



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

**Annual Report  
2014**

**Kyiv**

## CONTENT

	<b>Introduction</b>	3
<b>1.</b>	<b>About the State Financial Monitoring Service of Ukraine</b>	4
1.1.	The role of the SFMS of Ukraine in the AML/CFT system	4
1.2.	Human Resources	4
1.3.	Funding of the SFMS of Ukraine	6
<b>2.</b>	<b>AML/CFT legislation development</b>	7
<b>3.</b>	<b>Statistics on STRs</b>	8
3.1.	General dynamics of STRs	8
3.2.	Reporting entities STRs dynamics	9
<b>4.</b>	<b>Analytical activity</b>	12
4.1.	Information analysis process	12
4.2.	Freezing of financial transactions	14
4.3.	Financial investigations	15
<b>5.</b>	<b>Case referrals. Submission and consideration</b>	23
<b>6.</b>	<b>Ensuring operation of unified state information system in AML/CFT sphere</b>	25
<b>7.</b>	<b>Interagency cooperation</b>	27
7.1.	Interaction with regulators and other state agencies	28
7.2.	Interaction with the reporting entities	29
7.3.	Interaction with the public	30
7.4.	Methodical provision, training of reporting entities' staff	30
<b>8.</b>	<b>Activities of the Training Center of the SFMS of Ukraine</b>	<b>31</b>
<b>9.</b>	<b>International Cooperation</b>	32
9.1.	Cooperation with international organizations	32
9.1.1.	Cooperation with FATF	33
9.1.2.	Cooperation with Egmont group of FIUs	33
9.1.3.	Cooperation with the Council of Europe/European Commission	33
9.1.4.	Cooperation with Eurasian group on combating money laundering and financing of terrorism	34
9.1.5.	Other international events	35
9.1.5.1.	Providing technical assistance to FIUs	37
9.2.	Information exchange with foreign FIUs	37
<b>10.</b>	<b>Plans for 2015. Development perspectives</b>	38

**Dear colleagues!**

One of the main objectives of the State Financial Monitoring Service of Ukraine (hereinafter – the SFMS) is to establish ourselves as a reliable partner for an international community in terms of the AML/CTF cooperation.

Considering the great importance of this matter in 2014 the SFMS conducted activities as follows:

- legal support of the systems of the SFMS;
- enhance of the international cooperation in terms of the AML/CTF collaboration;
- enhance in the field of practical measures concerning AML/CTF.

First of all, by the results of implementation of the new FATF standards and IMF recommendations, the SFMS mutually with Ministry of Finance of Ukraine and other state authorities developed and Verkhovna Rada of Ukraine at 14.10.2014 adopted the Law of Ukraine «On Prevention and Counteraction to Legalization (Laundering) of the Proceeds of Crime, Terrorism Financing and Financing of Proliferation of Weapons of Mass Destruction».

Regarding practical measures the SFMS continues to conduct investigation concerning laundering of the proceeds from crime, misappropriation and embezzlement of the state property by the former President of Ukraine **V.F. YANUKOVYCH** and his related persons involved in the deliberate massacre of people and separatist activity in the territory of Ukraine.

Also the SFMS is conducting an active international cooperation regarding search and freeze of the assets misappropriated by the Ukrainian officials.

In this regard during April 29 – 30, 2014 Ukrainian delegation took part in Ukraine Forum on Asset Recovery (UFAR) held in London (UK).

At the October 17, 2014 in Zurich, Switzerland specialists of the SFMS took part in the FIUs meeting regarding recovery of the misappropriated Ukrainian assets.

By the results of the meeting, cooperation process has been initiated in order to agree on the multilateral investigation, asset freeze and the bilateral practical actions.

In 2014 the SFMS continued to cooperate with public organizations, state authorities, and conducted methodical supply of the financial monitoring systems.

By the results of the activities conducted, the SFMS offers you a report of the state policy in 2014 in terms of the AML/CTF.

