

# ANNUAL REPORT

OF THE STATE FINANCIAL MONITORING  
SERVICE OF UKRAINE

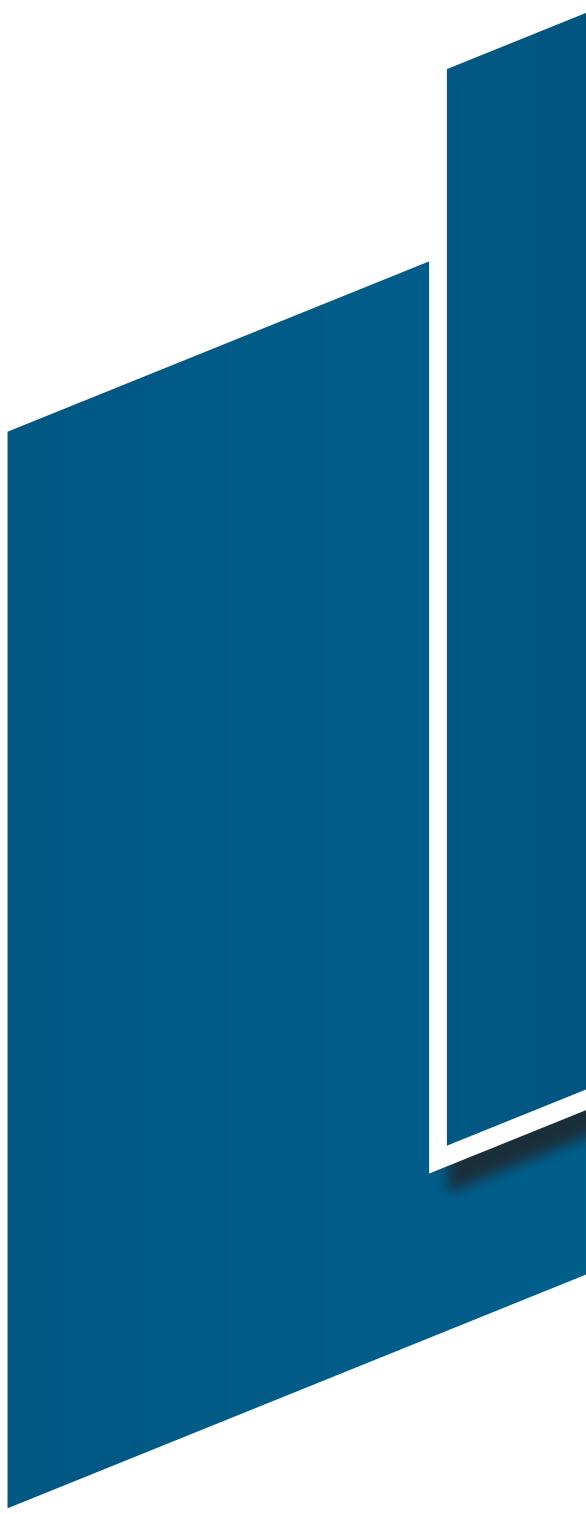
for 2018

#1.5 billion USD were identified and  
confiscated to the State revenue

#best Egmont Group case

#multi-stage analytical investigation





# Annual Report

OF THE STATE FINANCIAL MONITORING  
SERVICE OF UKRAINE

for 2018



# Contents

Address of the Head of the State Financial Monitoring Service of Ukraine Igor CHERKASKYI . . . . 5

<b>1. ABOUT THE SFMS . . . . .</b>	<b>8</b>
<b>1.1. Main results of the SFMS work in 2018. . . . .</b>	<b>8</b>
International cooperation . . . . .	8
National coordination . . . . .	8
Financial investigations . . . . .	8
Legislative initiative . . . . .	8
Training activity . . . . .	9
Methodical activity . . . . .	9
Risk assessment . . . . .	9
Typological studies . . . . .	9
The SFMS structure . . . . .	10
<b>1.2. Human resources . . . . .</b>	<b>11</b>
<b>1.3. Financing of the SFMS . . . . .</b>	<b>12</b>
The structure of the SFMS budgetary allocations in 2018	12
<b>2. UKRAINE – A WINNER OF THE BEST EGMONT CASE AWARD (BECA) . . . . .</b>	<b>13</b>
<b>3. DEVELOPMENT OF THE AML/CFT LEGISLATION . . . . .</b>	<b>15</b>
<b>4. STATISTICS ON THE REPORTS RECEIVED . . . . .</b>	<b>17</b>
<b>4.1. General dynamics of the reports received . . . . .</b>	<b>17</b>
<b>4.2. Dynamics of the reports received from the reporting entities . . . . .</b>	<b>18</b>
<b>5. ANALYTICAL ACTIVITY . . . . .</b>	<b>22</b>
<b>5.1. The process of information analysis . . . . .</b>	<b>22</b>
<b>5.2. Suspension of financial transactions . . . . .</b>	<b>24</b>
<b>5.3. Financial investigations . . . . .</b>	<b>24</b>
5.3.1. Countering terrorist and separatism financing . . . . .	.25
5.3.2. Laundering of proceeds from corruption . . . . .	.26
5.3.3. Investigation of operation related to budget funds and other state assets . . . . .	.30

5.3.4. Investigation of transactions related to the activity of “conversion” centers and enterprises with fictitiousness signs and cash withdrawal . . . . .	.33
Examples of using straw men for registration/re-registration, acquisition of corporate rights of enterprises in minimization schemes on tax liabilities and converting cashless funds into cash . . . . .	.34
5.3.5. Investigation of the transactions involving the fraudulent misappropriation of individuals’ and legal entities’ funds by misleading . . . . .	.36
Examples of the legal entities fake activities with nominee leaders - straw men . . . . .	.37
<b>6. CASE REFERRALS . . . . .</b>	<b>.39</b>
<b>7. ENSURING FUNCTIONING AND DEVELOPMENT OF THE UNIFIED INFORMATION SYSTEM ON PREVENTION AND COUNTERACTION TO LEGALIZATION (LAUNDERING) OF PROCEEDS FROM CRIME, TERRORIST FINANCING AND FINANCING OF THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION . . . . .</b>	<b>.42</b>
<b>8. INTERAGENCY COOPERATION . . . . .</b>	<b>.46</b>
<b>8.1. Relations with regulators and other government bodies . . . . .</b>	<b>.46</b>
Implementation of the Action plan for 2017-2019 . . . . .	.46
Activity of the AML/CFT Council . . . . .	.49
Ensuring coordination on the implementation of the Action plan for improving the national financial monitoring system based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine . . . . .	.50
Concluding of joint interagency documents with the state authorities and public organizations . . . . .	.51
The direct information exchange with the state financial monitoring entities . . . . .	.52
Interaction with the public . . . . .	.52
<b>8.2. Interaction with the reporting entities . . . . .</b>	<b>.54</b>
<b>8.3. Methodical support, training of the financial monitoring entities staff . . . . .</b>	<b>.55</b>
<b>8.4. National Risk Assessment . . . . .</b>	<b>.56</b>
<b>9. ACTIVITIES OF THE ACADEMY OF FINANCIAL MONITORING . . . . .</b>	<b>.58</b>
<b>10. INTERNATIONAL COOPERATION . . . . .</b>	<b>.63</b>
<b>10.1. Cooperation with international organizations . . . . .</b>	<b>.63</b>
10.1.1. Cooperation with Financial Action Task Force (FATF) . . . . .	.64
10.1.2. Cooperation with Egmont Group of financial intelligence units . . . . .	.65
10.1.3. Cooperation with Council of Europe (Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measure and the Financing of Terrorism (MONEYVAL)/ European Commission . . . . .	.66
10.1.4. Other international events . . . . .	.68



10.1.4.1. Cooperation with NATO . . . . .	68
10.1.4.2. Cooperation with the European Union . . . . .	68
10.1.4.3. Co-operation with the United Nations (UN)/United Nations Office on Drugs and Crime (UNODC) . . . . .	69
10.1.4.4. Cooperation with the Organization for Democracy and Economic Development (GUAM) . . . . .	69
10.1.4.5. Cooperation with the Organization for Security and Cooperation in Europe (OSCE) . . . . .	69
10.1.4.6. Cooperation within the framework of the project "EU Anticorruption Initiative in Ukraine" (EUACI) .	70
10.1.4.7. Cooperation with the FIU of the Republic of Poland within the framework of the project of international technical assistance of the Republic of Poland . . . . .	71
10.1.4.8. Cooperation with the Organization for Economic Co-operation and Development (OECD) . . . .	71
10.1.4.9. International events of a general nature . . . . .	72
<b>10.2. Exchange of information with foreign financial intelligence units . . . . .</b>	<b>73</b>
<b>11. STRATEGIC DIRECTIONS OF THE SFMS WORK IN 2019 . . . . .</b>	<b>74</b>
<b>ANNEXES . . . . .</b>	<b>77</b>
<b>Annex A</b>	
List of regulations adopted in 2018, developed by the SFMS . . . . .	77
<b>Annex B</b>	
List of abbreviations . . . . .	78



# **Address of the Head of the State Financial Monitoring Service of Ukraine Igor CHERKASKYI**

## **Dear colleagues!**

Let me present to your attention the Annual report of the State Financial Monitoring Service of Ukraine for 2018, which highlights the main results of work in the AML/CFT area.

In the beginning, I would like to note that the last year became significant both for the SFMS and for the entire national financial monitoring system, which celebrated its 15th anniversary in June, from the date of start of its activity.

At the 25th Egmont Group Plenary meeting (September, 2018) which was held in Sydney (Australia), the SFMS became a winner of the «Best Egmont Case Award», with the presentation of analytical investigation which led to confiscation of 1.5 bln USD to the State revenue.

Another important aspect of the SFMS activities in 2018 were coordinating actions to improve the national financial monitoring system based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine.

Within the framework of legislative initiatives, in December of the last year the Parliament registered the Government Draft Law "On prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and financing proliferation of weapons of mass destruction". The SFMS took an important part in its drafting.

The Draft Law was developed to implement the provisions of the 4th Directive (EU) 2015/849 "On the prevention of the use of financial system for the purposes of money laundering and terrorist financing" and the provisions of Regulation (EU) 2015/847 "On information accompanying transfers of funds".

In the context of preparing for the second round of the National Risk Assessment in 2019, the SFMS has prepared and presented an updated Methodology of National Risk Assessment on money laundering and financing of terrorism in Ukraine.

Based on the abovementioned Methodology, the SFMS conducted a sectoral risk assessment of using the real estate market for legalization (laundering) of proceeds from crime and terrorist financing.

Using own practice and practice of other participants of the national financial monitoring system, as well as international experience, the SFMS has also published a typological study "Risks of using opaque ownership structure in money laundering".

In addition, the SFMS continued to take measures at the national and international levels to improve cooperation in the financial monitoring area.

In particular, cooperation agreements with the State Investigation Bureau and the Notary Chamber of Ukraine were signed.

Also, the State Financial Monitoring Service of Ukraine, with the purpose of improving the activities in the area of counteraction to legalization (laundering) of proceeds from crime, terrorist financing, financing of proliferation of weapons of mass destruction and corruption, and with the assistance of the OSCE Project Coordinator in Ukraine, has prepared the appropriate Glossary.

Within the framework of international cooperation, the SFMS has signed 3 Memoranda with financial intelligence units of Uzbekistan, Trinidad and Tobago and a new Memorandum of Understanding with the FIU of the United Kingdom.

Summing up the last year, I would like to express my gratitude to the SFMS team and to those who are actively involved with our team in improving and strategic development of the national financial monitoring system.

In this regard, it is symbolic that in 2018, the SFMS staff was honored by the Gratitude of the Prime Minister of Ukraine.

The effective functioning of the national anti-money laundering and terrorist financing system is our priority.

Sincerely,



Igor CHERKASKYI





# 1. ABOUT THE SFMS

## 1.1. Main results of the SFMS work in 2018

### International cooperation

At the 25th Egmont Group Plenary meeting, held in Sydney (Australia), the SFMS investigation became a winner of the “Best Egmont Case Award” (BECA)



### National coordination

The Government of Ukraine supported the Action Plan for the improvement of the national financial monitoring system developed by the SFMS, based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine



### Financial investigations

The SFMS has prepared and submitted 934 case referrals on the amount of UAH 347,4 bln. to law enforcement authorities



### Legislative initiative

The Government Draft Law (No. 9417) upon the execution of the 4th EU Directive prepared with the SFMS participation was registered in the Verkhovna Rada of Ukraine





#### **Training activity**

The Academy of Financial Monitoring provided anti-legalization training to 1749 representatives of the private and public sectors. In total, the SFMS has taken part in 94 educational events

#### **Methodical activity**

The Glossary on prevention and counteraction to legalization (laundering) of criminal proceeds, terrorist financing, financing of proliferation of weapons of mass destruction and corruption have been published. Over 280 written recommendations and about 5000 telephone consultations have been provided to the reporting entities

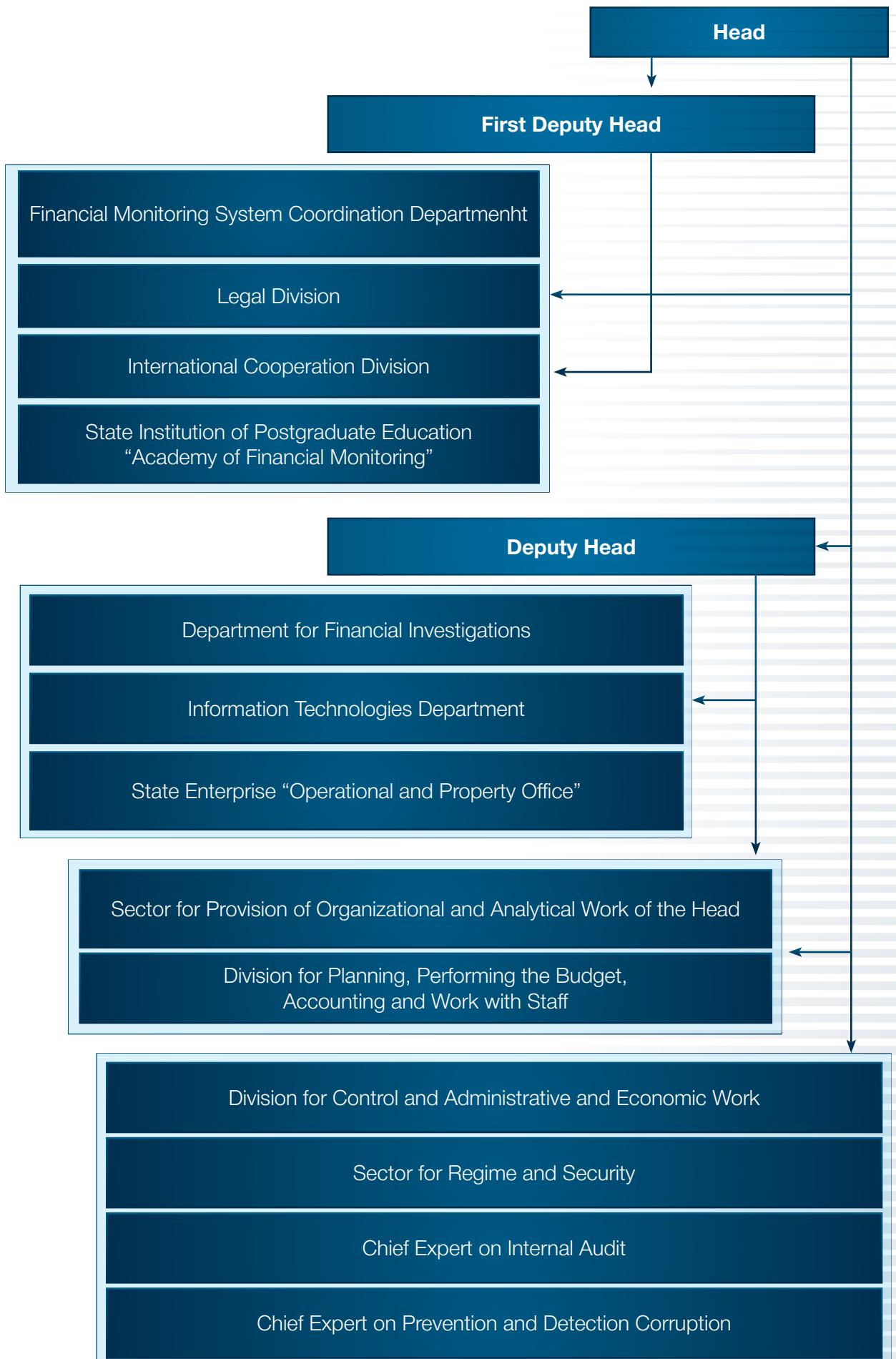
#### **Risk assessment**

The Methodology of the National Risk Assessment has been updated and sectoral risk assessment of the real estate market use in the ML/FT has been conducted.

#### **Typological studies**

A typological study “Risks of using opaque ownership structure in money laundering” has been prepared

## The SFMS structure



Pic. 1.1. Структура Держфінмоніторингу

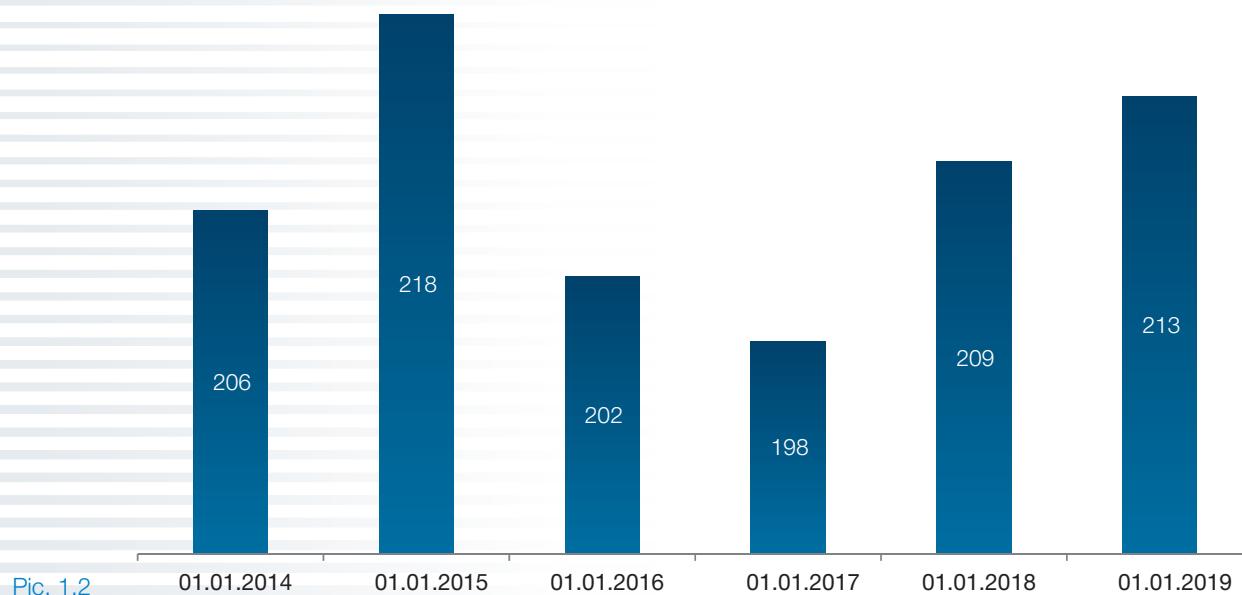
## 1.2. Human resources

The human resources policy of the SFMS is implemented according to the requirements of the Constitution of Ukraine, legislation on public service, ensuring principles of prevention and counteraction to corruption, other legal regulations under which the state provides conditions for citizens to realize the right to work, for staff training and professional development according to social needs.

The below mentioned Pic. 1.1. provides the SFMS structure

The authorized personnel complement of the SFMS is 237 persons. As of January 1, 2019, 213 employees actually work in the SFMS. Dynamics of the actual number of the SFMS employees in 2014-2019 is provided on Pic. 1.2:

Dynamics of the actual number of the SFMS employees in 2014-2019



Gender distribution of the SFMS employees is the following: 84 men (39,4%) and 129 women (60,6%). Among the senior management, there are 33 men and 40 women.

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

The SFMS staff consists of highly qualified specialists with complete higher education. 10 SFMS employees have a scientific degree and 5 of them have an academic degree. 13 SFMS employees have a Master's degree in Public Administration.

In 2018, the SFMS held 3 competitive selections for filling civil servants vacancies, where 57 persons participated. Following the results of the competitive selection, 30 persons were appointed.

### **1.3. Financing of the SFMS**

In 2018, the SFMS was financed from the state budget within the budgetary allocations pursuant to the Law of Ukraine On State Budget of Ukraine for 2018.

In 2018, according to obtained budgetary allocations, the SFMS expended UAH 66.4 million. The structure of funds expenditure is provided in Table 1.1 below.

<b>The structure of the SFMS budgetary allocations in 2018</b>	
<b>Expenditures</b>	<b>Sum in UAH thousand</b>
Salaries and charges	60 246,3
Utility services and energy carriers expenditures	1 546,3
Business trip expenditures	109,5
Other expenditures to ensure activity and maintenance of the State Information System and Information and Analytical System of the SFMS	4 530,3
<b>Total</b>	<b>66 432,4</b>

Table. 1.1



## 2. UKRAINE – A WINNER OF THE BEST EGMONT CASE AWARD (BECA)

Within the framework of international cooperation, from September 24 to 27, 2018, a regular 25th Egmont Group Plenary meeting took place in Sydney (Australia). More than 400 delegates from 155 FIUs of the world participated in the meeting (Pic. 2.1).

