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Abbreviation list

Dear colleagues!



One more year of State Committee for Financial Monitoring of Ukraine activity is over. During this year stable activity of central office and development of regional framework were provided.

Year 2006 became the second year of activity of SCFM of Ukraine as the central agency of executive power.

The report contains results of activity of SCFM of Ukraine (Financial Intelligence Unit) during 2006.

SCFM of Ukraine examines financial transactions in the view of their relation to money laundering and/or terrorist financing. The process of money laundering is often very complicated branched scheme of money "circulation" and as a result the criminal origin of funds is hidden. Therefore, counteraction to legalization of criminal proceeds is possible only under proper activity coordination of all participants of the national AML system, both nationally and regionally.

At the same time, Ukraine is the part of world community and globalization processes didn't pass by our country. The system of national regimes of counteraction with strict international cooperation mechanism can resist to global character of money laundering, terrorist financing and criminality "internationalization".

In accordance with international standards, SCFM of Ukraine actively cooperates with state agencies that act in the AML/CFT area, both in Ukraine and abroad.

Withdrawal of active monitoring of Ukraine by FATF in 2006 became the worth assessment of efforts on the national AML/CFT system development.

The development of AML/CFT system continues and SCFM of Ukraine will take active part in this process.

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

Serhiy HURZHIY

1. About SCFM of Ukraine

The State Committee for Financial Monitoring of Ukraine plays central role in the National Anti-Money Laundering/Counter Terrorist Financing (AML/CFT) System. Such agencies function in more than 100 countries all over the world and have general name "Financial Intelligence Units" (FIU). In accordance with international standards, SCFM of Ukraine is neither law enforcement nor control agency, and functioning in interaction with financial sector and law enforcement agencies.

☒ SCFM of Ukraine is FIU of administrative type

In 2006 SCFM of Ukraine continued its activity as specially authorized agency of executive power on financial monitoring issues - central agency of executive power with special status.



Symbolic of SCFM of Ukraine

Financing

Financing of SCFM of Ukraine expenses in 2006 was carried out by the State Treasury of Ukraine from the State Budget within the limits of the assignments adopted by cost estimate.

In 2006 according to assignments, funds in amount of UAH 34 204.7 thousand were assigned to SCFM of Ukraine from the State Budget. Structure of use of mentioned funds is given in the table below.

Structure of use of budget assignments of SCFM of Ukraine in 2006

Direction of expenditures	Amount (thousand UAH)
Wages and wage upholding	15 571,7
Paying for public utilities and energy consumption	1 086,8
Payment of expenses, related to business trips	412,3
Maintenance of Training-Methodical Center of SCFM of Ukraine	486,4
Other expenses for providing of activity and functioning of the Unified State Information and Information-Analytical System of SCFM of Ukraine	16 647,6
Total	34 204,7

Structure and human resources

SCFM of Ukraine staff is 338 persons, including 162 - in regions.

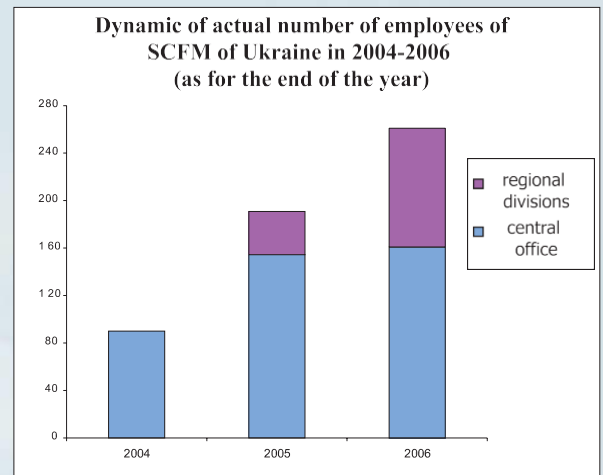
During 2006 the number of employees sufficiently increased to 261 persons (including 161 in central office, 100 - in regions).

Gender division of SCFM of Ukraine's staff represents: 156 men and 105 women. 17 women are within the managerial staff.

In 2006, 7 meetings of the competitive commissions for vacant seats of civil

servants were carried out in SCFM, 113 persons participated in competition, as a result of the competition 104 persons have been employed, 4 civil servants were promoted to higher positions in SCFM of Ukraine.

The probation of civil servants was carried out in SCFM to gain practical experience, examine the professional level, and also with the purpose of career development in SCFM of Ukraine, and on its results 14 employees were promoted.



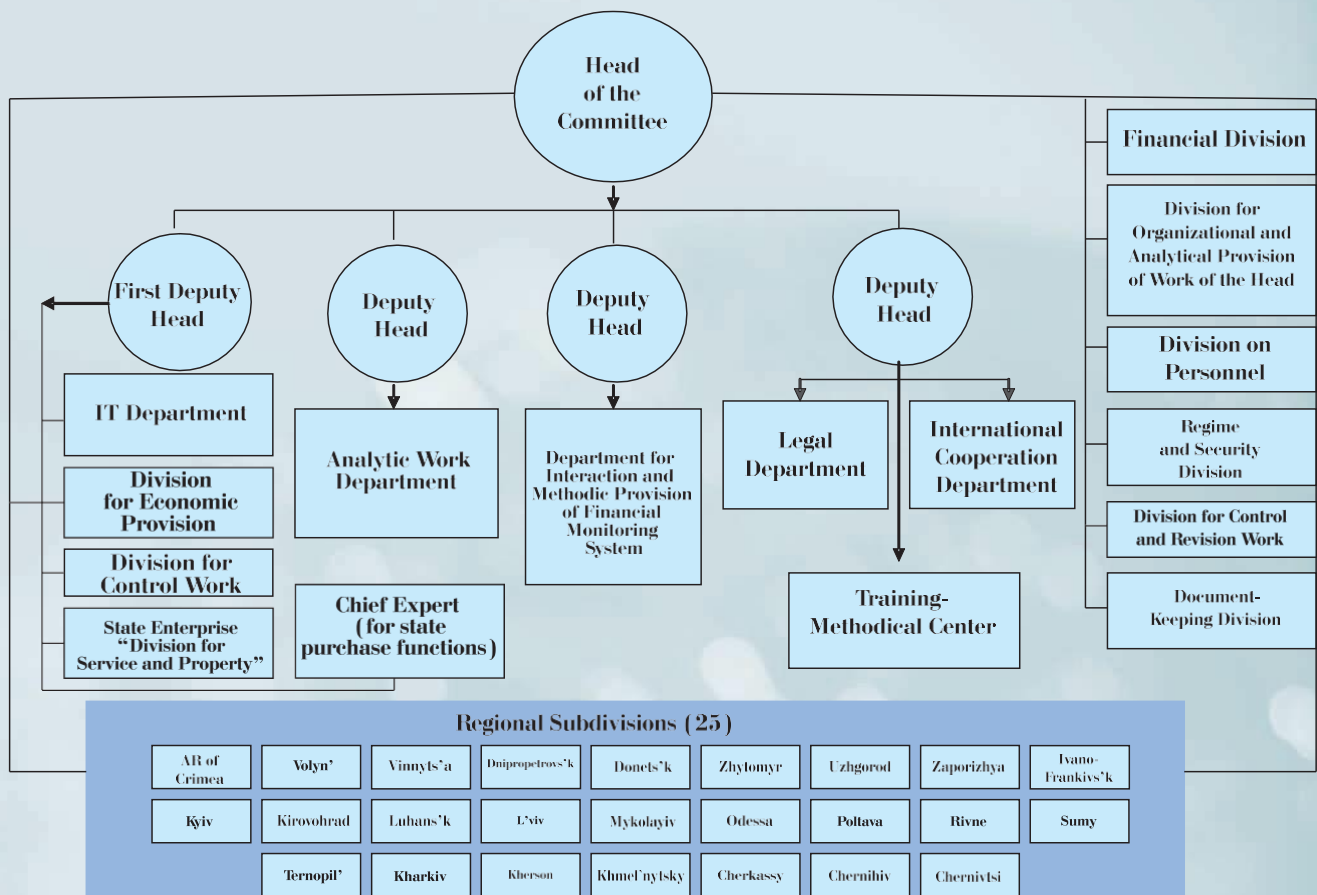
☒ **Personnel of SCFM of Ukraine:**

- total - 261 persons
- - 40% - 60 %
- average age - 33 years



Building of SCFM of Ukraine

Structure of SCFM of Ukraine



Public relations

To ensure consultations with public on the issues of state policy in the AML/CFT sphere, the Public Board acting under the Head of SCFM of Ukraine had 4 meetings during the year.

