,614 reports on financial transactions have been selected for active investigation, which became the basis for the formation of 2278 dossiers (Pic. 4.1).

In comparison with the previous 2015, reports on financial transaction, which became the basis for the formation of dossiers, increased by 2.9% or by 8089 reports.

Each dossier is analyzed to identify reasons to believe a financial transaction may involve the acts of legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction or related to the commission of other acts defined by the Criminal Code of Ukraine.

The SFMS conducts an analysis of financial transactions on a risk-based approach considering international experience in combating legalization (laundering) of the proceeds and terrorist financing.

**Pic. 4.1. Dynamics of formation of dossiers during 2011 - 2016**



As the result of the dossiers processing in 2016, 591 cases (269 case referrals and 322 additional case referrals) were submitted to the law enforcement agencies.

The analysis of received reports shall be carried out taking into account the additional information received under the SFMS requests.

Thus, in 2016, 16,942 files-requests to 90 banks were sent by means of the ARM “NBU Request” software.

The Basic Law provides the tool for additional information receipt – tracking (monitoring) of financial transactions.

Information on tracking (monitoring) of financial transactions shall be submitted to the SFMS in the form of reports on financial transaction.

During 2016 the SFMS has not sent requests to the reporting entities for tracking (monitoring) of financial transactions.

## 4.2. Suspension of financial transactions

The Basic Law authorizes the SFMS to suspend financial transactions. The SFMS decision making procedure on financial transactions suspension is approved by the Order of the Ministry of Finance of Ukraine of 28.12.2015 No. 1200, which is registered with the Ministry of Justice of Ukraine on 22.01.2016 under No. 123/28253 (hereinafter – Procedure).

Pursuant to part 5 of Article 17 of the Basic Law, the total period of financial transactions suspension may not exceed 30 business days.

According to the current Procedure, the SFMS makes appropriate decisions and issues orders regarding suspension of financial transactions, as follows:

- regarding prolongation of financial transaction suspension in cases stipulated in parts 2 and 5 of Article 17 of the Basic Law;
- regarding suspension of debit transactions on customers' (persons') accounts according to parts 3 and 5 of Article 17 of the Basic Law;
- regarding abolishment of its decision on suspension of debit transactions in accordance with part 5 of Article 17 of the Basic Law;
- regarding suspension/revocation by the reporting entities of monitoring of financial transaction of a relevant person under the request of the authorized body of a foreign state – in accordance with part 3 of Article 23 of the Basic Law.

During 2016 the SFMS pursuant to Article 17 of the Basic Law made and submitted 757 decisions, including:

- in accordance with part 2 of Article 17 of the Basic Law – 149 decisions;
- in accordance with part 3 of Article 17 of the Basic Law – 608 decisions.

## 4.3. Financial investigations

### 4.3.1. On the investigation of financial transactions related to corruption, including acts conducted with the participation of the former President of V.F. Yanukovich, his close persons and officials of the former government, state authorities and local self-government bodies

In 2016 the SFMS submitted 172 cases (38 case referrals and 134 additional case referrals), related to suspicion of conducting corruption activity to the following law enforcement agencies:

- National Anti-Corruption Bureau of Ukraine – 71 case referrals;
- prosecution authorities of Ukraine – 81 case referrals;
- internal affairs authorities of Ukraine – 9 case referrals;
- Security Service authorities of Ukraine – 10 case referrals;
- fiscal service authorities of Ukraine – 1 case referral.

The abovementioned case referrals contain information regarding financial transactions related to legalization (laundering) or commitment of other criminal offenses, amounting to UAH 4.4 billion.

In 2016 the SFMS continued active work regarding investigation of the acts of laundering of the proceeds from corruption, embezzlement and misappropriation of state funds and property by the former President of Ukraine Viktor Yanukovich,

his close persons, former government officials, associated entities and persons involved in the intentional mass murder.

Particular attention is paid to tracking and suspension of funds and assets of all of the abovementioned individuals in banks and other financial institutions of Ukraine.

Thus, as the result of taken measures in Ukraine, the SFMS has identified (March 2014 – December 2016) accounts of 103 individuals and blocked funds on 565 bank accounts amounting to UAH 340.7 million, USD 30.5 million, EUR 5.0 million, RUB 21.7 million, precious metals (gold and silver) with a total value of UAH 6.8 million as well as securities with a total value of UAH 1.1 billion.

The SFMS blocked funds totalling USD 1.4 billion, USD 303.1 million, EUR 13.6 million, GBP 2.3 thousand and securities with a total value of UAH 2.3 billion and USD 1.0 billion on 96 bank accounts of 42 legal entities (including 21 non-resident companies) associated with the abovementioned individuals.

## Basic consistent patterns of corruption offences.

### Tools and methods of laundering the proceeds from corruption

Overall, corruption permeates all the sectors of the economy. Corruption leads to significant losses for a country. Such losses may contain financial, quantitative, qualitative and political components.

Basic consistent patterns which increase “desire” to commit corruption offenses are:

- embezzlement of state funds and accepting bribes, to a greater extent, occur in those areas of the economy which have strategic importance to the country (defence, fuel and energy complex, healthcare, public administration), because of substantial cash flows allocated for them;
- a large amount of funds involved in projects at the expense of state or local budgets, at the state and local levels;
- complex mechanism for determining the value of goods and services, constant changes in market conditions to determine the real value of acquired assets;
- public procurement sphere is not transparent and characterized by high competition, which could create conditions for backroom conspiracies.

The main tools of laundering of the proceeds from corruption are:

- fictitious services;
- usage of affiliates to provide fictitious services;
- advance payment for goods and services to controlled entities, followed by non-delivery/non-compliance;
- undervaluation of goods by a state-owned enterprise during sale to the companies-intermediaries for subsequent disposal to accumulate profits;
- conclusion of a knowingly unlawful agreements for the purchase of goods at prices, set for social needs, followed by its subsequent disposal;
- usage of enterprises with fictitious features;
- “trading” of public services regarding distribution/registration permits;
- usage of bank accounts, open abroad;
- rejection of competitive tender participation applications in favour of applications from controlled enterprises which offer much higher prices.

The most common ways to launder the proceeds from corruption are:

- engagement of people who do not have close family ties with a “corrupt official”, while others links are present (distant relatives, drivers, assistants);
- receiving a bribe in cash with its subsequent transfer to cashless form;
- obtaining the proceeds from corruption in Ukraine with the subsequent legalization abroad;
- repeated inheritance from persons, who are not members of the same family;
- purchase of property abroad;
- purchase of corporate rights.

## Investigation of laundering of proceeds from corruption obtained in the defence and industrial sector

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Realisation of the anti-terrorist operation in the eastern Ukraine significantly increases the volume of costs for reforming and development of the defence and industrial sector, which in turn, increases the risk of committing corruption crimes in this area.

For example, the tendering process can be less transparent due to the fact that the subject of procurement/works in most is confidential, as it concerns national security and its confidentiality is protected by the legislative and regulatory requirements.

Also it should be noted that public procurement in the defence and industrial sector is mainly not addressed to the providers or producers of services, but conducted through a chain of intermediaries, which in turn significantly increases the cost of the tender proposal as “the service value” for government relations of certain entities is influenced by profitability established by each party.

## Investigation of laundering of proceeds from corruption obtained

### Case study 1

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According to the financial investigation conducted by the SFMS, there has been the scheme of money laundering by the official of state enterprise through the controlled companies (Pic 4.2).

The State Enterprise of the defence industry signed with the Company-non-resident A the contract on machinery delivery to the customs territory of Ukraine.

The Company-non-resident A is registered within the territory of the Republic of Cyprus at the address of mass registration, the final beneficiary of the company is the Citizen A receiving a salary at the State Enterprise.

The Company-non-resident A opened the account in banking institution of Estonia where the State Enterprise transferred funds in the total amount of UAH 44.6 million (USD 2.52 million and EUR 0.02 million).

The real supplier of vehicles to the customs territory of Ukraine on the total value of USD 0.84 million was the Enterprise-Exporter located within the territory of the Republic of Belarus that received from the Company-non-resident A only USD 0.12 million by invoice.

The large portion of funds received by the Company-non-resident A from the State Enterprise was further credited to the accounts of 10 legal entities and 2 natural persons.

The implementation of the given scheme of settling financial transactions was made within the term when Mr. G was the director of the State Enterprise.

Concerning Mr. G, it is known that he declared revenues in the amount of UAH 2.1 million, at this, the total amount of funds credited to the bank accounts (in cash and bank metals/gold bullions) constituted UAH 41.9 million.

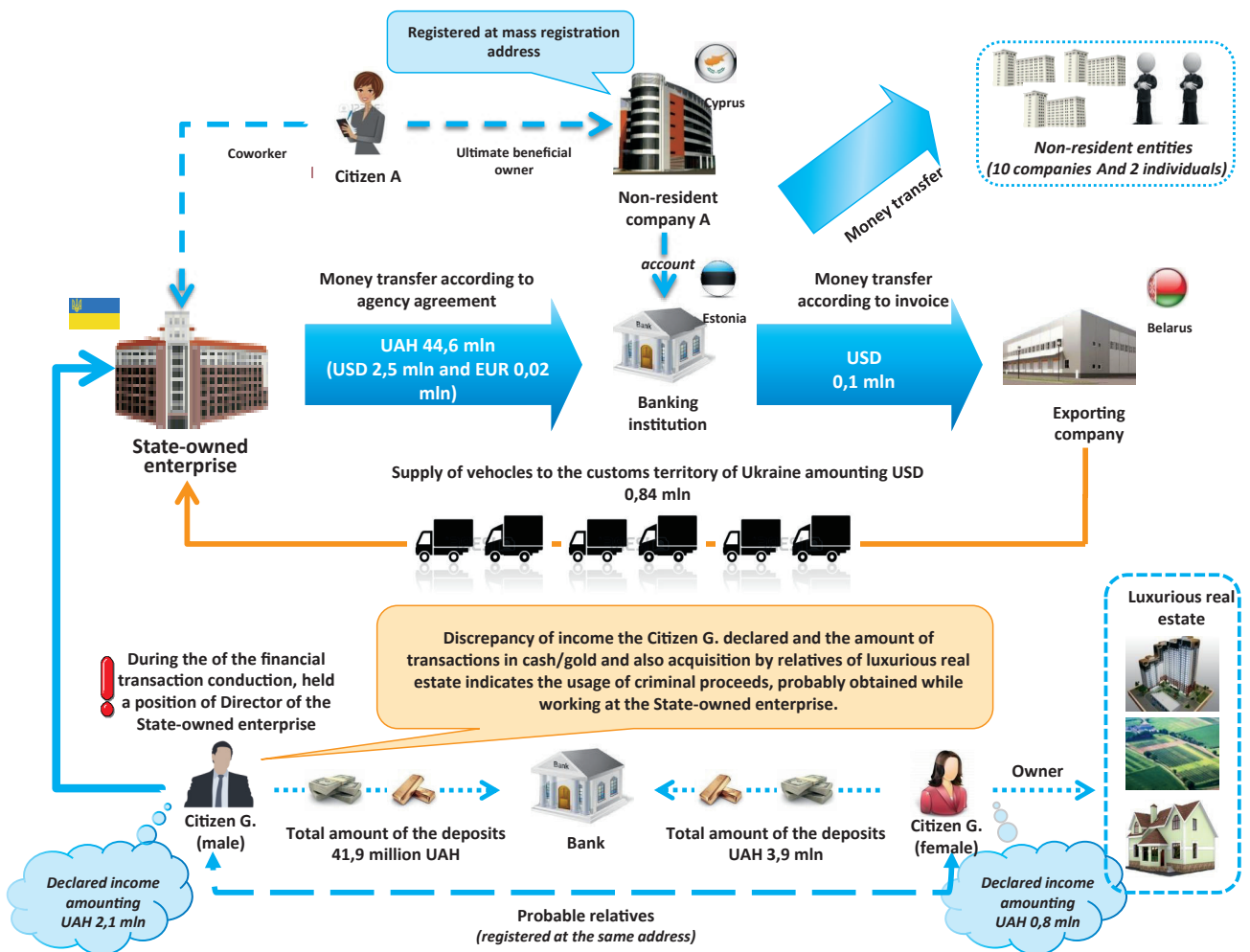
It has been found that Mr. G was registered at the same address with Mrs. G (potential family ties) that declared revenues in the amount of UAH 0.8 million, at this, the total amount of funds credited to the bank accounts (in cash and bank metals/gold bullions) constituted UAH 3.9 million. In addition, Mrs. G is an owner of a large number of real estate in Kyiv.

Inconsistency of the revenues declared by Mr. G and the amounts of transactions on cash/gold and acquisition of luxury real estate by the relatives means use of illegally gained income probably received during the employment at the State Enterprise.

The law enforcement authority carries out a criminal proceeding



Pic. 4.2. Money laundering by an official of the state enterprise using the controlled companies



## Investigation of laundering of proceeds from corruption obtained in the energy supply industry

The history of mass corruption in the Ukrainian energy supply industry numbers in decades. Absence of market competition, transparent regulation and dependency on the industrial magnates-monopolists make the energy supply industry very sensitive to the corruption actions.

Under the conditions of lack of reforms, a range of the officials in Ukraine received revenues over a number of years controlling the energy power special interests and, up to the date, they continue to control policy in the energy supply industry having representatives in the Verkhovna Rada. Sectors of gas and coal recovery, production and supply of energy, heating energy consumption show interests of corporations; activity of regulating authorities has no appropriate legislation for recognition of their dependency on influence of the political figures.

Besides, the corrupted Ukrainian energy supply state sector has been used by the Russian Federation for a number of years for blackmail and strengthen of own influence in Ukraine.

The most non-transparent spheres in the energy supply market in Ukraine to be used in the corruption schemes are state procurement and transfer pricing. Besides, the source of money laundering in the sphere of the Ukrainian energy supply industry is the world-wide schemes of commercial and non-commercial use of energy supplies between the price of import energy supplies and the discount prices for the population.

### Case study 2

According to the financial investigation conducted, the SFMS has found the facts of embezzlement of budget resources with the involvement of the company-non-resident controlled by the MP of Ukraine (Pic. 4.3).

Thus, the State Enterprise and the Company-non-resident A (Austria) concluded the contract and a range of additional agreements on sales of several thousands of tons of raw material to the State Enterprise for 4 years. In turn, the Austrian Company-non-resident A was controlled by the MP of Ukraine.

The Company-non-resident A was not a manufacturer of raw material and had no methods of transportation, i. e. it acted as the mediator only. For the contractual performance, the State Enterprise transferred USD 75 million in favour of the Company-non-resident A.

Further, the Company-non-resident A concluded the agreement with the existing manufacturer and supplier of raw material – the Company-non-resident K (Kazakhstan). However, the price of raw material hereunder was lower than in contracts and agreements between the Company-non-resident A and the State Enterprise, and the scope of raw material supply was much lower.

A portion of funds received from the State Enterprise in the amount of USD 43 million was transferred by the Company-non-resident A in favour of the Kazakh Company-non-resident K, other portion was transferred to the Latvian accounts of two Companies-non-residents B1 and B2 (Great Britain) controlled by the citizens of the Russian Federation and Ukraine.