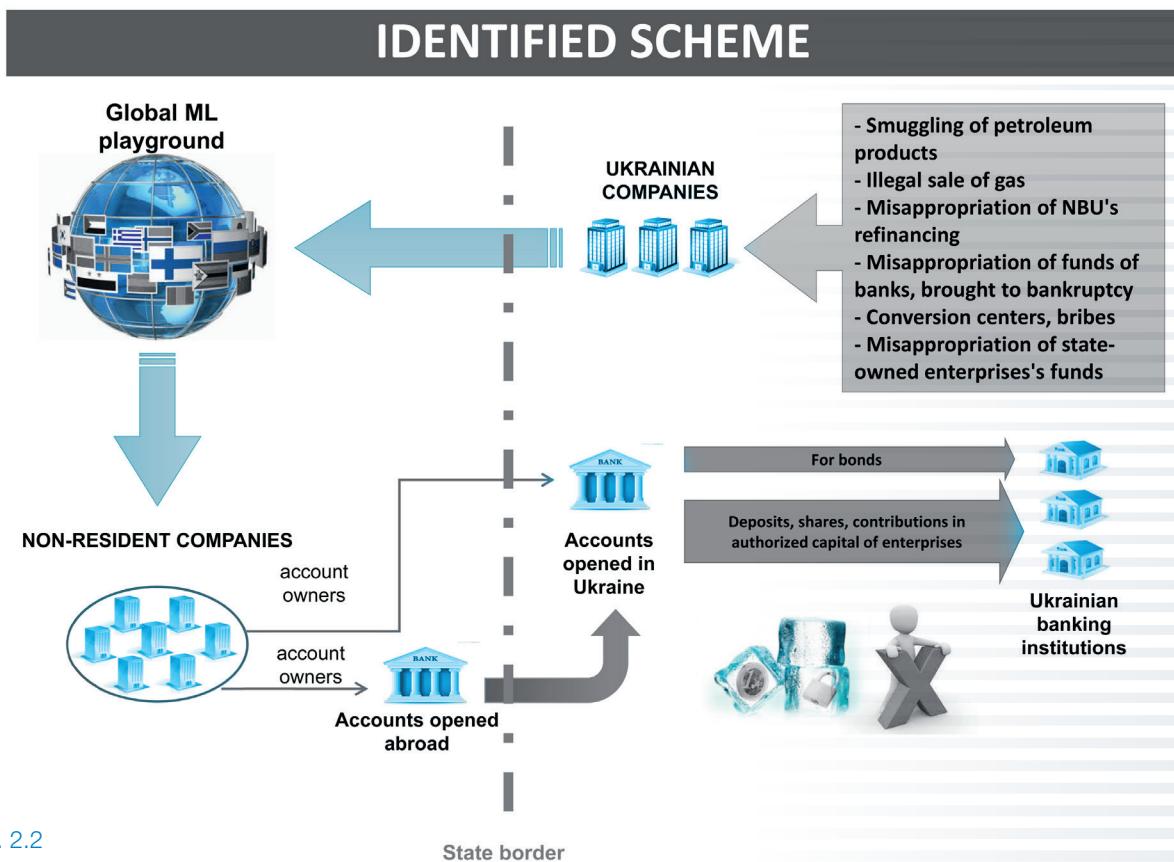


Pic. 2.1. Participants of the 25th Egmont Group Plenary Meeting

During the Plenary meeting, the results of the competition "Best Egmont Case Award (BECA)" were summed up, the finalist of which, according to the results of a careful selection, became Ukraine in a person of the State Financial Monitoring Service of Ukraine.

During the final vote of the Egmont Group members, the SFMS investigation was recognized as a winner of this prestigious competition.

The winning case concerned the multistage and unprecedented complexity of the corruption and money laundering investigation by former high-ranking officials of Ukraine, culminating with the confiscation of about USD 1.5 billion to the State revenue (Pic. 2.2).



The authoritative international decision was preceded by a complex and hard work of the entire SFMS team responsible for implementation of the state policy in the area of prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and financing of the proliferation of weapons of mass destruction and international cooperation in this area.

Due to the victory in the competition, the title of the State Financial Monitoring Service of Ukraine was carved on the Special Memorial Board at the Egmont group Office (Toronto, Canada), and the Ukrainian Financial Intelligence Unit case was included in the Best Egmont Case Award Book.

### **3. DEVELOPMENT OF THE AML/CFT LEGISLATION**

In 2018, the SFMS took measures for the development of proposals to improve the AML/CFT regulations.

Thus, the SFMS continued to actively participate in the elaboration of the Draft Law of Ukraine On amendments to certain legislative acts of Ukraine in the area of prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction taking into account the comments and proposals of the interested state authorities and the public.

This Draft Law was prepared with the aim of implementing the provisions of the 4th Directive (EU) 2015/849 "On the prevention of the use of financial system for the purposes of money laundering and terrorist financing", the improvement and clarification of certain legal norms on prevention and counteraction to legalization (laundering) of proceeds, as well as improvement of the Ukrainian AML/CFT system.

On December 12, 2018, the finalized Draft Law was approved on the Government meeting as a Draft Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Terrorist Financing and Financing Proliferation of Weapons

of Mass Destruction". On December 19, 2018, the Draft Law was registered in the Verkhovna Rada of Ukraine under No. 9417.

At the same time, the SFMS has been involved in drafting regulatory acts in the real estate market area. The SFMS representatives are part of the Working Group on development of the Draft Law of Ukraine "On Brokerage Activities in Real Estate", created in the State Property Fund of Ukraine. In 2018, 8 meetings of this Working Group, which processed 24 Articles of the Draft Law have been held.

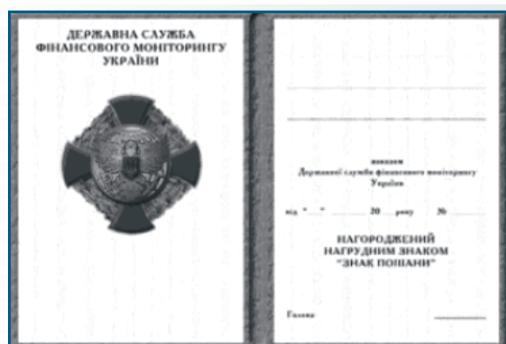
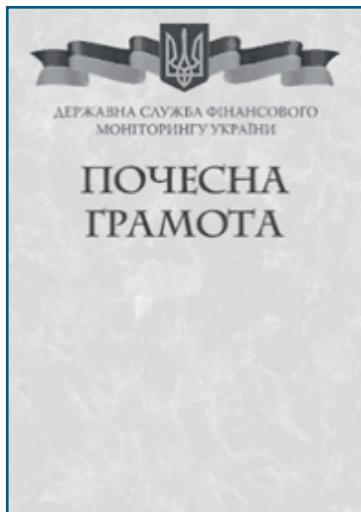
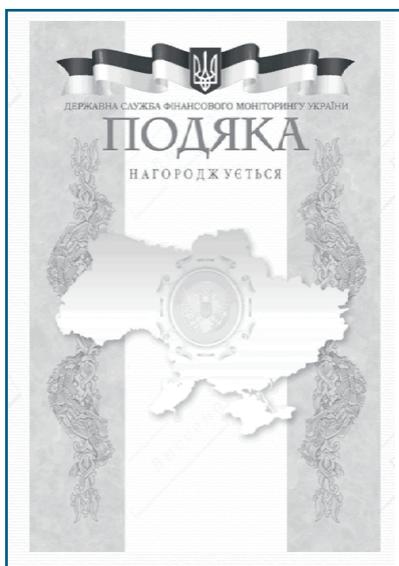
The mentioned Draft Law stipulates to determine the legal framework for implementing brokerage activities in the real estate area in Ukraine, its state and public regulation, ensuring the creation of a system for protecting consumer rights of brokerage services of the real estate area and establishing the appropriate level of professional activity of the real estate market participants.

At the same time, the SFMS, within its competence, in accordance with the established procedure, was approving AML/CFT regulations of state financial monitoring entities.

Thus, for 2018, the SFMS has participated in the approval of 56 draft regulations developed by other state authorities, 46 of which were approved without comments, and 10 with comments.

In addition, during the reporting period, 5 regulations were adopted, the developer of which was the SFMS (the list is provided in Annex A). In particular, the Order of the Ministry of Finance as of July 30, 2018, No. 655 issued departmental incentive awards of the SFMS, which are awarded with the purpose of celebrating personal achievements in the professional activity of the SFMS employees, enterprises, institutions, and organizations being part of its management sphere (Pic. 3.1).

Pic. 3.1. Departmental incentive awards of the SFMS



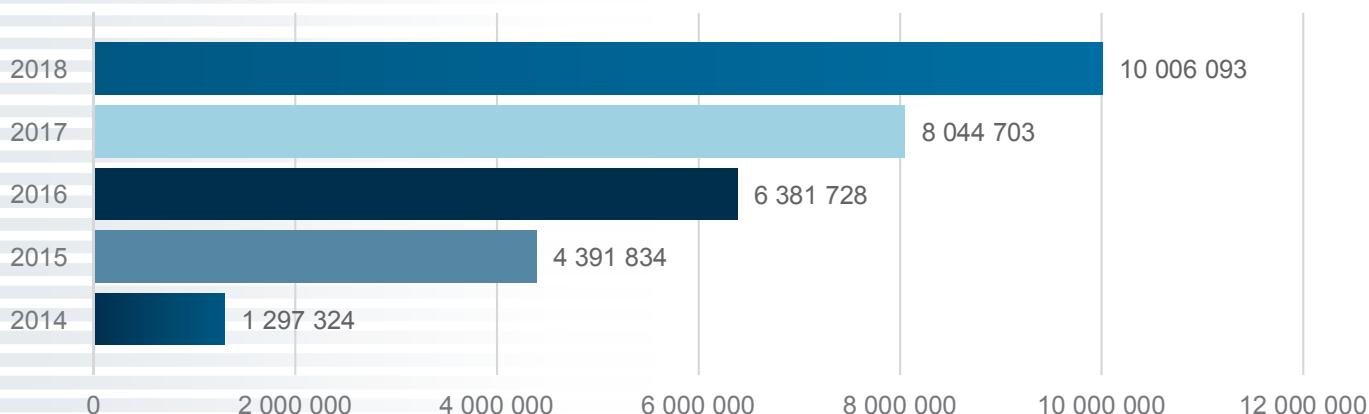
## 4. STATISTICS ON THE REPORTS RECEIVED

### 4.1. General dynamics of the reports received

In accordance with the Basic Law, the reporting entities submit to the SFMS information on financial transactions, which according to the law are subject to mandatory financial monitoring or which is suspected of being involved in money laundering or terrorist financing.

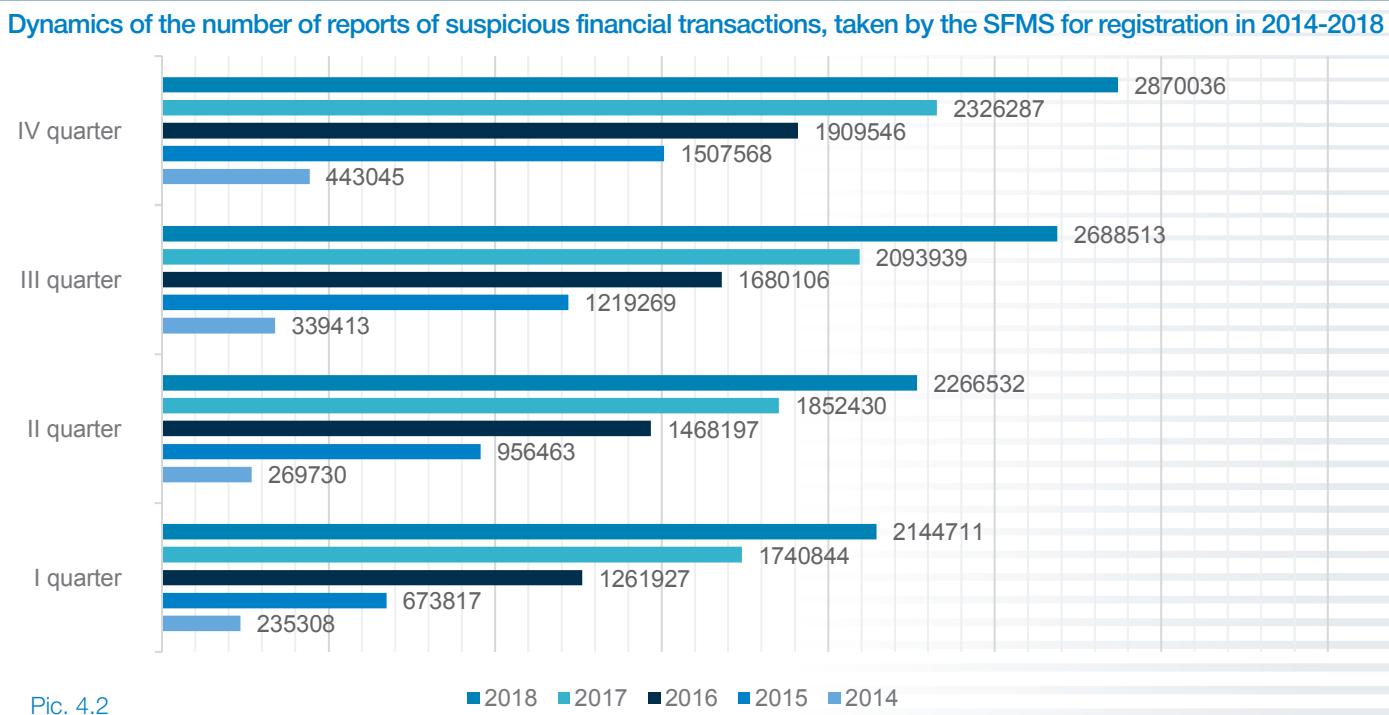
In total, since the beginning of information and analytical system operation of the SFMS, **37 378 492 STRs** subject to financial monitoring were received and processed among which **10 006 093 reports** were received during 2018 (Pic. 4.1.).

Dynamics of informing on suspicious financial transactions in 2014-2018



Pic. 4.1

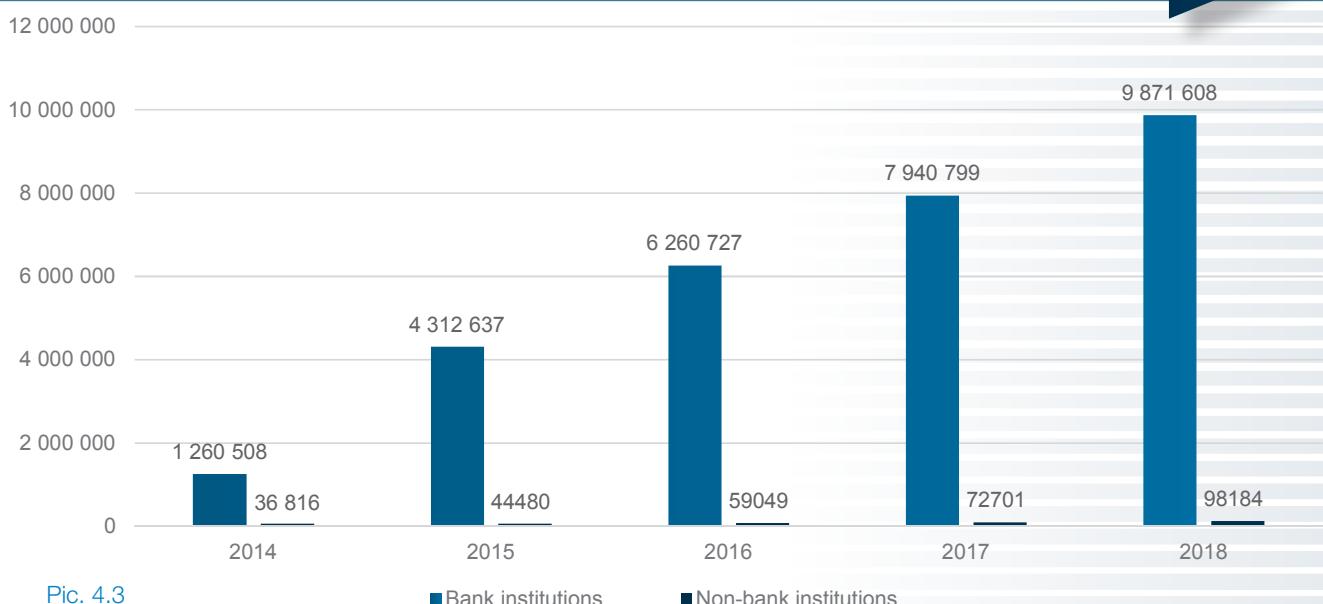
It should be noted that in 2018, the SFMS registered 9 969 792 STRs which is 24.4% more than in 2017 (Pic. 4.2).



## 4.2. Dynamics of the reports received from the reporting entities

The most active reporting entities in the reporting system are banks that submitted the majority of STRs that are subject to financial monitoring.

During 2018, the SFMS received from banks 99.09 % STRs of a total number of reports (Pic. 4.3.).



Also, it should be mentioned that the proportion of errors in the reports is 0.08 % of the total number of reports received by the SFMS during 2018.

Thus, the percentage of STRs correctly submitted by the reporting entities to the SFMS during 2018 constitutes 99.92 % of the total number of reports (Table 4.1).

#### **Number of STRs registered by the SFMS by the types of submitting as of 01.01.201**

Type of institution	Number of reports in electronic form	Number of reports in paper form
Bank institutions	9 871 608	–
Non-bank institutions	97 906	278

Table. 4.1

In 2018, a number of STRs received and registered by the SFMS from non-bank institutions in electronic form increased by 35.55 % in comparison to 2017 and amounts to 99.72 % of the total number of reports submitted to the SFMS by the mentioned type of reporting entity

Among the non-bank institutions, the professional stock market participants are the most active in reporting. The share of such reports in the total amount of the reports received by the SFMS from non-bank sector amounted to 46.65 % (Table 4.2, Pic. 4.4).

#### **The share of reports in the total amount of the reports received by the SFMS from non-bank sector in 2018**

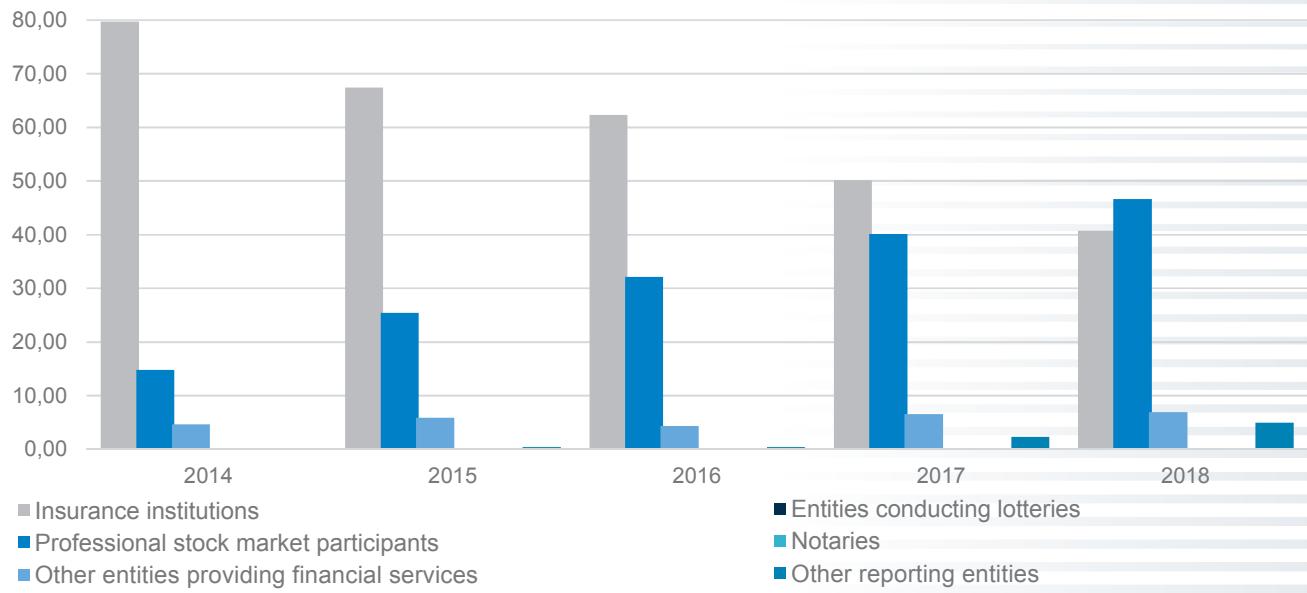
Type of institution	Number of reports	Share, %
Insurance institutions	40 021	40,76
Other economic entities providing financial services	6 810	6,94
Professional stock market participants	45 805	46,65
Economic entities conducting lotteries	600	0,61
Notaries	21	0,02
Other reporting entities	4 927	5,02

Table. 4.2

As it is shown on the Pic. 4.4, the share of financial transactions registered by the SFMS from professional stock market participants in the total number of non-bank reporting entities has a tendency to increase from 2015, with a simultaneous decrease in the share of financial transactions submitted by insurance institutions. This tendency is primarily due to an increase of the number of financial transactions with signs of obligatory financial monitoring, registered by the SFMS from professional stock market participants and a decrease of the number of insurance institutions in Ukraine.

The distribution of the reports registered in the reporting year under the signs of financial monitoring is as follows (Pic. 4.5):

- under the signs of obligatory monitoring – 96,932% (9 663 903);
- under the signs of internal monitoring – 2,547% (253 913);
- under the signs of obligatory and internal monitoring – 0,518% (51 638);
- financial transactions received on the request of tracking (monitoring) financial transactions – 0,003% (338).