Trainings for the relevant categories of reporting entities are being conducted on regular basis. Such training seminars were carried out in 9 regions.

The web-site of SCFM of Ukraine contains section "Public relations", as well as "Questions & Answers".

Approximately 160 information announcements were placed at the web-site of SCFM of Ukraine; 7 interviews were given and 5 press conferences were carried out in 2006.



Official web-site of SCFM of Ukraine

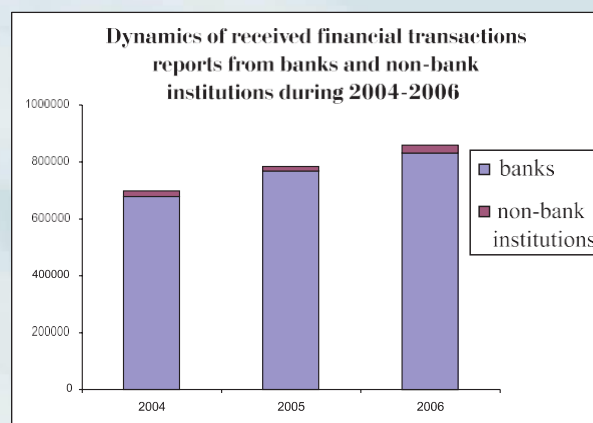
2. Development of the AML/CFT legislation

During 2006 SCFM of Ukraine continued active work on improvement of legal base in AML/CFT area. 1 Joint Resolution of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine, 4 Resolutions and 1 Directive of the Cabinet of Ministers of Ukraine, 1 Resolution of the Board of the National Bank of Ukraine, 11 Orders of SCFM of Ukraine were adopted and 1 Draft Legal act was elaborated. In 2006 the Parliament of Ukraine introduced amendments to criminal legislation concerning terrorist financing and ratified two international conventions on corruption counteraction.

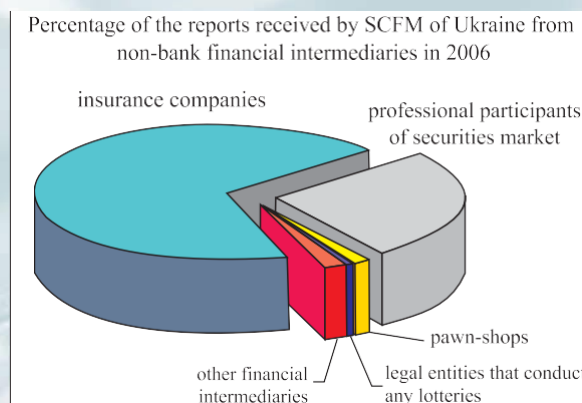
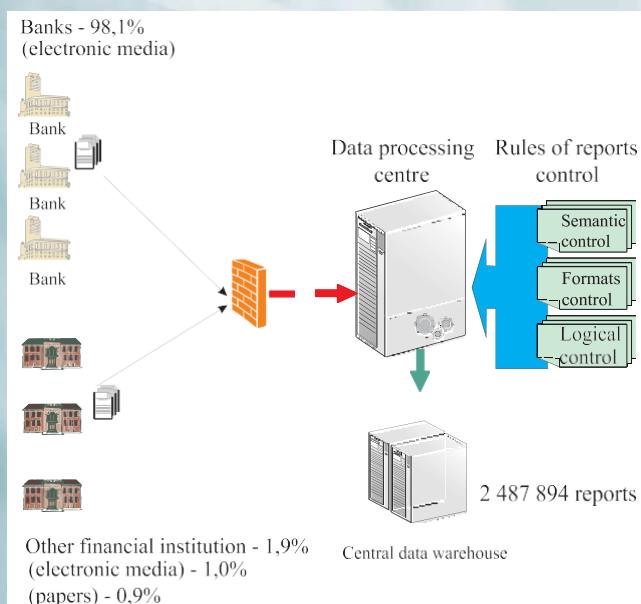
3. Statistics of received reports

SCFM of Ukraine receives information from financial intermediaries concerning financial transactions that in accordance with legislation are subject to the mandatory reporting or transactions suspected to be connected to money laundering and terrorist financing.

☑ **841 589** reports have been received in 2006:
in electronic form:
 from banks - 816 887
 from non-bank institutions - 11 156
on paper carriers:
 from non-bank institutions - 13 546



Among non-banking financial intermediaries the insurance sector is the most active reports provider. The percentage of reports in non-banking sector made up 69,5%.



In 2006 reports on transactions with participation of natural and legal persons of Cyprus, United Kingdom, Russian Federation, the USA, Germany, British Virgin Islands, Lithuania, Latvia, Kyrgyzstan and Israel were the most frequent.

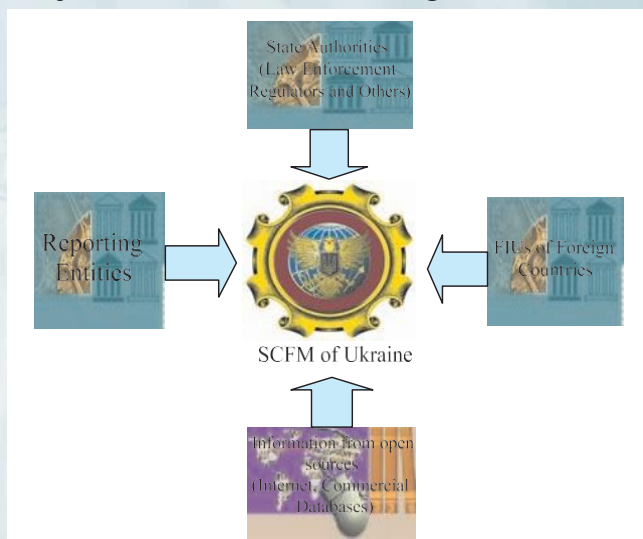
Financial transactions subject to financial monitoring with residents of "top 10" foreign countries-leaders on such transactions in 2006
(in comparison with 2005-2004)

Country of registration or citizenship of financial transaction participant	Amount of reports		
	2006	2005	2004
Cyprus	2493	2548	320
United Kingdom	2008	1865	742
Russian Federation	1877	1871	773
USA	1243	1409	1553
Germany	845	1045	319
British Virgin Islands	697	709	439
Lithuania	328	784	701
Latvia	324	742	110
Kyrgyzstan	299	166	17
Israel	286	350	164

4. Analytical Activity

The process of analysis

SCFM of Ukraine carries out collecting and processing of information received from reporting entities on financial transactions subject to financial monitoring

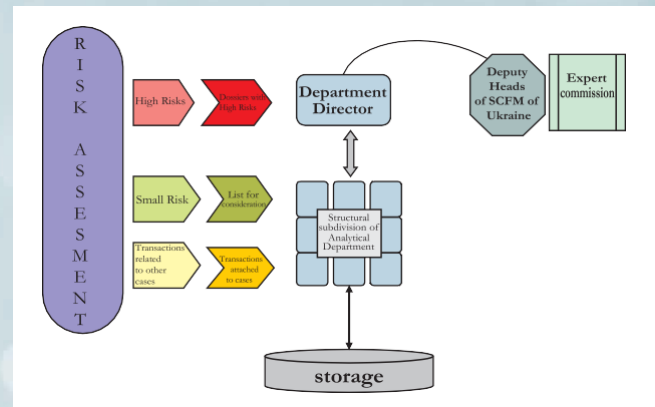


Information sources

Grounds for money laundering suspicion SCFM of Ukraine reflects in case referrals, based not only on its own conclusions, but also using proving

documents, information of law enforcement agencies and foreign colleagues.

If signs of possible money laundering or terrorist financing are revealed, case referral is prepared and submitted for consideration of expert commission.