**Sincerely,**

**Head of the State Financial**

Monitoring Service of Ukraine

Igor CHERKASKYI

# **1. ABOUT THE STATE FINANCIAL MONITORING SERVICE OF UKRAINE**

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

The State Financial Monitoring Service of Ukraine is a central executive authority which implements the state AML/CFT policy as the key element of the AML/CFT system.

The activity of the SFMS of Ukraine is regulated by the Law of Ukraine “On Prevention and Counteraction to Legalization (Laundering) of the Proceeds of Crime or Terrorist Financing” (hereinafter referred to as the AML/CFT Law) and its Statute.

According to the Statute of the SFMS of Ukraine, approved by the Decree of the Cabinet of the Ministers of Ukraine as of September 17, 2014 No. 455, the activity of the SFMS of Ukraine is regulated and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Finance of Ukraine.

The SFMS of Ukraine provides implementation of state policy in the area of combating legalization (laundering) of proceeds from crime or terrorist financing and ensure coordination of activities of state bodies in the sphere of counteraction to legalization (laundering) of proceeds from crime or terrorist financing.

One of the main activities of the SFMS of Ukraine is development and improvement of the legislation in this area, implemented by the Ministry of Finance of Ukraine.

In addition, the SFMS of Ukraine acts as a National Financial Intelligence Center with the appropriate powers of this type, the main objectives and functions of which include collection, processing and analysis of information on financial transactions subject to financial monitoring, financial transactions or other information that may be relevant to suspicion of legalization (laundering) of proceeds from crime or terrorist financing.

In 2014 the SFMS of Ukraine was also empowered to state regulation and supervision entities in the AML/CFT area that provide mediatoty service dealing with purchase and sale of real estate property, and for entrepreneurs and legal entities that conduct financial transactions in goods (performing works, services) for cash, provided that the amount of such financial transaction is equal or exceed the amount of 150 000 UAH.

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

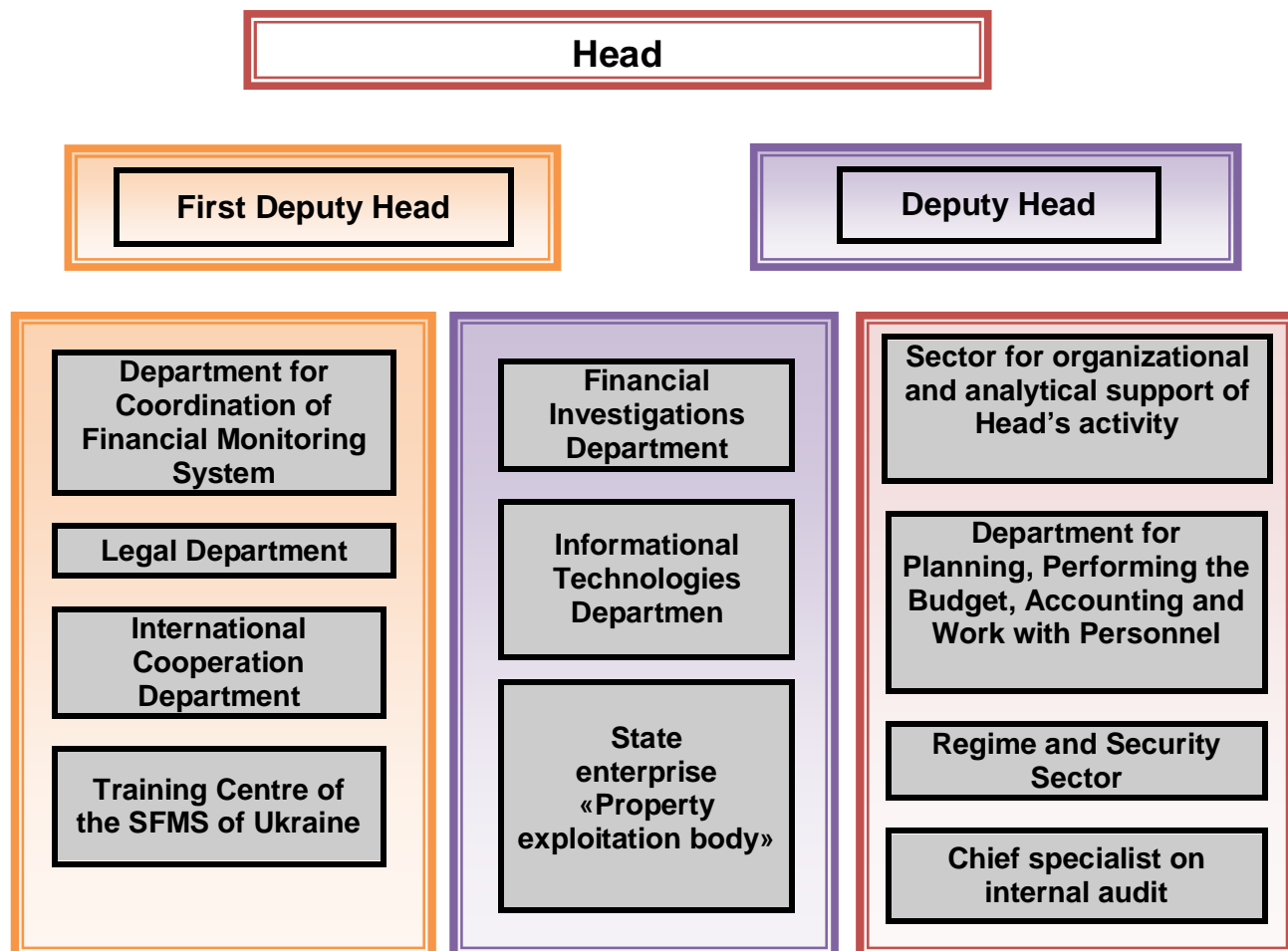
The SFMS of Ukraine as an FIU shares information with foreign counterparts on the principles of reciprocity under the Charter of the Egmont Group of FIUs and Memoranda of Understanding.