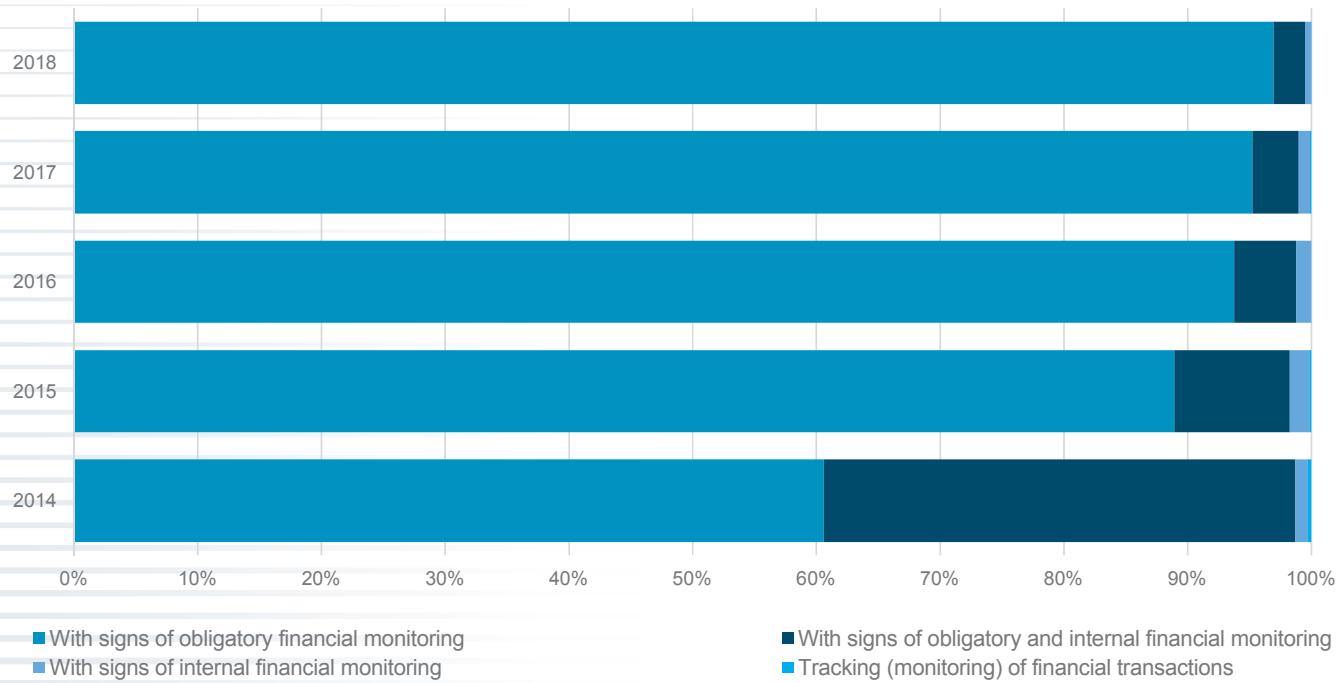


Pic. 4.4

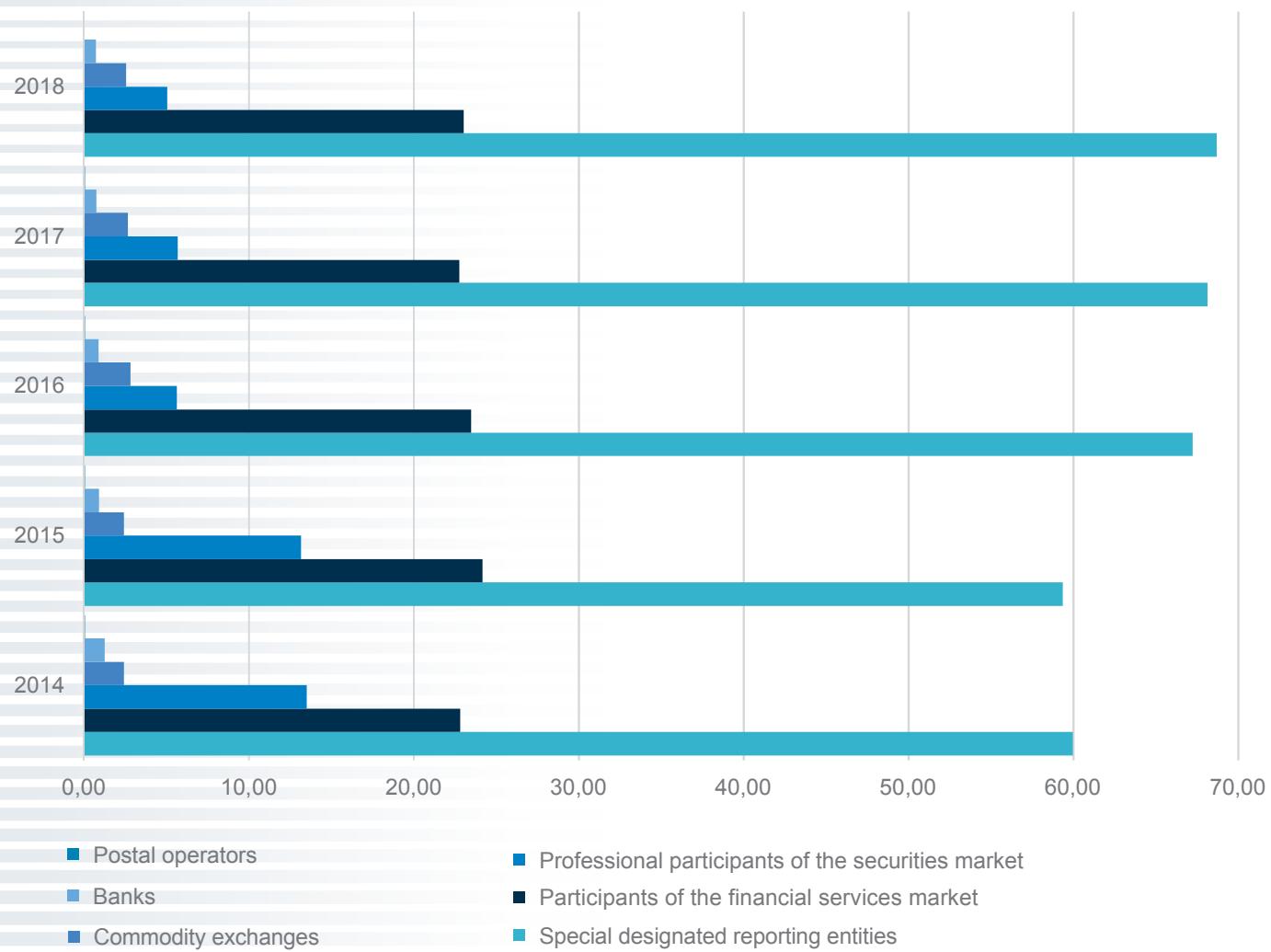
Starting from 2015, there is a rapid increase of the share of financial transactions with the signs of obligatory financial monitoring registered by the SFMS with simultaneous decrease of the share of financial transactions with signs of internal financial monitoring in the total number of reports submitted by the reporting entities.

In accordance with clause 1 of paragraph 2 of Article 6 of the Basic Law, the reporting entities are obliged to be registered in the SFMS.

As of 01.01.2019, there are 24 603 reporting entities (including 13 400 separated subdivisions) registered in the SFMS (Pic. 4.6).



Pic. 4.5



Pic. 4.6

# 5. ANALYTICAL ACTIVITY

## 5.1. The process of information analysis

The SFMS, in accordance with its powers, collects, processes and analyzes information on financial transactions subject to financial monitoring, other financial transactions or information that may be related to ML/FT suspicion.

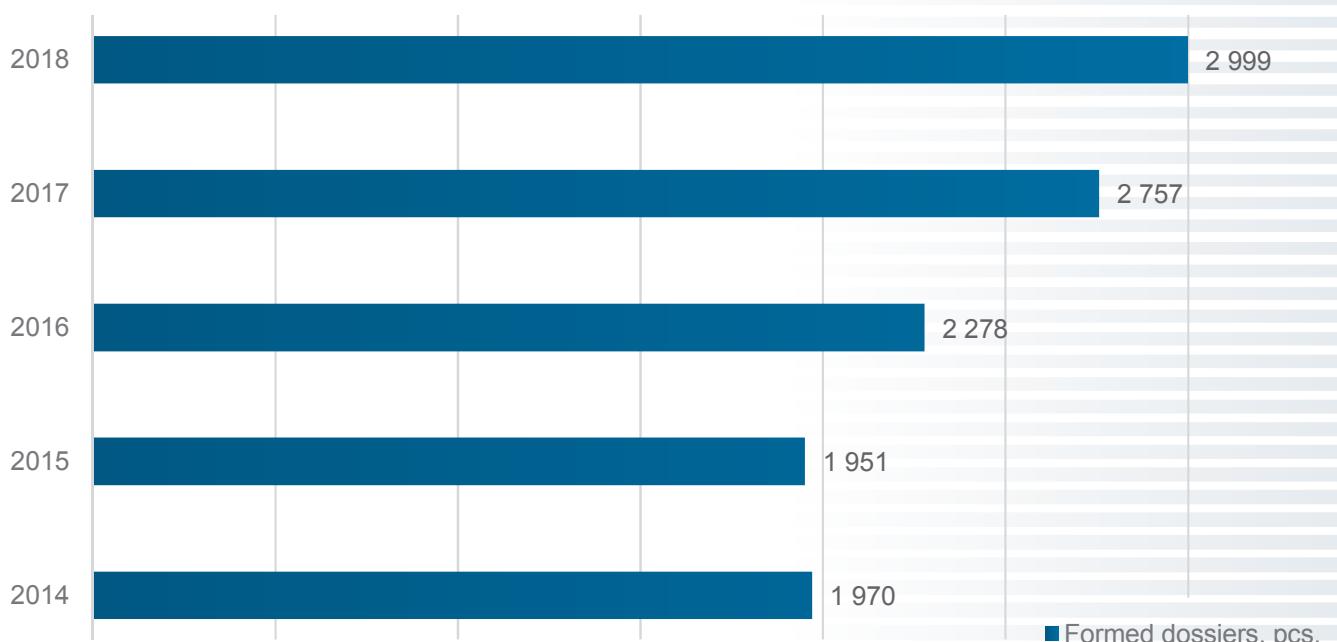
Information for analysis (operational and strategic) comes from:

- Reporting entities;
- Law enforcement authorities;
- State financial monitoring entities and other state authorities;
- Foreign FIUs.

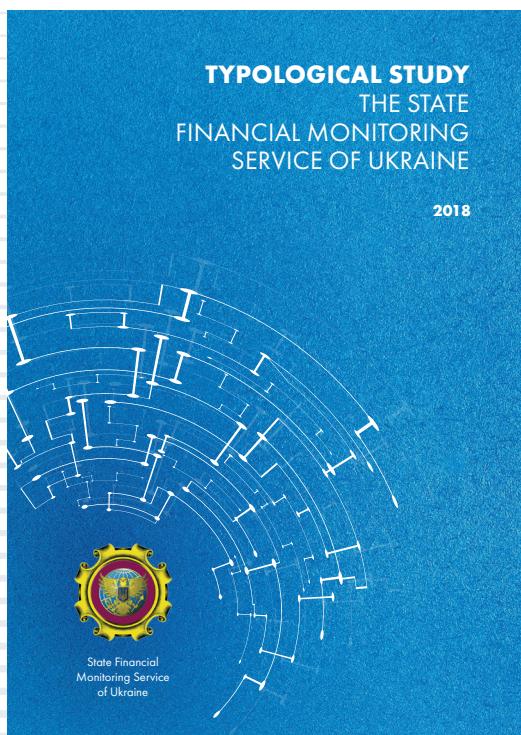
The SFMS performs a comprehensive analysis of the received information and identifies suspicious financial transactions performed with the assistance of financial and non-financial intermediaries in the public and commercial sector.

Initial processing and analysis of the information are carried out in the analytical segment of the Unified Financial Monitoring Information System.

All the reports received which get to the warehouse of the SFMS are divided by risk levels and are subject to a detailed analysis, taking into account all available information. Following the results of the analysis, dossiers are created for conducting financial investigations.



Pic. 5.1. Dynamics of dossier creation in 2014-2018



Pic. 5.2. Title page of the Typology

Thus, during 2018, 526 372 reports on financial transactions have been selected for an active work, which became the basis for creation of 2 999 dossiers (Pic. 5.1).

Each dossier is analyzed to identify reasons to believe a financial transaction may be related to ML/FT or 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 AML/CFT international experience.

In comparison with the previous 2017 year, a number of reports on financial transaction, which became the basis for creation of dossiers, increased by 32.3 % or by 128 470 reports.

As the result of the dossiers processing, in 2018, 934 cases (among them 466 case referrals and 468 additional case referrals) were submitted to the law enforcement authorities.

The analysis of the reports received is carried out taking into account the additional information received upon the SFMS requests.

Thus, in 2018, 15 070 files-requests on providing additional information were sent to 84 banks.

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

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

During 2018, the SFMS has sent 11 requests to the reporting entities for tracking (monitoring) of financial transactions.

In accordance with Article 18 of the Basic Law, the SFMS, in conjunction with the state financial monitoring entities, as well as state authorities, including law enforcement authorities, conducted typological research on «Risks of using entities with an opaque ownership structure in money laundering schemes» which seeks to study the issue of beneficial property concealment in money laundering schemes (Pic. 5.2.).

This typological study is prepared using own practices and practices of other participants of the national financial monitoring system as well as international experience.

This study highlights the results of the FIU of Ukraine work and other participants of the national financial monitoring system to reveal contemporary schemes and methods used by criminals to legalize (launder) the proceeds from crime and terrorist financing.

The study considers the most common trends and schemes of money laundering and terrorist financing in 2018. In particular, examples of money laundering and terrorist financing cases related to the risks of using entities with an opaque ownership structure in money laundering schemes are provided.

Typological studies prepared by the SFMS, with the participation of other state authorities and the private sector, will be useful for employees of reporting entities and state financial monitoring entities, law enforcement, intelligence, and judicial authorities, as well as scientists and practitioners in the financial monitoring area.

The results of the typological study are published on the SFMS official website in the section "Typologies/Recommendations for detection of money laundering schemes".

## **5.2. 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 № 1200, which is registered in the Ministry of Justice of Ukraine of 22.01.2016 under № 123/28253 (hereinafter – the 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 orders regarding the suspension of financial transactions:

- regarding further suspension of financial transaction in cases stipulated in part 2 and 5 of Article 17 of the Basic Law;
- regarding suspension of debit transactions on customers' (persons') accounts according to part 3 and 5 of Article 17 of the Basic Law;
- regarding abolition of its decision on suspension of debit transactions in accordance with part 5 of Article 17 of the Basic Law;
- regarding suspension/renewal by the reporting entities conducting financial transaction of a certain person or ensuring monitoring it upon the request of the authorized body of a foreign state – in accordance with part 3 of Article 23 of the Basic Law.

During 2018, the SFMS pursuant to Article 17 of the Basic Law has suspended financial transactions to 161 persons.

## **5.3. Financial investigations**

According to the results of the analysis and generalization of the identified (typical and newest) methods, ways, financial instruments and schemes of legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction, the following priority directions of financial investigations are defined:

- terrorism and separatism financing;
- laundering of proceeds from corruption;
- theft of state funds and state enterprises funds;
- cash use in schemes for legalization (laundering) of proceeds from crime.

It should be noted that other financial investigations areas also require attention from all participants of the national financial monitoring system and law enforcement authorities.

Particular attention within the AML sphere is paid to the detailed study by participants of the national financial monitoring system of real beneficial ownership.

Concealment of beneficial property is one of the key vulnerabilities of the AML/CFT in Ukraine. This is a significant challenge for all who are combating with similar crime manifestations.

According to the results of conducted by the SFMS in 2018 typological study "Risks of using entities with an opaque ownership structure in money laundering schemes", the consequence of an ineffective measures for the UBO establishment may be the development of corruption, terrorism, money laundering, and tax evasion.

At present, Ukraine is trying to solve the problem of implementing a mechanism on UBO data verification in order to minimize the ML/FT risks.

Often such entities are used for the purpose of:

- concealment of real UBO, including PEP;
- international sanctions avoidance (for example, sanctions of the UN Security Council) and national sanctions (for example, sanctions of the National Security and Defense Council of Ukraine) applied to the real business owners;
- tax and obligatory payments evasion;
- legal entities fraudulent with direct and indirect taxes;
- corruption schemes concealment in the course of public procurement, when the founders of legal entities – purchasing participants are state officials (that have an influence on such decision-making) or their close persons;
- use in non-residents ownership structure, that are nominee holders, for the withdrawal of capital abroad, in particular, as dividends payout;
- concealing the documentary evidence of UBO sources of funds, including who are PEPs;
- evasion of responsibility, including criminal, real owners of companies in the course of illegal activities;
- avoidance of reputational risks by real business owners in the course of illegal activity;
- concealing the control exercise by a national PEP over a public procurement participant, for the purpose of self-enrichment through the budget funds withdrawal;
- concealing sources of incomes, including received from corruption;
- concealment of persons involved in unlawful activities.

### **5.3.1. Countering terrorist and separatism financing**

In accordance with the legislation of Ukraine, the SFMS (as FIU) together with the law enforcement authorities, take measures aimed at preventing and countering the financing of terrorist activities, separatism.

Thus, in 2018, the SFMS submitted to the law enforcement authorities 100 materials (44 case referrals and 56 additional case referrals) related to financial transactions of persons who may be involved in the financing of terrorism, separatism and/or persons who publicly call for the violent change or overthrow of the constitutional order or the change of borders of the territory or state border of Ukraine, including:

- 43 cases ( 7 case referrals and 36 additional case referrals), that related to the conducting of financial transactions by individuals whose identification data coincides with the identification data of persons included in the list;

- 8 cases (6 case referrals and 2 additional case referrals) related to conducting financial transactions by persons included in the annexes to the National Security and Defense Council of Ukraine decisions as of April 28, 2017 (enacted by the Decree of the President of Ukraine as of May 15, 2017, No. 133/2017) and as of June 21, 2018 (enacted by the Decree President of Ukraine as of June 21, 2018, No. 176/2018);
- 15 cases (14 case referrals and 1 additional case referrals) related to suspicions in conducting financial transactions by persons involved in the international terrorist group activities "Islamic State of Iraq and the Levant" or other extremist groups;
- 33 cases (16 case referrals and 17 additional case referrals) that may be related to suspicions in the financing of illegal armed formations in the temporarily occupied territories of the Donetsk and Luhansk oblasts;
- 1 case referral on suspicions of sanction regime violation regarding the Democratic People's Republic of Korea.

In 2018, the SFMS has blocked in 51 cases funds related to financial transactions of individuals, that according to the law enforcement authorities information could be connected to terrorism and separatism financing totaling at UAH 100.9 million.

The main instruments used in submitted cases are the following:

- cash;
- payment systems;
- financing under the guise of financial assistance/loans/grants.

### **5.3.2. Laundering of proceeds from corruption**

The SFMS is paying particular attention to investigation of money laundering of proceeds from corruption.

In particular, for 2018, the SFMS submit 420 such cases to the law enforcement authorities (128 case referrals and 292 additional case referrals), in particular to:

- the NABU – 300 cases;
- the prosecutor general's offices of Ukraine – 110 cases;
- the SSU – 10 cases.

In the mentioned cases, the amount of financial transactions that may be related to legalization of proceeds and the commission of another crime, as determined by the Criminal Code of Ukraine, is UAH 277.8 billion.

The participants of suspicious financial transactions in these 420 cases were persons authorized to perform state and local government (and equivalent) functions, both past and present, according to the following categories:

- Ex-President – 26 cases;
- Ex-Prime Minister – 7 cases;
- Government members – 78 cases;
- Heads of central executive authorities – 6 cases;
- Parliament members – 28 cases;
- NBU ex-head and members of the NBU Board – 7 cases;
- Judges – 4 cases;

- members of High Council of Justice, High Qualification Commission of Judges and Qualification Commission of Public Prosecutors – 1 case;
- Prosecutors – 4 cases;
- Civil servants– 225 cases;
- Heads of state enterprises – 34 cases.

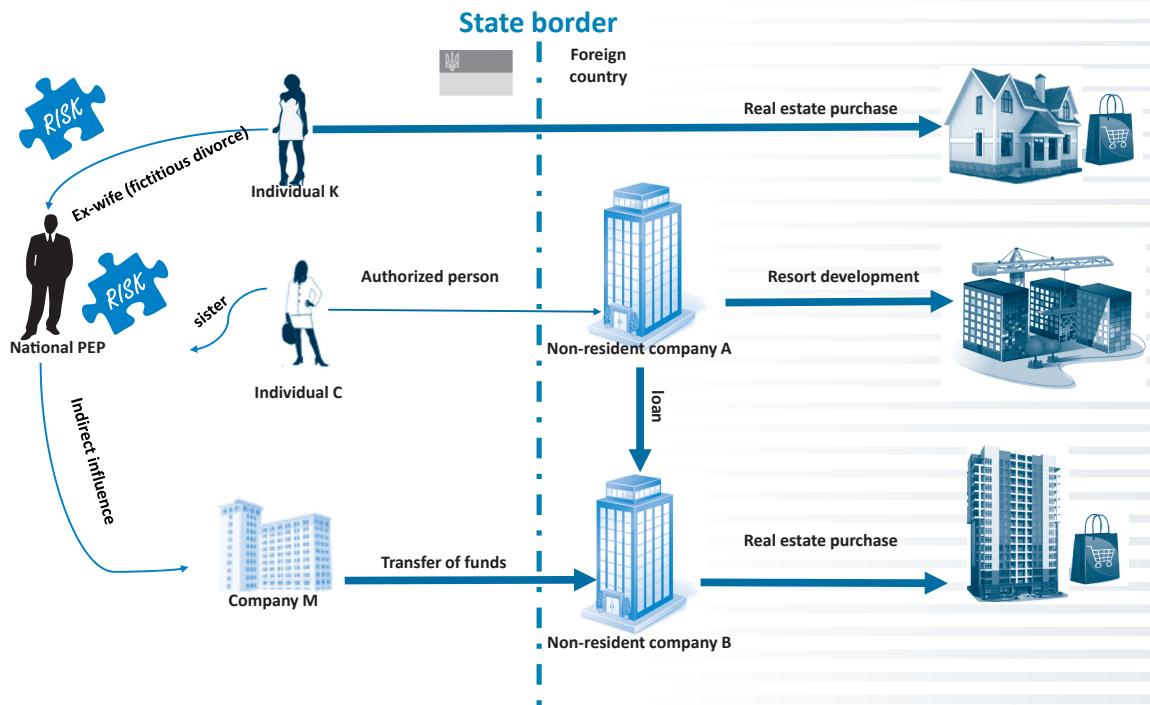
Tools that were used:

- financial assistance (loans);
- cash;
- deposits;
- securities.

## Examples of beneficial ownership concealment with the use of related persons

### Case study 1

The SFMS jointly with foreign FIUs detected financial transactions related to non-resident company investment with a non-transparent ownership structure (Pic 5.3).



Pic. 5.3

The investigation revealed that non-resident Company A made investments abroad as a resort development. Among the authorized persons of the non-resident Company A is an Individual C who is a sister of a national PEP.

In addition, the non-resident Company A granted a loan to non-resident Company B, which was further directed to the real estate acquisition abroad. It has also been established that Company M (on which a national PEP has a mediated influence) has previously carried out a transfer of funds to the benefit of the non-resident company B.

It has also been established that an Individual K (a former wife of a national PEP) purchased a high-value property outside Ukraine. The source of funds for the purchase of the aforementioned real estate was probably the funds of a national PEP.

Probably the divorce of a national PEP with his wife is "fictitious" in order to avoid the declaration of high-value assets.

Law enforcement authorities carry out investigation under Art. 364 of the Criminal Code of Ukraine.