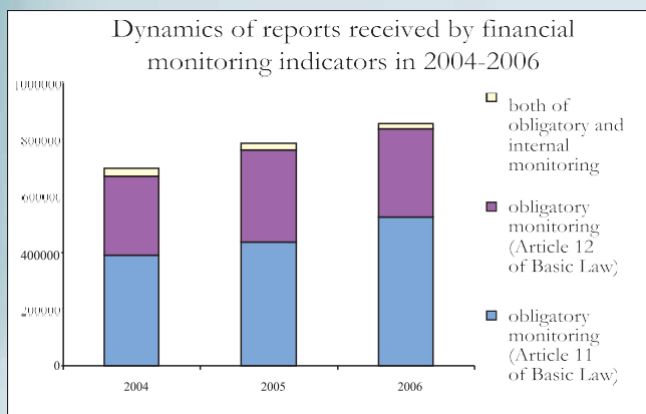


Scheme of analytical process

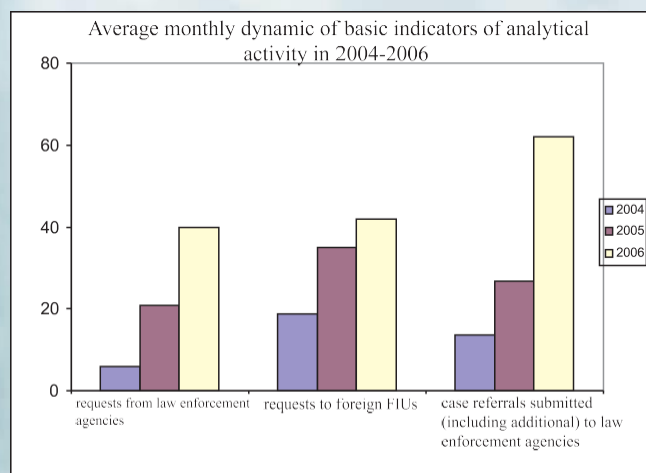
Breakdown of received reports in reporting year in the context of financial monitoring indicators is the following:

- with indicators of obligatory monitoring - 61,90%;
- with indicators of internal monitoring - 35,54%;
- with indicators of obligatory and internal monitoring - 2,56%.

There is a tendency of increasing percentage of mandatory reports, in the structure of received reports in comparison with previous periods. Simultaneously percentage of reports with internal monitoring indicators is decreasing, caused by more detailed study of financial transactions by reporting entities and on progressive reduce of practice of informing "just in case".



During reporting period 159 087 reports have been selected for active work and they became a basis for 905 dossiers. This influenced the dynamic of basic indicators of analytical process accordingly.



Laundering schemes

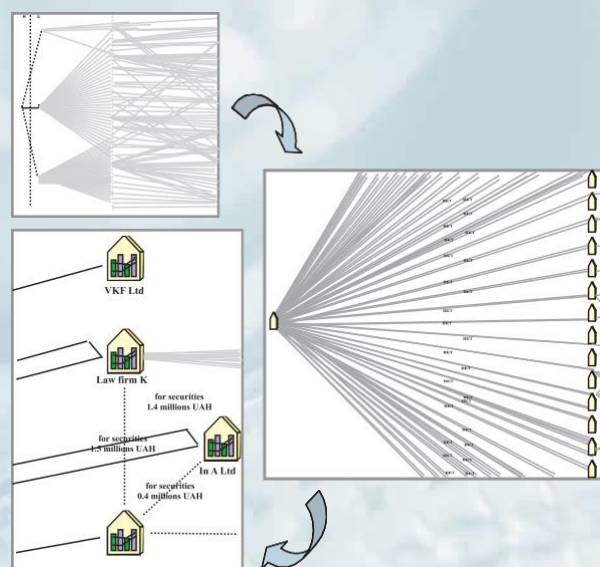
According to the experience of SCFM of Ukraine, the typical groups of financial transactions used by criminals for money laundering are:

- illegal transfer of funds abroad;
- pseudo-export (cargo-customs declarations, overpriced export or export to nonexistent companies);
- securities transactions of nonresidents;
- transactions by means of lost passports;

- transactions with bank metals;
- transactions related to VAT fraud;
- illegal cash transactions ("converting centers").

In most cases, money laundering schemes are quite complicated. Single scheme can include complex of related transactions and techniques, such as transactions of cash withdrawal, securities purchase, transfers from offshore territories/jurisdictions, fictitious cross-border transactions and illegal VAT compensation from budget, documents counterfeiting, use of stolen passports, creation of shell companies etc.

Next issue of "Money Laundering Typologies in Ukraine: 2004-2005" of SCFM of Ukraine was published in 2006.



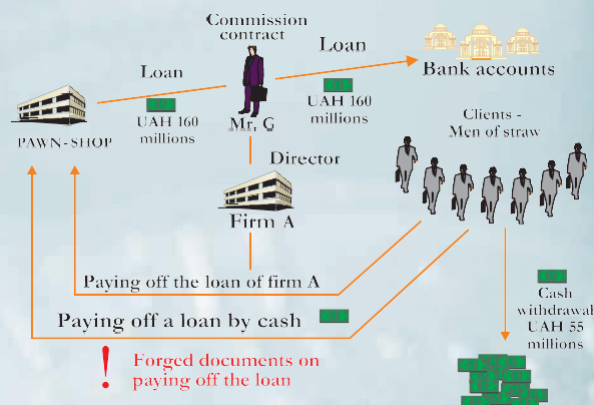
Scheme of money laundering

Example 1. "Carousel fraud using pseudo-import"

- Two Ukrainian companies-importers have transferred abroad 75.2 millions Russian rubles in favour of company-nonresident as payment for goods.
- Later, the mentioned funds have been returned to Ukraine to accounts of two Ukrainian companies-exporters in the guise of execution of foreign-trade agreements.
- Then by means of buy-sell of promissory notes and savings certificates Ukrainian companies-exporters directed these funds to accounts of companies-importers again.
- During investigation appeared that goods to Ukraine has not been delivered to Ukraine.
- Forged cargo-customs declarations have been submitted by companies-importers to bank institution in order to justify money transfer abroad.
- Law enforcement agencies investigated scheme revealed by SCFM of Ukraine and froze UAH 4.2 millions on the bank account of company involved in scheme.
- During investigation SCFM of Ukraine used information from FIUs of 5 countries - Egmont Group members.

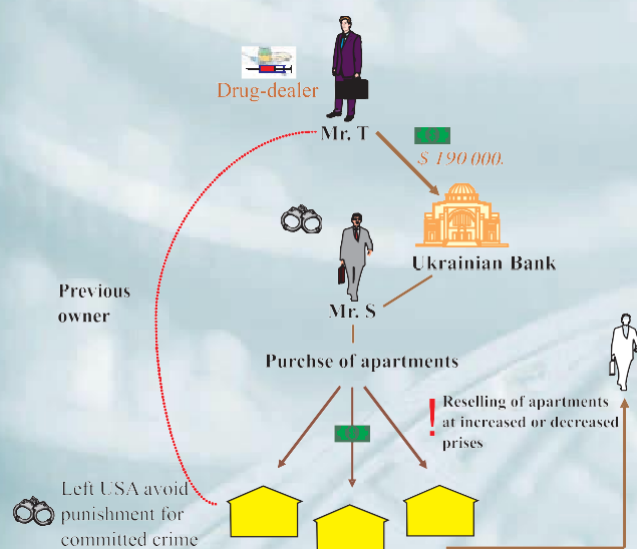
Example 2. "Converting funds into cash through pawn-shop"

- Pawn-shop and Mr. G. have concluded contract of agency, in accordance with which, the latter takes commitment to look for clients for pawn-shop, to deliver cash obtained in pawn-shop to borrowers - natural persons, and to receive cash from them as well as to give back this cash to pawn-shop after loan termination.
- According to this agreement, Mr. G. receives funds in cashier's office of pawn-shop and pretends to transfer them under loan agreements, arranged by managers of pawn-shop with the men of straw.
- UAH 160 millions were transferred using false documents from accounts of pawn-shop to accounts of 10 natural persons as "pawn-shop loan". Then, Ms. C. using contract of agency received part of these funds in amount of UAH 54.63 millions in cash.
- Further, Mr. G. and managers of pawn-shop falsified documents testifying return of cash to cashier's office of pawn-shop as payment of part of loan amount.
- Other part of amount was paid (with assistance of securities dealer) with promissory notes transmission to pawn-shop, emitted by company "A" where Mr. G. was owner and director. These promissory notes were emitted on transactions without articles of trade and didn't represent actual value.