## **1.2. Human Resources**

The human resources policy of the SFMS of Ukraine is conducted according to the requirements of the Constitution of Ukraine, legislation on the state service

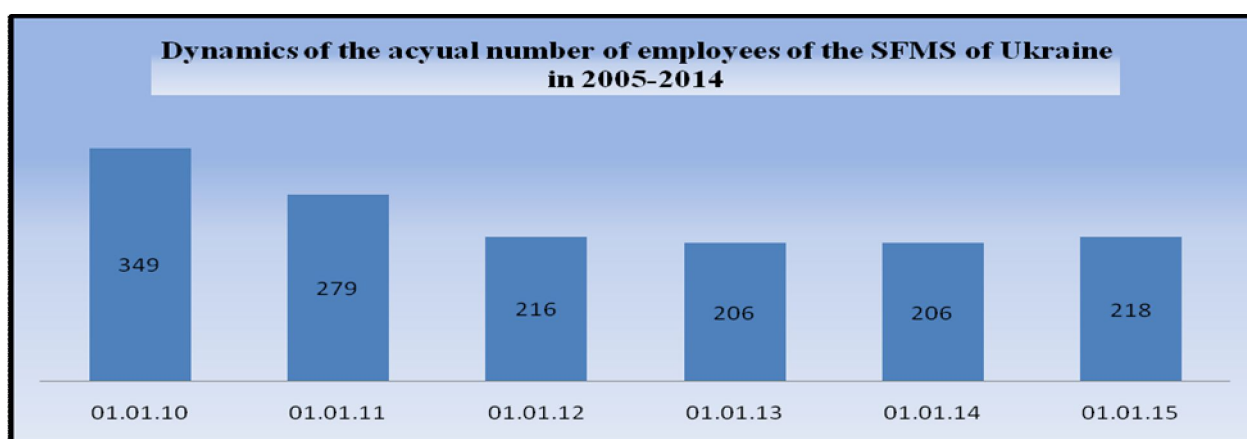
issues, principles of prevention and counteraction to corruption, other regulations under which the state provides the conditions for the citizens to implement the right to work, preparation and professional development of the personnel pursuant to the social needs.