## Case study 2

According to the results of the investigation, law enforcement authorities detected a legalization scheme of illegally received income by a civil servant who has access to the USR (Pic 5.4).

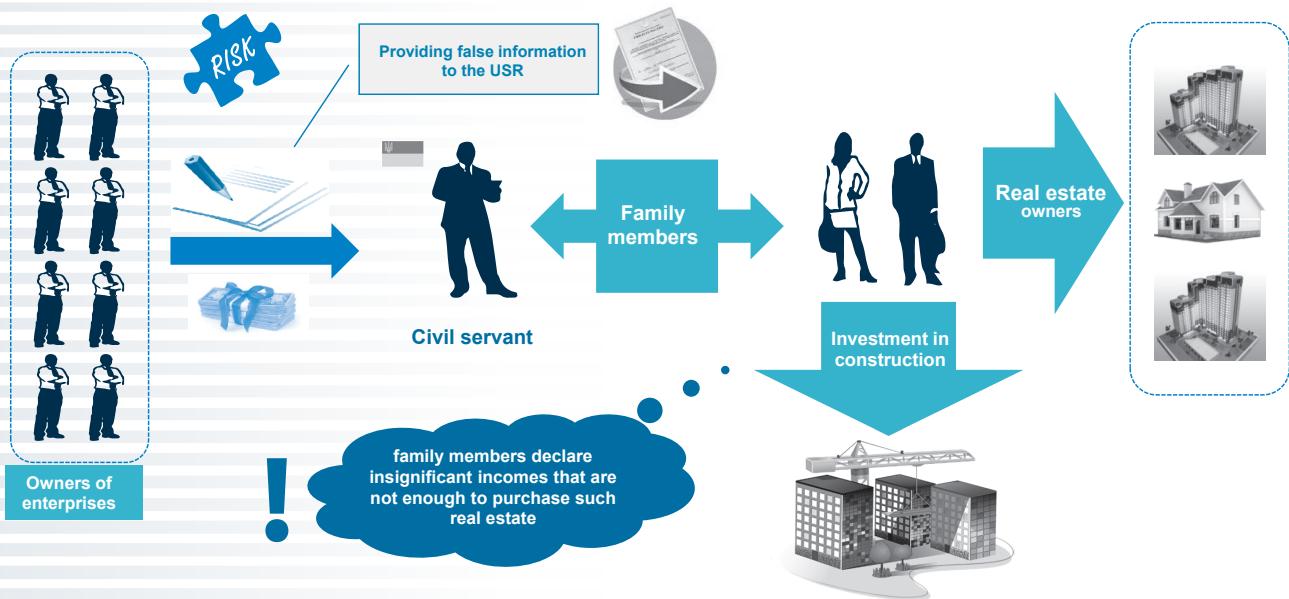
The law enforcement authorities have informed on the fact of receiving an unlawful benefit by an individual who is a civil servant for providing false information to the USR.

As a result of the financial transactions analysis and information analysis from the real estate rights register, the following was established.

Since the mentioned person has occupied the civil servant position, the family members of this person became the owners of several apartments in new buildings of Kyiv and Kyiv oblast, while having insignificant declared incomes. In addition, during 2017-2018 they additionally invested in the construction of apartments for about UAH 6 million.

The civil servant received an unlawful benefit for providing false information to the USR, which was legalized through the purchase of real estate and investment in construction by family members.

Law enforcement authorities are carried out investigation under Art. 368 of the Criminal Code of Ukraine.



Pic. 5.4

### **5.3.3. Investigation of operation related to budget funds and other state assets**

During 2018, the SFMS has submitted 42 cases (36 case referrals and 6 additional case referrals) to law enforcement authorities on budget assets misuse.

In the mentioned cases, the amount of financial transactions that may be related to legalization of proceeds and the commission of another crime, determined by the Criminal Code of Ukraine, is UAH 3.5 billion.

Submitted cases are related to budget funds embezzlement through:

- “transit” transfer of state funds through accounts of related companies both residents and non-residents with signs of fictitiousness;
- transfer of budget funds to the accounts of individuals-entrepreneurs with further cashing-out;
- transfer of state funds abroad for services that were not actually provided;
- transfer of state funds through the non-resident companies chain that are intermediaries;
- purchase of goods and services at overpriced, including the involvement of non-resident companies;
- illegal VAT refund.

Tools that were used:

- financial assistance agreements (loans);
- cash;
- deposits;
- payment cards;
- research services;
- highly liquid movable property;
- property sublease;
- overpricing.

### **Case study 3. Use of money laundering networks in state-owned enterprises embezzlement schemes**

Law enforcement authorities are investigating the organization of state funds appropriation schemes with the assistance of the leadership of the State Enterprise through the organization of purchase of goods, works and services in controlled enterprises with an opaque ownership structure (Pic. 5.5).

During the pre-trial investigation, it was established that after the appointment of a Individual A on a leading position of the State Enterprise, the same companies became the winners of the public procurement procedures.

The mentioned enterprises were not goods producers and did not have production facilities and resources to perform works and provide services that became the subject of procurement. The companies were intermediaries, while the prices they offered for goods, works and services were significantly higher than market prices.

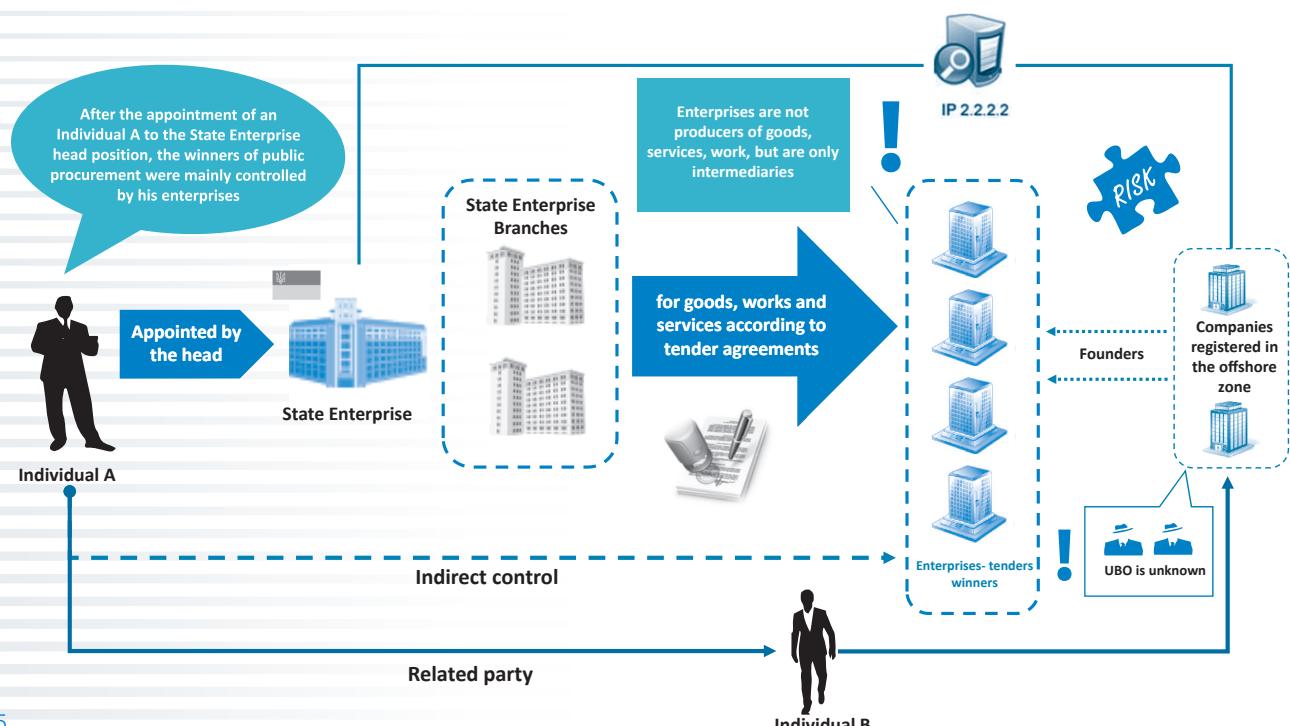
The enterprise founders - the tenders winners are non-resident companies, registered in an offshore jurisdiction, which does not disclose the actual UBO.



Individuals are authorized persons to manage accounts who are closely related to Individual A. In addition, the IP address from which the non-resident company payments were made are identical to the location of the State Enterprise Office.

It was established that control over the above-mentioned enterprises is carried out by the Individual A-director of the State Enterprise.

Law enforcement authorities are carried out investigation under Art. 364 of the Criminal Code of Ukraine.



Pic. 5.5

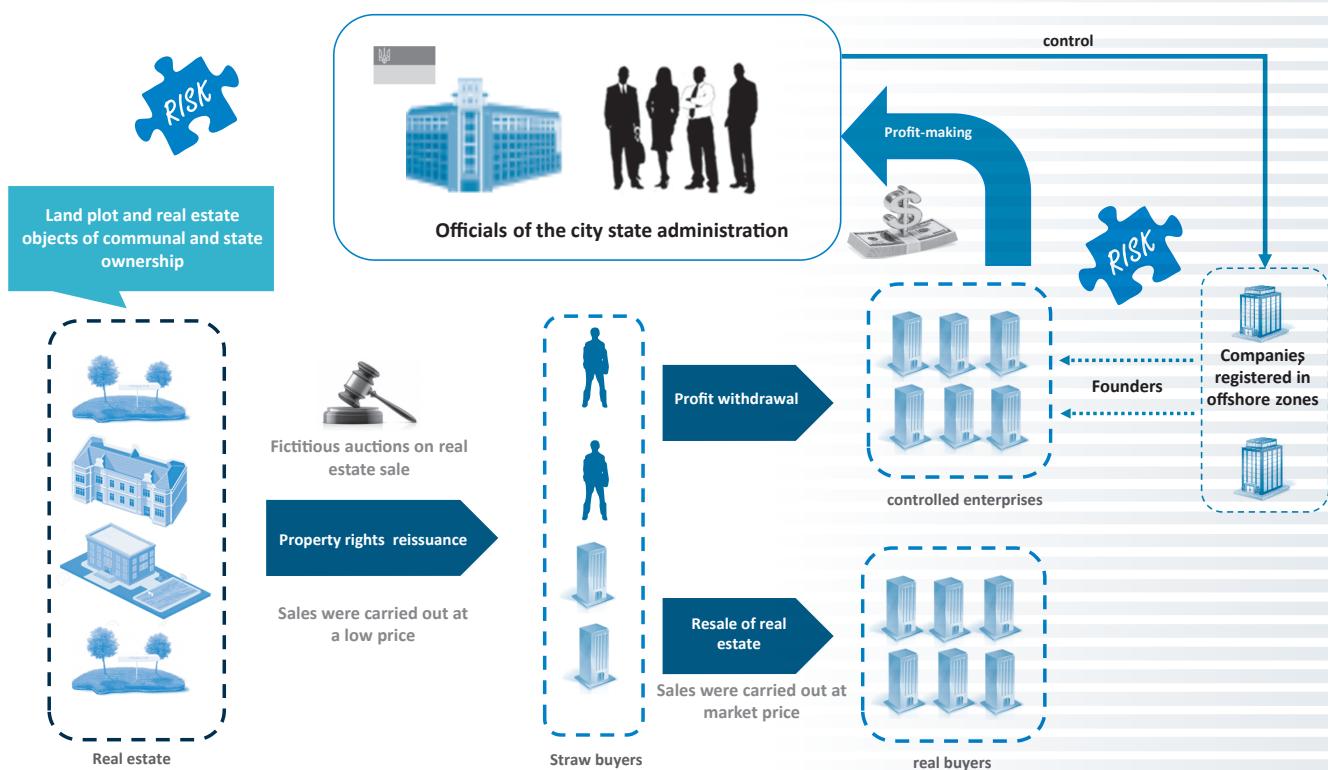
#### **Case study 4. Use of enterprises with an opaque ownership structure for illegal acquisition of state-owned real estate objects**

Law enforcement authorities are investigating the organization schemes of the illegal seizure of communal and state property objects with subsequent legalization through enterprises with an opaque ownership structure (Pic 5.6).

During the pre-trial investigation it was established that the officials of the city state administration on the basis of fictitious auctions carried out the transfer of land plots and the communal and state property objects at low prices to private individuals and legal entities.

Subsequently, the mentioned objects of real estate were resold by straw buyers to real buyers at market value, and the profit in the form of the difference between the purchase price and the sale price is derived on enterprise controlled by abovementioned officials. The founders of mentioned enterprises are non-resident companies registered in offshore jurisdictions that do not disclose information about real UBOs.

Law enforcement authorities are carrying out investigation under Art. 190, 358, and 364 of the Criminal Code of Ukraine.



Pic. 5.6

#### **5.3.4. Investigation of transactions related to the activity of “conversion” centers and enterprises with fictitiousness signs and cash withdrawal**

The SFMS carried out activities on detecting facts and suspension the illegal activity of “conversion” centers and enterprises with signs of fictitious activities involved in ML/FT.

Thus, during 2018, the SFMS has submitted to law enforcement authorities 148 cases (125 case referrals and 23 additional case referrals) related to cash withdrawal.

The total amount of conducted money laundering financial transactions amounted to UAH 26,331.1 million.

Including cash withdrawals - UAH 24,093.4 million, in particular, for the following purposes:

- issue of funds;
- issue of funds from card account;
- agricultural products purchase;
- cash backing for loans repayment;
- purchase of goods/payment of services;
- purchase of scrap metal;
- financial assistance/loan;
- depositing corporate cards funds with subsequent cash withdrawal.

## Examples of using straw men for registration/re-registration, acquisition of corporate rights of enterprises in minimization schemes on tax liabilities and converting cashless funds into cash

### Case study 5

Law enforcement authorities are investigating the facts of enterprises re-registration on straw men for monetary compensation in order to cover the illegal activities of individuals and conceal the real UBOs (Pic. 5.7).

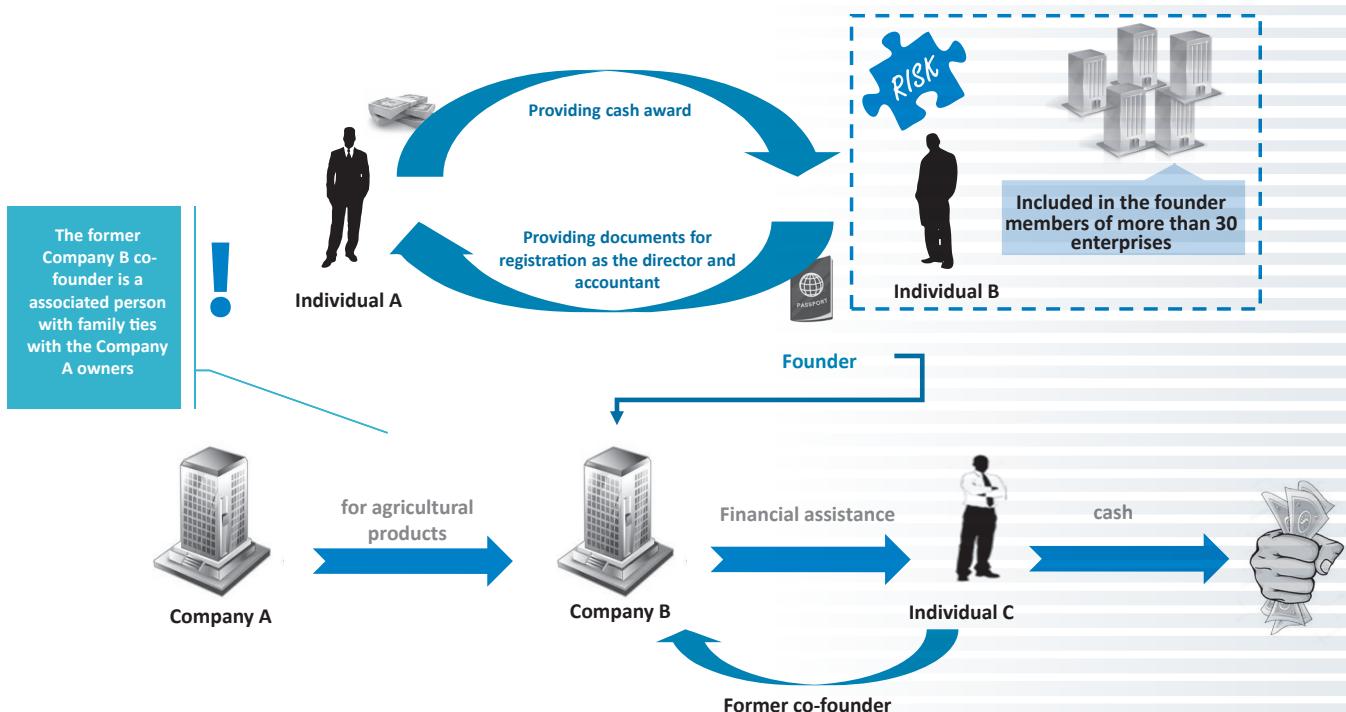
The pre-trial investigation found that Individual A offered Individual B a cash reward to provide his personal data for registration as a founder of Company B and about 30 enterprises.

Subsequently, Company A transferred funds in favor of Company B as payment for agricultural products and providing fictitious information to tax documents, as a result, the tax burden of Company A was reduced. Part of received funds by Company B was transferred to the benefit of the former founder - Individual B, that was fully withdrawn in cash.

One of the former Company B co-founders has family ties with the Company A owners.

Thus, the re-registration of the Company B on straw man is carried out with the aim of falsifying accounting and tax documents in favor of Company A for further evasion from taxes of the latter.

Law enforcement authorities are carrying out investigation under Art. 191 and 205 of the Criminal Code of Ukraine.



Pic. 5.7

## Case study 6

Two Individuals A and B within a short period of time registered a network of enterprises (about 50), the founders of which were straw men - mostly young people aged 19-20 years, that provided their identification data for cash award (Pic 5.8).

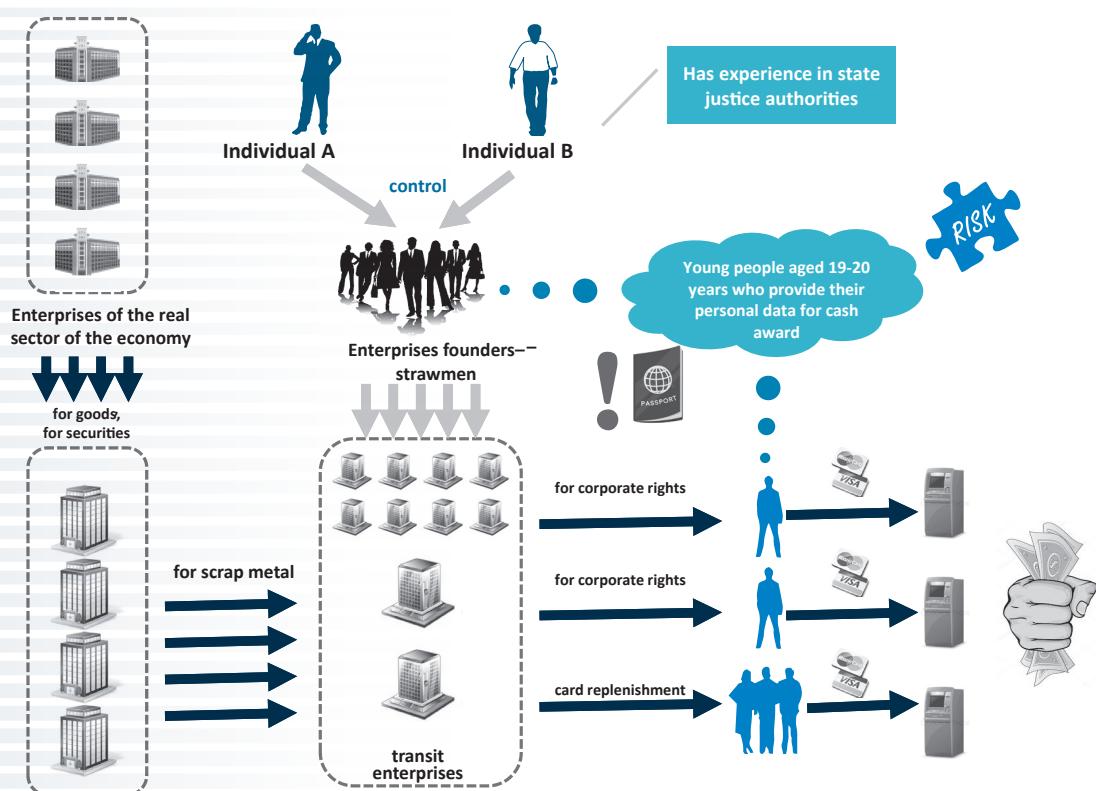
In this case, Individuals A and B acted as trustees on behalf of the founders. Individual B had experience in state justice authorities.

Further, two companies received funds on accounts from the network for scrap metal from joint counterparties, most of which are newly created enterprises.

In turn, counterparties received these funds from enterprises of the real sector of the economy as payment for goods and securities. In the future, the funds received by the two companies were transferred in favor of individuals as card accounts replenishment and corporate rights payment. In particular, the specified individuals are not the founders of any enterprise.

Thus, the scheme of enterprises creation on strawman with the purpose of the enterprises' funds withdrawal of the real sector of the economy with the subsequent transfer to cash on the basis of payment for corporate rights was detected.

Law enforcement authorities are carried out investigation.



Pic. 5.8

### **5.3.5. Investigation of the transactions involving the fraudulent misappropriation of individuals' and legal entities' funds by misleading**

In 2018, the SFMS detected 91 cases of fraudulent acts involving misappropriation of individuals' and legal entities' by misleading.

Thus, in 2018, the SFMS sent to the law-enforcement entities 37 cases (29 case referrals and 8 additional case referrals) that were related to suspicions of fraudulent misappropriation of individuals' and legal entities' funds who became victims of misleading.

In these cases, the amount of financial transactions that may be related to legalization of funds and the commission of another crime determined by the Criminal Code of Ukraine, makes UAH 183.8 million.

Fraudulent misappropriation of funds was carried out by:

- Illegitimate formation of payment documents;
- use of invalid and fake documents for opening an account;
- use of electronic computing equipment and the "Internet-Client-Bank" system;
- the purchase/sale of the goods and services through the Internet, as well as use of fake pages for dating in social networks.

Tools that were used:

- goods and services;
- financial leasing;
- stock trading;
- financial aid;
- legal and consulting services;
- international transfers;
- bank deposit;
- electronic wallets;
- cash;
- payment cards.