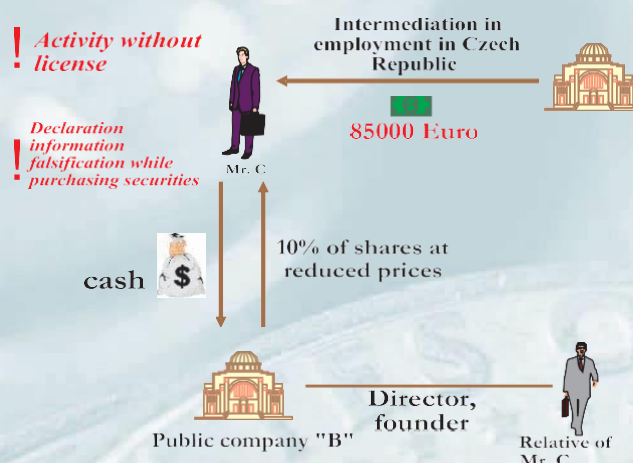
Example 3. "Transactions with real estate using funds from drug trafficking"

- Mr. S. foreign citizen who lives in Ukraine, received at his account in Ukrainian bank considerable amount of money (several hundreds thousand USD).
- Mentioned funds were received from abroad from other foreigner Mr. T. and were the proceeds from drug trafficking.
- According to the information from foreign competent authorities, Mr. T. was directly engaged in illegal drug trafficking and money laundering at international level. Mr. S. left his country in order to avoid punishment for crime commitment.
- Mr. S. spent obtained funds to purchase apartments, and the previous owner of some of them was Mr. T.
- Apartments were sold at prices substantially different from buying price (increased or decreased). In particular, false information on subject of trade was declared in agreement while reselling one of apartments by Mr. S.



Example 4. "Legalization of criminal proceeds through transactions with securities"

- Citizen of Ukraine Mr. C. provided intermediation in employment assistance for citizens of Ukraine abroad without having relevant license.
- In course of his activity he obtained profit in Czech Republic in amount of 85000 Euro. In order to legalize funds obtained illegally, Mr. C. purchased 10% of shares of public corporation "B" at decreased price - UAH 207000 (nominal value - more than UAH 820000) at specialized auction sale. Payment was done in cash.
- False information was given in declaration annexed to claim for shares purchase. Besides, it was revealed that director and founder of public corporation "B" was relative of Mr. C.



5. Case referrals

On condition of prior consideration and approving by Expert Commission combined from members of all law enforcement agencies, case referrals are submitted to law enforcement agencies.

SCFM of Ukraine and law enforcement authorities quarterly review the results of case referrals consideration.

Registration of case referrals and state of their consideration is carried out through electronic Control card. Special software enables law enforcement agencies to process complicated schemes in electronic form.

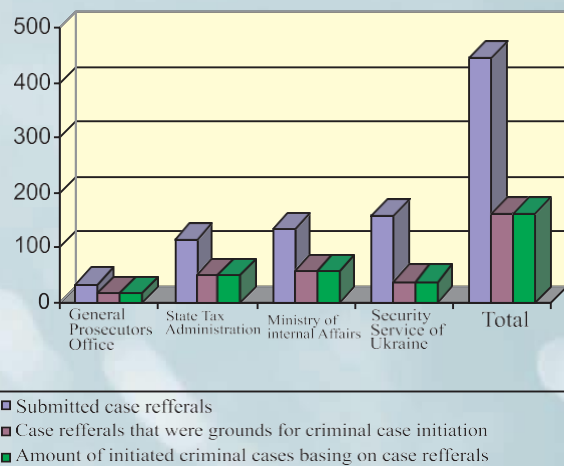
☑ In 2006 SCFM of Ukraine submitted to law enforcement authorities 446 case referrals, composed on the basis of 207 876 reports on financial transactions subject to financial monitoring.

Including submission to General Prosecutor's Office of Ukraine - 34; State Tax Administration of Ukraine - 117; Ministry of Interior of Ukraine - 135; the Security Service of Ukraine - 160.

Amount of possible legalization - UAH 47.11 billions.

Under the results of processing of 164 case referrals, 163 criminal cases have been initiated by law enforcement authorities, 8 of which were submitted to the court. Other criminal cases are being investigated.

Consideration of case referrals by law enforcement agencies in 2006



✓ At the beginning of 2006, general, local and appeal courts of Ukraine considered 220 criminal cases related to money laundering (Articles 209, 209¹ of the Criminal Code of Ukraine).

During 9 months of 2006, courts passed 73 sentences upon money laundering cases.

Note.

Article 209 of the Criminal Code of Ukraine - 'Legalization (Laundering) of the Proceeds from Crime';

Article 209¹ - 'Intentional Violation of Requirements of Legislation on Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime'.

Consideration of case referrals by law enforcement authorities in 2003 - 2006

INDEX	2006					TOTAL FOR 2003-2006				
	General Prosecutor's Office of Ukraine	State Tax Administration	Ministry of Interior	Security Service of Ukraine	total	General Prosecutor's Office of Ukraine	State Tax Administration	Ministry of Interior	Security Service of Ukraine	total
Case referrals submitted	34	117	135	160	446	124	238	268	319	949
Case referrals under which criminal cases were initiated (or which were used during initiation)	18	50	57	38	163	78	110	91	78	357
Case referrals under which criminal cases are refused to be initiated, according to the Article 6 of the Criminal-Procedural Code of Ukraine	8	11	23	8	50	18	38	51	10	117
Number of initiated criminal cases under submitted case referrals (or where case referrals used)	18	50	58	38	164	65	106	91	63	325
Criminal cases submitted to the court	0	4	4	0	8	4	8	8	0	20
Among them considered by courts and passed sentences	1	0	0	0	1	2	1	0	0	3

Counteraction to terrorist financing

"Black list":

- ❖ The Government approves procedure for "the List of Terrorists" composition.
- ❖ The SCFM of Ukraine receives information on persons related to terrorist activity in Ukraine (from the Security Service of Ukraine) and abroad (from the Ministry of Foreign Affairs)
- ❖ The SCFM of Ukraine approves "the List of Terrorists" (and amendments to it) and informs the reporting entities.

In 2006 mechanism of terrorists' transactions¹ blocking was created. The national "List of Terrorists" was approved, to which 487 persons were included.

Transactions blocking:

- ❖ Financial institution should block the transaction carried out by person from black list for 2 days and inform the SCFM of Ukraine on it.
- ❖ The SCFM of Ukraine has the right for additional suspension of financial transaction up to 5 days.

¹ To fulfill requirements of the Article 12¹ of the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime".

6. Development of informational systems

Information-Analytical System

In 2006 SCFM of Ukraine developed the software for:

- taking decision by SCFM of Ukraine on further suspension of financial transaction if its participant or beneficiary is a person included to the list of persons related to terrorist activity;
- informing reporting entities on the list of persons related to conducting terrorist activity;
- certain AML/CTF reporting forms;
- providing Regional Subdivisions of SCFM of Ukraine with information.

Furthermore, new software was implemented for collection and processing of information; software for case referrals tracking was updated; subsystem of informational resource of databases of the State Tax Administration and State Custom Service was updated*.

** Note. To fulfil Article 6 of Decree of the President of Ukraine on June 23, 2004 No. 671/2004 "On Urgent Measures of Increasing Efficiency of VAT Collection" concerning prevention and counteraction of use mechanism of budget reimbursement of VAT amounts for legalization (laundering) of the proceeds from crime.*

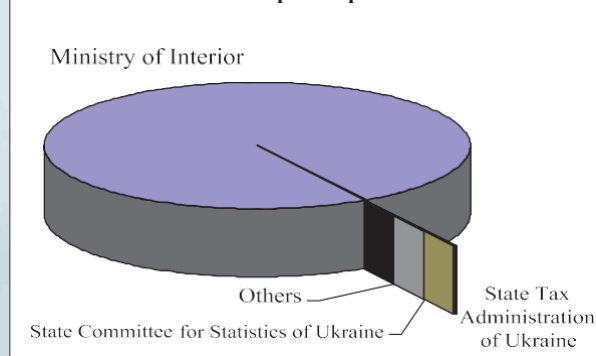
Unified Informational System

In 2006 test operation of UIS was carried out, and on December 30, 2006 it was launched in full operation mode.

❖ 281 324 requests (including batch requests) were submitted to the functional subsystems of UIS participants.

❖ Batch request regime was introduced for the verification of passport information of financial transactions participants through the informational resource "Lost Passports" of the Ministry of Interior.