### Structure of the SFMS of Ukraine



Approved staff number of the SFMS of Ukraine is 237 persons.

As of December 31, 2014, 218 employees actually work in the SFMS of Ukraine. Dynamics of the actual number of employees of the SFMS of Ukraine in 2010-2014 is provided in the chart below:



Gender distribution of the employees in the SFMS of Ukraine represents: 88 men (40,4%) and 130 (59,63%) women. Among the senior management there are 35 men and 32 women.

By the age structure of employees the SFMS of Ukraine is the most numerous age group 35 - 45 years old.

The SFMS of Ukraine staff consists of high qualified specialists with completed higher education. 6 employees of the SFMS of Ukraine with a degree, including 3 – holding an academic degree. 10 employees of the SFMS of Ukraine is the Master of Public Administration.

In 2014 the SFMS of Ukraine held 3 meetings of selection committee to fill the vacancies of state servants. 30 persons participated in the competitive selection. Under the results of the competitive selection 23 persons were appointed. Moreover, under results of probation period 8 person joined the SFMS of Ukraine from other state agency.

The SFMS of Ukraine has formed the employment pool to use effectively the potential and professional skills of highly qualified employees. In 2014 the employment pool included 149 specialists. During 2014, 10 employees were appointed to the positions of the SFMS of Ukraine from the employment pool, 8 of them to senior management.

In order to gain practical experience, examine the professional level and in the view of carrier promotion the SFMS of Ukraine conducts probation for state servants, under results of which in 2014 22 employees of the SFMS of Ukraine were promoted to higher positions.

### **1.3. Funding of the SFMS of Ukraine**

In 2014 the SFMS of Ukraine was financed from the state budget within the budgetary allocations pursuant to the Law of Ukraine “On State Budget of Ukraine for 2014”.

In 2014 according to budgetary allocations the SFMS of Ukraine expended 25 233,9 UAH. Funds expenditure is provided in the table below.

#### **The structure of the SFMS of Ukraine budgetary allocations for 2014**

<b>Expenditures</b>	<b>Sum in thousand UAH</b>
Wages and wage upholding	20 616,8
Utility services and energy carrier payments	1 017,7
Business trip expenditures	
Other expenditures to ensure activity and maintenance of the State Information System and Information & Analytical System of the SFMS of Ukraine	2 246,8
Maintenance of the Training Centre of the SFMS of Ukraine	1 352,6
<b>Total</b>	<b>25 233,9</b>

## **2. AML/CFT LEGISLATION DEVELOPMENT**

In 2014 the SFMS of Ukraine took measures in development of proposals to improve the legal acts in the area of prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and other issues of the SFMS of Ukraine activities.

Thus, the SFMS of Ukraine had prepared draft Law of Ukraine "On prevention of legalization (laundering) of proceeds from crime, terrorism financing, and financing of proliferation of weapons of mass destruction".

After approval of the abovementioned draft Law with relevant agencies it was submitted to the Cabinet of Ministers of Ukraine. Government as the subject of legislative initiative introduced draft Law to the Parliament of Ukraine on 12 September 2014 (the bill assigned registration number 5067).

On 7<sup>th</sup> October 2014 the Law of Ukraine "On prevention of legalization (laundering) of proceeds from crime, terrorism financing, and financing of proliferation of weapons of mass destruction" was adopted in the first reading by the Parliament of Ukraine.

On 14<sup>th</sup> October 2014 the Parliament of Ukraine on the second reading had adopted the Law of Ukraine "On prevention of legalization (laundering) of proceeds from crime, terrorism financing, and financing of proliferation of weapons of mass destruction".

The Law came into force on 6<sup>th</sup> February 2015.