## Examples of the legal entities fake activities with nominee leaders - straw men

### Case study 7

The SFMS by the results of the conducted investigation found a scheme associated with the fraud (Pic. 5.9).

A group of companies transferred money for goods in favour of Company C. In particular, Company S has transferred funds to Company C as payment for goods.

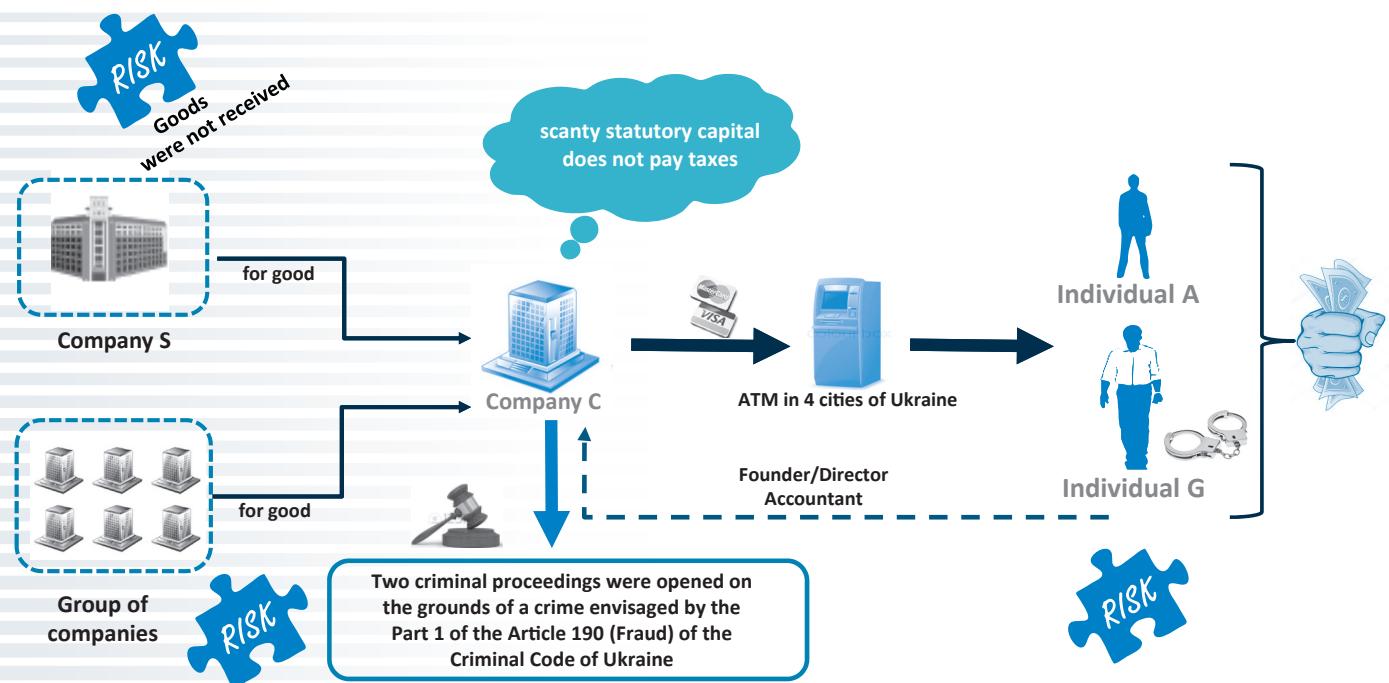
Subsequently, funds from the Company C account were received in cash by individual G and individual A through ATMs in 4 cities of Ukraine.

Company C did not pay taxes and has a scanty statutory capital, and individual G is the sole owner and director.

Regarding Company C, two criminal proceedings were initially opened on the grounds of a crime envisaged by Part 1 of Article 190 (Fraud) of the Criminal Code of Ukraine. Individual G has a criminal past.

Thus, individual G and individual A as a result of fraudulent actions took possession of the funds of business entities which does not exclude the receipt of benefits by third parties.

Law enforcement authorities are carrying out investigation under Article 190 of the Criminal Code of Ukraine.



Pic. 5.9

## Case study 8

The SFMS detected a scheme aimed at fraudulent misappropriation of Ukrainian citizens' funds (Pic. 5.10).

The uniform transactions were carried on the accounts of Enterprises A and B, related to the receipt of cash from a number of individuals as payment for vehicles. Further, the funds were transferred in favor of the Enterprise B as payment for securities.

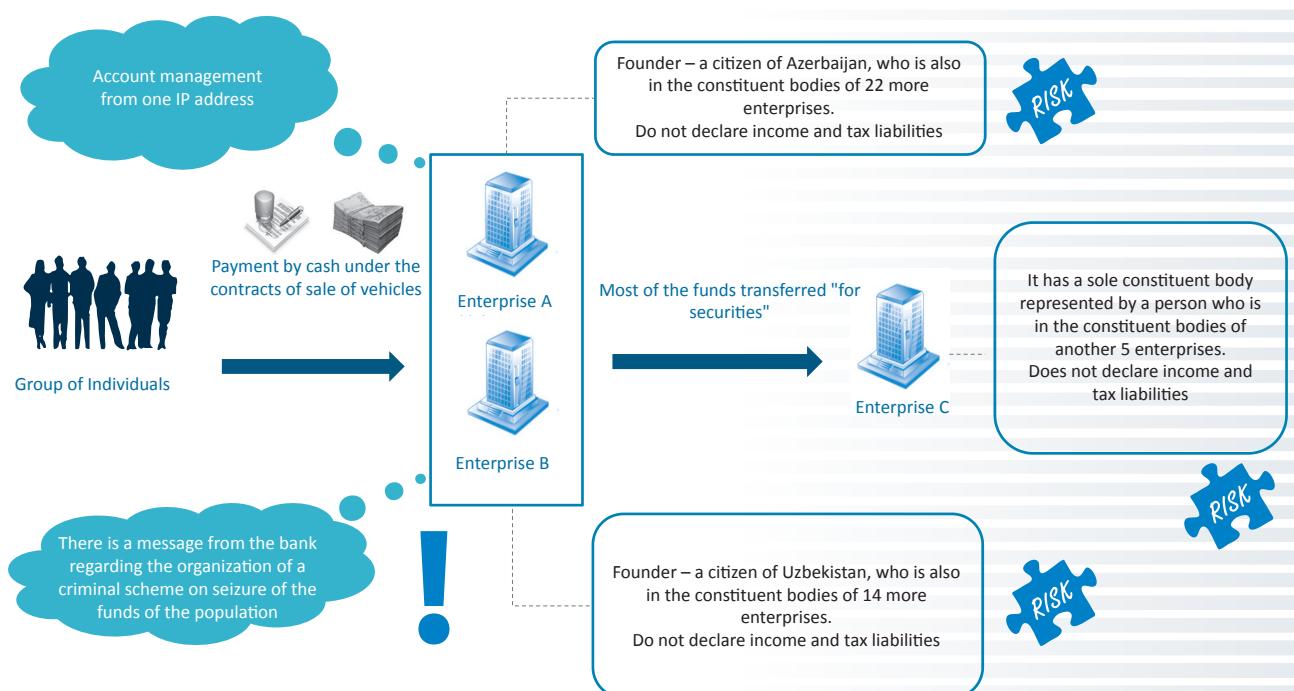
To banking institutions which served accounts of Enterprises A and B received complaints from a significant number of individuals regarding the fraudulent actions of these legal entities.

The founders of Enterprises A and B are the citizens of Uzbekistan and Azerbaijan.

Companies A, B and C did not declare incomes and tax liabilities. Their founders are members of the constituent body of a significant number of enterprises.

It is also found that account management is conducted from one IP address indicating "centralized management" of a fraudulent scheme. The founders and directors are the straw men.

Law-enforcement authorities are carrying out a pre-trial investigation.



Pic. 5.10

## 6. CASE REFERRALS

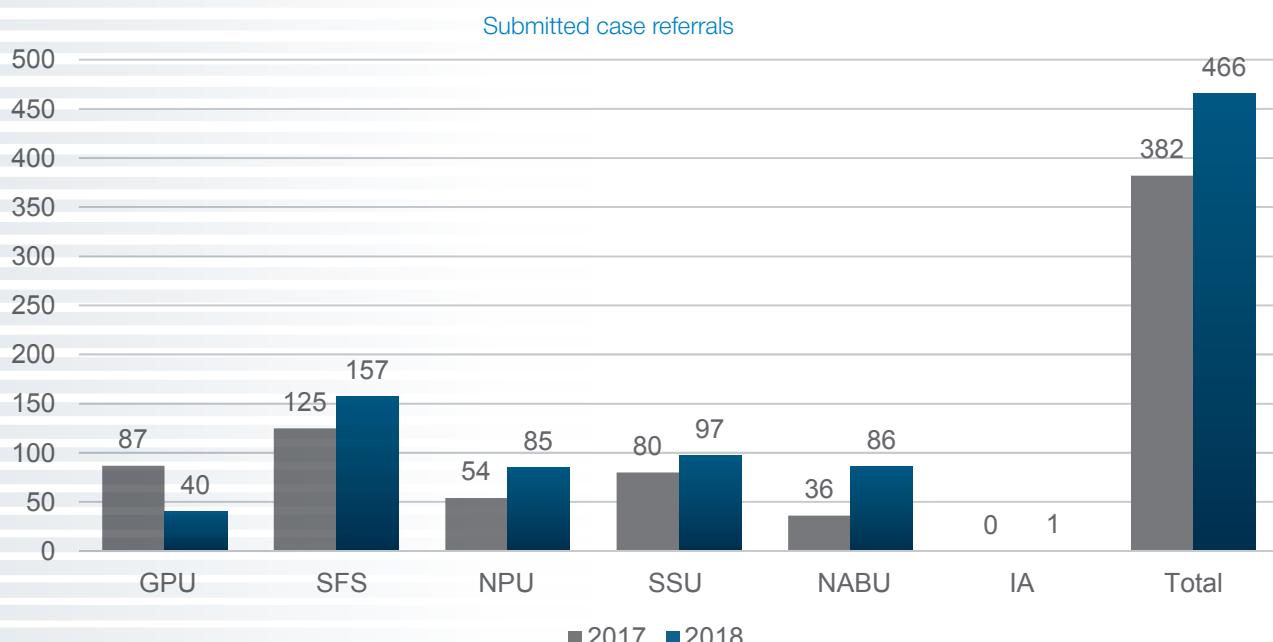
In pursuance of the Basic Law and in accordance with the Procedure for providing and reviewing case referrals approved by the interdepartmental Order of the Ministry of Finance and law-enforcement authorities, the expert commission of the SFMS for consideration of the case referrals and additional case referrals prepared for submission to the law-enforcement and intelligence authorities, in the presence of sufficient grounds, takes a decision on submission of such materials.

For participation in the meetings of the expert commission of the SFMS, specialists of the law-enforcement authorities units' are involved as experts.

During 2018, the SFMS sent to the law-enforcement and intelligence authorities 934 cases (466 case referrals and 468 additional case referrals) (Pic. 6.1) including:

- the prosecutors' offices – 40 case referrals and 119 additional case referrals;
- the State Fiscal Service of Ukraine – 157 case referrals and 33 additional case referrals;
- the National Police of Ukraine – 85 case referrals and 21 additional case referrals;
- the Security Service of Ukraine – 97 case referrals and 81 additional case referrals;
- the National Anti-Corruption Bureau of Ukraine – 86 case referrals and 214 additional case referrals.
- Intelligence authority – 1 case referral.

In these cases, the amount of financial transactions that may be related to legalization of funds and the commission of another crime defined by the Criminal Code of Ukraine makes up UAH 347.4 billion.



Pic. 6.1

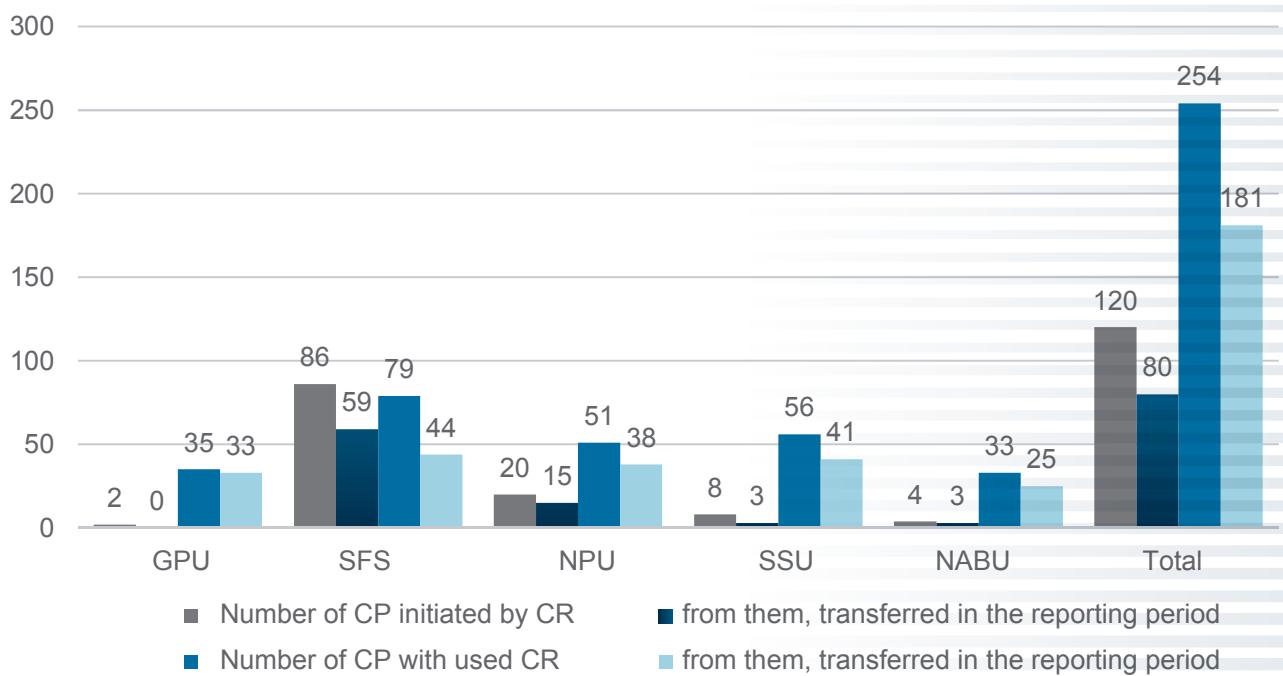
During a pre-trial investigations, 416 case referrals of the SFMS (including those provided in past years) were used by the law-enforcement authorities in 374 criminal proceedings (Pic. 6.2), in particular:

- According to the results of the inspection of the 120 case referrals it has been started 120 criminal proceedings;
- 296 case referrals were used in 254 criminal proceedings.

The units of law-enforcement authorities completed 32 criminal proceedings in connection with the appeal to the court with the indictment, initiated by 37 case referrals.

The courts reviewed 21 criminal cases initiated on the basis of the consideration of 19 case referrals with a conviction or a decision under non-rehabilitating circumstances.

Initiated criminal proceedings (CP) by the case referrals (CR)



Pic. 6.2

## An example of a court sentence

Law-enforcement authorities during a pre-trial investigation in criminal proceedings initiated on the basis of criminal offenses provided for in part 5 of Article 191 (Appropriation, embezzlement or seizure of property by way of malpractice), part 2 of Article 366 (Official forgery) of the Criminal Code of Ukraine were used information contained in the case referral of the SFMS.

During the investigation of criminal proceedings, it was established that Individual F, being an official of LLC U, having intentions to misappropriate possession of another's property - state money, abuse his position, acting on a prior conspiracy with a group of persons, took possession of someone else's property in particularly large quantities and service falsification, which caused serious consequences.

Thus, Individual F, realizing a criminal offense for unlawful seizure of funds, concluded an agreement with LLC B to provide services, in which he determined the cost of services that were supposed to be provided in the total amount of UAH 3,74 million.

Being aware in advance that the services would not actually be provided, the Individual F drew up a certificate of acceptance/delivery of electronic files with unidentified by the investigation officials of LLC B and a certificate of acceptance/delivery of works (services) including knowingly false information about the performance of works on the processing of an electronic database of personalized materials for distribution to postal addresses.

On the basis of these documents, Individual F received from the state enterprise cash in the amount of UAH 3.74 million, which at the same day transferred to the current account of the LLC B.

Subsequently, officials of LLC B which were not be established by the investigation, acting on a prior agreement with Individual F, illegally misappropriated another's property - the abovementioned state funds and disposed of them at their own discretion, which resulted in grave consequences.

By a court sentence, an individual F was found guilty of committing criminal offenses provided for by part 5 of Article 191, part 2 of Article 366 of the Criminal Code of Ukraine and recovered in favor of the state UAH 3,74 bln.

## **7. ENSURING FUNCTIONING AND DEVELOPMENT OF THE UNIFIED INFORMATION SYSTEM ON PREVENTION AND COUNTERACTION TO LEGALIZATION (LAUNDERING) OF PROCEEDS FROM CRIME, TERRORIST FINANCING AND FINANCING OF THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION**

During the reporting period, the SFMS in accordance with the main tasks defined in Article 18 of the Basic Law, ensured functioning and development of the Financial Monitoring Information System (hereinafter - the FMIS).

In order to ensure operative collection, effective processing and comprehensive analysis of information on financial transactions, detecting the facts of masking the illegal origin of income and the mechanism for their legalization, in 2018, the SFMS continued the modernization of FMIS, the main purpose of which is the implementation of the modern secure information technologies in this area.

The pilot exploitation of the updated at the end of 2017 FMIS hardware and software complex carried out in the reporting period confirmed the high performance and reliability of the implemented solutions.

In particular, it was ensured the continuous maintenance of the technological operations and processes for obtaining, primary and analytical processing of information from the reporting entities and state authorities, support of the information environment of



Pic. 7.1. FMIS Server

interaction with the financial monitoring entities. The FMIS functioned in a regimen mode, with a significant reserve for handling peak loads. The time of termination of work of individual components of the FMIS hardware and software complex for carrying out non-working hours service and additional adjustment of the system did not exceed 8 hours in total during the year. In general, today the FMIS hardware and software complex has sufficient capacity to use modern secure information technologies in the FMIS.

Carried out modernization of the database storage and management system has also demonstrated high performance and reliability. The tests conducted during the pilot operation showed that in case of failures, this system restores its efficiency without loss of data in a matter of seconds, and in case of critical failures of the system, the time of full recovery of the information from the backup copies and access to it does not exceed two hours. The amount of information that can be stored and processed on an upgraded system is sufficient for the reliable operation of the FMIS for at least 5 years. In this direction, the priority is to improve (optimize) the structure of the central data warehouse of the FMIS and its management mechanisms.

The first phase of the modernization of the FMIS, in addition to improving the technical capacity of the FMIS, also ensured improvement of the functional capabilities of the SFMS units.

In the reporting year, during the pilot exploitation the migration of the implemented functional software to the new technological platforms, which expanded the possibilities for analytical processing of information was ensured. In particular, the system of analytical reports has been improved, the possibilities of applying registration information of the legal entities and individuals for detecting masked communications have been expanded, and information volumes have been expanded, for which it is possible to carry out simultaneous operational analysis.

In accordance with the Regulation on the Unified State Information System in the field of prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and financing of the proliferation of weapons of mass destruction, an access to information resources of state bodies - entities of the Unified System was provided, mainly by updating the relevant information of the FMIS data warehouse resources. In addition, in 2018, operational access to the state information resources of the Ministry of Justice and the Ministry of Internal Affairs was provided. In particular, thanks to the implementation of the latest secure information technologies in the FMIS in 2018, direct access to the National Automated Information System (NAIS) of the Unified State Register of the Ministry of Internal Affairs for the registration of vehicles and their owners has been provided.

During pilot exploitation, "bottlenecks" of analytical processing of information were detected and ways of improving the system were determined. In particular, in the course of further modernization of the FMIS priority areas are:

- Integration of the ISFM into the state information systems that providing information interaction of the state electronic information resources;
- introduction of highly effective mechanisms of automated data cleansing;

- introduction of automated data acquisition of information resources necessary for conducting financial investigations;
- development and implementation of automated data preparation mechanisms for conducting financial investigations.

representatives of the EU Anticorruption Initiative (EUACI) (hereinafter referred to as the EUACI project), have developed technical requirements for the implementation of such modernization of the FMIS and the possibilities for financing it through the EUACI project are considered.

Also, in the reporting year, the SFMS continued modernization of the corporate electronic document management system (the CEDMS). The implementation of the second stage of the modernization of the CEDMS ensured the work of all users of the SFMS for the preparation and processing of documents in electronic form, and the coordination and signing of such documents using the electronic digital signature.

Modernization of the FMIS in the direction of ensuring interaction with the financial monitoring entities aimed at improving the information technologies used by the SFMS for these purposes. In particular, the SFMS has modernized the application software for receiving and processing information from banking institutions, and connected the e-mail node of the NBU in the SFMS for the work with the updated platform of the National Bank of Ukraine «FossDocMail».

At the same time, in 2018 was initiated modernization of the web-portal of the SFMS as a modern technological channel of information interaction with entities involved in the national AML/CFT system. In particular, the technical requirements for updating the official website of the SFMS were developed and approved, what should provide a comfortable information for the users about the main news, changes, events and methodological guidelines in the field of AML/CFT. Creating an updated public website will enable to transfer an open part of the website into an updated software and hardware platform with a new, more modern and wide-ranging functionality. At the same time, the use of modern web platforms will make the website more secure against Internet threats. With the support of the EUACI project in the reporting year, the work was started on updating the official website of the SFMS.

Creating of the user cabinets will complete the transition to a fully electronic submission of information. It will also make it possible to optimize both the submission of the information by the reporting entities and the receipt by them relevant information, receipts and other documents in electronic form. The creation of user cabinets is also foreseen for SFMS and law-enforcement authorities (in particular, for the implementation of an requests exchange, information in electronic form, including from NABU, NPU, SBU, GPU for conducting financial monitoring and investigations). Access to user cabinets is planned to be implemented using Electronic digital signature and application of data encryption protocols. This access/protection method will increase the overall level of information exchange between the SFMS and participants in the national AML/CFT system. Implementation of this project is also planned with the support of the EUACI project.