Structure of requests (including batch requests) submitted to UIS participants in 2006



❖ 12 functional subsystems within UIS were improved (of the State Tax Administration, the Ministry of Interior, the State Customs Service, the State Property Fund, the Ministry of Economy, the Main Division for Revision and Control, the State Security Service of Ukraine, the Ministry of Finance, the State Securities and Stock Market Commission, the State Committee for Statistics, the State Border Service Administration, the State Commission for Regulation of Financial Services of Ukraine).

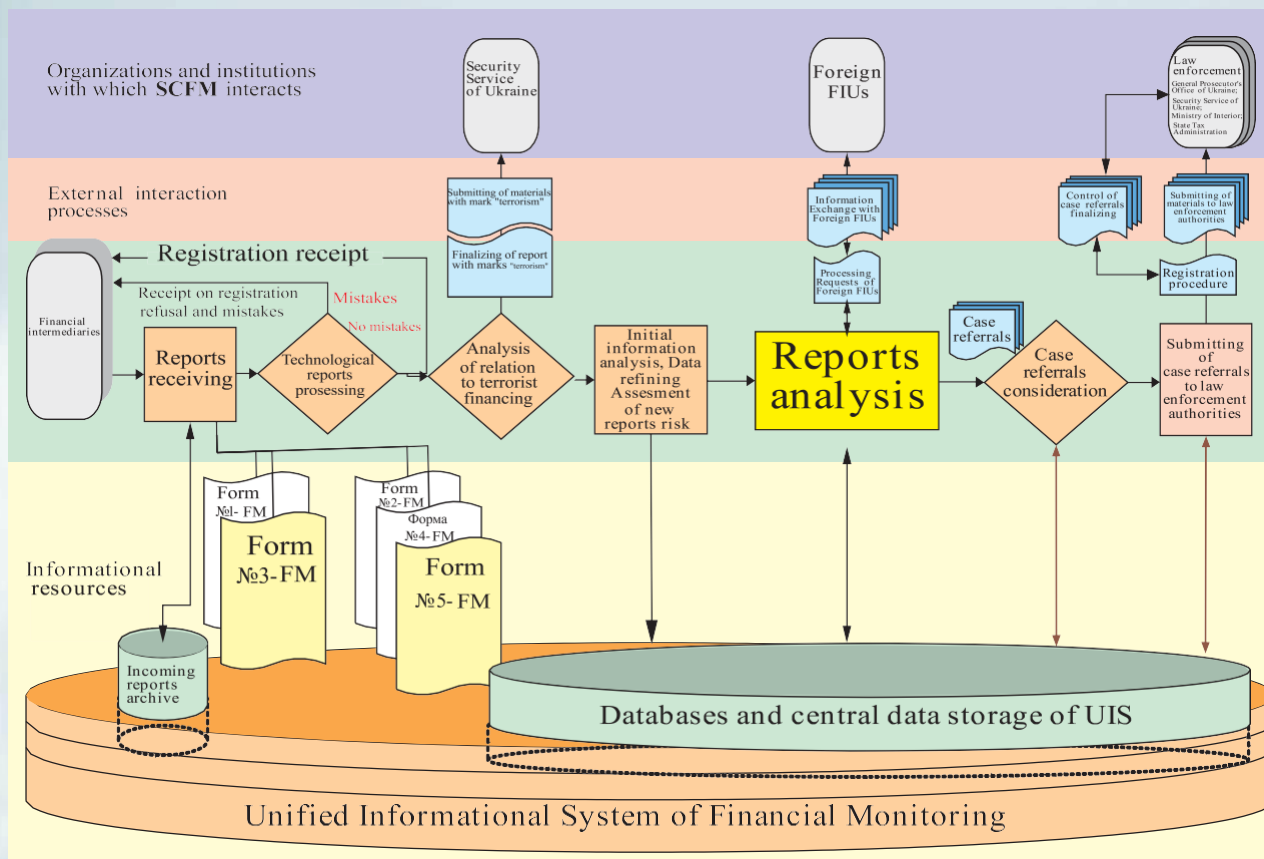


Structure of UIS of SCFM of Ukraine

❖ The Model Provision was approved, on the basis of which state authorities - participants of UIS elaborated provisions on their UIS functional subsystems.

❖ The SCFM of Ukraine and the Security Service of Ukraine issued joint order, which approves Instruction on administrators interaction at the terminal station of ITFM.

Development of informational systems



Corporative system FinNet

In SCFM of Ukraine the secure multi-service automatized corporative system FinNet is being created, which connects central office and regional subdivisions. In 2006:

- 7 regional subdivisions connected to FinNet;
- 5 regional subdivisions temporary connected;

- each of the regional subdivisions received internet access; internal e-mail and telephone communication with central office;
- hardware encryption was tested between regional subdivisions and central office of SCFM of Ukraine;
- domain structure of FinNet was created.



Training of Analytical System users - employees of SCFM of Ukraine

7. Regional Subdivisions

Creation of regional network of the SCFM of Ukraine

☑ 100 employees are working in 22 regional subdivisions of SCFM of Ukraine

Main activities of the SCFM of Ukraine regional subdivisions are the following:

- tracking of case referrals submitted to law enforcement authorities;
- forming of register of the reporting entities in the region;
- establishment of cooperation between regional subdivisions and authorities in AML/CTF area;
- coordination and methodical provision of activity of the reporting entities in the region.

As for today Regional Subdivisions of SCFM of Ukraine are established in 22 regions:

Autonomous Republic of Crimea, Vinnyts'ka Oblast, Volyns'ka Oblast, Dnipropetrovs'ka Oblast, Zhitomyrs'ka Oblast, Zakarpats'ka Oblast, Zaporiz'ka Oblast, Ivano-Frankivs'ka Oblast, Lvivs'ka Oblast, Lugans'ka Oblast, Mykolayivs'ka Oblast, Odess'ka Oblast,

Poltavs'ka Oblast, Rivnens'ka Oblast, Sums'ka Oblast, Ternopils'ka Oblast, Kharkivs'ka Oblast, Khersons'ka Oblast, Khmelnyts'ka Oblast, Cherkass'ka Oblast, Chernivets'ka Oblast and Chernihivs'ka Oblast.

Regional Network of SCFM of Ukraine



- ★ Established
- ★ Planned



Building where the Regional Subdivision of SCFM of Ukraine in Volyns'ka Oblast (Luts'k) is situated.