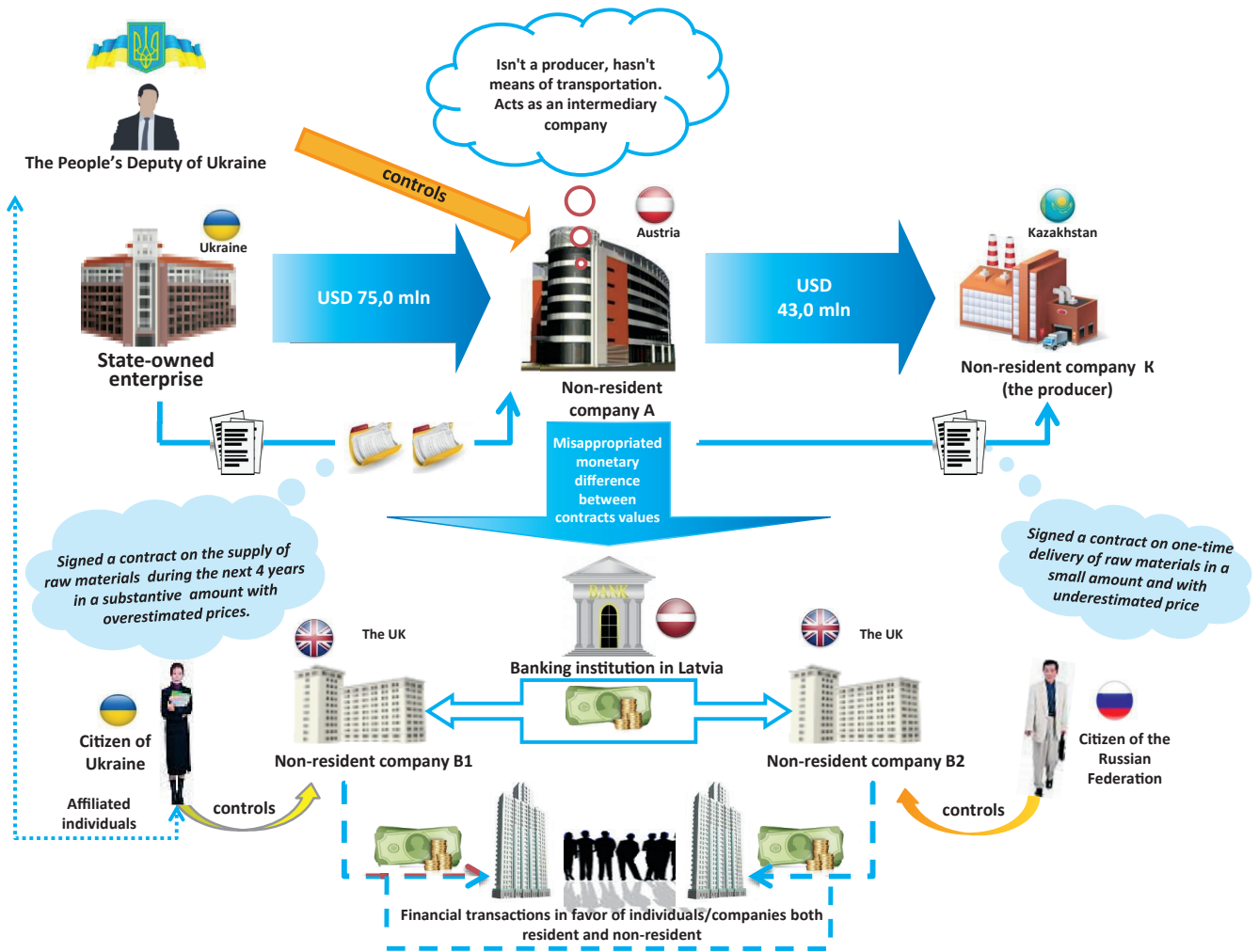
Based on further investigations, it has been found that the Citizen of Ukraine controlled by the Company-non-resident B1 and the MP of Ukraine were the affiliated persons.

Thus, the Company-non-resident A embezzled funds due to difference of the contract price.

Further, funds were transferred from the Latvian accounts of the British Companies-non-residents B1 and B2 in favour of a range of natural persons and legal entities, both residents and non-residents of Ukraine.

The law enforcement authority carries out a criminal proceeding..

Pic. 4.3. Facts of the embezzlement of the budget resources with the involvement of the non-resident company controlled by the MP



## Investigation of laundering of proceeds from corruption obtained in the mining industry

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In Ukraine there is a mass corruption in the industry of natural resources recovery and mining, such as coal, wood substances, amber, sand and black soil. This list is not comprehensive and depends on the certain region of the country, natural resources.

Extraction of mineral resources means use of various schemes allows embezzling of mineral resources, reducing liability for value added tax, income tax and payment for consumption.

Satisfaction of needs of Ukraine in mineral raw materials and energy supplies due to import and increase in prices for such products caused criminal activity at the market of mineral and energy resources.

Problem income received from sales of mineral resources often causes weakening of political responsibility, does not provide economic growth, human wellbeing necessary for the precedent conditions of responsible society and may give opportunities for the corruption growth.

Income level from sales of mineral resources many times exceeds revenues received in any other economic sector.

### Case study 3

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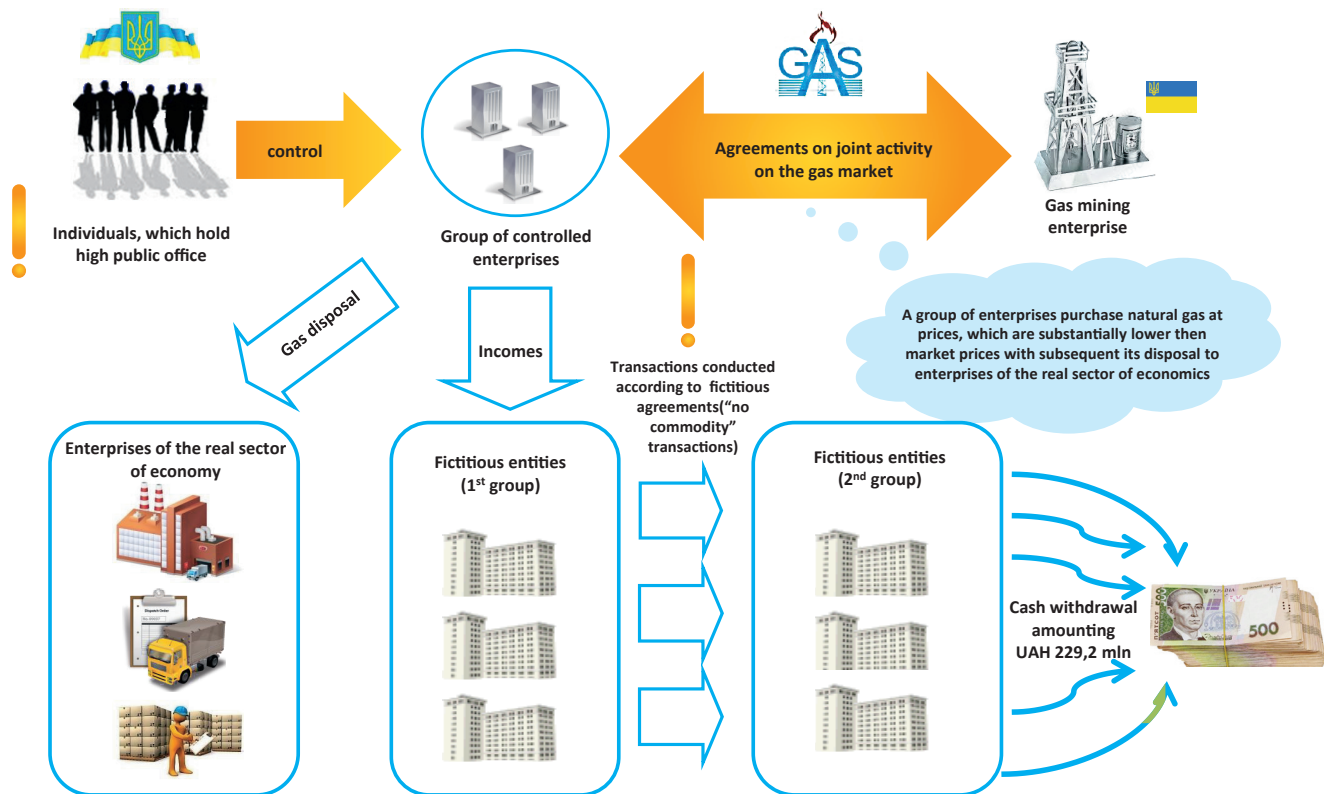
According to the investigation conducted by the SFMS, there has been the scheme showing money laundering by the officials holding chairs of state in form of the undue benefit (Pic. 4.4).

It has been found that the group of persons holding chairs of state established a criminal entity for their personal enrichment. Using powers imposed and official position, the mentioned persons sold natural gas produced by the Controlled Enterprise under the agreements on co-operation with the Gas Producing Enterprise state-owned at the prices much lower than those at the natural gas market.

Further, gas produced was sold by the enterprise of real economic sector at the market price. Revenues received as a difference of funds from gas purchase at a bargain price and further sales at the market price were transferred by the Controlled Enterprises as transit through a range of the accounts of the second group of enterprises, being fictive. Funds from the accounts of the last group were partially withdrawn in cash in the total amount of UAH 229.2 million.

The law enforcement authority carries out a criminal proceeding.

Pic. 4.4. Money laundering of proceeds obtained by officials in the form of undue benefit



## Investigation of laundering of proceeds from corruption obtained in the healthcare protection industry

Corruption penetrates into all living environment of the society, including in the health protection industry.

Every year the country losses big money for maintenance of medical institutions, purchase of equipment and drug products that “force” unfair public officers and heads of state organizations to be involved in “allocation” of budget resources. It is not uncommon when the winning bidder of the contract on reconstruction or major repair of the medical institution is the company not performing construction or repair works, having no production capacities and hired personnel. At the same time, budget sources are credited to the accounts of the

mentioned company, a portion of them is to be embezzled, and the remaining amount is to be transferred to the existing companies under the sub-contract that directly execute construction or repair works. A portion of funds owned by the winning bidder is used as a “fee” by those persons “assisted” in receiving the budget proposal.

A significant amount of the corruption flows is accumulated in the pharmaceutical industry as various illegal expenses in this sphere are wide spread phenomena (fabrication, forgery of documents).

### Case study 4.

According to the investigation conducted by the SFMS, there has been the scheme of money laundering by the officials as the undue benefit (Pic. 4.5).

According to the win in the competitive tendering of the Ministry of Health of Ukraine, the contract with the Enterprise B on delivery of drug products and medical products was signed and funds in the amount UAH 291.5 million were further transferred to the account of the Enterprise B.

At this, during the term specified in the contract, actual delivery of drug products was not performed.

All funds received were converted and transferred in favour of the Company-non-resident A in the amount of USD 26.2 million and EUR 0.24 million and in favour of the Company-non-resident Bin the amount of EUR 0.1 million.

Further, the Company-non-resident A transferred funds to the group of companies-non-residents as payment for building

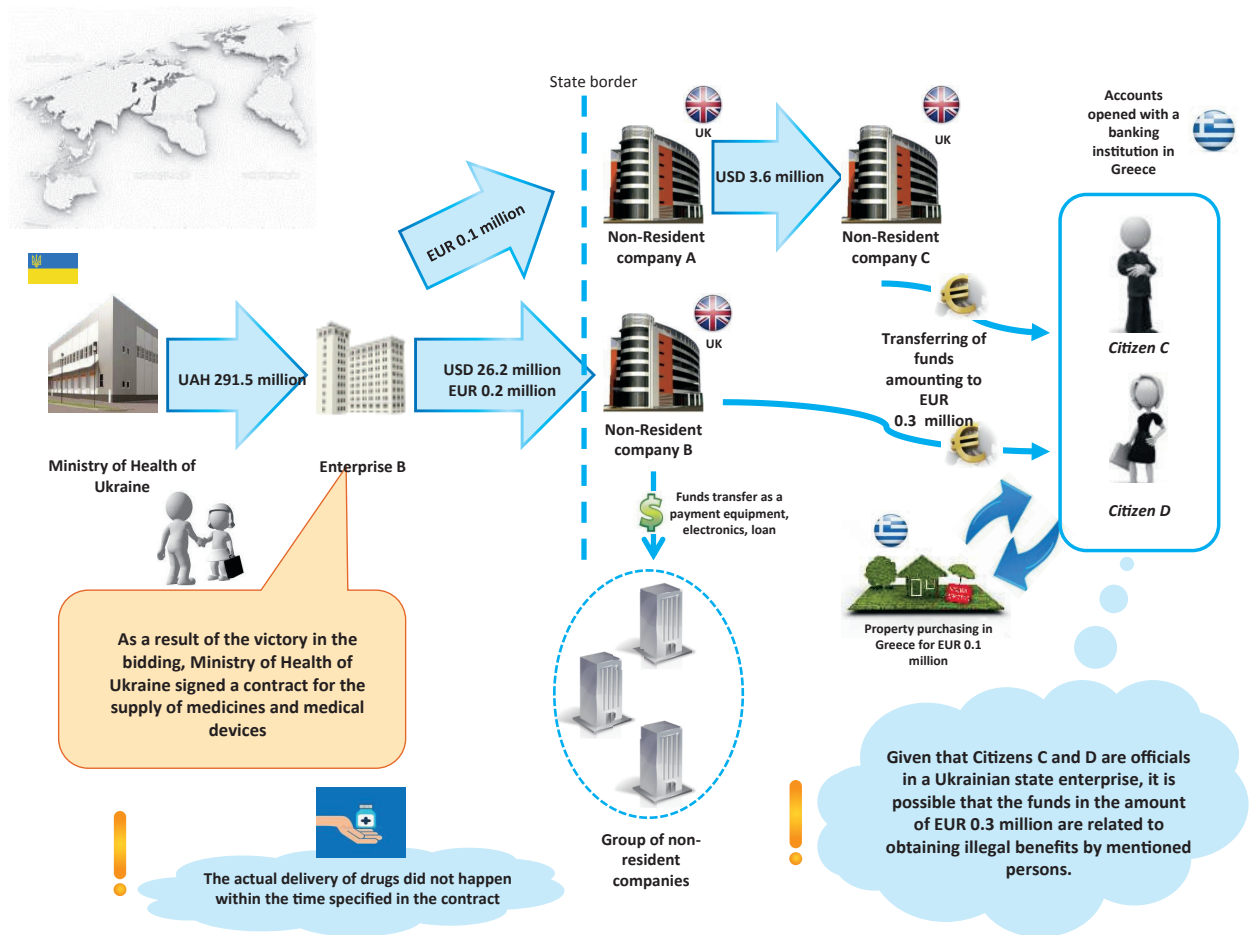
and electrical equipment, brown goods, credit, including to the account of the Company-non-resident C in the total amount of USD 3.6 million.

According to the financial intelligence unit of foreign country, the Companies non-residents B and C transferred funds in the total amount of EUR 0.25 million to the accounts of the citizens of Ukraine– the Citizen C and the Citizen D opened in banking institution in Greece. Further, a large portion of funds received in the amount of EUR 0.13 million was addressed to the mentioned persons for purchase of real estate within the territory of Greece.

Taking into consideration the fact that the Citizen C and the Citizen D are the officials of the state enterprise of Ukraine, it may happen that funds in the amount of EUR 0.25 million is connected with receiving of the undue benefit.

The law enforcement authority carries out a criminal proceeding.