Law comprehensively improved national legislation in the field of combating legalization (laundering) of proceeds from crime, terrorism financing and financing of proliferation of weapons of mass destruction, in particular:

- established national risk assessment of money laundering and terrorism financing and improved risk-oriented approach;
- measures to combat the financing of proliferation of weapons of mass destruction;
- included tax crimes as predicate to money laundering;
- established obligatory financial monitoring of national and foreign politically exposed persons and international organizations;
- removed thresholds for realtors and notaries to conduct financial monitoring;
- excluded persons engaged in transactions with cash over 150,000 USD among reporting entities by establishing obligatory monitoring of such transactions by banking institutions;
- improved procedure for suspending financial transactions;
- made amendments to the Criminal Code of Ukraine:

1) the jurisdiction crimes under Articles 209 «The legalization (laundering) the proceeds from crime» and 2091» Willful violation the law on prevention of legalization (laundering) the proceeds from crime or terrorist financing» the Criminal Code of Ukraine

2) pre-trial investigation in the proceedings of legalization (laundering) of proceeds from crime, without prior or simultaneous holding a person criminally responsible for the commission of a socially dangerous illicit act, that preceded the legalization (laundering) of proceeds of crime in criminal proceedings under Article 209 of the Criminal Code of Ukraine in cases where:

- socially dangerous illicit act, that preceded the legalization (laundering) the proceeds from crime, committed outside Ukraine and legalization (laundering) the proceeds from crime - in Ukraine;

- the fact of socially dangerous illegal act, that preceded the legalization (laundering) the proceeds from crime, set by the court in the relevant procedural decisions.

Thus, the implementation the law will significantly increase the efficiency of formation and implementation the state policy in the sphere of combating legalization (laundering) the proceeds from crime, terrorist financing and financing of weapons of mass destruction.

The law, which was supported under the frames of the Government's anti-corruption initiatives, confirms the European choice of our country and Ukraine unconditional fulfillment of obligations in implementing the FATF Standards.

Also, during 2014 the SFMS developed 32 draft legal acts in the field of combating legalization (laundering) the proceeds of crime or terrorist financing (including the draft of law passed by Parliament in October 14, 2014) of which 28 are currently in accompaniment in government.

Thus, in 2014 the SFMS adopted 3 acts:

- the resolution of the Cabinet of Ministers of Ukraine 17.09.2014 № 455 "On approval the regulations of the State Financial Monitoring Service of Ukraine";

- 2 orders of the Ministry of Finance of Ukraine:

- from 24.12.2013 № 1118 "On approval of requirements for the qualification of an employee reporting entity, responsible for financial monitoring" registered in the Ministry of Justice of Ukraine on 01.20.2014 № 108/24885;

- from 12.08.2014 № 808 "On Amendments to the Procedure for inspection by the State Financial Monitoring Service of Ukraine the reporting entities" registered in the Ministry of Justice of Ukraine on 26.08.2014 № 1026/25803.

However, during 2014 the SFMS accepted 178 orders and 29 regulations organizational and administrative nature, took part in the coordination of 87 draft legal acts, developed by other public authorities, of which 74 projects approved and in respect of 13 projects provided comments and suggestions.

In addition, during 2014 in the field of combating legalization (laundering) the proceeds from crime or terrorist financing by the Verkhovna Rada of Ukraine, the relevant public authorities and the National Bank of Ukraine adopted the following acts:



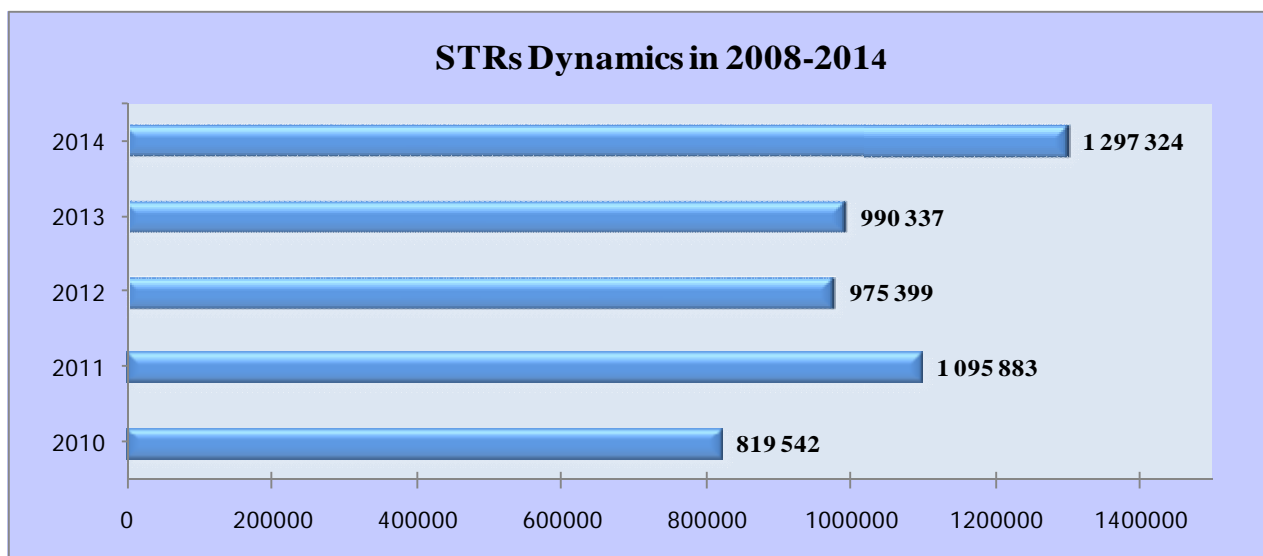
- the Verkhovna Rada of Ukraine - the Law of Ukraine "On Amendments to certain legislative acts of Ukraine concerning the definition of final beneficiaries of legal entities and public figures" from 14.10.2014 № 1701-VII;
- the Ministry of Finance of Ukraine - 2 orders;
- the Ministry of Justice of Ukraine - 1 order;
- the National Commission on Securities and Stock Market - 2 solution;
- the National Bank of Ukraine - 5 regulations.