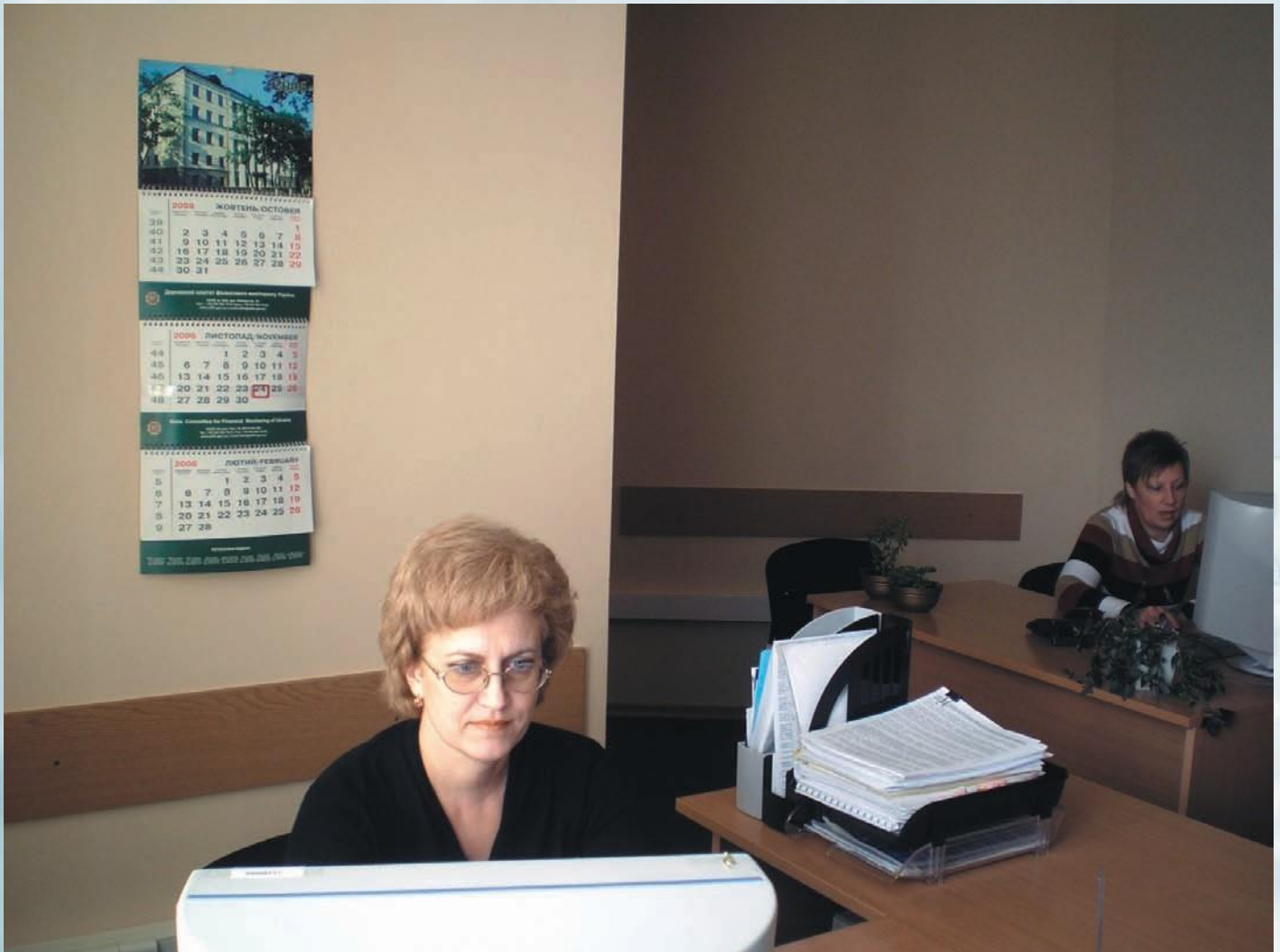
Results of regional subdivisions activity

During the current year regional subdivisions of SCFM of Ukraine:

- ❖ created and maintained the register of the reporting entities in regions;
- ❖ submitted to the courts 24 protocols on failure of compliance officer of reporting entity to submit or untimely submission to SCFM of Ukraine of reports on financial transactions. 16 persons were penalized by court;
- ❖ 9 seminars and 10 "round tables" were carried out in regions for AML/CTF experts, in which 1500 experts took part;

❖ 123 agreements were concluded on cooperation, interaction and information exchange with territorial law enforcement and other state authorities, 33 protocols were signed on cooperation and information exchange;

❖ in the framework of cooperation establishment, tracking of case referrals, working meetings are carried out with leadership of regional law enforcement and other state authorities, regulating and supervisory territorial authorities.



Regional Subdivision of SCFM of Ukraine in Volyns'ka Oblast (Luts'k)

Interaction with reporting entities

Interaction of regional subdivisions of SCFM of Ukraine with reporting entities was carried out in following directions:

- surveys of the reporting entities;
- detecting the problems of the reporting entities;
- creating the register of the reporting entities;

- consultations and recommendations;
- training regional seminars.

☑ During 9 seminars and 10 "round tables" regional subdivisions carried out training of more than 1500 experts and provided over 1700 consultations (clarifications) in AML/CTF sphere



Regional seminar on financial monitoring issues
with participation of SCFM of Ukraine employees (Lviv)

Interaction with regional state authorities

Regional subdivisions of SCFM of Ukraine in 2006:

- ❖ concluded 105 agreements and 28 protocols with state authorities on interaction in AML/CTF area;
- ❖ 906 working meetings were carried out with state authorities representatives;

❖ provided 152 replies on requests of state authorities;

❖ provided 411 clarifications on AML/CTF issues to the territorial subdivisions of state authorities.



Interaction with state authorities

Interaction with regional law enforcement authorities

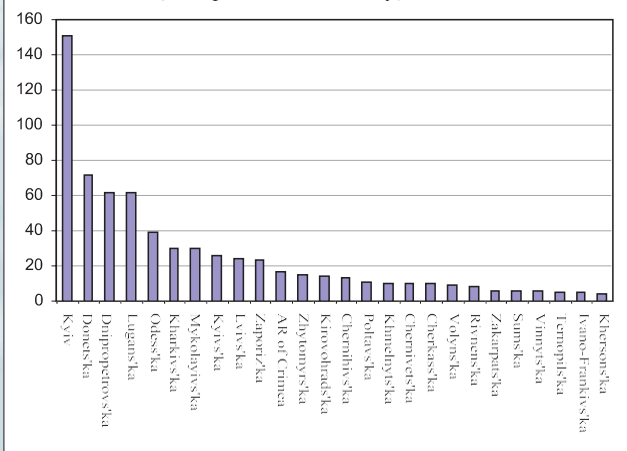
Regional subdivisions of law enforcement authorities are considering 668 case referrals - almost 70,4% from the general number of submitted materials.

Most case referrals are considered by law enforcement authorities of Kyiv - 151, Donetsk Oblast - 72, Dnipropetrovs'ka Oblast - 62, Lugans'ka Oblast - 62, Odess'ka Oblast - 39.

In order to improve interaction with law enforcement authorities, especially at regional level, during processing of case referrals, as well as during investigation of criminal cases on predicate offences,

SCFM of Ukraine prepared joint Order with the Ministry of Interior, the Security Service of Ukraine and the State Tax Administration "On Approving Procedure of Submitting and Consideration of Case Referrals".

Case referrals submitted by SCFM of Ukraine to Law enforcement authorities by regions (except of central body) in 2006



Case referrals submitted by SCFM of Ukraine to law enforcement authorities, which are considered by territorial divisions of law enforcement authorities as of December 31, 2006

Region Name	General Prosecutors Office of Ukraine	State Tax Administration of Ukraine	Ministry of Interior	Security Service of Ukraine	Total
AR of Crimea and Sevastopol	1	7	4	5	17
Vinnys'ka	0	3	1	2	6
Volyns'ka	1	3	1	4	9
Dnipropetrovs'ka	11	32	15	4	62
Donets'ka	35	11	23	3	72
Zhytomyrs'ka	0	7	7	1	15
Zakarpats'ka	2	2	1	1	6
Zaporiz'ka	6	6	5	6	23
Ivano-Frankivs'ka	1	1	1	2	5
Kyivs'ka	1	13	6	6	26
Kirovohrads'ka	0	7	7	0	14
Lugans'ka	7	22	20	13	62
Lvivs'ka	1	4	11	8	24
Mykolayivs'ka	1	11	12	6	30
Odess'ka	5	10	13	11	39
Poltavs'ka	1	5	4	1	11
Rivnens'ka	0	4	1	3	8
Sums'ka	1	2	3	0	6
Ternopils'ka	1	2	0	2	5
Kharkivs'ka	2	11	8	9	30
Khersons'ka	2	1	0	1	4
Khmelnys'ka	0	4	3	3	10
Cherkass'ka	2	4	2	2	10
Chernihivs'ka	0	3	3	7	13
Chernivets'ka	0	2	5	3	10
Kyiv	24	42	61	24	151
Total	105	219	217	127	668
Central body	19	19	51	192	281
Total	124	238	268	319	949

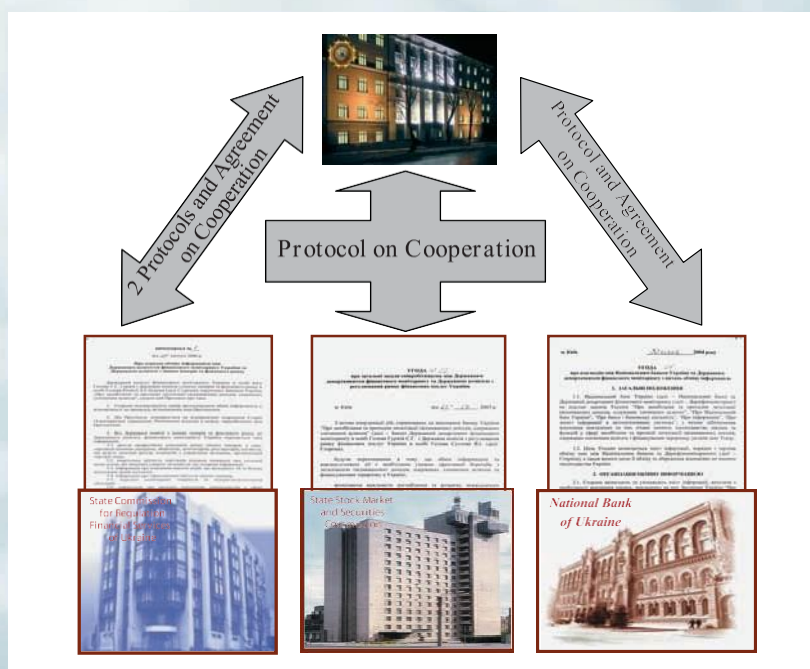
8. Interagency cooperation

Interaction with regulators and other state authorities

In 2006 cooperation with state authorities on AML/CTF issues was continued. During the year SCFM of Ukraine monthly provided regulators with general analytical reviews concerning submitting activity by reporting entities of information on financial monitoring issues,

as well as information on possible legislation violation by reporting entities in AML/CTF area.