Pic. 4.5. Money laundering of funds obtained by officials in the form of undue benefit



## Investigation of laundering of proceeds from corruption in the sphere of development, construction and operation of the infrastructure projects

Significant state expenses on the infrastructure projects (development of railway, aircraft, maritime, motor and local transport, roadway construction) promote corruption in this sphere.

This sector of expenses has peculiarities including the scope of works, necessity of complex delivery schemes, involvement of a large number of legal entities, that, in general, additionally motivate corruption and allows disguising of the corruption flows in the large processes.

### Case study 5.

According to the investigation conducted by the SFMS, there has been the scheme of embezzlement of budget resources granted as a credit against security of the Government of Ukraine and their further laundering (Pic. 4.6).

For execution of the works on construction of railway passenger service, the State Enterprise and the Company-non-resident concluded the loan agreement.

In pursuance of the loan agreement, the amount of USD 14.89 million (equal to UAH 119.04 million) was transferred to the account of the State Enterprise.

Further, funds received were transferred by two instalments to the multicurrency account of the State Enterprise opened in the Banking institution M.

Further, credit funds were used not as intended. A portion of funds was transferred through a period of time to the deposit account opened in the Banking institution M, with further return of funds transferred and interest to the current account opened in the Banking institution M. Other portion of credit funds was transferred to the current account in the Banking institution M. Thus, after currency conversion, the amount of UAH 165.78 million was accumulated at the current account of the State Enterprise opened in the Banking institution M.

Upon investigation, it has been found that a portion of funds in the amount of UAH 81.95 million was credited to the deposit account of the Financial Company R that, in turn, transferred them in favour of a range of legal entities. The Financial Company R and legal entities in favour of which funds were further transferred appeared to be fictive.

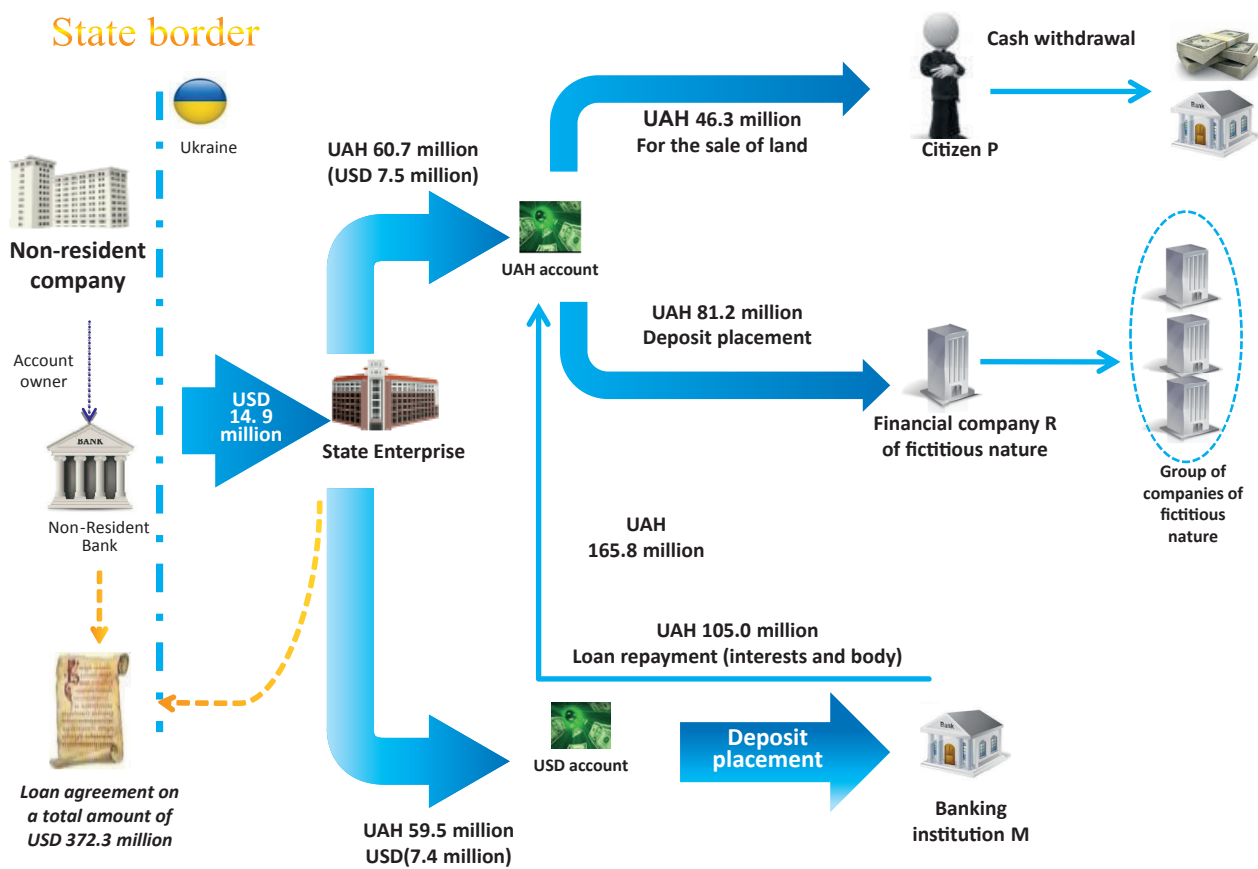
A portion of funds in the amount of UAH 46.28 million was transferred to the account of the natural person the Citizen P as payment for acquisition of land lots intended for railway passenger service construction at the inflated price. Further, the Citizen P withdrew in cash all funds received. Thus, taking into consideration the fact of non-performance of railway passenger service construction, the mentioned may mean formation of the corruption scheme connected with embezzlement of funds of the State Enterprise and their further laundering.

The State Enterprise failed to return the credit amount to the Company-non-resident.

The law enforcement authority carries out a criminal proceeding.



Pic. 4.6. The scheme of embezzlement of budget resources granted as a credit against security of the Government of Ukraine and their further laundering



## Investigation of laundering of proceeds from corruption in the state management industry

Corruption in the sphere of state management with the conditions of appearance, growth and expansion threatens the efficiency of state management, in general, and, in the worst possible case, threatens the mechanisms of democratic management and the basic principles of state existence nowadays.

Corruption in the sphere of state management may be used and is actually used at the macro level for government relations of the oligarchic clans, crime syndicate as the tool for increasing assets or creating conditions for their reallocation.

Under condition of absence of transparency and accounting for population and society among the government authorities, it is easy to create conditions for expanding corruption and, thus, supporting the corrupted officials and their affiliated business structures, other mediators, auditors, accountants, lawyers, shill journalists and unfair mass media.

The most spread phenomenon of corruption in the sphere of state management is protection – assignment of the employees based on family ties, citizenship, loyalty and intimate relations.

### Case study 6.

According to the investigation conducted by the SFMS, there have been found allegations concerning money laundering resulted from the corruption actions by the PEPs (Pic. 4.7).

Citizen K has funded a purchase of real estate in London (UK) worth GBP 825.0 thousand. Thus, the participants of purchasing a property have used an unusual commercial transaction and a difficult way of property acquiring, which may indicate a possible laundering of illegal proceeds.

Citizen K, who was the MP of Ukraine, received funds to his own account from two individuals in a total amount of UAH 2.6 million, as payment for broadcasting company corporate rights.

While holding official positions, the Citizen K repeatedly

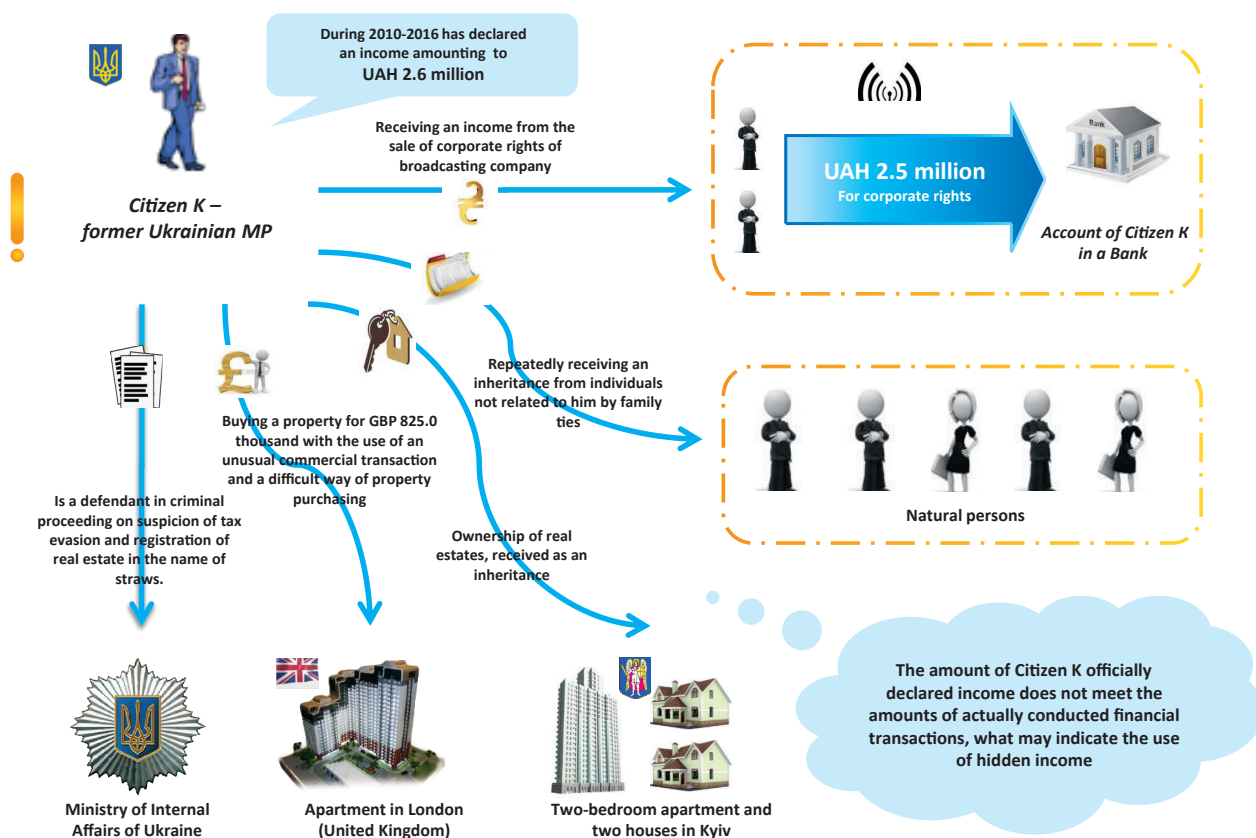
received heritage from the natural persons having no family ties with him and was the party to a criminal proceeding on suspicion of tax evasion and property registration offence in the name of the nominees.

For 2010-2016 the Citizen K declared income in the amount of UAH 2.6 million, at this, UAH 2million – income received as heritage (gift) from the persons that are not family members of the first degree relationship.

The amounts of income officially declared by the Citizen K do not meet the amounts of financial transactions actually settled that may mean money laundering.

Law enforcement authority carries out a criminal proceeding.

Pic. 4.7. The scheme of money laundering by PEP



### 4.3.2. On the investigation of transactions related to the financing of terrorism or conducted with the participation of persons who publicly call for violent change or overthrow of the constitutional order or change of the boundaries of the territory or state border of Ukraine

According to the law, the SFMS (as the FIU) in cooperation with the Security Service of Ukraine takes active part in preventing and combating the financing of terrorism (separatism).

During 2016 the SFMS has received 204 letters from the law enforcement agencies on questions regarding combating the financing of terrorism and separatist manifestations in Ukraine and participation in illegal actions by the officials of the government and local self-government bodies.

As a result of analysis of the obtained information, during 2016, 31 cases (including 20 case referrals and 11 additional case referrals), regarding financial transactions of persons that may be related to terrorist (separatism) financing and/or conducted by persons who publicly call for violent change or overthrow of the constitutional order or change of the boundaries of the territory or state border of Ukraine, were prepared and submitted to the Security Service of Ukraine and the Prosecutor General's Office of Ukraine for consideration and taking actions under the Criminal Code of Ukraine.

In these materials the amount of financial transactions that could be related to:

- legalization was UAH 152.3 million;
- committing of another crime, as defined by the Criminal Code of Ukraine was UAH 188.1 million.

One of the priorities of the SFMS is an activity that is aimed at identifying individuals and their financial transactions that may be related to terrorist financing or conducted by persons who publicly call for violent change or overthrow of the constitutional order, or change of the boundaries of the territory or state border of Ukraine.

The SFMS permanently monitors newly appointed officials of the so-called "DPR" and "LPR".

Thus, during 2016, the list of so-called "DPR" and "LPR" officials was updated and the newly established accounts of the individuals, opened in Ukrainian banks, were established.

Funds totalling the equivalent of UAH 1.0 million were detected and blocked on the account of these persons, including:

- on the accounts of three so-called "DPR" high-ranking officials – USD 38.7 thousand;
- on the account of one so-called "LPR" high-ranking official – UAH 0.004 million.

During this period, the SFMS by measures taken to prevent and counter terrorist (separatism) financing, has detected and blocked funds totalling USD 9.7 million, RUB 1.0 million, UAH 173.2 million.

### 4.3.3. On the investigation of transactions related to cash withdrawal

The SFMS carried out activities aimed at identifying facts and suppressing illegal activity of "converting" centres and companies with fictitious features involved in the legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction.

Thus, during 2016, the SFMS prepared and submitted to the law enforcement agencies of Ukraine 115 cases (88 case referrals and 27 additional case referrals), related to cash withdrawal.

The total amount of conducted financial transactions, related to money laundering, totalling to USD 27.6 billion, with cash withdrawals – UAH 26.2 billion, in particular for the following:

- cash withdrawal, including from card accounts – UAH 15.1 billion;
- purchase of agricultural products – UAH 7.6 billion;
- securities – USD 1.9 billion;
- financial assistance / loan – USD 826.7 million;
- other purposes – UAH 803.4 million.

#### 4.3.4. On the investigation of transactions related to budget funds and other state assets

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50 case referrals and additional case referrals, including 39 – on the basis of information, received from law enforcement agencies, were submitted to the law enforcement agencies.

Submitted case referrals contain an analysis of 27,516 financial transactions, in the total amount of UAH 57.6 billion. The amount of financial transactions that may be related to:

- legalization is UAH 1.9 billion;
- committing another crime, stipulated by the Criminal Code of Ukraine, is UAH 1.4 billion.

The amount of involved public funds amounted to UAH 7.0 billion.

Submitted case referrals are related to the embezzlement of budget funds by:

- “transit” transfer of public funds through the accounts of related companies, both residents and non-residents with fictitious features;
- “transit” transfer of public funds through the accounts of other legal entities and their subsequent withdrawal in cash;

- “transit” transfer of public funds through the accounts of other legal entities to the accounts of individuals and their subsequent legalization;
- placing funds on deposit in the banking institution, which is in the process of liquidation, and on the accounts of financial companies, with their subsequent transfer in favour of companies with fictitious features;
- conclusion of the agreements under unfavourable terms for the state enterprise.

The tools that were used:

- The use of payment cards;
- financial aid (loans) agreements;
- letters of credit;
- housing purchase on the secondary market;
- placement on deposit accounts;
- payment of services for software maintenance;
- conclusion of contract of assignment.