### **3. STATISTICS on STRs**

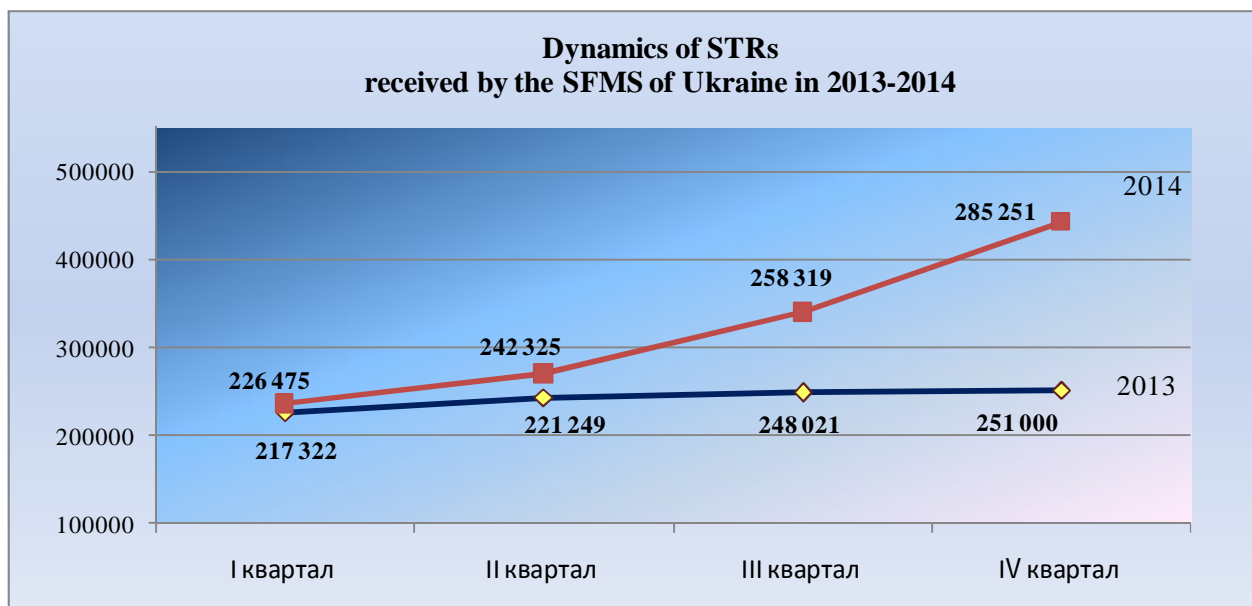
#### **3.1. GENERAL DYNAMICS of STRs**

Pursuant to the Law of Ukraine “On Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime or Terrorist Financing” reporting entities submit to the SFMS of Ukraine with STRs on financial transactions subject to financial monitoring under the legislation or suspected to be related to money laundering or terrorist financing.

From the start of exploitation of informational and analytical system the SFMS of Ukraine received and processed 10 830 242 STRs subject to financial monitoring, including 1 297 324 STRs in 2014.

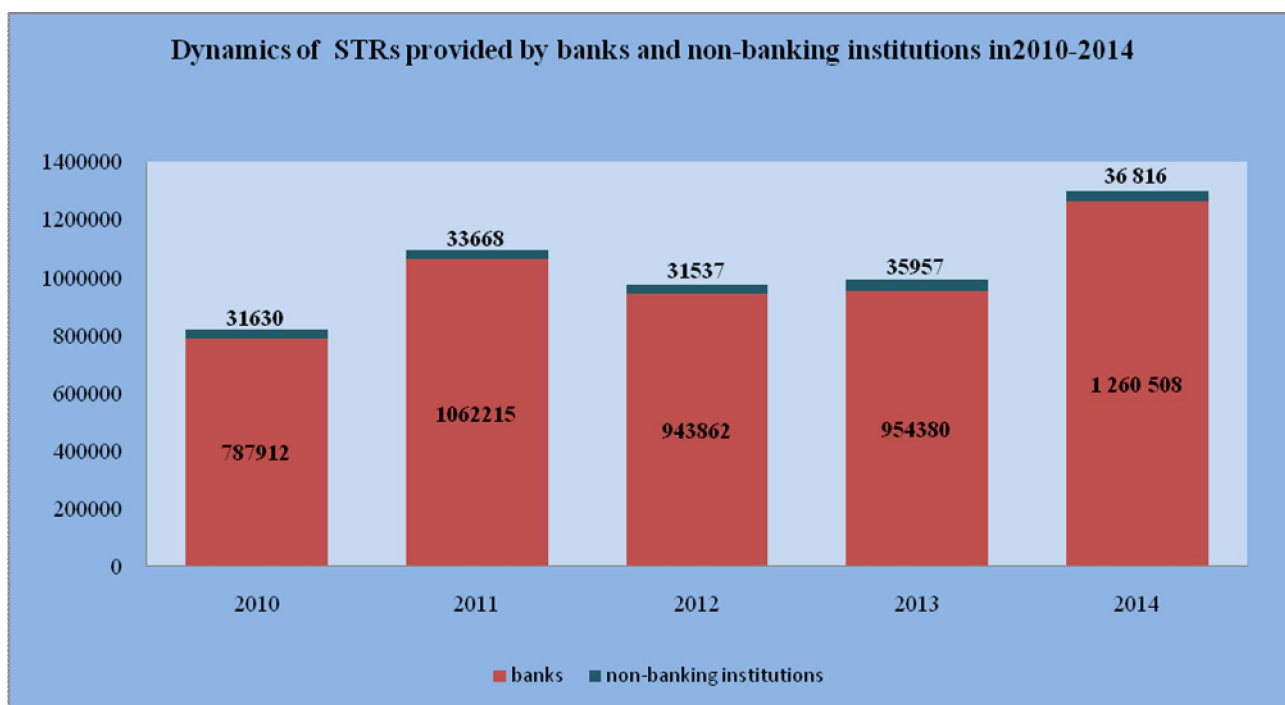


It should be mentioned that in 2014 the number of 1 287 496 STRs received by the SFMS of Ukraine decreased on 31,09 % comparing with 2013.