In 2006 SCFM of Ukraine concluded 7 agreements on cooperation and 6 protocols with other state authorities.



Cooperation with state regulators

Actions coordination of the entities of financial monitoring

SCFM of Ukraine as national AML/CTF system coordinator works in four main areas:

- ✓ hosting of Interagency Working Group that has 21 members (state authorities, other organizations);
- ✓ hosting of Working Group on Problem Issues of the Reporting Entities - Non-Banking Institutions and review of efficiency of their AML/CTF activity.

- ✓ cooperation with self-regulating organizations;
- ✓ providing to state regulators information on possible non-compliances in AML/CTF area by the reporting entities and list of entities that fail to submit reports.



Regional seminar on financial monitoring issues with participation of SCFM of Ukraine employees (Kherson)

During 2006 SCFM of Ukraine:

- ❖ submitted 33 analytical reviews to state regulators;
- ❖ approved 28 legal acts in AML/CTF area;
- ❖ concluded memorandums on cooperation with Ukrainian Association of Gambling Operators, Insurance Intermediaries Federation, National Association of Private Pension Funds of Ukraine;
- ❖ prepared guidelines on AML/CTF issues for gambling institutions;
- ❖ submitted to the court 40 protocols on administrative violations on officials of the reporting entities;
- ❖ carried out thematic seminars on AML/CTF issues for gambling institutions, commodity exchanges, pawn-shops, participants of securities market, administrators of private pension funds, leasing institutions and credit unions;

❖ established and carried out two meetings of Working Group on Problem Issues of the Reporting Entities - Non-Banking Institutions and review of efficiency of their AML/CTF activity. This group is established within Interagency Working Group. The members are representatives of state regulators, law enforcement authorities, leading self-regulating organizations and SCFM of Ukraine.

❖ meetings on AML/CTF issues were organized with all of self-regulating organizations in financial services market, with which memorandums on cooperation were signed .

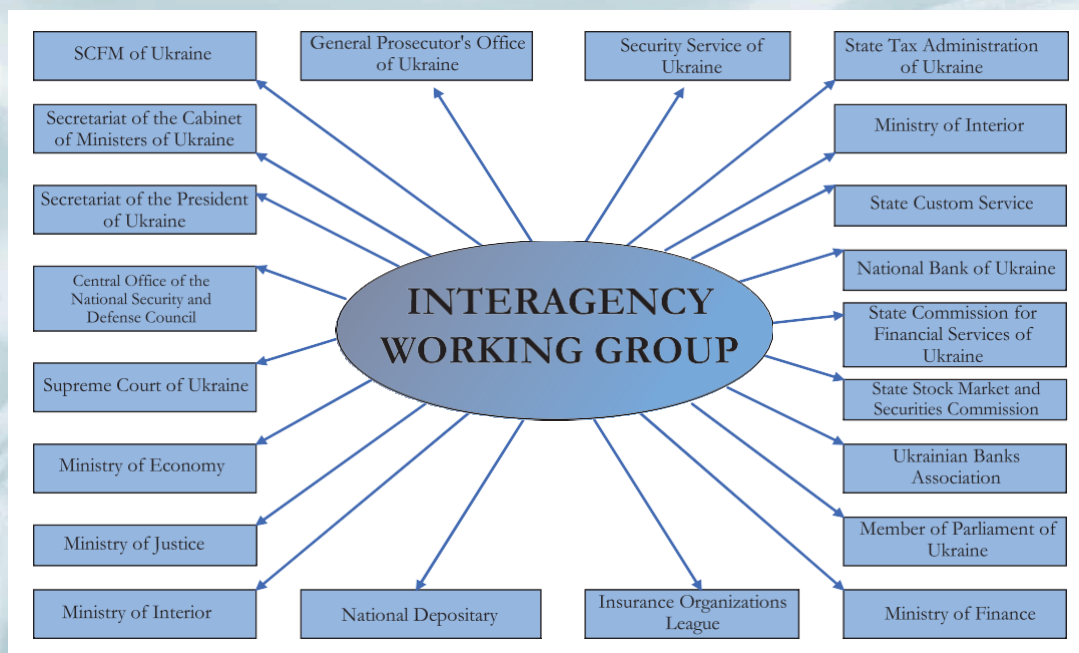


Signing of memorandum on cooperation

Activity of Interagency Working Group

During 2006 Interagency Working Group on research methods and trends in laundering of

proceeds from crime (IWG) played an important role in coordination of AML/CTF system.



During 2003-2006 there were held 34 IWG-meetings. In 2006 9 meetings of IWG were carried out, during which following issues were considered:

- fulfillment of AML Action Plan for 2006;
- situation with investigations of money laundering criminal cases;
- state agencies of regulatory and supervision activity in AML/CTF area;
- on preparation of money laundering typologies;
- on interaction and coordination of activity on the regional level etc.

IWG is at the same time Supervisory Committee for Council of Europe technical assistance Follow-up Project against Money Laundering and Terrorist Financing in Ukraine (MOLI - UA-2). On the 30th IWG Meeting of technical assistance project and project implementation plan were represented.

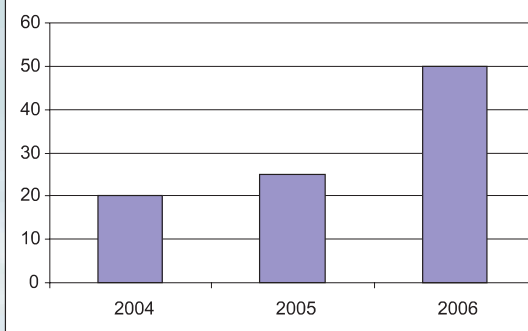


IWG Meeting

Methodical provision, training of reporting entities

In 2006 quantity and quality of training activity of SCFM of Ukraine substantially increased. Thus, in comparison with 2005 number of training measures increased 1,6 times, and the circle of involved financial institutions enlarged.

Dynamics of average daily number of consultations on AML/CTF issues for the entities of initial financial monitoring in the framework of "Hot Line" in 2004-2006



✓ During 2006 SCFM of Ukraine:

- ❖ submitted 165 letters - recommendations to financial intermediaries
- ❖ 43 guidelines and methodical recommendations are placed on the web-site
- ❖ "hot line" provides more than 50 consultations daily
- ❖ On the 95 seminars 4200 experts were trained

9. Training-methodical center of SCFM of Ukraine

✓ Staff of Training-Methodical Center - 8 persons; 38 persons engaged in training. In September the scientific-research laboratory was established, and in November in Lviv establishment of Western regional branch was commenced.