#### 4.3.5. On the investigation of facts of the laundering of proceeds, as a result of unauthorized withdrawal from customers’ bank accounts

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During 2016, the SFMS received information regarding 167 attempts to launder the proceeds, in a total amount of UAH 56.1 million, obtained as a result of unauthorized withdrawal from customers’ bank accounts.

The SFMS has blocked UAH 14.1 million on the customers’ bank accounts in 3 cases.

21 case referrals and additional case referrals, related to the offences in the area of cybercrime, were submitted to the law enforcement agencies.



# 5.

## CASE REFERRALS

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Under the Basic Law and according to the Procedure of submission and consideration of case referrals, approved by the interagency order of the Ministry of Finance of Ukraine and law enforcement agencies, the SFMS expert commission, following the consideration of case referrals and additional case referrals, prepared for submission to the law enforcement agencies, takes decision concerning submission of such materials to the law enforcement agencies, in case of reasonable grounds. Employees of the law enforcement agencies subdivisions are engaged in expert commission as experts.

During 2016, the SFMS prepared 591 cases (269 case referrals and 322 additional case referrals) and forwarded them to (pic. 5.1):

- the Prosecutor General's Office of Ukraine – 34 case referrals and 139 additional case referrals;
- the State Fiscal Service of Ukraine – 83 case referrals and 46 additional case referrals;
- the National Police of Ukraine – 66 case referrals and 41 additional case referrals;
- the Security Service of Ukraine – 61 case referrals and 41 additional case referrals;
- the National Anti-corruption Bureau of Ukraine – 25 case referrals and 46 additional case referrals.

In these materials the amount of financial transactions that may be related to:

- legalization is 36,8 billion;
- committing another crime, defined by the Criminal Code of Ukraine is UAH 9,0 billion.
- 257 case referrals (including case referrals submitted during

past years), law enforcement agencies were used by the law enforcement agencies during pre-trial investigations in 270 criminal proceedings, namely (pic. 5.2):

- under results of consideration of 74 case referrals there were 76 criminal proceedings initiated by law enforcement agencies;
- 183 case referrals were used in 194 criminal proceedings.

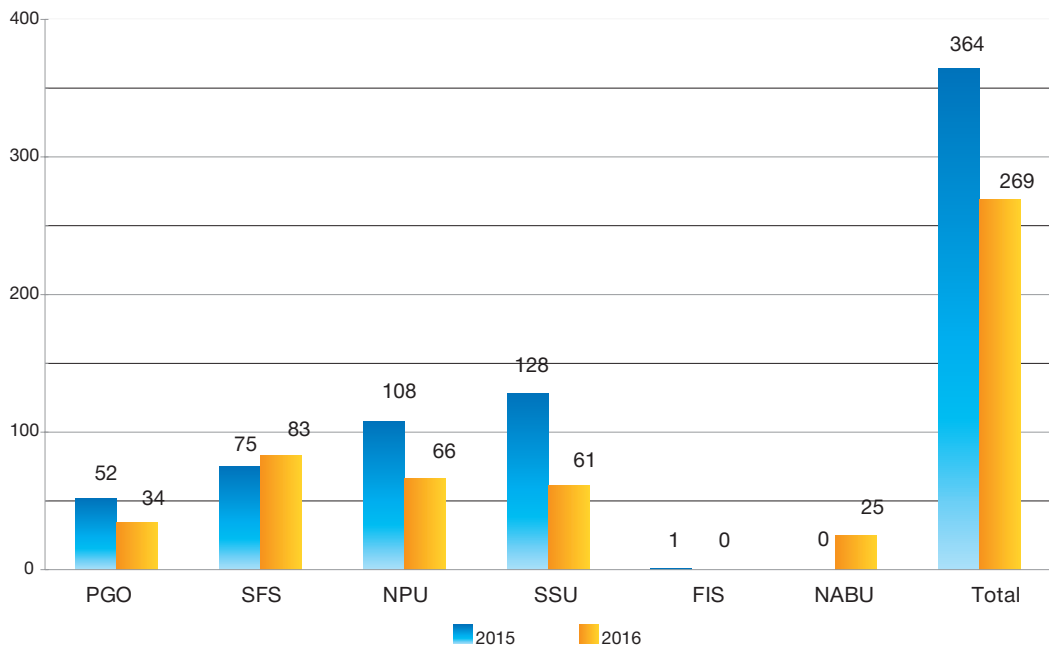
Law enforcement agencies units completed 42 criminal proceedings, initiated under 44 case referrals, with the application to the court with indictments.

Courts have considered 47 criminal cases, initiated following the consideration of 52 case referrals, with the conviction or rendering rulings based on non-justifying circumstances.

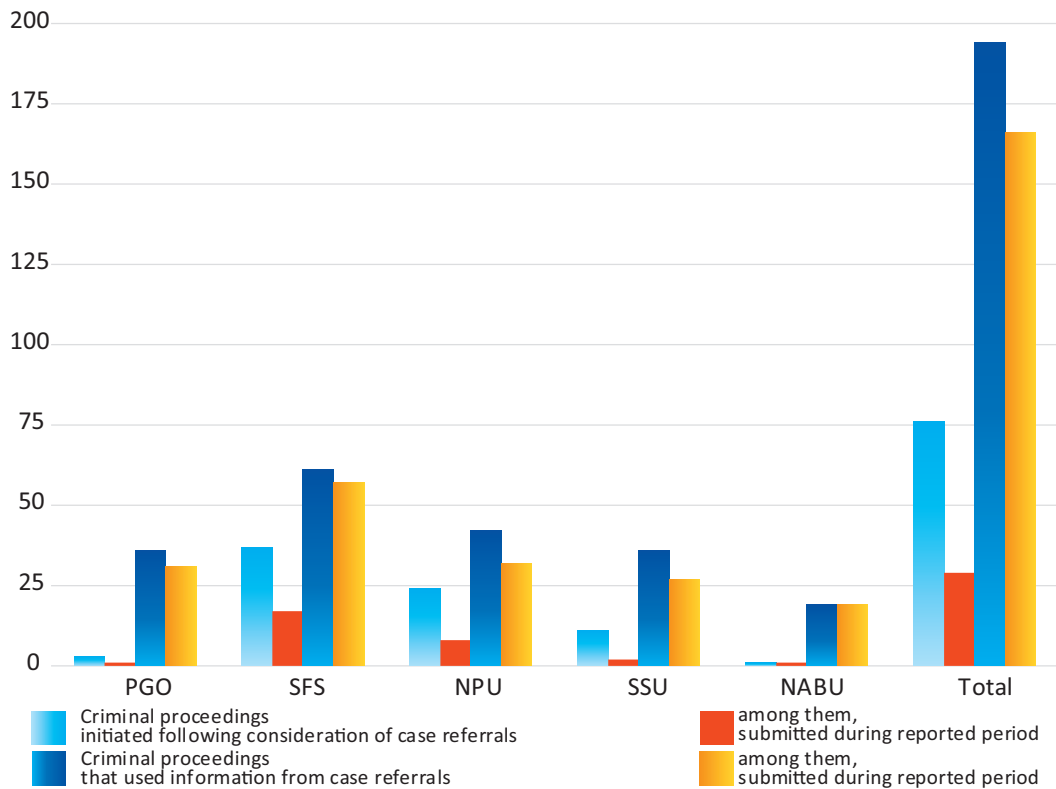
According to the information of law enforcement agencies the total amount of property (assets) arrested and seized during criminal proceedings initiated by law enforcement agencies following consideration of case referrals provided by the SFMS is UAH 21,6 billion.



Pic. 5.1. The number of submitted case referrals



Pic. 5.2. Initiated criminal cases, following consideration of case referrals (used in criminal proceedings)



## An example of a court conviction

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The law enforcement agencies, on the basis of information from the case referral submitted by the SFMS, initiated criminal proceedings on the grounds of criminal offenses under part 3 Article 27 of the Criminal Code of Ukraine (The organizer is a person who has organized a criminal offense (or criminal offenses) or supervised its (their) preparation or commission), part 2 of Article 205 (Sham business) and part 1 of Article 209 (Legalization (laundering) of the proceeds from crime).

The investigation of the criminal proceeding established that in order to acquire a business entity LLC "D", the accused person "T" with person "A", realizing a shared criminal intent to cover up illegal activity, entered the premises of the private notary office, where person "A", acting under the instructions of the accused and knowing that amendments to the registration documents of LLC "D" are necessary to cover up illegal activities of person "T", knowing that his actions contributes to re-registration of the company on his name, and with no intention to engage in business activity, provided under the charter, and realizing that he subsequently acquires ownership of the company, signed a charter of LLC "D" in the presence of the private notary.

Re-registration of LLC "D" in the name of person "A" gave the accused "T" the possibility to perform illegal activities, which consisted in providing services for illegal formation of the tax credit on VAT, income tax expenses and understating of tax payments by means of documentation transactions for fictitious sale of goods (works, services) to companies from the real sector.

Person "T", after committing a crime under part 3 of Article 27, part 2 of Article 205 of the Criminal Code of Ukraine, performed transactions with funds as well as actions aimed at concealing and disguising the illicit origin of such funds.

Thus, state enterprise "U", from its current account, made a transaction to the current account of LLC "D", in the amount of UAH 6.7 million, as payment for the goods under the contract, that were subsequently transferred to other companies by person "T" and further were withdrawn in cash. LLC "D" has not supplied any goods nor provided any services to the state enterprise "U".

Subsequently, state enterprise "U" transferred the funds to LLC "D", in the amount of UAH 3.4 million, as payment under the contract of assignment concluded between LLC "D" and PSPzOV "C".

Person T in order to conceal the illicit origin of the funds, received to the account of LLC "D", has instructed bank employees to commit financial transactions in the amount of UAH 3.4 million, from the account of LLC "D" to the account of the state enterprise "U", with payment purpose: "return of the pre-payment for the goods under the contract."

By Vinnitsa City Court conviction of 19.09.2016 person "T" was found guilty of criminal offenses under part 3 of Article 27, part 1 of Article 205; part 3 of Article 27, part 2 of Article 205; part 1 of Article 209; part 2 of Article 205 of the Criminal Code of Ukraine.

According to part 1 of Article 70 of the Criminal Code of Ukraine, for multiple offenses, by absorption of less severe punishment by more severe, person "T" was sentenced to the imprisonment for a term of three (3) years without disqualification to occupy positions or engage in certain activities.

# 6.

## ENSURING OPERATION OF THE UNIFIED INFORMATION SYSTEM IN THE AML/CFT AREA

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## Ensuring operation of the unified information system in the AML/CFT area

In 2016 according to the key objectives determined by Article 18 of the Basic Law the SFMS, within approved allocations, ensured functioning of the Unified State Information System in the AML/CFT area (UIS) (pic. 6.1).

UIS provides 24-hours and ongoing processes of receipt, primary and analytical processing, guaranteed protection of information from the reporting entities as well as support of the information environment of interaction between independent structural divisions of the SFMS. UIS works with 24/7 availability, according to the regulations approved by the SFMS.

Currently the UIS has been under commercial operation for 13 years. During 2003-2013 the list of the reporting entities has significantly extended that should ensure provision of information and comply with the requirements for information interaction with them.

However, since 2009 approved allocations for the operation and development of UIS are insufficient. Therefore present UIS equipment is obsolete, is worn out extensively, which leads to many failures in the processing of information; system software is no longer relevant and does not meet the security requirements for information systems. In particular:

- server hardware has exhausted its resources, and most of it is damaged or has regular crashes, that reduces UIS functionality and increases the time of its disability and fault time;
- Data Storage Systems (DSS) have also exhausted their resources, spare parts are not available, disk space is not enough, therefore there is a forced removal of the information into the archives (without prompt access to it), as well as limiting storage of backup information, causing the risk of loss of information, collected by the SFMS;
- 85% of computer equipment has exhausted its resources, and more than 70% of peripheral devices (printers and scanners) are damaged.

As a result, functionality, effectiveness and efficiency of processing and analysing of information received by the SFMS are reducing; there appears a threat of violation of the requirements of handling of classified information and the loss of such information.

UIS, which was designed to process up to 2 million of reports on financial transactions per year, due to new legal requirements, currently receives over 6 million of such reports and is unable to provide routine treatment. To enable further information processing, an access to UIS information resources was forced to be stopped, which reduces the effectiveness of the analysis.

During the reporting year UIS has repeatedly denied an access, that complicates the work of the SFMS. In 2016, 31 failures of the UIS were recorded. These failures led to temporary full or partial stop of information processing in the system. After the mentioned failures, the UIS performance restored with a slight decrease in performance and functionality of the system.

Taking into account the new legal requirements, development of information technologies, improvement of international AML/CFT standards (the FATF Recommendations, approved by the FATF Plenary on February 16, 2012) to rapid reaction to threats to the security of society, increasing of threats to the security of information resources, the necessity for improvement of technologies interaction with other state entities, including the use of the Internet, the current state of the hardware and software of the system, the need for modernization of the UIS has become inevitable. Therefore, the SFMS in 2012 has developed a program "Modernization of the information system on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction".

Modernization, launched by the SFMS, should ensure compliance of the national AML/CFT system with the FATF Recommendations, the integration of additional information resources of state authorities to the UIS, replacement of obsolete hardware and software, improvement of comprehensive information security system according to the new threats to its security.

However, due to lack of allocations for upgrading the system, program activities in 2016 were carried out only by employees of the SFMS.

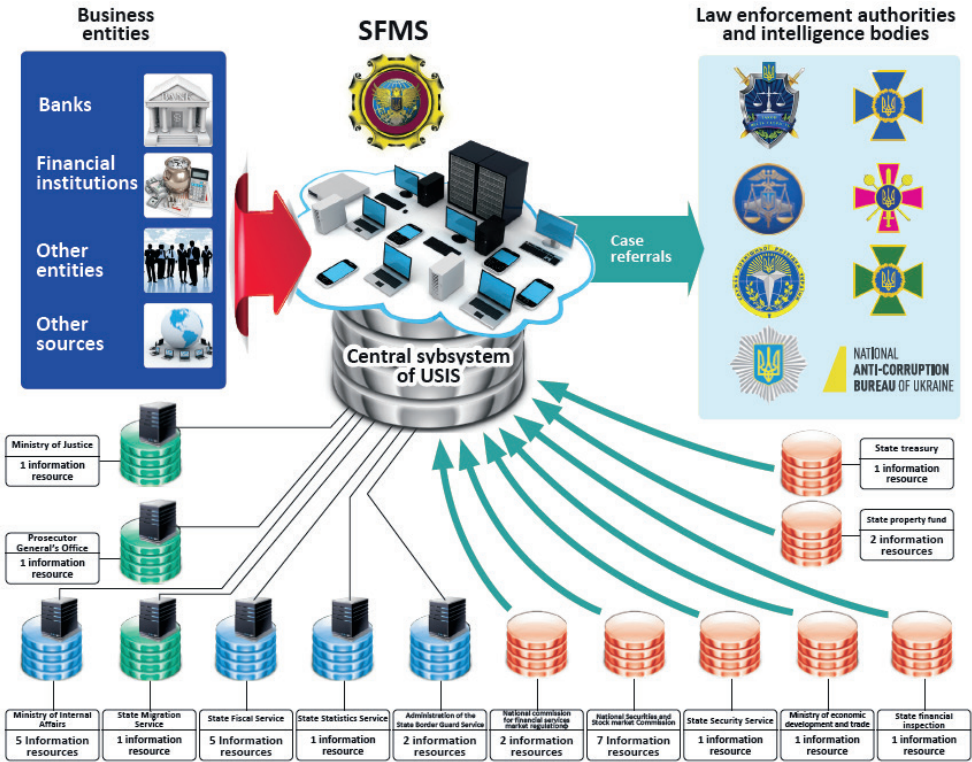
In particular, to improve the quality of analysis of information in the UIS it was introduced a receipt of more structured information on financial transactions (during 2016 over 24.5 million of transactions were processed).