In addition to ensuring the functioning and upgrading of the functional part of FMIS in the reporting year, considerable attention



is paid to ensuring the cyber defense of the FMIS and the protection of information in it. In 2018, the SFMS conducted pilot exploitation of the modernized integrated information security system of FMIS (IISS FMIS), within frame of which provided administration, support, maintenance and completion of the IISS FMIS. After the completion of the pilot exploitation, the State Examination of the IISS FMIS was conducted.

In order to provide effective management, administration of the use of operating systems, databases and information security tools of FMIS in 2018, the FMIS administrators took courses authorized by Cisco, Oracle, Microsoft. The trainings were carried out thanks to the support of the EUACI project and the State Agency for E-Governance.

Measures taken by the SFMS to modernize the FMIS have made it possible to verify the correctness of the selected technical and organizational decisions, which allowed to ensure the stable and reliable functioning of the FMIS, while:

- the FMIS is functioning smoothly;
- optimized server and network equipment and hardware protection equipment;
- its productivity has been substantially increased;
- ensured secure collection, processing and analysis of information.

# **8. INTERAGENCY COOPERATION**

## **8.1. Relations with regulators and other government bodies**

In the reporting period, the interagency cooperation of the SFMS was focused on measures to coordinate the financial monitoring system, in particular:

- coordination of the implementation of the Action plan for 2017-2019 on Implementing the Strategy of Development of the Financial Monitoring System;
- ensuring the activities of the AML/CFT Council;
- providing coordination on the implementation of the actions to improve the national financial monitoring system based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine;
- the conclusion of the joint interagency documents with the state authorities and public organizations;
- the direct exchange of information with the state financial monitoring entities;
- enhanced interaction with the public.

### **Implementation of the Action plan for 2017-2019**

In 2018, the SFMS continued to coordinate measures to implement the Action plan on Implementing the Strategy of Development of the Financial Monitoring System, approved by the Resolution of the Cabinet of Ministers of Ukraine as of August 30, 2017 No. 601-p.

In order to more effectively implement the above-mentioned Action plan on the basis of the SFMS, the Working group on Sectoral risk assessment in AML/CFT system was set up including representatives of the SFMS, reporting entities, law enforcement and other state authorities - members of the AML/CFT system. On the 25th of October, 2018, a Report on the sectoral risk assessment of the use of the real estate market for legalization (laundering) of the proceeds from crime and terrorist financing was presented during the meeting of this group (Pic. 8.1).

This sectoral assessment was carried out by the SFMS, as the state financial monitoring entity, which carries out state regulation and supervision of business entities that provide intermediary services in the course of the real estate purchase and sale operations.

The study focuses on identification of the risks (threats) of legalization (laundering) of proceeds from crime and terrorism financing in the real estate market, their analysis, assessment.

The main objective of the sectoral risk assessment was the detection of the degree of compliance and effectiveness of legislative, methodological and practical measures taken in the country to protect and avoid (reduce) the threats and vulnerabilities of legalization (laundering) of income on the real estate market.



Pic. 8.1. Top Page of the Report

The basis for the risk assessment is also the analysis of macro- and micro indicators of market activity in the field of real estate purchase and sale.

The Report on the sectoral assessment in detail disclosed following information:

- completeness and efficiency of the legal AML regulation of the sector;
- criminogenic situation in the real estate sector;
- the state of compliance by the supervised reporting entities with the requirements of the legislation in the field of financial monitoring;
- the effectiveness of the regulation and supervision of the reporting entities;
- typical money laundering schemes using real estate market tools, etc.

As a result, received by the SFMS results of the qualitative and scoring estimation of the risks of the sector testify the high level of risk of the real estate market in the context of its threats, vulnerabilities and the likely consequences of being used by criminals for money laundering purposes.

In this regard, by the results of the sectoral assessment, identified and provided clear proposals for reducing the risk of money laundering and terrorist financing in the real estate market, as well as a number of recommended measures for public authorities and the private sector.

At the same time, sectoral risk assessment should be carried out by each state financial monitoring entity and will be an integral part of the second National Risk Assessment, scheduled for 2019.

The report is posted on the official website of the SFMS in the section "National Risk Assessment".

Also, representatives of the SFMS, within the framework of the Action plan, joined the development of mechanisms for verifying the authenticity of information provided by legal entities on the ultimate beneficial owner (hereinafter – the UBO), which was made public by Ukraine in 2015 (the first country in the world that made it public).

Thus, during the II-III quarter of 2018, a number of working meetings of the SFMS representatives with the representatives of the Ministry of Justice, the Ministry of Finance and international experts of the project "PRAVO-JUSTICE" on the development of a mechanism for checking the UBS took place.

According to the results of these meetings, the SFMS has determined the position regarding the verification mechanism of the UBO, which was shared with international experts.

In turn, international experts pledged to inform the European Commission about Ukraine's steps in developing mechanism for verifying information on UBO of companies.

According to the results of the considered proposals of the SFMS and the Ministry of Justice on the 28th of August, 2018, the international experts of the project "PRAVO-JUSTICE" presented the draft Report "The Mechanism of verification of beneficial owners", which includes a number of recommendations for the development of specific mechanisms for verification of the beneficial ownership of the legal entities.

In addition, the project idea "The Mechanism of verification of beneficial owners" became the winner of the EU Association Lab,

which was opened by the EU-Ukraine Association Assistance Consultative Fund, together with its beneficiary - Government Office for the Coordination of European and Euro-Atlantic Integration, and with the participation of the "Open Data Incubator 1991".

EU Association Lab is a competitive program of new ideas, which will last 5-6 months, during which experts of interested state authorities together with representatives of business and/or civil society will work on product development (prototype), in particular, the mechanism of UBO verification.

Within the framework of the implementation of the EU Association Lab, a team of representatives of the SFMS and other interested government bodies was formed to actively participate in meetings with international experts on the development of the verification mechanism of the UBO (Pic. 8.2).

In December 2018, with the support of the German Agency "Collaboration with Germany for the Development of GIZ Ukraine", Skype-conferences were held with representatives of «Global Witness» and the Republic of Austria for the exchange of information and experience on the development of the verification mechanism of the UBO. The experience gained during the last videoconference with the representatives of the Republic of Austria, according to the participants of the project team, is most relevant in the process of developing the verification mechanism of the UBO and can become the basis for developing a concept for the verification mechanism of the UBO.

Also, during October 30-31, 2018, in Tirana (Republic of Albania), within the framework of the Council of Europe's program on combating threats of the rule of law and three joint programs of the European Union/Council of Europe, a representative of the SFMS, along with representatives of the Ministry of Justice, took part in the International Conference "Transparency of Beneficial Ownership". During the conference, topical issues related to the formation of UBO registries and validation and verification mechanisms in the registry of UBO were raised.



Pic. 8.2

### **Activity of the AML/CFT Council**

During 2018, the SFMS organized 3 meetings of the AML/CFT Council, established by the Resolution of the Cabinet of Ministers of Ukraine as of September 8, 2016 No. 613, during which important for financial monitoring system issues were discussed (Pic. 8.3).

In 2018, the Council's activity, as a consultative and advisory body, was focused on consideration and providing suggestions to the state authorities for the implementation of the following main tasks:

- discussion of the Mutual Evaluation Report with the relevant recommendations for Ukraine, made public by the results of the MONEYVAL 5th round mutual evaluation of Ukrainian financial monitoring system;
- discussion of an Action plan to improve the national financial monitoring system based on the results of the 5th round mutual evaluation;
- discussing the state of the preparation of the draft Law of Ukraine "On amendments to certain legislative acts of Ukraine in the field of prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and financing of the proliferation of weapons of mass destruction";
- establishment, under the Council, the Working Group on prevention and counteraction to financing proliferation of weapons of mass destruction.

At the same time, during the Council meeting, the Glossary on prevention and counteraction to legalization (laundering) of criminal proceeds, terrorist financing, financing of proliferation of weapons of mass destruction (Pic. 8.4) was presented by the SFMS in order to improve the activities in the area of combating money laundering, terrorist financing, financing of the proliferation of weapons of mass destruction and corruption.

The Glossary is the first systematic publication in Ukraine since its independence, combining terms and concepts in anti-legal and



Pic. 8.3. Council meeting

anti-corruption area. This includes, in particular, about 3000 terms contained in international documents, codes and laws of Ukraine, subordinate legal acts of Ukraine, scientific and informational literature.

The publication is designed for the widest possible range of specialists, but above all for those who deal with the issues of financial monitoring and combating corruption in their professional activities - employees of the financial monitoring entities and anti-corruption area, law enforcement authorities, judges, public associations, scientists and students studying financial disciplines, as well as practicing lawyers.

The Glossary was developed with the assistance of the OSCE Project Coordinator in Ukraine.

### **Ensuring coordination on the implementation of the Action plan for improving the national financial monitoring system based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine**

The MER of Ukraine by the results of the MONEYVAL 5th round mutual evaluation of Ukraine was translated and published in Ukrainian by the efforts of the SFMS with the assistance of the EUACI. This international document includes a comprehensive rating assessment of the AML/CFT situation in Ukraine (Pic. 8.5).

Taking into account the abovementioned, during 2018, the SFMS coordinated the implementation of the Action plan for improving the national financial monitoring system based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine which progress report will be presented by Ukraine at the MONEYVAL Plenary meeting in July 2019.

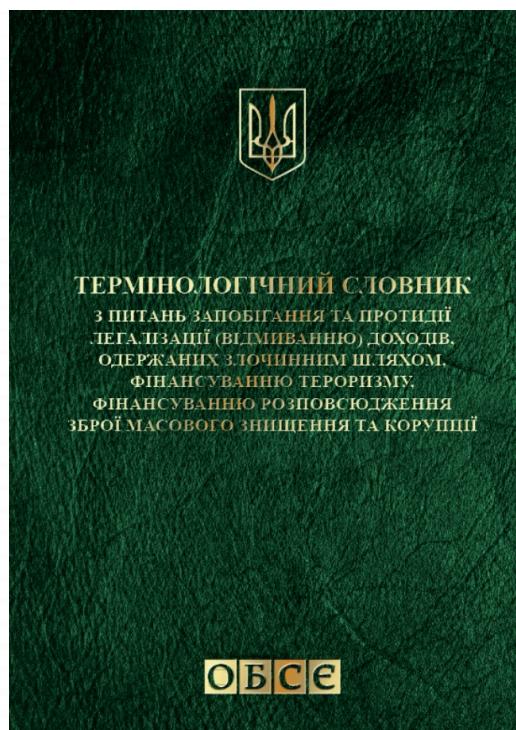
Thus, on the 12th of April, 2018, at the Council meeting, a draft Action plan for the improvement of the national system of the financial monitoring by the results of the MONEYVAL 5th round mutual evaluation of Ukraine was discussed and approved taking into account the proposals provided by the members of the Council, which was later supported by the order No. 16465/1 / 1-18 of the Cabinet of Ministers of Ukraine as of 29.05.2018.

During the year there were a number of meetings with interested state authorities on the implementation of the above-mentioned Action plan.

In particular, on the 7th of August, 2018, the SFMS conducted a meeting to discuss the implementation of paragraphs 12, 20, 48, 49, 52 of the Action plan aiming to improve the national system of financial monitoring by the results of the MONEYVAL 5th round mutual evaluation of Ukraine, attended by the representatives of the Ministry of Justice and the SSU.

On the 24th of October, 2018, in the premises of the National Bank of Ukraine, the representative of the SFMS took part in a working meeting to discuss the implementation of paragraph 60 of the MONEYVAL Action plan regarding the determination of the procedure for moving through the customs border of the bearer negotiable instruments. Representatives of the NBU, the Ministry of Finance, and the State Fiscal Service also took part in the event.

On the 10th of December, 2018, the SFMS held the third meeting of the Working group on Sectoral AML/CFT Risk Assessment, where discussed the status of implementation of paragraph 49 of the Action plan for the sectoral risk assessment of the use of non-profit



Pic. 8.4. Top cover of the Glossary



Pic. 8.5. Top page of the MER of Ukraine

organizations for money laundering, terrorist financing and financing of the proliferation of weapons of mass destruction.

Representatives of the SFMS, SSU, SFS, Scientific and Research Institute of the State Fiscal Service took part in this meeting.

### **Concluding of joint interagency documents with the state authorities and public organizations**

In order to improve the mechanisms of information interaction between the participants of the financial monitoring system, it has been concluded documents on interagency cooperation between the SFMS and 6 state financial monitoring entities, 20 state authorities, 22 other institutions and organizations.

In 2018, the SFMS signed:

- Memorandum between the SFMS and the Notary Chamber of Ukraine on the general framework for cooperation in the field of AML/CFT (pic. 8.6);
- Agreement on interagency cooperation between the SFMS and the State Investigation Bureau of Ukraine (pic. 8.7);
- Protocol with the National Securities and Stock Market Commission as of 20.07.2018 No. 1 "On the Procedure for the information exchange between the State Financial Monitoring Service of Ukraine and the National Securities and Stock Market Commission, regarding removal of the reporting entities from the SFMS register in connection with the termination of its respective activities";
- Memorandum between the SFMS and the State Center for Cyber Security of the State Service for Special Communication and Information Protection of Ukraine in the field of cyber security and cyber defense.



Pic. 8.6. Signing by Igor Cherkaskyi and Volodymyr Marchenko Memorandum between the SFMS and the Notary Chamber of Ukraine



Pic. 8.7. Signing by Igor Cherkaskyi and Roman Truba Agreement between the SFMS and the State Investigation Bureau of Ukraine

## **The direct information exchange with the state financial monitoring entities**

In order to increase the efficiency of the supervision over the compliance by the reporting entities with the requirements of the legislation on AML/CFT, in the framework of signed joint orders on cooperation with the Ministry of Finance of Ukraine, the National Securities and Stock Market Commission, the National Commission for State Regulation of Financial Services Markets, 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, SFMS provided the following information to the state financial monitoring entities during 2018, in particular:

- administrative data on financial transactions subject to financial monitoring, received by the SFMS from the reporting entities;
- information on mistakes made by the reporting entities when submitting information about financial transactions subject to financial monitoring;
- information on the accounting of the reporting entities in the SFMS;
- information on the facts detected by the SFMS that may indicate a violation of the requirements of the law by the reporting entities;
- information on the reports of administrative violations committed by the officials of the reporting entities and the results of their consideration drawn up by the SFMS;
- information on the analysis of the methods and financial schemes for legalization (laundering) of proceeds from crime, financing of terrorism and financing of the proliferation of weapons of mass destruction.

## **Interaction with the public**

In the framework of an open dialogue with the public and mass media, in February 2018, the Head of the State Financial Monitoring Service of Ukraine Igor Cherkaskyi provided an extended interview with the National Information Agency of Ukraine "UKRINFORM".

During the mentioned interview, the Head of the SFMS informed about the activities of the Service in the implementation of the state policy in the area of combating legalization of proceeds from crime, terrorist financing, detection of money laundering and terrorist financing schemes, the results of the first National Risk Assessment and peculiarities of the work related to the detection and suspension of suspicious financial transactions of the former regime in the amount of more than USD 1.5, which were confiscated into the budget of Ukraine.

Also, during the interview Igor Cherkaskyi highlighted in detail the results of the MONEYVAL 5th round mutual evaluation of Ukraine and the outcomes of the MER of Ukraine.

The full text of this publication can be found on the website of Ukrinform (<https://www.ukrinform.ua/rubric-economy/2412642-igor-cherkaskij-golova-derzsluzbi-finansovogo-monitoringu.html>).

In addition to improve awareness of the public about the SFMS activities in the field of AML/CFT, the Head of the SFMS made a public presentation of the Report in April 2018 (Pic. 8.8).



Pic. 8.8. Presentation by Head Igor Cherkaskyi of the Public Report



At the same time, during 2018, the SFMS has ensured close cooperation with civil society actors, in particular:

- organization of the Public council work at the SFMS;
- conducting a public examination of draft regulations;
- informing the media about the work done.

In order to improve the mechanisms of interaction of the SFMS with the public upon the execution 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 2018, the SFMS has assisted to the Public Council's activity that is under the SFMS in every way.

Altogether, in 2018 the Public Council has held 5 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 2018, which has been agreed with the Public Council of the SFMS and posted on the website of the SFMS.

In total, in 2018, within the framework of interaction with the public, the SFMS has organized:

- participation of the public members in the international scientific AML/CFT workshops;
- posting on the official website of the SFMS over 850 information notifications on financial monitoring;
- posting 20 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.

## **8.2. Interaction with the reporting entities**

In 2018, the SFMS on the permanent basis conducted an analysis of effectiveness of the reporting entities' activity in the AML/CFT area.

Under results of such analysis in 2018, the SFMS has developed a number of recommendations for the reporting entities, in particular concerning providing information on detecting facts or attempts to conduct financial transactions related to cybercrime or fraudulent acts and recommendations for financial transactions suspension in accordance with part 1 of Art. 17 of the Basic Law.

In addition, in 2018, 2 meetings of the Working group on consideration problem issues of the reporting entities-nonbanking institutions and analysis of an effectiveness of actions taken by them for AML/CFT and 1 meeting of the Working group on consideration problem issues of the reporting entities - banking institutions were conducted (Pic. 8.9).



Pic. 8.9. Working group meeting

At the Working Group meetings the urgent issues of performance by the reporting entities of the AML/CFT legislation were discussed, in particular:

- regarding belonging to national PEPs;
- regarding conducting identification, verification, and clarification of clients' information;
- regarding financial transactions suspension;
- regarding business relations with non-profit organizations;
- regarding conducting cash transactions;
- regarding UBO establishment.



Pic.8.10. Compilation title page

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

During 2018, the SFMS actively worked in the methodological area in order to assist in activities of participants of the AML/CFT national system.

Thus, the SFMS specialists prepared a compilation of the basic international documents, which are the basis for the construction and evaluation of the system for prevention and counteraction to the legalization (laundering) of the proceeds, terrorist financing and financing of proliferation of weapons of mass destruction (Pic 8.10).

The compilation is consisting of:

- FATF Recommendation together with Interpretative Notes.
- Methodology for assessing technical compliance with the FATF Recommendations and the effectiveness of AML/CFT system.
- MONEYVAL Rules of procedure for the 5th round of mutual evaluation.

The document was prepared with the purpose of assisting the participants of the national financial monitoring system in implementing the FATF Recommendations and undergoing the MONEYVAL evaluation.

For convenience, the compilation combined the FATF Recommendations and the Methodology for assessing technical compliance with the FATF Recommendations and the effectiveness of AML/CFT system (Recommendation - the main criteria under which it is evaluated - the Interpretative Notes to it), along with a separate section of MONEYVAL Rules of procedure for the 5th round mutual evaluation.

The compilation publication was carried out under the auspices of the EUACI and posted on the SFMS official website in the section "International Standards/FATF Standards".

At the same time, the SFMS as the state financial monitoring entity, has developed "Recommendations for business entities that provide intermediary services in real estate purchase and sale transactions with respect to the reporting procedure on suspicious financial transactions based on a risk-based approach" and "Infographics for business entities that provides intermediary services when performing real estate purchase and sale transactions regarding the reporting procedure on suspicious financial transactions based on a risk-based approach" (Pic 8.11), which describes in detail how to use a risk-based approach, risk criteria: by clients type, territorial affiliation, type of financial transaction, etc., which are placed on the SFMS official website in the section "Organization of financial monitoring"/"Recommendations for the participants of the real estate market".

During 2018, the SFMS representatives participated in 29 educational events organized by the LLC "The Institute of Post-Graduated Education and Business", the National Centre for Training of Bank Employees of Ukraine, Financial Monitoring Department of the National Bank of Ukraine, EUACI, Institute of Security Service of Ukraine, the Independent Association of Ukrainian banks, Society Initiatives Institute, State Educational and Scientific Institution "Academy of Financial Management", the Institute of Law and Post-Graduated Education of the Ministry of Justice of Ukraine and the Notary Chamber of Ukraine.

The mentioned events were attended by 1398 persons - representatives of the reporting entities and scientific environment.

Also, during 2018, the SFMS representatives participated in 65 educational events, organized by the Academy of Financial Monitoring which were attended by 1749 listeners.

In general, during 2018, the SFMS representatives took part in 94 events, conducted for more than 3 200 persons.

Besides, 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 the reporting period, the SFMS has signed the agreements on cooperation with:

- private joint-stock company "Kharkiv Centre for Research Technical and Economic Information";
- LLC "Postgraduate Institute of Education and Business";
- private joint-stock company "Institution of Higher Education "Kiev Inter-Branch Institute for Professional Development";
- Higher State Educational Institution "Banking University".

## 8.4. National Risk Assessment

In order to prepare for the second round of the National AML/CFT Risk Assessment, on February 16, 2018, at the fourth meeting of the AML/CFT Council, the Working Group on Sectoral Risk Assessment in AML/CFT system mentioned in Subsection 8.1 of Section 8 of this Report was created and its Regulation was approved.

The members of the mentioned Working Group identified the representatives of the state financial monitoring entities, law enforcement authorities and other state authorities involved in the AML/CFT system.

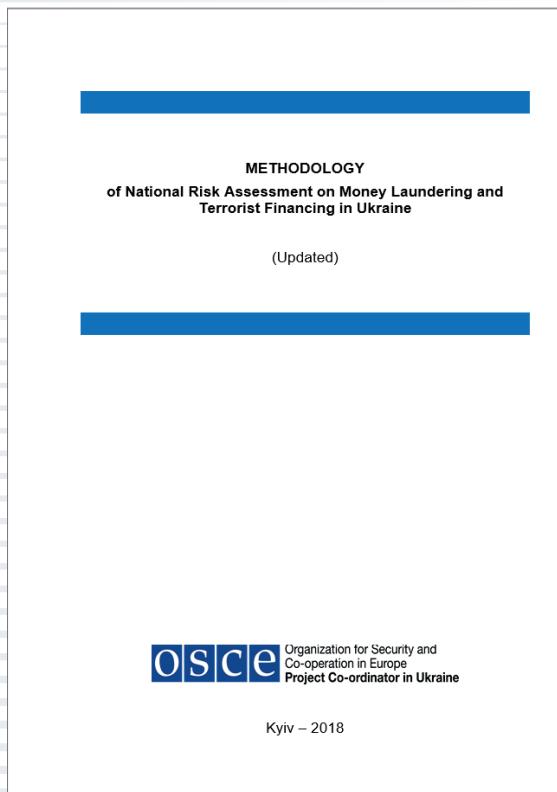
The main tasks of the Working Group are:

- analysis of information on the results of activities of financial monitoring entities, state authorities involved in the operation of the AML/CFT system;
- solving problem issues that arise when identifying (detecting) the risks (threats) of money laundering and terrorist financing;
- conducting analysis, evaluation, and development of measures aimed at preventing the occurrence and/or mitigation of negative implications;
- consideration of proposals for improving the methodology for conducting a national risk assessment;
- researching the impact of money laundering and terrorist financing on society, public relations and the financial system with the aim to identifying appropriate measures to counteract these threats; discussion of issues related to the formation of integrated administrative reporting in the AML/CFT area.