Training room of Training-methodical center



International scientific and practical conference in Kyiv

In 2006 Training-Methodical Center:

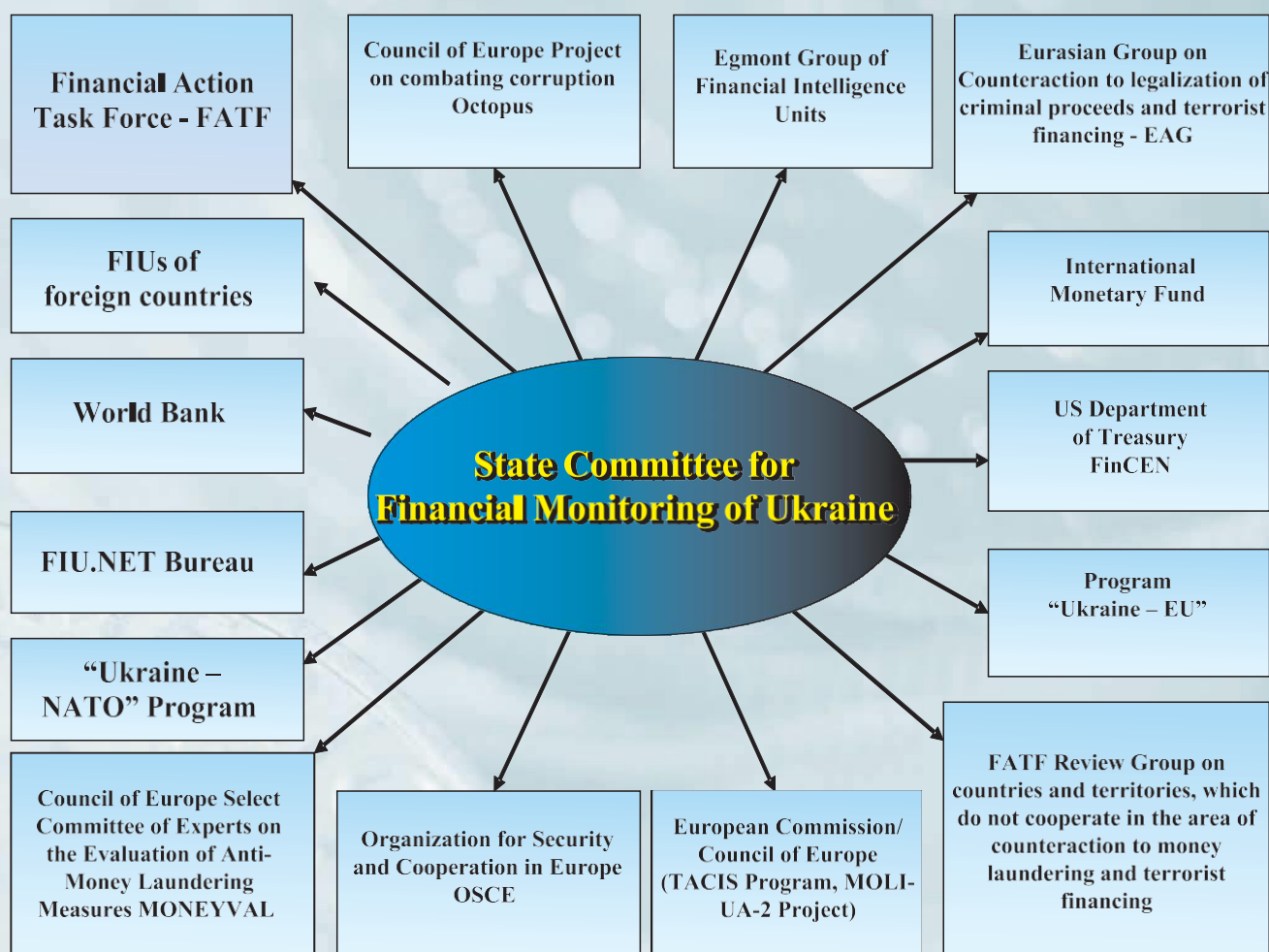
- provided training in AML/CTF area for 240 experts of state agencies.
- conducted International scientific and practical conference "Development of Financial Monitoring within the World Economy Globalization";
- prepared collection of normative legal documents in the AML/CTF area;
- prepared first volume of Training Manual on AML/CTF;
- issued "Money Laundering Typologies in Ukraine in 2004-2005";
- created electronic Unified register of financial monitoring experts and system for control of their knowledge.

10. International cooperation

Cooperation with international organizations

✓ On February 1 2006 FATF took decision to withdraw active monitoring procedure on Ukraine. This decision was based on fulfillment by Ukraine of all FATF recommendations and on the basis of progress, achieved by Ukraine in the improvement of national AML/CTF legislation.

In 2006 representatives of SCFM of Ukraine executed 30 foreign trips, received 3 delegations of foreign FIUs and 14 representatives of foreign institutions and international organizations.



Cooperation with international organizations

European Commission initiated implementation of the Follow-up Project of Technical Assistance Against Money Laundering and Terrorist Financing in Ukraine (MOLI-UA-2), general aim of which is development of AML/CTF system.

In 2006 Memoranda of Understanding concerning cooperating in the AML/CTF area were concluded with FIUs of Canada, Croatia, China, Moldova and Belarus, 11 more memoranda are being prepared.



Visit of China FIU delegation to the SCFM of Ukraine

Provision of technical assistance to other FIUs

During the year experts of SCFM of Ukraine provided technical assistance on AML/CTF issues to Macedonia, Moldova, Serbia (within the Council of Europe projects), Belarus, (within the EAG project).

SCFM of Ukraine is co-sponsor of Kazakhstan, Azerbaijan, Iran, Belarus and Moldova on their way to the Egmont group.

Information exchange with FIUs

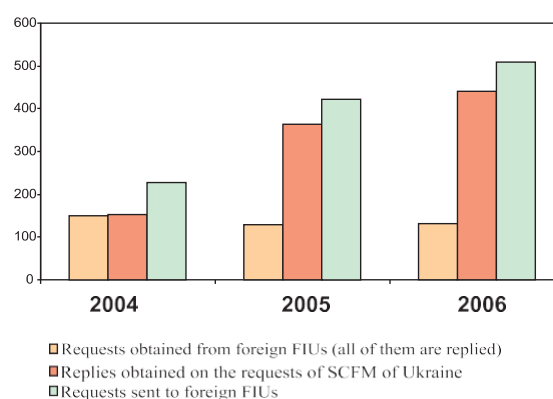
SCFM of Ukraine cooperates with almost 80 FIUs.

During 2006 the most active information exchange was carried out with FIUs of Latvia, Lithuania, the USA, Russian Federation and Cyprus.

Information exchange is carried out on the basis of international standards and Egmont group recommendations.

The main principles of work with requests are efficiency of information processing and confidentiality.

Interaction with foreign FIUs in 2004-2006



SCFM of Ukraine:

- Sent 509 requests to foreign FIUs, and obtained 440 replies;
- Received 132 requests from foreign FIUs (all requests replied).

Average time for preparation of reply on requests of FIUs - 21 days.

11. Prospect of development

SITUATION 2006

- ✓ provision of stable work in the area of collection, processing and analysis of information;
- ✓ support of high intensity of exchange with foreign financial intelligence units;
- ✓ active representation of interests of Ukraine in international organizations;
- ✓ development of regional network of SCFM of Ukraine;
- ✓ activation of methodological and training activities of SCFM of Ukraine, commencement of work of Training-Methodical Center;
- ✓ completion of test operation of UIS.

KEY FACTORS 2007

- ✓ anticipated amendments to the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of the proceeds from crime";
- ✓ implementation by the EU countries Third Directive on combating money laundering and terrorist financing;
- ✓ stirring up of activities of SCFM of Ukraine regional subdivisions;
- ✓ full mode UIS operation.

CHALLENGES 2007

- ✓ increase of number of the reporting entities, forthcoming of their new categories;
- ✓ substantial increase of incoming information flow to the SCFM of Ukraine;
- ✓ increased attention of international organizations to the compliance with AML/CTF standards.

RESPONSES 2007

- ✓ increase of possibilities of analytical processing of information and speed of analysis;
- ✓ support of new reporting entities in the AML/CTF activity;
- ✓ implementation of new international AML/CTF standards.

ACTIONS 2007

- ✓ improvement of Information-analytical system;
- ✓ full mode UIS operation;
- ✓ activation of cooperation with law enforcement agencies and other state agencies on regional level;
- ✓ active cooperation with Council of Europe/European Commission within the MOLI-UA-2 Project;
- ✓ support of amendments to legislation concerning implementation of FATF 40+9 Recommendations, Council of Europe Warsaw Convention and Third EU Directive in the AML/CTF area;
- ✓ increase of activities to engage non-banking financial institutions into AML/CTF activity;
- ✓ preparation of national system of AML/CTF to the third round of evaluation by experts of Council of Europe Committee MONEYVAL;
- ✓ professional development of staff of participants of the national AML/CTF system in the framework of Training-Methodical Center.

List of abbreviations

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

More detailed information on SCFM of Ukraine activities

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