Also in 2016 it was ensured the receipt and processing of information about the death of individuals, which will be an additional factor in determining the risk of financial transactions.

Due to absence of the state budget allocations for the operation and development of UIS, existence of a developed program of the UIS modernization and reasonable estimate of needs for its implementation, in 2016 the SFMS was searching for capabilities to involve technical assistance and pursued cooperation with foreign and international donors.

In particular, in 2016 the SFMS signed a memorandum with the Coordination Office in Ukraine of the Turkish Agency for Cooperation and Coordination (TIKA) under the Prime Ministry of the Republic of Turkey on purchase of equipment for the FIU within the joint project “Support to the National System of Financial Monitoring of Ukraine”, in the framework of international technical assistance “Project of improvement of the level of the institutionalization in the system of state management”, thus a partial renewal of the UIS peripheral equipment was made.

Pic. 6.1. The unified information system in the AML/CFT area





# 7.

## INTERAGENCY COOPERATION

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## 7.1. Interaction with regulators and other state agencies

In the reporting period the organization of interagency cooperation of the SFMS was focused on measures of coordination of the system of financial monitoring (pic. 7.1), including:

- improvement of the legislative framework for interagency cooperation;
- securing the activity of the Council on prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction issues;
- ensuring preparation for the 5th round of mutual evaluation of the national system of financial monitoring by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL);
- the conclusion of joint interagency documents with state authorities;
- implementation of the direct exchange of information with SDFM;
- organization of the National risk assessment events;
- enhancing interaction with the public.

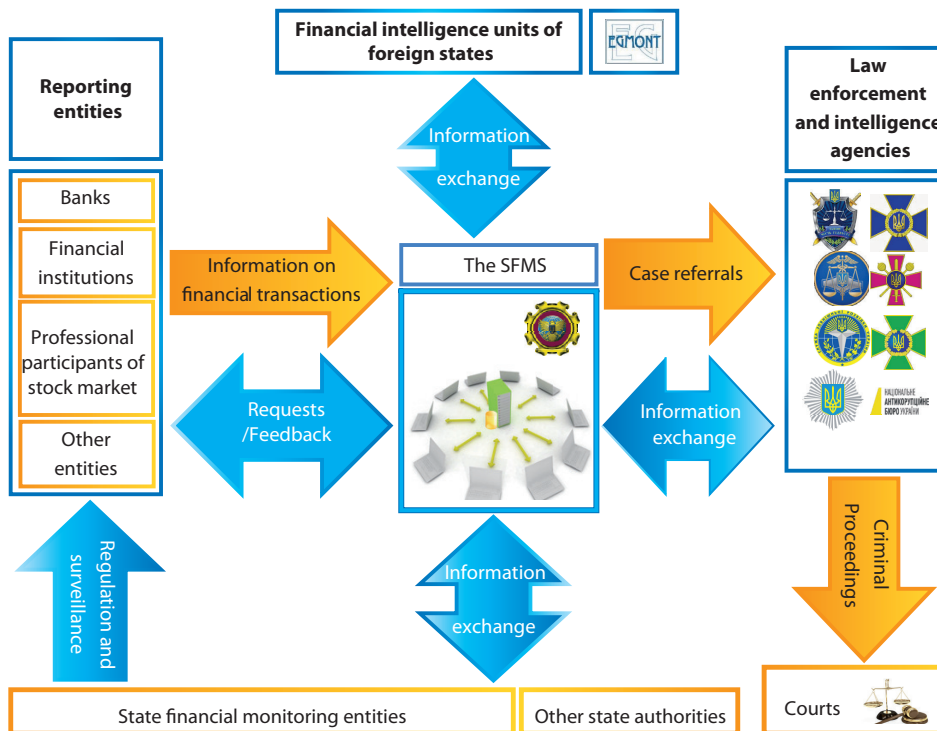
### Legislative framework for interagency cooperation and coordination

The SFMS coordinated work on the preparation and performance by the state authorities of Action Plan for 2016 on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction, approved by the Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine of 11.02.2016 No. 103. Consolidated report on the implementation of Action Plan was submitted to the Cabinet of Ministers of Ukraine and the National bank of

Ukraine and Apparatus of the National Security and Defence Council of Ukraine.

This work was carried out in accordance with the Strategy of development of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction for the period until 2020, which was developed by the SFMS and approved on December 30, 2015.

Pic. 7.1.1. Financial monitoring system of Ukraine





### **The activity of the Council on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction**

Upon address of the SFMS, pursuant to the Resolution of the Cabinet of Ministers of 08.09.2016 No. 613 it was established the Council on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction, comprising of the representatives of the SFMS, concerned state authorities and law enforcement agencies self-regulatory bodies (pic. 7.2).

First of all, during the reporting year (3 meetings were held) the activity of the Council, as a consultative body, was aimed at consideration and providing suggestions to the state authorities on performing the following key tasks:

- harmonization of the SDFM regulations in accordance with the Basic Law;
- actual measures taken by the state authorities in combating money laundering and terrorist financing;
- NRA conduction;
- review of the typological studies of money laundering and terrorist financing;
- methodical ensuring the system of financial monitoring;
- conduction of a national review on the activities of the non-profit sector to identify, prevent and counteract the financing of terrorism etc.

**Pic. 7.1.2. Meeting of the Council**



## Preparation for the 5<sup>th</sup> round of mutual evaluation of the national system of financial monitoring by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)

To ensure adequate preparation for the 5th round of mutual evaluation of the national AML/CFT system by the MONEYVAL Committee, under the initiative of the SFMS, it was established a Working Group, composed of the representatives of the SFMS, concerned state and law enforcement agencies, self-regulatory organizations. In 2016 the first meeting of the Working Group was held. Participants of the meeting were informed about key aspects of the 5th round of mutual evaluation of Ukraine by MONEYVAL Committee and were provided with the information on main dates of the evaluation procedure and materials necessary for its carrying out.

During August-September 2016, on the basis of its own information and information obtained from concerned state and law enforcement agencies, the SFMS completed and translated into English MONEYVAL MEQ “Technical Compliance” and “Effectiveness”.

### The conclusion of joint interagency documents with state authorities

In order to improve the mechanisms of information exchange between the participants of the system of financial monitoring, currently there were signed documents on interagency cooperation between the SFMS and 7 SDFM, 18 state authorities, 23 other institutions and organizations.

In December 2016, in the framework of preparation to the on-site visit to Ukraine there were held four meetings with the representatives of SDFM, law enforcement and other concerned state agencies, including:

- on 13.12.2016 with representatives of state authorities which within their powers are involved in the fight against proliferation of weapons of mass destruction;
- on 16.12.2016 there were held two meetings with law enforcement officials regarding the beneficial ownership and issues relating financial investigations;
- on 20.12.2016 it was held a meeting with SDFM in the AML/CFT area.

The main purpose of these meetings was to discuss issues of concern within preparation to the evaluation of Ukraine by the MONEYVAL Committee and to develop common positions on future consultations with international experts..

In 2016 the SFMS signed:

- Agreement between the SFMS and National Agency for Prevention of Corruption on interagency and information cooperation in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction and prevention of corruption in Ukraine;
- Protocol on the procedure for information exchange between the SFMS and NCSRFMS regarding the deregistering of the reporting entities in the SFMS in connection with termination of relevant activities.

**Pic.7.1.3. Signing by Igor Cherkaskyi and Natalia Korchak the Agreement between SFMS and National Agency for Prevention of Corruption**



## Spontaneous information exchange with SDFM

To increase the efficiency of supervision over compliance with the requirements of the legislation on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction by the reporting entities, within the signed joint orders with the Ministry of Finance of Ukraine, the National Securities and Stock Market Commission, the National Commission For State Regulation of Financial Services Market, the Ministry of Infrastructure of Ukraine, the Ministry of Justice of Ukraine, the Ministry of Economic Development and Trade of Ukraine and the National Bank of Ukraine, in 2016 the SFMS provided the mentioned SDFM with the information, in particular, on the following:

- administrative data on financial transactions that are subject to financial monitoring, received from the RE by the SFMS;

- information on errors made by the RE during submission of information on financial transactions that are subject to financial monitoring;
- information on registering of the RE in the SFMS;
- information on facts, identified by the SFMS, that may indicate about violations of the legislative requirements by the RE;
- information about protocols of administrative offences committed by officials of the RE, drawn up by the SFMS and the results of their consideration;
- information about analysis of methods and financial schemes of legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction.

## Measures taken to conduct the National risk assessment

In 2016 it was completed the first National Risk Assessment on prevention and counteraction to legalization (laundering) of the proceeds from crime and terrorist financing Ukraine (NRA) in Ukraine.

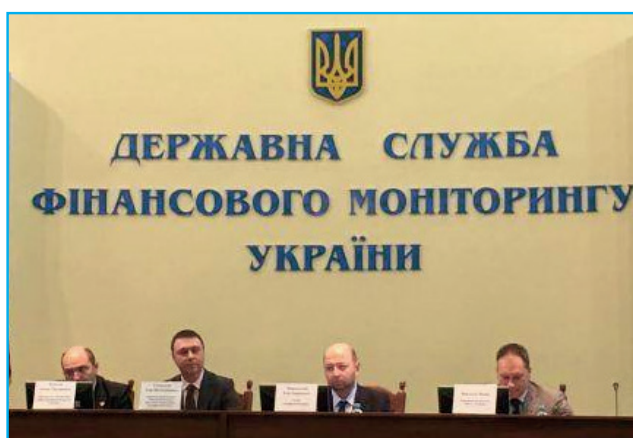
The NRA was conducted by the SFMS in cooperation with the law enforcement and other state agencies, representatives of the private sector, international experts under the support of the OSCE Project Coordinator in Ukraine, taking into account the FATF Recommendations and in accordance with Article 21 of the Basic Law and Procedure of conducting assessment in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime and terrorist financing and the publication of its results, approved by the Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine of 09.16.2015 No. 717.

During 2016, 3 meetings of the Working Group were held, where in particular a preliminary draft of the NRA report was considered and approved.

The draft NRA report of October 7, 2016 was considered and approved by the Council on the prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction.

On December 15, 2016 the SFMS, supported by the OSCE, presented the National risk assessment report in the area of preventing and counteracting to legalization (laundering) of the proceeds from crime, and financing of terrorism. The representatives of the Presidential Administration of Ukraine, the Secretariat of the Cabinet of Ministers of Ukraine, the Committee of the Parliament of Ukraine on finance and banking and over 40 representatives of state regulators and law enforcement agencies, other state authorities as well as the representatives of the leading scientific institutions and society involved in anti-money laundering and terrorist financing sphere attended this event.

**Fig. 7.1.4. Presentation of the results of the National Risk Assessment**



The National risk assessment report is published on the official web-sites of the SFMS and the Ministry of Finance of Ukraine.

In order to coordinate the work during the NRA conduction, a Working Group on conducting NRA of legalization (laundering) of the proceeds from crime and terrorist financing was established under the SFMS.

Following the results of the conducted NRA, the SFMS developed draft Resolution of the Cabinet of Ministers of Ukraine “On realization of the Strategy for development of the system of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction”, which is aimed at implementing NRA results and indicating legislative, organizational and institutional measures to ensure stable and efficient operation of the national system of financial monitoring.

## Interaction with the public

During 2016 the SFMS ensured a close interaction with members of the civil society which consisted, first of all, in:

- organization of the Public Council's work of the SFMS;
- public assessment of draft laws;
- informing the media about the work done.

In order to improve the mechanisms of interaction of SFMS with the public upon the implementation of the Resolution of the Cabinet of Ministers of Ukraine as of November 3, 2010 No. 996 of "On the public's participation in the formation and implementation of state policy" in 2016 the SFMS has assisted to the Public Council's activity in every way.

Altogether, in 2016 the Public Council has held 4 meetings at which the urgent issues on the SFMS's interaction with the public have been considered and solved, as well as the draft acts have been considered and the current acts in the sphere of financial monitoring have been discussed. The materials of the Public Council's meeting are posted on the official website of the SFMS.

The SFMS approved and performed the Tentative plan for carrying out consultations with the public for 2016, which has been agreed with the Public Council of the SFMS and posted on the website of the SFMS.

In total, in 2016 within the interaction with the public the SFMS has organized:

- 13 working meetings with representatives of organizations that bring together reporting entities and self-regulatory organizations in order to solve current issues on financial monitoring;
- participation of the public members in the international scientific AML workshops organized by the OSCE and MONEYVAL;
- posting on the official website of the SFMS over 1000 information notifications on financial monitoring;
- posting 11 SFMS's information materials on the Government's Web-portal;
- monthly submission of the information on actions concerning carrying out consultations with the public to the Cabinet of Ministers of Ukraine.

Moreover, it is worth noting the interests of mass media in financial monitoring sphere. During the year a number of materials have been posted, among which:

- the interview with the President of the MONEYVAL Daniel Thelesklaf was posted in the newspaper "Den" on June 3-4, 2016 No. 96-97;
- the information on the international scientific workshop "Vital issues of the AML/CFT system: current challenges" held on February 25-26, 2016 in the SFMS was posted in the newspaper "Government's courier" on March 29, 2016 No. 59.



## 7.2. Interaction with the reporting entities

In 2016 the SFMS on the permanent basis conducted analysis of effectiveness of the reporting entities' activity in the AML/CFT area.

Under results of the mentioned analysis in 2016 the SFMS has developed a number of recommendations for the reporting entities, in particular concerning filling in forms of registration and submission of information related to carrying out of financial monitoring.

In addition, during 2016, 6 meetings of the Working group on consideration problem issues of the reporting entities-non-banks and analysis of an effectiveness of actions taken by them for prevention and counteraction to the legalization (laundering) of the proceeds from crime, and financing of terrorism were conducted and 2 meetings of the Working group on consideration problem issues of the reporting entities-banks were held.

At the Working Groups meetings the urgent issues of performance by the reporting entities of the legislation on prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction were discussed.

During 2016 the SFMS has organized and participated in 5 meetings with representatives of the reporting entities and self-regulatory bodies.

**Pic. 7.2. Meeting with representatives of the stock market**



### 7.3. Methodical support, training of the financial monitoring entities' staff

During 2016, the SFMS representatives participated in 4 educational events organized by UN Office on drugs and crime (UNODC), the OSCE, GIZ and the SFMS jointly with the NABU which were attended by 65 representatives of state authorities.

Moreover, the employees of the SFMS participated in 21 educational events, which were organized by LLC "The Institute of Post-Graduated Education and Business", the State Educational and Scientific Institution "The Academy of Financial Management", the National Centre for Training of Bank Employees of Ukraine, the Institute of Law and Post-graduated Education of the Ministry of Justice of Ukraine jointly with the Main Territorial Department of Justice in Mykolaiv Region, the European Bank for Reconstruction and Development with participation of the National Bank of Ukraine, the State Higher Educational Institution "Banking University", the Professional Association of Registrars and Depositors, the SFMS jointly with the Association of Realtors of Ukraine, the Ukrainian Association of Investment Business and Odessa National Economic University.