During 2018, the SFMS conducted 3 meetings of the Working Group, in which: the concept of the updated Methodology of National Risk Assessment on money laundering and financing of terrorism in Ukraine was presented, the results of the SFMS's sectoral risk assessment of using the real estate market for legalization (laundering)



Pic. 8.11. Infographics for business entities that provides intermediary services when performing real estate purchase and sale transactions regarding the reporting procedure on suspicious financial transactions based on a risk-based approach



Pic. 8.12. Updated National Risk Assessment Methodology

of proceeds from crime and terrorist financing were presented<sup>1</sup> and discussed the issue of conducting sectoral risk assessment of the use of non-profit organizations for money laundering, terrorist financing and financing of proliferation of weapons of mass destruction.

In accordance with the Procedure for conducting the National AML/CFT Risk Assessment and the publication of its results, approved by the Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine as of September 16, 2015, No. 717, the updated Methodology was approved with the Ministry of Finance of Ukraine as of December 17, 2018 (Pic 8.12).

The abovementioned Methodology is developed taking into account International Standards based on the best practices of conducting national risk assessments in the leading countries of the world and is a systematic set of approaches, ways, methods, techniques, and procedures to be used by participants during conducting the second National Risk Assessment.

In addition, taking into account the recommendations of the FATF Guidance “AML/CFT-Related Data and Statistics”, as well as “OSCE Handbook on Data Collection in Support of Money Laundering and Terrorist Financing, National Risk Assessment”, a list of key indicators that characterize the effectiveness of the national system of anti-legalization financial monitoring is determined. The list of indicators agreed by the AML/CFT system participants is a part of the updated Methodology of National Risk Assessment on Money Laundering and Financing of Terrorism.

<sup>1</sup> For more information on Sectoral Risk Assessment see subsection 8.1 of section 8 of this Report

# 9. ACTIVITIES OF THE ACADEMY OF FINANCIAL MONITORING

The main task of the Academy of Financial Monitoring is retraining and professional development of specialists on financial monitoring in the AML/CFT sphere 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.

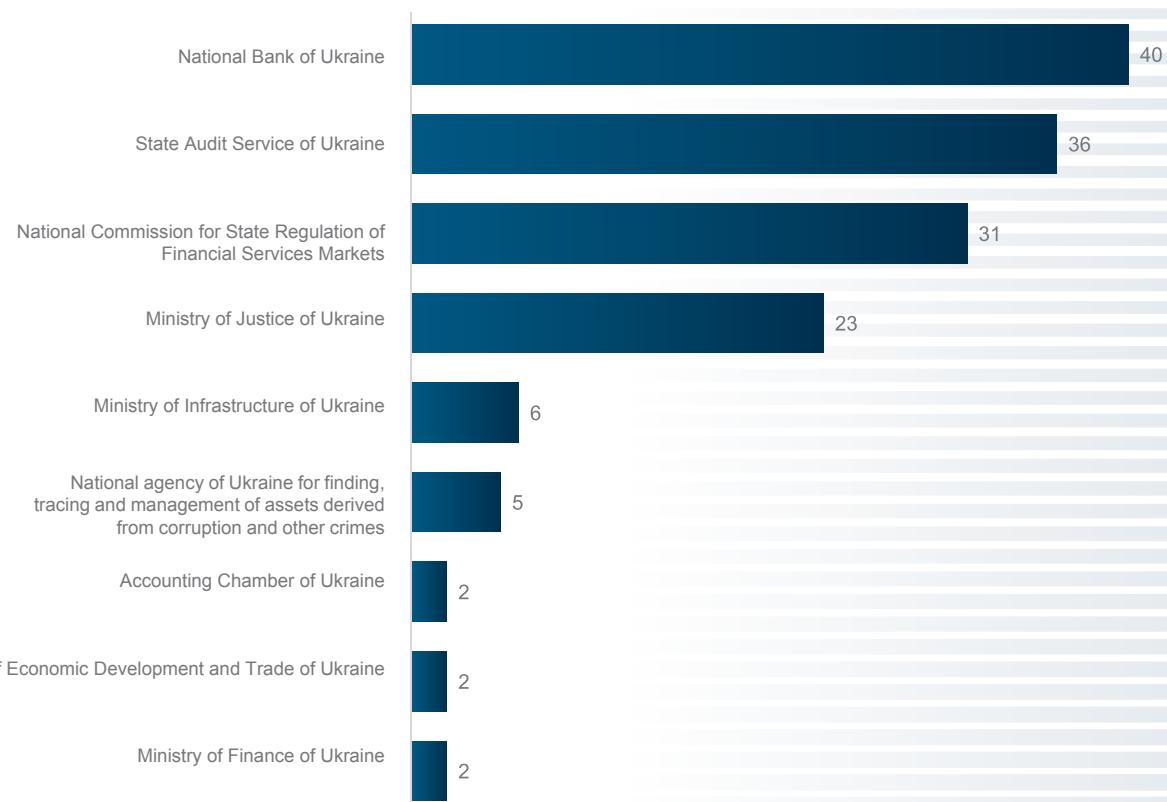
During 2005 (first groups of listeners) – 2018, 13 507 specialists on financial monitoring issues were trained; 7 663 of which were trained during 2014 – 2018.

In 2018, the Academy of Financial Monitoring trained 1749 listeners (12.9% of the total number of listeners trained during 2005-2018) who are the representatives of state authorities, law enforcement, intelligence, judiciary, and reporting entities, including:

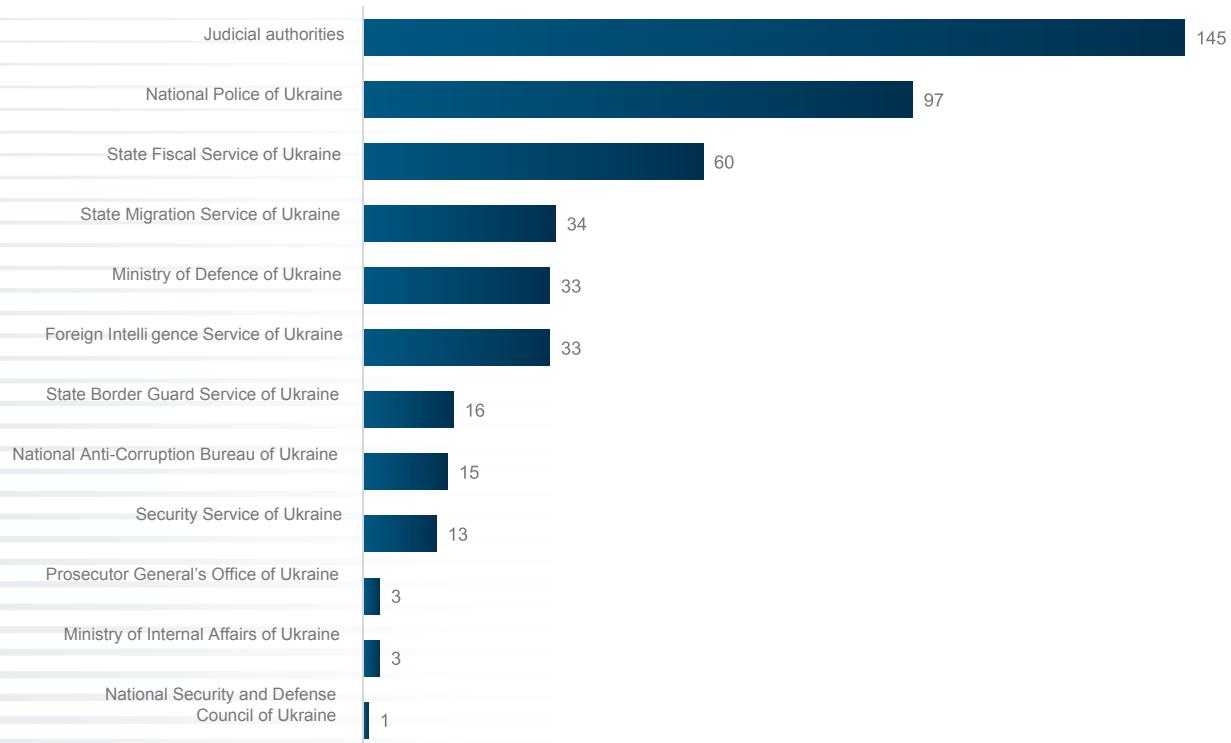
- 600 specialists – in the framework of the public contract, including 147 – representatives of the state authorities, 453 – representatives of law enforcement, intelligence and judiciary authorities (Pic. 9.1, 9.2);



A number of representatives of the state authorities that have been trained in 2018



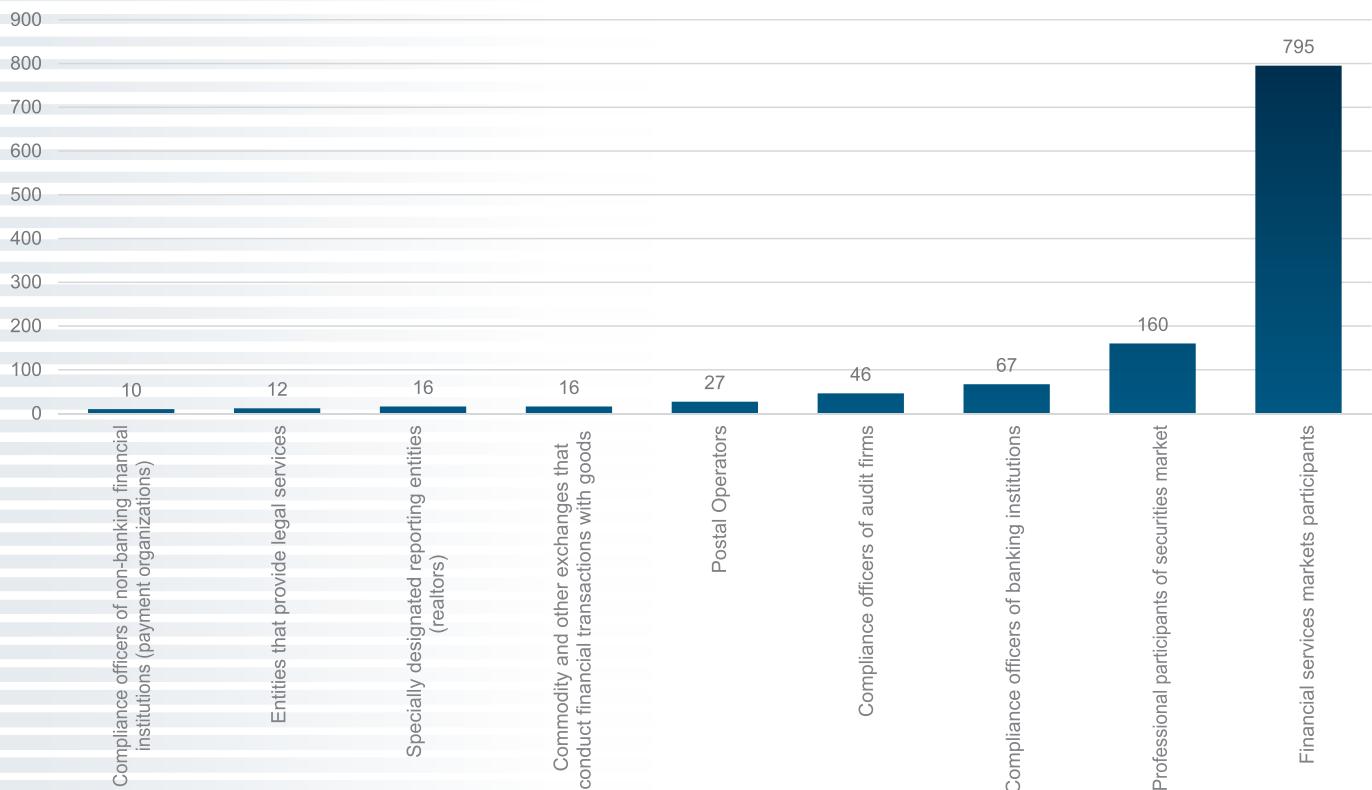
## A number of representatives of the law enforcement, intelligence and judiciary authorities that have been trained in 2018



Pic. 9.2

- 1149 specialists – compliance officers of the reporting entities (Pic. 9.3).

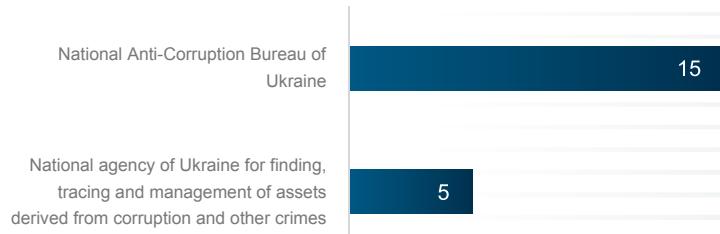
## A number of compliance officers of the reporting entities that have been trained in 2018



Pic. 9.3

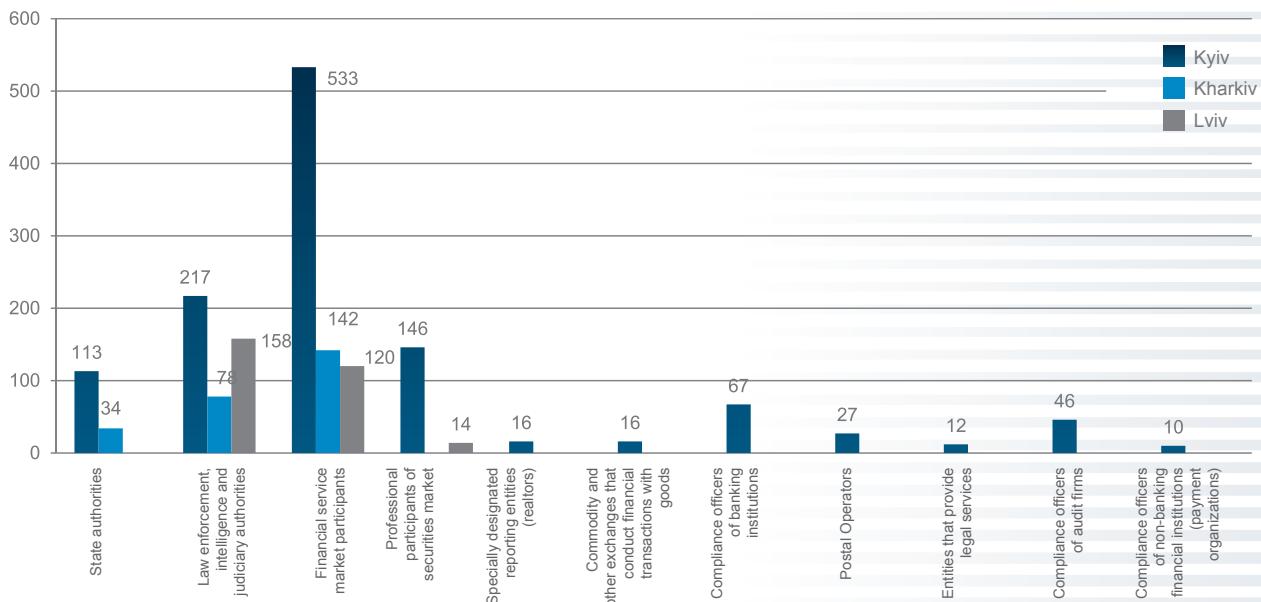
During 2018, the Academy of Financial Monitoring trained 20 representatives of the anti-corruption authorities of Ukraine (Pic.9.4)

#### A number of representatives of anti-corruption authorities that have been trained in 2018



Pic. 9.4

In 2018, trainings were held on the basis of the regional Offices of the Academy in Kyiv, Kharkiv and Lviv (Pic. 9.5).



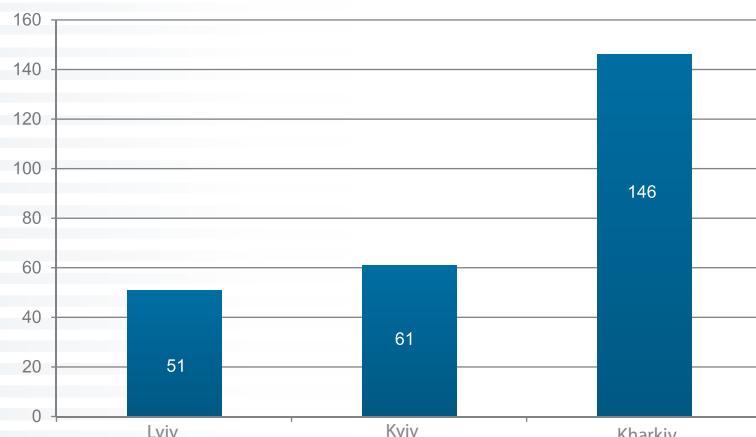
Pic. 9.5. Dynamics of trainings of the representatives of the state authorities, representatives of law enforcement, intelligence and judiciary authorities and reporting entities in 2018 by the regional Offices of the Academy

Representatives of the Academy participated in the roundtable on “Regulation of Non-Bank Financial Markets: International Experience” (Pic. 9.6), which took place on November 21, 2018 in the NBU, during which a special emphasis was placed on the draft law on the consolidation of functions in the state regulation of financial services markets.

In 2018, the workshops “A notary as a reporting entity” which were attended by 258 representatives of the specially designated reporting entities – notaries were conducted (Pic. 9.7).



Pic. 9.6



Pic. 9.7. Number of the reporting entities – notaries, who participated in workshops during 2018

In addition, in 2018, employees of the Financial Monitoring Academy participated in the preparation and conduction of the following activities:

- a workshop for representatives of the state and banking sectors of Ukraine “Fight against legalization (laundering) of proceeds from crime, terrorist financing: risks, challenges, achievements” (Odessa, October 10-12, 2018);
- VI All-Ukrainian Scientific and Practical Conference “Modern Problems of Financial Monitoring” (Kharkiv, November 23, 2018) (Pic 9.8).

At the same time, in November 2017, a network education project on financial monitoring was launched, the main purpose of which is to introduce a new format for training high qualified specialists for the needs of the national financial monitoring system.



Pic. 9.8

In 2018, the Memoranda with the National Aviation University, Sumy State University, Dnipropetrovsk State University of Internal Affairs, Lviv State University of Internal Affairs, Kyiv International University, Industrialbank in the framework of the partnership of educational institutions were signed. The cooperation priorities are: training and professional development of specialists in AML/CFT area, prevention of cybercrimes and corruption activities, conducting joint scientific conferences, workshops, meetings, practical course, conducting joint research in the AML/CFT area etc.

# 10. INTERNATIONAL COOPERATION



## 10.1. 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 the effective AML/CFT measures.

During 2018, the SFMS actively cooperated with leading international organizations and institutions which deal with counteraction to money laundering and terrorist financing issues, such as: the Financial Action Task Force (FATF), the Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering and Financing of Terrorism (MONEYVAL), the Egmont group of Financial Intelligence Units, the Council of Europe, the UN Office on Drugs and Crime (UNODC), the World Bank, the International Monetary Fund, the Organization for Security and Cooperation in Europe (OSCE), the project "European Union Anti-Corruption Initiative", the Organization for Democracy and Economic Development (GUAM) and other international partners (Pic. 10.1).

Also, in 2018, the SFMS's representatives presented Ukrainian AML/CFT experience as well as improved cooperation in course of international workshops conducted with the assistance of the leading international organizations.

Moreover, the SFMS, in accordance with its tasks, concludes international interagency agreements (Memoranda of Understanding) with foreign financial intelligence units. During 2003-2018, the SFMS has concluded 76 Memoranda, particularly in 2018:

- Memorandum of Understanding between the State Financial Monitoring Service of Ukraine and the Department on Struggle Against Tax, Currency Crimes and Legalization of Criminal Incomes at the General Prosecutor's Office of the Republic of Uzbekistan concerning cooperation in the area of counteraction to legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction;
- Memorandum of Understanding between the State Financial Monitoring Service of Ukraine and the Financial Intelligence Unit of the Republic of Trinidad and Tobago concerning

cooperation in the area of counteraction to legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction;

- New Memorandum of Understanding between the State Financial Monitoring Service of Ukraine and the United Kingdom Financial Intelligence Unit with the authority of the Director General of the National Crime Agency concerning cooperation in the area of counteraction to legalisation (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction.

#### **10.1.1. Cooperation with Financial Action Task Force (FATF)**

During the reporting period, the SFMS has provided to the FATF requests information on:

- actions taken by the SFMS pursuant to the FATF Public Statement of November 3, 2017, February 23, June 29 and October 19, 2018;
- supranational approach to implementation of FATF Recommendation 13 (Correspondent banking);
- manual with information on the procedure for sending to foreign countries (FATF members) requests concerning application of targeted financial sanctions in accordance with UNSCR 1373;
- ISIL, Al-Qaeda and Affiliates Financing;
- virtual currency payment products and services;
- TF Risk Assessment Guidance.

Also, during the reporting period, the SFMS provided comments to the Report on professional money laundering networks; necessity to amend FATF Recommendations to support the use digital ID in course of CDDs.



Pic. 10.2. Training course participants

### **10.1.2. Cooperation with Egmont Group of financial intelligence units**

Within cooperation with Egmont Group, on March 12-15, 2018, the SFMS's representative took part in the Egmont Group meetings held in Buenos Aires, Argentina.

During the meetings, the SFMS's representative informed participants on peculiarities of the SFMS's work, its involvement in measures conducted and aimed at combating corruption, particularly on typological studies, provided statistics as well as informed about Ukrainian risks specified in the Mutual Evaluation Report within the MONEYVAL's 5th round mutual evaluation.

On September 24-27, 2018, the SFMS's representatives took part in the 25th Egmont Group Plenary meeting in Sidney, Australia.

In course of the Plenary meeting, the SFMS's representatives presented case study on legalization (laundering) of proceeds from corruption which became a winner of Best Egmont Case Award (BECA) 2018<sup>2</sup>.

On December 3-7, 2018, the SFMS's representative participated in the Egmont Group Securing-an-FIU (FIU-SEC) with Train-the-Trainer training course held in Taipei, Taiwan (pic. 10.2).

In addition, within the cooperation with the Egmont Group Secretariat, during the reporting period, the SFMS provided:

- information on the Egmont Group Strategic Plan for 2019-2020;
- cross-border money laundering networks;
- Human Trafficking Project Concept Note;
- completed questionnaire on fight against corruption;
- completed professional money laundering project survey;
- information on the support of creation document concerning autonomy and independence of an FIU;
- information to the Egmont Group Annual Report for 2017-2018;
- completed questionnaire on Europe II Regional Plan etc.

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<sup>2</sup> Information about the win in BECA competition is highlighted in section 2 of the Report

### **10.1.3. Cooperation with Council of Europe (Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measure and the Financing of Terrorism (MONEYVAL)/European Commission**

Within the framework of the MONEYVAL's 5th round mutual evaluation, the SFMS's representative participated in the mutual evaluation of Lithuania as law enforcement evaluator (Pic. 10.3).



Pic. 10.3. The SFMS's representative as part of MONEYVAL's delegation during the mutual evaluation of Lithuania

Moreover, within the framework of cooperation with MONEYVAL, the SFMS's representatives as part of MONEYVAL delegation participated in two MONEYVAL Plenary meetings, which were held in Strasbourg, France (pic. 10.4):

- 56th MONEYVAL Plenary meeting – 2-6 July 2018;
- 57th MONEYVAL Plenary meeting – 3-7 December 2018.

During the meeting, the SFMS representatives presented updated information on AML/CFT actions and took part in agenda issues discussion.

During the last Plenary meeting, the SFMS representative conducted a presentation of the case concerning legalization (laundering) of proceeds from corruption, which became the winner according to the results of Best Egmont Case Award (BECA) 2018<sup>3</sup>.

In addition, the SFMS submitted to MONEYVAL:

- information on MONEYVAL questionnaires on risk and international cooperation with countries to be evaluated;
- information for use during the round-table (tour de table) within the framework of the 56th and 57th MONEYVAL Plenary meetings;
- information on template regarding virtual currencies/crypto-assets;
- information on terrorist financing disruption strategies;
- information on the state of the National Risk Assessment in Ukraine.

<sup>3</sup> Information on the victory in BECA competition is highlighted in section 2 of this Report.

At the same time, during 2018 the cooperation of the SFMS with the European Commission continued as part of the TAIEX technical assistance and information exchange instrument.

Thus, within the framework of TAIEX, on December 19, 2018, the representative of the SFMS took part in the annual regional conference on institutional development held in Kyiv.



Pic. 10.4. 57<sup>th</sup> MONEYVAL Plenary meeting

In addition, representatives of the SFMS participated in such events of the Council of Europe:

- a series of seminars and conferences within the framework of the Regional Project for Good Governance Against Economic Crimes “Fighting Corruption and Promoting Good Governance/Fighting Money Laundering” of the EU-Council of Europe Program: “Partnership for Good Governance” (PGG-REG);
- a series of seminars on fight against cyber crime;
- 10th meeting of the Conference of the Parties to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS No. 198), held in Strasbourg, French Republic, in which an example was presented application of Article 46 of the Council of Europe Convention No. 198 (Cooperation between the FIU), as well as the information provided by the SFMS on the questionnaire on transversal monitoring of the implementation of the Parties Art. 11, Art. 25 (2) and Art. 25 (3) of the Council of Europe Convention No. 198 (30-31 October 2018).

## **10.1.4. Other international events**

### **10.1.4.1. Cooperation with NATO**

Within the framework of cooperation with NATO, during the reporting period, with the support of the NATO-Ukraine Training Program at the NATO Liaison Office, representatives of the SFMS repeatedly participated in NATO activities, in particular:

- nine modules of the annual information and awareness-raising course on topical issues of the state policy of Euro-Atlantic integration of Ukraine (Kyiv, Diplomatic Academy of Ukraine, National Academy of Internal Affairs of Ukraine);
- Thematic seminar on European security issues ““Security in the Eastern European Neighborhood. Theories and Practices” ” (April 4-5, 2018, Kyiv, Diplomatic Academy of Ukraine);
- Seminar “Actual Problems of International Relations” (May 15-16, 2018, Kyiv, Diplomatic Academy of Ukraine);
- Strategic Communications Workshop (May 24, 2018, Kyiv, Club of the Cabinet of Ministers of Ukraine);
- advanced training courses for young managers of the Ukrainian Government “YOUNG UA Summer Academy 2018” (July 2-6, 2018, Kyiv).

Also, the representative of the SFMS on a regular basis participated in the meeting of the Commission on Coordination of Euro-Atlantic Integration of Ukraine in order to consider issues regarding the state and prospects of Ukraine-NATO cooperation.

### **10.1.4.2. Cooperation with the European Union**

During 2018, representatives of the SFMS participated in the following events:

- a series of seminars and workshops of the “EU-ACT” Project;
- a series of workshops of the EU Project Pravo Justice with the purpose of discussing the issues of the establishment of the UBO;
- meetings on the harmonization of legislation in the framework of the implementation of the Association Agreement between Ukraine and the EU held with the support of the Government Office on European and Euro-Atlantic Integration of the Cabinet of Ministers of Ukraine (June 14, 2018, Kyiv);
- meetings of the Ukrainian part of the Association Committee between Ukraine and the EU, held at the Government Office on European and Euro-Atlantic Integration of the Cabinet of Ministers of Ukraine (October 1 and 5, 2018);
- 4th meeting of the cluster I of the Subcommittee on Economics and other sectoral cooperation of the Association Committee between Ukraine and the EU (October 3, 2018).

#### **10.1.4.3. Co-operation with the United Nations (UN)/United Nations Office on Drugs and Crime (UNODC)**

During 5-8 September 2018, the representative of the SFMS of Ukraine, as part of the delegation of Ukraine, took part in the training of assessors on the implementation of the UN Convention against Corruption, which took place in Vienna, the Austrian Republic.

During 11-13 December 2018, within the framework of the United Nations Office on Drugs and Crime, representatives of the SFMS took part in the Financial Disruption Workshop “International Money Laundering Networks” held in Vienna, Austria.

#### **10.1.4.4. Cooperation with the Organization for Democracy and Economic Development (GUAM)**

During the reporting period, representatives of the SFMS participated in the following events, which were supported by the GUAM Secretariat:

- 18th and 19th meetings of the Subgroup on Combating Corruption and Money Laundering (June 7-8, November 8-9, 2018);
- meetings of the Working Group on Cyber-Security (June 11-12, December 5-6, 2018);
- meeting of the Working Subgroup on Combating Illicit Trafficking in Drugs (June 12-13, 2018);
- meeting of the Subgroup on Combating Terrorism (June 14-15, 2018).

#### **10.1.4.5. Cooperation with the Organization for Security and Cooperation in Europe (OSCE)**

During 2018, the SFMS cooperated with the OSCE on the implementation at the national level of the OSCE project “Assisting Ukraine in Developing an Action Plan for Countering Money Laundering and Terrorism Financing”.

Thus, within the framework of the implementation of this project, during the period from May 22 to 23, 2018, a scientific-practical seminar with the participation of representatives of the Polish FIU on the topic “The practice of application of FATF Recommendations by the public sector and implementation of the National Risk Assessment results” took place at the premises of the SFMS (Pic. 10.5).

Also, during the year, with the assistance of the OSCE, an updated Methodology of National Risk Assessment on Money Laundering and Financing of Terrorism in Ukraine was issued and the Glossary on Prevention and Counteraction to Legalization (Laundering) of Criminal Proceeds from Crime, Terrorist Financing, Financing of Proliferation of Weapons of Mass Destruction and Corruption.

In cooperation with the project “EU Anticorruption Initiative in Ukraine” (EUACI) in October 2018, an international scientific and practical seminar was held in Odessa.



Pic. 10.5

#### **10.1.4.6. Cooperation within the framework of the project “EU Anticorruption Initiative in Ukraine” (EUACI)**

During the reporting period, with the assistance of the project “EU Anti-Corruption Initiative in Ukraine”, the representatives of the SFMS made three study visits to foreign FIUs, namely: FIU of the Netherlands, FIU of Finland, FIU of Ireland.

During these visits, representatives of the SFMS have got foreign experience in the application, use and support of software goAML; new knowledge on the functioning of the Bureau of Criminal Assets and the fight against serious organized crime.

In addition, within the framework of building SFMS's AML/CFT institutional capacity, representatives of the SFMS participated in nine specialized IT courses.

During the period from October 9-10, 2018, representatives of SFMS took part in a seminar “Financial investigations, beneficial ownership, asset recovery and organized crime” held in Kyiv.

During the period from October 11 to 12, 2018, the representatives of the SFMS took part in an international scientific and practical seminar “The fight against money laundering and terrorist financing: risks, challenges and achievements” that took place in Odessa in co-operation with the OSCE (Pic. 10.6, 10.7).

In the period from December 10 to 11, 2018, the representatives of the SFMS took part in the 6th International Conference on Combating Money Laundering and Financial Crimes held in Bratislava, the Slovak Republic.

In addition, during the year, representatives of the SFMS participated in a series of seminars on the topic “Detection of corrupt incomes” that took place in Kharkiv, Dnipro, Lviv, Odessa.



Pic. 10.6. Discussions in small groups in the seminar October 11-12, 2018, Odessa



Pic. 10.7

#### **10.1.4.7. Cooperation with the FIU of the Republic of Poland within the framework of the project of international technical assistance of the Republic of Poland**

Within the framework of the project of the Republic of Poland Support to the Ukrainian Anti-Money Laundering and Terrorist Financing System, in order to exchange experience and strengthen the AML/CFT system, representatives of the SFMS of Ukraine, as part of the delegation of Ukraine, made a study visit to the Republic of Poland from September 3 to 7, 2018 (Pic. 10.8).



Pic. 10.8. Participants of a study visit to Poland

Also, in cooperation with the OSCE Project Co-ordinator in Ukraine, the representatives of Polish authorities participated in a seminar held in Kyiv, in May 2018 (Pic. 10.5).

#### **10.1.4.8. Cooperation with the Organization for Economic Co-operation and Development (OECD)**

During April 22-25, 2018, the representative of the SFMS participated in the training on financial crimes investigation held in Budapest, Hungary, with the support of the US Embassy jointly with the Anti-Corruption Project in Ukraine, the Anti-corruption Network of the OECD.

#### **10.1.4.9. International events of a general nature**

During March 19-20, 2018, the SFMS participated in the first round of Ukrainian-British interagency consultations on cybersecurity in London, the United Kingdom.

On June 18, 2018, a working meeting of the representatives of the SFMS with the partner of the international law firm Baker McKenzie was held to discuss the issues in the field of AML/CFT.

On July 3, 2018, a working meeting with representatives of the Ministry of Finance of the Kingdom of the Netherlands was held at the premises of the SFMS in order to discuss issues related to international cooperation in the area of counteraction to money laundering and terrorist financing.

During July 18-19, 2018, with the support of the Program for Expert Control and Security of Borders (EXBS), a representative of the SFMS took part in the seminar "Prevention to financial support for the proliferation of weapons of mass destruction" held in Yerevan, Armenia.

On October 3, 2018, a working meeting with the program coordinator of TKA in Ukraine was held in the premises of the SFMS to discuss current issues in the area of AML/CFT.

On October 18, 2018, a working meeting with the diplomat of the Economic Department of the US Embassy in Ukraine was held in the premises of the SFMS, in order to discuss the current state of affairs in the field of AML/FT, statistics on key performance indicators of the SFMS and planned changes in legislation in the area of AML/FT.

On October 30, 2018, a working meeting with the group of consultants of Tana Copenhagen Company was held in the premises of the SFMS to discuss the issues of the current activities of the SFMS, the successful results of existing support, new priorities in the fight against corruption, future needs of the SFMS in view of the existing and future challenges.

On November 9, 2018, a working meeting with the diplomat of the Economic Department of the US Embassy in Ukraine was held in the premises of the SFMS to inform the SFMS of the US Treasury Department published on November 8, 2018 on new sanctions against legal entities and individuals involved in the annexation of the Crimea and the situation in the East of Ukraine.

During November 13-23, 2018, the SFMS representative participated, as an instructor, in a training course on financial investigations for law enforcement officers and a strategic analysis course held in Astana, Kazakhstan, with the support of the US Embassy in Kazakhstan.

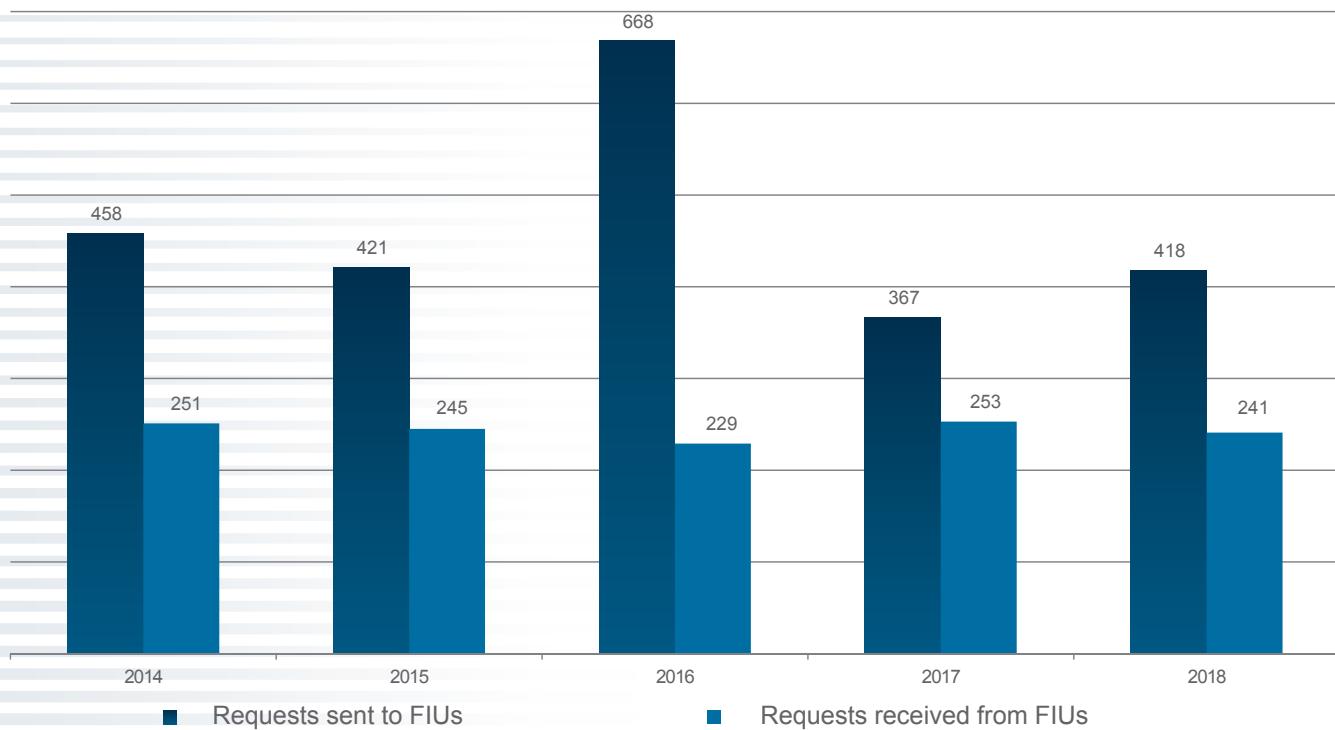
## 10.2. Exchange of information with foreign financial intelligence units

The SFMS provides interaction and information exchange with the competent authorities of foreign states and international organizations, which activities are directed at the AML/FT.

In 2018, the SFMS cooperated with 58 FIUs to ensure the organization of interaction and information exchange with the competent authorities of foreign states and international organizations.

During 2018, the SFMS sent 418 requests to 58 FIUs and received 407 replies to requests from 54 FIUs.

Also, the SFMS received 241 requests from 57 FIUs and provided 249 replies to 55 FIUs (Pic. 10.9).



Pic. 10.9. Exchange of information with FIUs

In 2018, the SFMS's most active exchange of information in terms of sending requests was carried out with:

- FIU of Latvia (74 requests sent);
- FIU of Cyprus (34 requests sent);
- FIU of Great Britain (26 requests sent);
- FIU of Switzerland (23 requests sent).

At the same time, in 2018, the largest number of requests was received from:

- Polish FIU (30 requests received);
- FIU of Latvia (28 requests received);
- FIU of Lithuania (17 requests received).

# 11. STRATEGIC DIRECTIONS OF THE SFMS WORK IN 2019

## STRATEGIC GOAL 1

## STRATEGIC GOAL 2



Improvement of interagency interaction between state authorities - participants of the national system of financial monitoring



Conducting an analysis of financial transactions, cooperation, interaction and information exchange with law enforcement and other states authorities

### WAYS OF IMPLEMENTATION:



Coordination of the implementation of the Strategy for the development of the AML/CFT system for the period up to 2020 (CMU Resolution No. 1407 dated December 30, 2015 and No. 601 dated August 30, 2017)



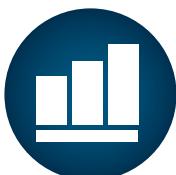
Implementation of the research of methods and financial schemes for legalization (laundering) of proceeds and bringing them to the attention of participants of the system of counteraction to legalization of criminal proceeds



Conducting regular meetings of the AML/CFT Council (Resolution of the Cabinet of Ministers of Ukraine No. 613 dated August 09, 2016)



Conducting a strategic analysis of information on financial transactions that are subject to financial monitoring and may be related to financing of terrorism.



Coordination and organization of the second round of the National AML/CFT Risks Assessment



Provision of case referrals (additional case referrals) to law enforcement/ intelligence authorities and cooperation with state regulators

## STRATEGIC GOAL 3

## STRATEGIC GOAL 4



Participation in the AML/CFT international cooperation



Improvement of AML/CFT legislation

### WAYS OF IMPLEMENTATION:



Ensuring effective cooperation with international organizations and institutions in the AML/CFT field



Continued development of draft regulations to implement the provisions of FATF Recommendations, EU Directive 2015/849 of the European Parliament and Council and EU Regulation 2015/847 of the European Parliament and of the Council



Organization of international trainings and exchange of experience in the AML/CFT field



Approval of draft laws and regulations of other state bodies on the implementation of the Basic Law and the implementation of the EU Directive 2015/849 of the European Parliament and Council



Concluding international interagency agreements with FIUs in the AML/CFT field

## STRATEGIC GOAL 5

## STRATEGIC GOAL 6



Ensuring the functioning and development of the FMIS



Organization of re-trainings and professional development of specialists of state authorities, reporting entities on financial monitoring

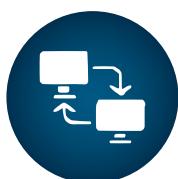
### WAYS OF IMPLEMENTATION:



Provision within the allocation of maintenance support for the FMIS hardware and software complex



Conducting with the use of up-to-date methods and technologies for retraining and professional development of employees and heads of the reporting entities units responsible for conducting financial monitoring, as well as specialists of state authorities



Implementation of the program Modernization of the Unified AML/CFT information system



Methodological, methodological and other assistance to the reporting entities, in particular regarding the introduction of a risk-based approach in applying CDDs and customers financial transactions

# ANNEXES

## Annex A

### List of regulations adopted in 2018, developed by the SFMS

- 1.** Resolution of the Cabinet of Ministers of Ukraine dated 10.05.2018 No. 343 "On amendments to certain resolutions of the Cabinet of Ministers of Ukraine".
- 2.** Order of the Ministry of Finance of Ukraine dated 16.01.2018 No. 6 "On amendments to the procedure for conducting inspections of the reporting entities by the State Financial Monitoring Service of Ukraine" registered by the Ministry of Justice of Ukraine on February 2, 2018, No. 135/31587.
- 3.** Order of the Ministry of Finance of Ukraine dated 05.03.2018 No. 344 "On amendments to the order of the Ministry of Finance of Ukraine dated 29.01.2016, No. 24", registered by the Ministry of Justice of Ukraine on March 26, 2018, No. 365/31817.
- 4.** Order of the Ministry of Finance of Ukraine dated 25.06.2018 No. 585 "On amendments to clause 18 of the procedure for consideration by the State Financial Monitoring Service of Ukraine cases concerning violation of the requirements of the legislation regulating AML/CFT, and the application of sanctions", registered by the Ministry of Justice of Ukraine on July 19, 2018, No. 839/32291.
- 5.** Order of the Ministry of Finance of Ukraine dated 30.07.2018 No. 655 "On the establishment of departmental promotional awards of the State Financial Monitoring Service of Ukraine", registered by the Ministry of Justice of Ukraine on August 16, 2018 No. 922/32374.



## Annex B

### List of abbreviations

<b>FATF</b>	Financial Action Task Force
<b>MONEYVAL</b>	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
<b>Basic Law</b>	Law of Ukraine "On prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction"
<b>ML/FT</b>	legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction
<b>DNFBP</b>	designated non-financial businesses and professions
<b>PGO</b>	Prosecutor General's Office of Ukraine
<b>SFMS</b>	the State Financial Monitoring Service of Ukraine
<b>SFS</b>	the State Fiscal Service of Ukraine
<b>USR</b>	Uniform State Register of Legal Entities, Individuals-Entrepreneurs and Public Formations
<b>EU</b>	European Union
<b>FMIS</b>	Unified AML/CFT Informational System
<b>UBO</b>	ultimate beneficial owner (s) controller (s)
<b>MIA</b>	Ministry of Internal Affairs of Ukraine
<b>MFA</b>	Ministry of Foreign Affairs of Ukraine
<b>MFU</b>	Ministry of Finance of Ukraine
<b>MOJ</b>	Ministry of Justice of Ukraine
<b>NABU</b>	National Anti-Corruption Bureau
<b>NBU</b>	National Bank of Ukraine
<b>NPU</b>	National Police of Ukraine
<b>OSCE</b>	Organization for Security and Cooperation in Europe
<b>AML/CFT</b>	anti-money laundering and counteraction to terrorist financing and the financing of proliferation of weapons of mass destruction
<b>FIU</b>	Financial Intelligence Unit
<b>SSU</b>	Security Service of Ukraine
<b>SFME</b>	state financial monitoring entities
<b>RE</b>	reporting entities



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