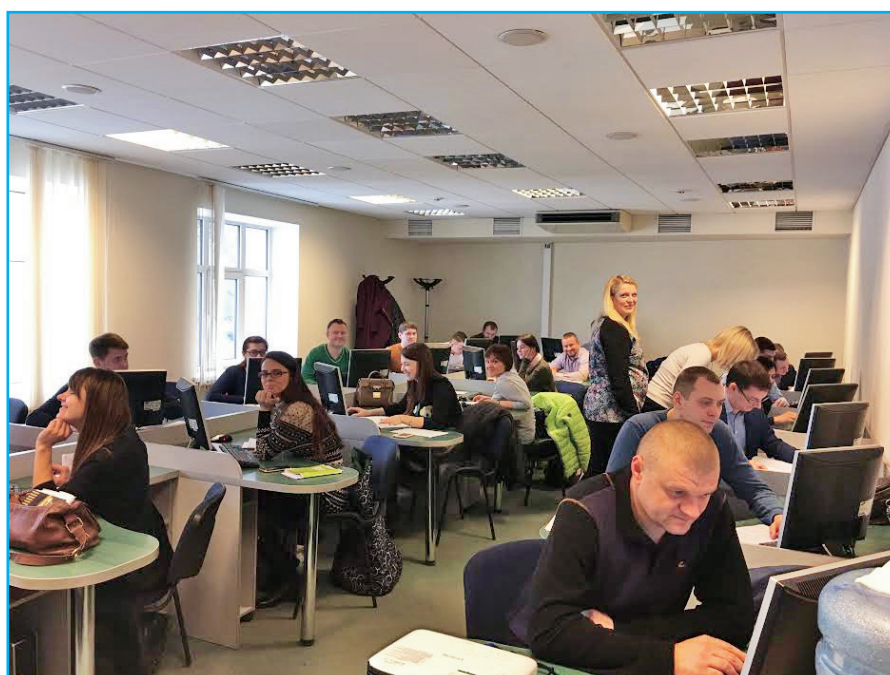
The mentioned events were attended by 824 persons – representatives of the reporting entities.

Also, during 2016 the SFMS representatives participated in 71 educational events, organized by the Training Centre of the SFMS of Ukraine which were attended by 1675 students.

In general, in 2016 the SFMS representatives took part in 96 events, conducted for more than 2 690 persons.

According to the Resolution of the Cabinet of Ministers of Ukraine as of August 19, 2015 of No. 610 "On approval the Procedure for organization and coordination of the work on retraining and professional development of specialists on financial monitoring" in 2016 the SFMS has signed the agreements on cooperation concerning training and professional development on financial monitoring with four organizations.

Pic. 7.3. Testing in the Training Centre of the SFMS of Ukraine



# 8.

## ACTIVITIES OF THE TRAINING CENTRE OF THE SFMS OF UKRAINE

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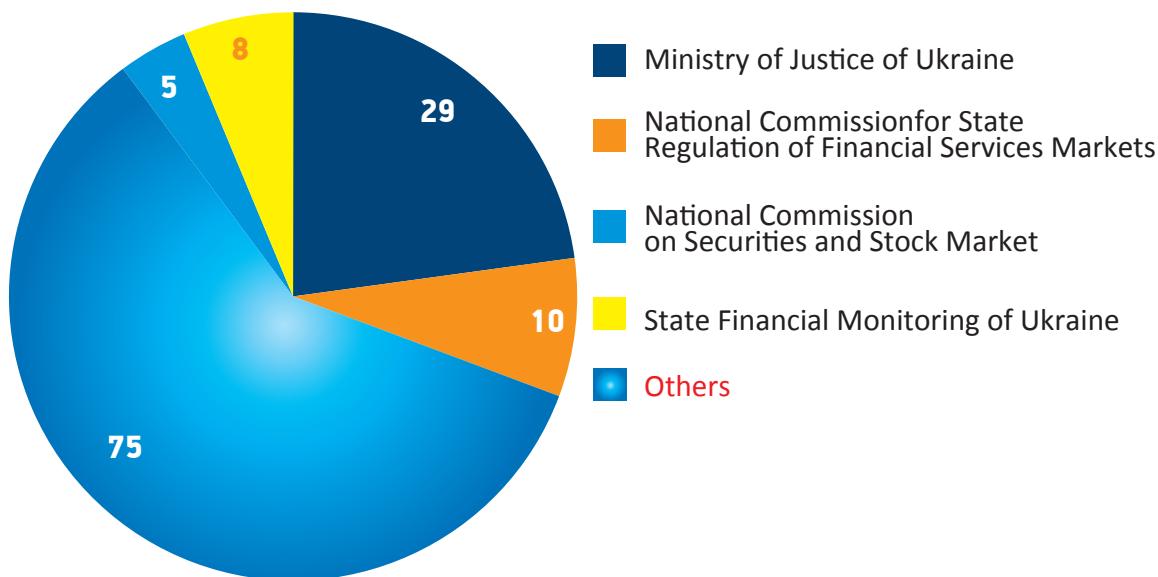
## Main tasks

The main task of the Training Centre of the SFMS (hereinafter – the Centre) is retraining and professional development of specialists on financial monitoring in the AML/CFT area in order to ensure the unified approach to retraining and professional development of specialists of the state financial monitoring entities, law enforcement and judicial authorities, representatives of the reporting entities in charge of its conducting, as well as representatives of foreign states or international organizations.

### In 2016 the Centre trained 1 675 representatives of the state financial monitoring entities and the reporting entities, including:

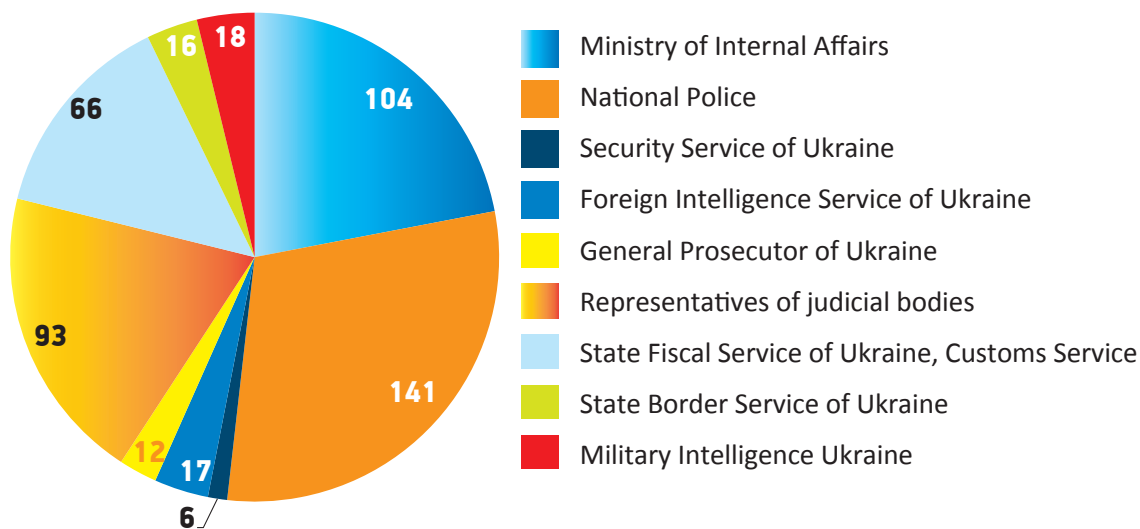
- 600 professionals – in the framework of state contract (Fig. 8.1.1 and 8.1.2):

Pic. 8.1.1. Number of representatives of state financial monitoring and other state agencies that completed training in 2016



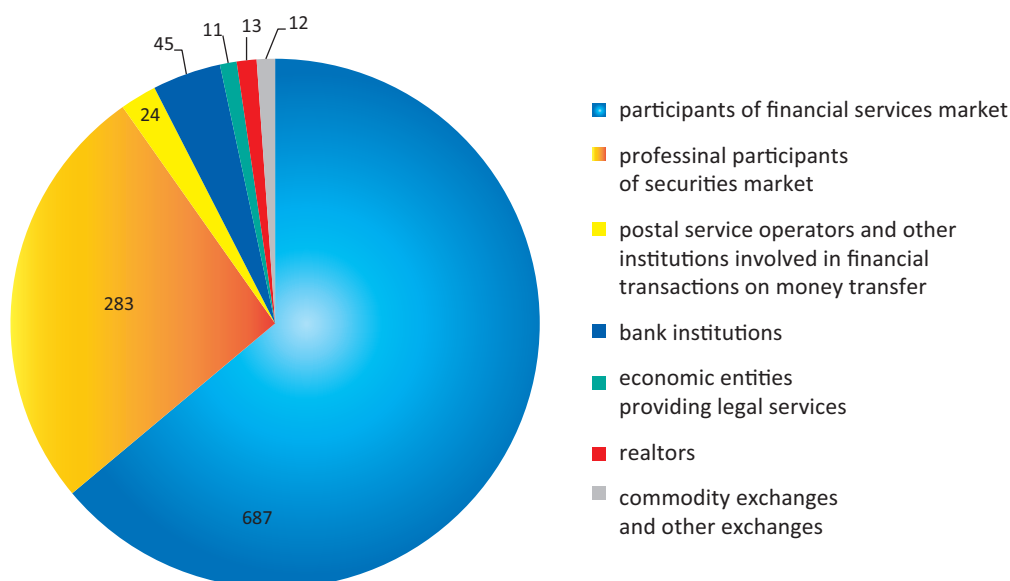


Pic. 8.1.2. Number of representatives of state authorities, law enforcement agencies, intelligence and judicial bodies of Ukraine that completed training in 2016



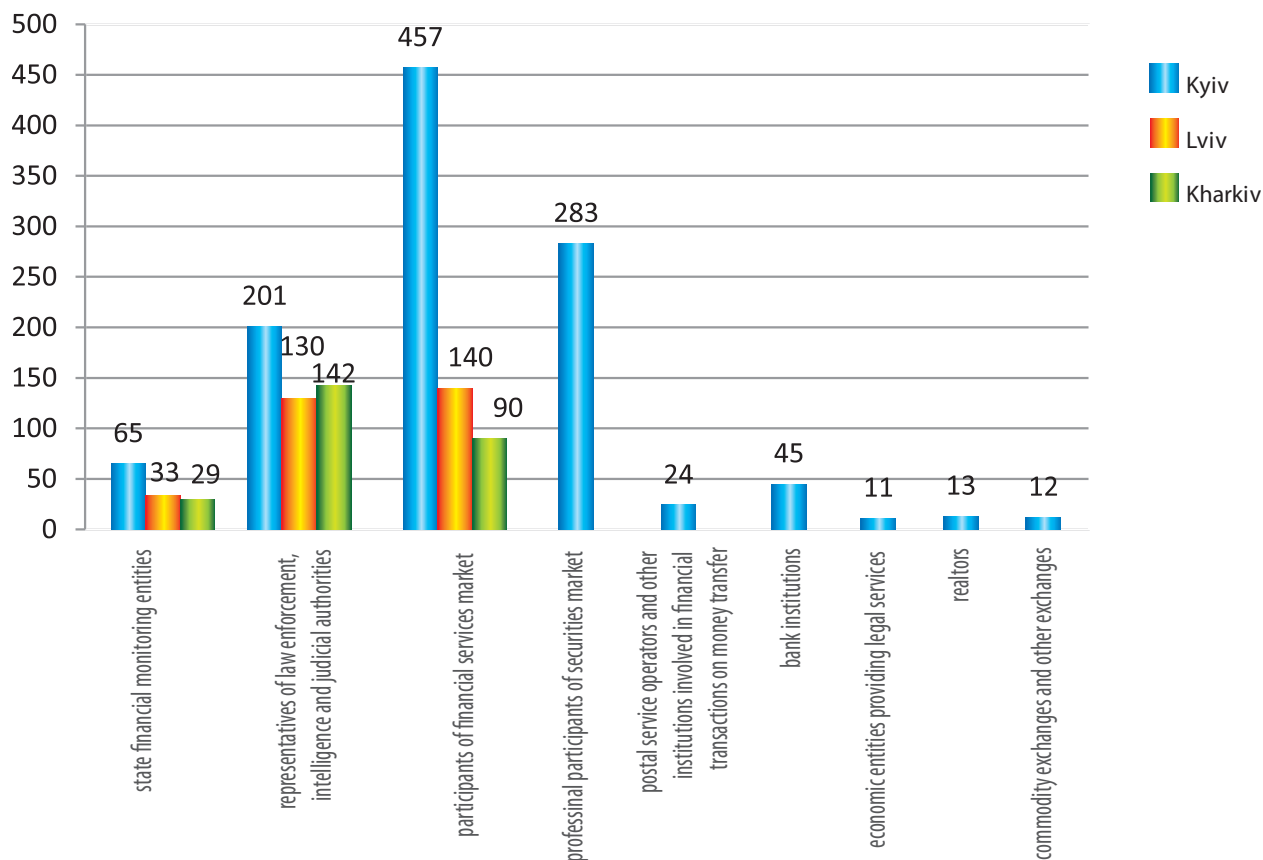
- 1075 specialists – compliance officers of the reporting entities (Fig. 8.2):

Pic. 8.2. Number of the compliance officers of the reporting entities that have been trained in 2016



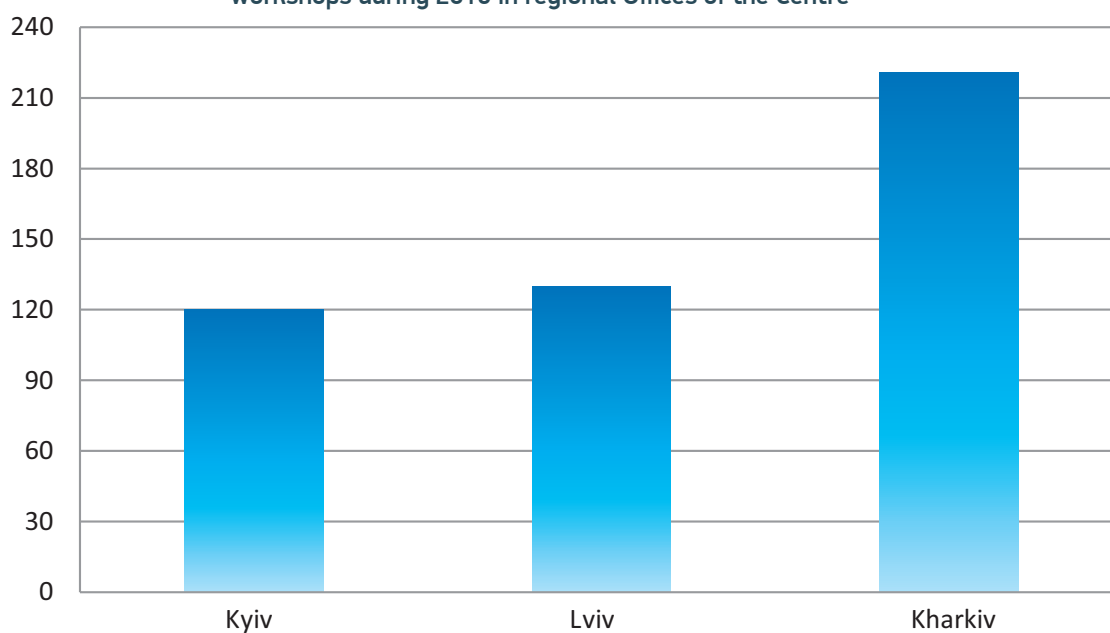
In 2016, trainings were held on the base of the regional Offices of the Centre in Kyiv, Kharkiv and Lviv (Fig. 8.3):

**Pic 8.3. Dynamics of trainings of the state financial monitoring entities, reporting entities and other state authorities in 2016 by the regional Offices of the Centre**



The workshops “A notary as a reporting entity” which were attended by 471 representatives of the specially designated reporting entities – notaries were conducted (Fig. 8.4):

**Pic. 8.4. Number of the reporting entities – notaries, who participated in workshops during 2016 in regional Offices of the Centre**



Also, the workshop for participants of the financial services markets “Innovations of regulations in the area of financial monitoring. Forms of registration and submission of information to the SFMS” was held in Kyiv. The workshop was attended by 14 persons.

At the same time, during 2016 the Centre actively cooperated with various international institutions and organizations, in particular, its representative participated in the Egmont Group ECOFEL Project (Egmont Centre of FIU Excellence and Leadership) which took part on November 16-19, 2016, in Rotterdam, Netherlands and successfully commenced the cooperation with Turkish Cooperation and Coordination Agency (TIKA).

Within the cooperation with the SFMS, the OSCE and GIZ GmbH the Centre took part in organization and conduction a number of workshops.

Moreover, the Centre carries out preparations for and directly participated in conduction of the Study visit for the experts from the Ministry of Finance of Republic of Poland held on October 17-21, 2016 in Lviv (Fig. 8.5) as well as the international scientific and practical workshop “Evaluation of the national financial monitoring system by MONEYVAL” which took place on November 17-18, 2016, in Lviv.

**Pic. 8.5. Study visit for the experts from the Ministry of Finance of Republic of Poland**





# 9.

## INTERNATIONAL COOPERATION

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## 9.1. Cooperation with international organizations

One of the important components of the SFMS activity is to set cooperation with international institutions and foreign partners responsible for the organization of an effective counteraction to laundering of the proceeds from crime, or terrorist financing.

During 2016, the SFMS actively cooperated with leading international organizations and institutions engaged in AML/CFT, such as the Financial Action Task Force (FATF), FATF Style Regional Bodies – the Committee of Experts on the Evaluation of Anti-Money laundering and Financing of Terrorism (MONEYVAL), the Egmont group of Financial Intelligence Units, the Council of Europe and the European Commission, the UN Office on drugs and crime (UNODC), the World Bank, International Monetary Fund, the Organization for Security and Cooperation in Europe (OSCE), the Organization for Democracy and Economic Development (GUAM) and other international organizations.

In order to raise AML/CFT awareness in the European region, the SFMS was used as a platform for trainings for representatives of this region.

In 2016, the representatives of the SCFM represented Ukraine’s AML/CFT experience, and improved cooperation at the bilateral level during international workshops, conducted with the assistance of leading international organizations.

The SFMS, according to the assigned tasks, concludes international interagency agreements (MOUs) with FIUs of foreign countries. During 2003-2016, 70 agreements on cooperation with FIUs of foreign countries were concluded.



### 9.1.1. Cooperation with FATF

On February, 15-19, 2016, in the complement of MONEYVAL delegation, which is the FATF Style Regional Body, the SFMS representative participated in the FATF Plenary, Working groups meetings, particularly in the PDG and ICRG meetings held in Paris, France.

Furthermore, it was carried out the work on evaluation and compliance, updating Guidance on De-risking. Also, the SFMS representative took part in consideration reports of the FATF associated members and development Guidance on Risk-oriented approach on money or currency valuables transfer services.

During the Working Group meeting the actions taken by the FATF members and other jurisdictions were considered and discussed. Also, the discussion of jurisdictions based on ICRG review was conducted.

The SFMS, on the permanent base, reviews the last events and the FATF documents and reports its results on its official website.

Thus, under results of the first FATF Plenary two Public Statements on jurisdictions that may constitute a threat for the international financial system were issued:

- Jurisdictions that have strategic AML/CFT deficiencies and which subject to a FATF call on their jurisdictions to apply counter-measures (Iran, DPRK);

- Jurisdictions that have strategic AML/CFT deficiencies for which they have developed an action plan with the FATF (Afghanistan, Bosnia and Herzegovina, Guyana, Iraq, Lao PDR, Syria, Uganda, Vanuatu, Yemen).

Also, upon execution of the UN Security Council Resolution 2178, the 5th FATF Recommendation “Terrorist Financing Offence” which provides for that terrorist financing should include financing the travel of individuals who travel to a State other than their States of residence or nationality for the purpose of perpetration, planning, or preparation of, or participation in, terrorist acts or the providing or receiving of terrorist training.

Within continuation of the fight against financing of terrorism the 8th FATF Recommendation “Non-profit organizations” and its Information Note were revised. Thus, monitoring and prevention to application of non-profit organizations for financing of terrorism will be carried out on the base of risk-oriented approach and risks assessment conducted directly by a country.

In turn, under the FATF Plenary results, the SFMS published on its official website the updated Methodology for assessing technical compliance with the FATF Recommendations and the effectiveness of AML/CFT systems (with amendments as of October 2016).



### 9.1.2. Cooperation with Egmont group of FIUs

On February 1-5, 2016, the SFMS representative attended the Working groups meetings and 24 Egmont group Plenary, held in Monte-Carlo, Monaco. During these meetings the following issues were discussed:

- AML/CFT initiatives;
- Response to the threats of international terrorist organization IDIL to the world financial system;

- Review of legal problems rising when implementing Updated Egmont group standards;
- Interaction of FIU, law enforcement and judicial authorities.



### 9.1.3. Cooperation with the Council of Europe (MONEYVAL/European Commission)

During 2016, the delegation of Ukraine headed by representatives of the SFMS participated in three Plenary meetings of the Committee of Experts of the Council of Europe on Evaluation of anti-money laundering and financing of terrorism (MONEYVAL) (Strasbourg, France), namely, in:

- 50th Plenary meeting – April 11-15, 2016;
- 51th Plenary meeting – September 26-29, 2016;
- 52nd Plenary meeting – December 5-8, 2016.

During the last Plenary meeting the delegation of Ukraine represented the updated information on actions being taken in AML/CFT area, which were positively accepted by MONEYVAL. Also, in course of working meetings the foreign delegations focused their attention on massive scope of the work being implemented by Ukraine within preparation for the MONEYVAL 5th round of mutual evaluation.

In addition, on November 2-3, 2016 the SFMS representative attended the meeting with the Council of Europe experts on counteraction to corruption and money laundering in order to discuss problems the central executive authorities of Ukraine come across while taking actions aimed at counteraction to corruption, money laundering and financing of terrorism, as well as issues on cooperation with other international organizations in AML/CFT area.

Simultaneously, in 2016 the SFMS actively cooperated with the European Commission in the framework of the Technical Assistance and Information Exchange instrument of the European Commission (TAIEX).

Thus, during the reporting period, in the framework of TAIEX, the SFMS representatives participated in preparation mission on anticorruption issues held by the EU Representation in Ukraine on July 6, 2016.

### 9.1.4. Cooperation with IMF

Within the reporting period, the SFMS promoted cooperation with IMF.

On February, 23, March 11, May 13, and November 8, 2016 the working meetings with IMF representatives to discuss issues concerning necessary further development of AML/CFT regulatory base, analysis provisions of developed draft law on implementation the 4th EU Directive, as well as

On November 17-18, 2016, the SFMS representative took part in the 10th annual regional conference on institutional development aimed at discussion institutional and legal basis of the implementation of the EU Association Agreement in the countries of EU Initiative “Eastern Partnership”, the exchange of experience and best practices of carrying out institutional reforms and modernization public service within European integration.

Also, on December 14-15, 2016, the SFMS representative attended the expert mission “Providing postal services” aimed at discussion issues on implementation commitments under the

Also, on December 14-15, 2016, the SFMS representative participated in the expert mission “Providing postal services”, in order to discuss issues on fulfilment commitments under the Ukraine-EU Association Agreement on postal and courier services, in particular preparation of the draft law “On Amendments to the Law of Ukraine on Postal” as well as gaining leading European experience in this mentioned area.



practical aspects of activities and cooperation with the NABU and law enforcement authorities were held in the SFMS premises.



## 9.1.5. Other international events

### 9.1.5.1 Cooperation with the Organization of Security and Cooperation in Europe (OSCE) and German Society for International Cooperation (GIZ)

During the reporting period, the SFMS agreed the draft technical assistance project “Assistance to Ukraine in counteraction to money laundering and financing of terrorism” within the activities of the OSCE Project Coordinator in Ukraine. Moreover, during the reporting period, a number of international scientific and practical workshops under the aegis of the OSCE, GIZ GmbH, and the SFMS was held.

Thus, on January 21-22, 2016, the joint international scientific and practical workshop on the basis of regional Office of the Training Center the SFMS of Ukraine “Mechanisms of prevention to corruption display of politically exposed persons as a tool of anticorruption policy” was organized in Kharkiv (Pic. 9.1).

**Pic. 9.1. The joint international scientific and practical workshop on the basis of regional Office of the Training Centre of the SFMS of Ukraine in Kharkiv**



During the workshop the current issues on development of the national system of financial monitoring and the fight against corruption were considered.

On February 25-26, 2016, the international scientific workshop “Current issues of the AML/CFT system: nowadays challenges” was held in Kyiv (Pic. 9.2).

**Pic. 9.2. The joint international scientific and practical workshop “Current issues of the AML/CFT system: nowadays challenges”**



The workshop was attended by a significant number of international experts, including the experts of the MONEYVAL Secretariat, International Monetary Fund, the OSCE, FIU of Portugal, FIU of Estonia, as well as delegates from state authorities and private sector.

On March 3-4, 2016, the joint international scientific and practical workshop “Novations of the regulations in the area of financial monitoring” was held in Lviv during which the experience of the Republic of Poland in the AML/CFT area was considered.

In course of the workshop, the SFMS presented information on development and coordination of the national system of financial monitoring in Ukraine, further perspective of

development and ways of improving the legislation of Ukraine in the area of financial monitoring.

On June 1-2, 2016, the joint international scientific and practical workshop “Cooperation in the AML/CFT area and anticorruption efforts: international and national aspects” which involved known international experts on financial monitoring was held in Odessa (Pic. 9.3).

In course of the mentioned workshop the issues on a role of the financial intelligence units in fight against corruption, an interconnection of anti-corruption and anti-legalization legislation, an interaction of FIU and anti-corruption subdivisions in the sphere of ensuring security of public funds in the EU states and other vital issues were discussed.

**Pic. 9.3. The joint international scientific and practical workshop “Cooperation in the AML/CFT area and anticorruption efforts: international and national aspects”**



On November 17-18, 2016, the joint international scientific and practical workshop “Evaluation of the national financial monitoring system by the Council’s of Europe MONEYVAL Committee” was held in Lviv. During the workshop the issues on preparation to the evaluation of Ukraine by MONEYVAL, particularly the experience of Armenia and Poland concerning evaluation by the MONEYVAL were considered. Also, the AML/CFT system of Ukraine within the Methodology for assessing compliance with the FATF Recommendations was considered.

Also, on September 5-6, 2016, under support of the OSCE, the SFMS representatives visited Vienna, Austria in order to participate in the expert meeting on strengthening cooperation in the sphere of fight against corruption and money laundering. During the meeting, the SFMS representatives shared the experience in the sphere of fight against corruption and counteraction to money laundering, discussed the best

world advanced international practices and mechanisms of international cooperation in the AML/CFT area.

Moreover, on December 15, 2016, under support of the OSCE, the National Risk Assessment Report of Ukraine on preventing and counteracting legalization (laundering) of proceeds of crime and financing of terrorism was represented in the SFMS. The event was attended by representatives of the Administration of the President of Ukraine, the Secretariat of the Cabinet of Ministers of Ukraine, the Committee of Parliament of Ukraine on financial and banking activities and over 40 representatives of state regulators and law enforcement authorities, other state authorities, as well as representatives of leading scientific institutions and of the public that deal with the AML/CFT issues (Pic. 9.4).

Under the results of presentation further ways of implementation actions aimed at preventing to rising and decreasing negative consequences of the AML/CFT system risks were discussed.

**Pic. 9.4. The National Risk Assessment report of Ukraine on preventing and counteracting legalization (laundering) of proceeds of crime and financing of terrorism**



### 9.1.5.2. Cooperation with the UN – United Nations Office on Drugs and Crime (UNODC), UN Security Council, Counter-Terrorism Committee (CTC)

On May 20-27, 2016 the SFMS representatives took part in training held in Odessa University of Internal Affairs on application program i<sup>2</sup> (under the UNODC support).

In the framework of cooperation with the Ministry of Interior of Ukraine on training specialists in the sphere of law enforcement activities the following training workshops for representatives of the law enforcement authorities were held on the basis of the National Academy of Internal Affairs in Kyiv:

- May 24-25, 2016 “Corporate structures and financial instruments and their use for laundering of the proceeds from crime”;
- May 26-27, 2016, workshop “Disruption of criminal financial flows”.

On July 14, 2016 for the purpose of discussing international cooperation in AML/CFT area, in particular providing expert assistance by the UNODC while conducting trainings for public servants on the basis of the Training Center of the SFMS of Ukraine, the meeting with the advisor on anti-money laundering issues of the Division for Treaty Affairs of the UN Global Program against Money Laundering, Proceeds of Crime and the Financing of Terrorism (GPML).

On December 13-15, 2016 the SFMS representative visited Vienna, Austria in order to participate in the Financial Disruption Workshop – International Money Laundering Networks concerning getting practical experience in counteraction to international criminal networks.

### 9.1.5.3. Cooperation with Organization for Democracy and Economic Development – GUAM

In 2016, the SFMS representatives more than once has being taken part in GUAM events, particularly in:

- the Working group on cyber security meeting – March 31, May 12-13, October 31 – November 1;
- the Working subgroup on combating corruption and money laundering meetings – June 16-17.
- the Working group on coordination of combating crime meetings – December 1-2;

During the above meetings, the SFMS representatives took part in processing the draft inter-government Memorandum of Understanding on cyber security of the GUAM Member States; hearing the report of the GUAM Secretariat on the implemented work by the Working group on coordination of combating crime as well as implementation of the Plan of organizational and practical measures of the mentioned Working group for 2016 etc.

#### 9.1.5.4. Cooperation with NATO

On August 16, 2016 the SFMS representatives held working meeting with representatives of NATO Liaison Office in Ukraine for the purpose of discussing international cooperation in AML/CFT area.

On October 20, 2016 the SFMS representatives took part in training workshop “NATO and Euro-Atlantic Integration in Ukraine”.

On October 27, 2016, the SFMS representatives attended workshop within the NATO Building Integrity (BI) Initiative.

On November 14, 2016, in order to discuss the previous

results of public monitoring of implementation the Annual Program of NATO-Ukraine cooperation for 2016 that makes interest for the SFMS in terms of realization directions of an interaction of Ukraine with NATO in the sphere of international security (fight and counteraction to financing terrorism, control over equipment of weapon of mass destruction), the SFMS representative took part in expert meeting organized by the Institute for Euro-Atlantic cooperation under support of the NATO Information and Documentation Center in Ukraine.

Moreover, during a year, the SFMS, on a permanent basis, has being taking actions prescribed by implementation of the Annual Program of NATO-Ukraine cooperation for 2016.

#### 9.1.5.5. Cooperation with U.S. Department of the Treasury/Federal Bureau of Investigation

On January 20, 2016, the meeting with representatives of U.S. Department of the Treasury in order to discuss international cooperation in AML/CFT area was held in the SFMS.

On March 11, April 12, and November 15, 2016, the SFMS was visited by representatives of FBI for the purpose of discussing the national AML/CFT legislation; ways of cooperation on joint financial investigations, as well as cooperation between the SFMS and the FIU of USA (FinCEN).

#### 9.1.5.6. Cooperation with Turkish Cooperation and Coordination Agency (TIKA) under the Prime Ministry of the Republic of Turkey

On April 24-30, 2016, the SFMS representatives headed by the delegation of Ukraine carried out the Study visit to Ankara, Turkish Republic in order to learn an experience of

Turkish Republic in prevention and counteraction to financing terrorism and investigation financial crimes (Pic. 9.5).

**Pic. 9.5. Study visit to Ankara, Turkish Republic**



### 9.1.5.7. Cooperation with the FIU of Poland

On October 10-14, 2016 the SFMS representatives headed by the delegation of Ukraine carried out the Study visit to the FIU of Poland in order to acquaint with the AML/CFT work

organization, in particular with analytical and informational capacities of the FIU of Poland, exchange of experience and to set up cooperation between both FIUs (pic. 9.6).

**Pic. 9.6. Study visit to the FIU of Poland**



### 9.1.5.8. Information exchange with foreign FIUs

The SFMS permanently ensures interaction and information exchange with competent authorities of foreign states and international organizations in facilitating the investigations of compound transnational schemes.

During 2016 the SFMS and 154 FIUs conducted exchange of financial information that might be related to illegal activity.

Thereby, during 2016 the SFMS sent 668 requests to 150 foreign FIUs and received 566 replies from 118 foreign FIUs, in particular:

- FIU of Latvia (sent 76 requests);
- FIU of Cyprus (sent 37 requests);
- FIU of UK (sent 31 request);
- FIU of Austria (sent 25 requests);
- FIU of Switzerland (sent 22 requests);
- FIU of Panama (sent 18 requests).

At the same time, the SFMS received 229 requests from 56 foreign FIUs and sent 246 replies to 58 foreign FIUs, in particular:

- FIU of Russia Federation (received 27 requests);
- FIU of Latvia (received 18 requests);
- FIU of Switzerland (received 12 requests);
- FIU of Lithuania (received 12 requests);
- FIU of USA (received 10 requests).

#### 9.1.5.9. International events of general nature

On February, 29, 2016, within discussion of problems and ways for the implementation of the 4th UN Directive into the national legislation, the SFMS was visited by the professor of the Erasmus University Rotterdam who was delegated by the Ministry of Finance of Netherlands as an international expert. During the meeting, the implementation of the 4th UN Directive into the national legislation was discussed, a comparative characteristic of the legislation of Ukraine and Netherlands in AML/CFT area was represented, as well as possibilities of amendments to the national legislation were considered.

On March 17 and August 4, 2016, the SFMS representative took part in the fourth and fifth round of negotiations with Russia Federation held in Minsk, Byelorussia, on its breach of international and legal commitments under the International Convention for the Suppression of the Financing of Terrorism (1999). In course of negotiations the issues on execution arrangements reached during the third round of negotiations, the exchange of information on the acts which occurred or might occurred on the territory of Ukraine or Russia Federation and which may be qualified as acts of financing terrorism, in recognition of the Convention were considered.

On September 12-30, 2016, upon invitation of the International Academy for Tax Crime Investigation, the SFMS representative participated in the event on enhancing relationship in the AML/CFT area between the SFMS and the International Academy for Tax Crime Investigation.

On October 25-26, 2016, in Strasbourg, France, headed by the delegation of Ukraine the, the SFMS representative attended the 8th meeting of the Conference of the Parties of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and of the Financing of Terrorism CETS No. 198 (C198-COP) aimed at monitoring of effective execution of the commitments of the States under the Convention.

# 10.

PLANS FOR 2017.

DEVELOPMENT PERSPECTIVES

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## In 2017 it is planned to perform the following tasks:

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### **I. Evaluation of the national system of counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction.**

The implementation of the task is expected to realize by:

- ensuring facilitation in conduction of the 5th MONEYVAL Evaluation Round;
- ensuring representation by Ukraine of the 5th MONEYVAL Evaluation Round draft report.

### **II. Improvement of the legislation on prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction.**

The implementation of the task is expected to realize by:

- drafting regulations for the implementation of the FATF Recommendations, the Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and the Regulation (EU) 2015/847 of the European Parliament and of the Council on information accompanying transfers of funds;
- drafting act of the Cabinet of Ministers of Ukraine aimed at removing/minimizing risks identified in course of AML/CFT national risks assessment;
- agreement of draft regulations of other state authorities needed for the implementation of the Law of Ukraine “On prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction” and the implementation of the fourth Directive of the European Parliament on the prevention of money laundering and combating terrorism and the implementation of the Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

### **III. Enhancement of interagency interaction between the state authorities – participants of the national AML/CFT system.**

The implementation of the task is expected to realize by:

- implementation of the Strategy for development the system of prevention and counteraction to the legalization (laundering) of the proceeds from crime or financing of terrorism and the financing of proliferation of weapons of mass destruction until 2020;
- holding on a regular basis meetings of the Council for prevention and counteraction to the legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapon of mass destruction as a temporarily acting consultative and advisory agency, established by the Cabinet of Ministers of Ukraine;
- coordination of the state authorities in the course of fulfilment of the AML/CFT Action Plan for 2017.
- coordination of the state authorities in the course of fulfilment of the Action Plan for 2017-2019 aimed at prevention to rising and/or decreasing negative consequences of the AML/CFT system risks.



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#### **IV. Participation in the AML/CFT international cooperation.**

The implementation of the task is expected to realize by:

- providing the participants of the national AML/CFT system with consulting on AML/CFT measures and new FATF Standards;
- ensuring effective cooperation with the international organizations and institutions acting in the AML/CFT area;
- organization of international training events and information exchange in the AML/CFT area;
- concluding of AML/CFT international interagency agreements with foreign counterparts.

#### **V. Maintenance of the unified information system in the AML/CFT area.**

The implementation of the task is expected to realize by:

- provision within the appropriation for the purpose of capacity support hardware-software system of the unified information system in the AML/CFT area.

#### **VI. Organization of the activities on re-training and professional development of the specialists of the state authorities on financial monitoring and compliance officers of the reporting entities, as well as specialists engaged in financial monitoring in the AML/CFT area on the base of the Training Center of the SFMS of Ukraine.**

The implementation of the task is expected to realize by:

- reorganization of the Training Center of the SFMS of Ukraine to the Academy;
- providing with retraining and professional development the employees and heads of subdivisions of the reporting entities responsible for financial monitoring, as well as specialists of the state authorities in the AML/CFT area by means of modern methods and technologies.

#### **VII. Analysis of the information on financial transactions subject to financial monitoring, or the information that may be related to the suspicion in the legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapon of mass destruction.**

The implementation of the task is expected to realize by:

- research methods and schemes of the legalization (laundering) of the proceeds from crime, financing terrorism and financing proliferation of weapon of mass destruction, as well as raising reporting entities' awareness of them.



# APPENDICES

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## **The list of regulations in the area of prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction adopted in 2016**

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### **Acts of the Cabinet of Ministers of Ukraine**

1. The Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine of 11.02.2016 No. 103 "On approval of the AML/CFT Action plan for 2016".
2. The Resolution of the Cabinet of Ministers of Ukraine of 08.08.2016 No. 509 "On approval of the Procedure for recognition by Ukraine of international sanctions under the international treaties of Ukraine or decisions of interstate associations, international, inter-government organizations where Ukraine is a part, as well as foreign states on freezing assets of designated persons or limitation of any access to them".
3. The Resolution of the Cabinet of Ministers of Ukraine of 23.08.2016 No. 608-r "On approval of the Strategy for reforming the AML/CFT reporting system".
4. The Resolution of the Cabinet of Ministers of Ukraine of 08.09.2016 No. 613 "On establishment of the Council on prevention and counteraction to the legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapon of mass destruction".

### **Orders of the Ministry of Finance of Ukraine by which the SFMS is guided**

1. Order of the Ministry of Finance of Ukraine of 26.01.2016 No. 18 "On approval of Criteria under which the level of risk of the reporting entity to be used for the legalization (laundering) of the proceeds from crime, financing of terrorism and financing proliferation of weapon of mass destruction is assessed", registered with the Ministry of Justice of Ukraine on 31.03.2016 under No. 482/28612.
2. Order of the Ministry of Finance of Ukraine of 29.01.2016 No. 24 "On approval of forms of registration and submission information related to financial monitoring, as well as instruction on their completion", registered with the Ministry of Justice of Ukraine on 16.02.2016 under No. 241/28371.
3. Order of the Ministry of Finance of Ukraine of 22.04.2016 No. 455 "On approval of amendments to the Instruction for consideration proposals (remarks), applications (petitions) and complaints of the citizens in the State Financial Monitoring Service of Ukraine", registered with the Ministry of Justice of Ukraine on 13.05.2016 under No. 718/28848.
4. Order of the Ministry of Finance of Ukraine of 05.05.2016 No. 475 "On approval of the Procedure for notifying the reporting entities on the list of persons related to conduction of terrorist activity or regarding whom international sanctions are applied, as well as the Instruction for introduction of information to this list", registered with the Ministry of Justice of Ukraine on 26.05.2016 under No. 772/28902.
5. Order of the Ministry of Finance of Ukraine of 08.07.2016 No. 584 "On approval of the Risk Criteria of the legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapon of mass destruction", registered with the Ministry of Justice of Ukraine on 27.07.2016 under No. 1047/29177.

### **Joint acts of the Ministry of Finance of Ukraine**

1. Order of the Ministry of Finance of Ukraine and the Ministry of Justice of Ukraine of 29.08.2016 No. 793/2581/5 "On approval of the Procedure for providing information on death of natural persons", registered with the Ministry of Justice of Ukraine on 08.09.2016 under No. 1232/29362.
2. Order of the Ministry of Finance of Ukraine and the National Anti-corruption Bureau of Ukraine on 07.12.2016 No. 1062/353 "On approval of the Procedure for interaction between the State Financial Monitoring Service of Ukraine and the National Anti-corruption Bureau of Ukraine", registered with the Ministry of Justice of Ukraine on 28.12.2016 under No. 1729/29859.

## **Acts of the state financial monitoring entities carrying out state regulation and supervision in the area of prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction**

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### **Orders of the Ministry of Finance of Ukraine**

1. Order of the Ministry of Finance of Ukraine on 26.01.2016 No. 17 “On approval Criteria under which the Ministry of Finance assesses the level of risk of the reporting entity to be used for the legalization (laundering) of the proceeds from crime, financing of terrorism and financing proliferation of weapon of mass destruction”, registered with the Ministry of Justice of Ukraine on 31.03.2016 under No. 481/28611.
2. Order of the Ministry of Finance of Ukraine on 28.01.2016 No. 20 “On recognition of the orders of the Ministry of Finance of Ukraine as such that lost their force as of March 21, 2011 No. 384, as of August 19, 2014 No. 819”, registered with the Ministry of Justice of Ukraine on 11.02.2016 under No. 218/28348.

### **Resolutions of the Board of the National Bank of Ukraine**

1. Resolution of the Board of the National Bank of Ukraine of 24.03.2016 No. 191 “On approval of the Methodology of assessment risks of a bank, a branch of foreign bank for the legalization (laundering) of the proceeds from crime, financing of terrorism and financing proliferation of weapon of mass destruction, and related to politically exposed persons”.
2. Resolution of the Board of the National Bank of Ukraine of 24.03.2016 No. 193 “On approval of Methodical recommendations for conducting audits of banks, their separated subdivisions and branches of foreign banks for the purpose of assessment sufficient measures taken concerning identification, verification and studying customers”.
3. Resolution of the Board of the National Bank of Ukraine of 24.03.2016 No. 194 “On approval of Methodical recommendations for conducting audits of banks, their separated subdivisions and branches of foreign banks for the purpose of assessment sufficient measures taken concerning the risks related to politically exposed persons”.
4. Resolution of the Board of the National Bank of Ukraine of 30.03.2016 No. 204 “On amendments to specific regulations of the National Bank of Ukraine on financial monitoring”.
5. Resolution of the Board of the National Bank of Ukraine of 30.03.2016 No. 205 “On approval of amendments to the Methodology of assessment risks of a bank, a branch of foreign bank for the legalization (laundering) of the proceeds from crime, financing of terrorism and financing proliferation of weapon of mass destruction, and related to politically exposed persons”.
6. Resolution of the Board of the National Bank of Ukraine of 02.08.2016 No. 369 “On approval of the Regulation on the procedure for conducting by banks an analysis and verification of documents (information) on financial transactions and their participants”.
7. Resolution of the Board of the National Bank of Ukraine of 18.08.2016 No. 373 “On approval of the Regulation of the National Bank of Ukraine on composing files of information exchange”.
8. Resolution of the Board of the National Bank of Ukraine of 15.09.2016 No. 388 “On approval of the Regulation on conducting by non-bank financial institutions financial monitoring in terms of providing by them financial service on money transfer”.
9. Resolution of the Board of the National Bank of Ukraine of 01.11.2016 No. 399 “On amendments to the Resolution of the Board of the National Bank of Ukraine of 01.10.2015 No. 654 “On ensuring realization and monitoring of an effectiveness of personal special economic and other restrictive measures (sanctions)”.

### **Decisions of the National Securities and Stock Market Commission**

1. Decision of the National Securities and Stock Market Commission of 17.03.2016 No. 309 “On approval of the Regulation on conducting financial monitoring by professional participants of securities market” registered with the Ministry of Justice of Ukraine on 13.04.2016 under No. 551/28681.
2. Decision of the National Securities and Stock Market Commission dated 31.05.2016 No. 617 “On determining Criteria under which the risk of the reporting entity – professional participant of stock market (securities market) to be used for laundering of the proceeds from crime, financing of terrorism and financing proliferation of weapon of mass destruction is assessed” registered with the Ministry of Justice of Ukraine on 16.06.2016 under No. 871/29001.

## Regulations of the National Commission for the State Regulation for Financial Services Markets of Ukraine

1. Regulation of the National Commission for the State Regulation for Financial Services Markets of Ukraine of 02.06.2016 No. 1154 “On approval of the Regulation on the procedure for application preventive measures to countries that do not comply or improperly comply with recommendations of international, inter-government organizations involved in the AML/CFT area, and recognizing as such that lost their force the Regulation of the State Commission for Financial Services Markets Regulation dated 11.11.2010 No. 857 and the Regulation of the National Commission for the State Regulation for Financial Services Markets of Ukraine on 25.04.2013 No. 1394” registered with the Ministry of Justice of Ukraine on 24.06.2016 under No. 819/29021.





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