### 3.2. Reporting entities STRs Dynamics

The most active entities in the reporting system are banks that provide a main share of STRs. Thus, in 2014 banks provided 97,16 % of STRs.



It also should be mentioned that general number of mistakes made in reports, as well as in previous years, keeps decreasing and constitutes only 0,76 % from the total number of STRs received by the SFMS of Ukraine in 2014.

**Number of STRs received from banks and non-banking institutions as of  
January 1, 2015 by means of submitting information**

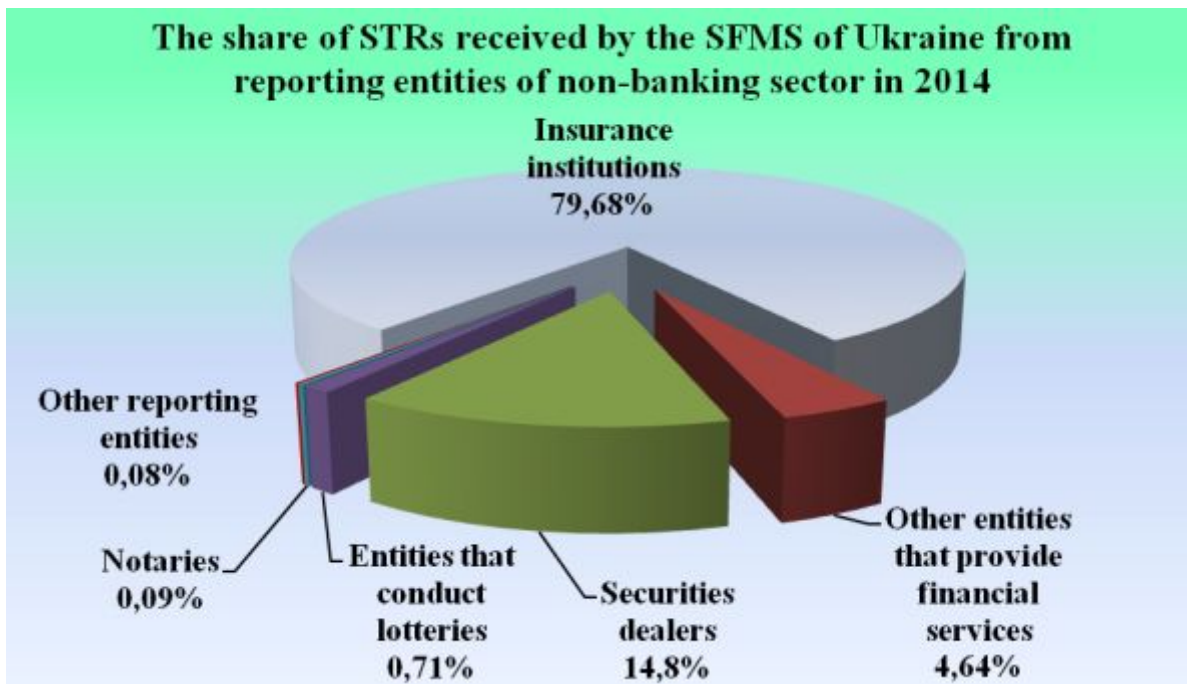
<b>Type of institution</b>	<b>Number of STRs received in electronic form</b>	<b>Number of reports received in hard copy</b>
Banks	1 251 311	—
Non-banking institutions	35 629	556

In 2014 the number of STRs received by the SFMS of Ukraine in electronic form from non-banking institutions increased in comparison with 2013 on 5,04 % and constitutes 98,46 % from total number of transactions received by the SFMS of Ukraine from the mentioned category of reporting entities.

The most active reporting entities among non-banking institutions are insurance companies. Share of such STRs subject to financial monitoring in total number of STRs of non-banking sector constitutes 79,68 %.

**The share of reports in total number registered STRs received by the SFMS of  
Ukraine from non-banking sector in 2014**

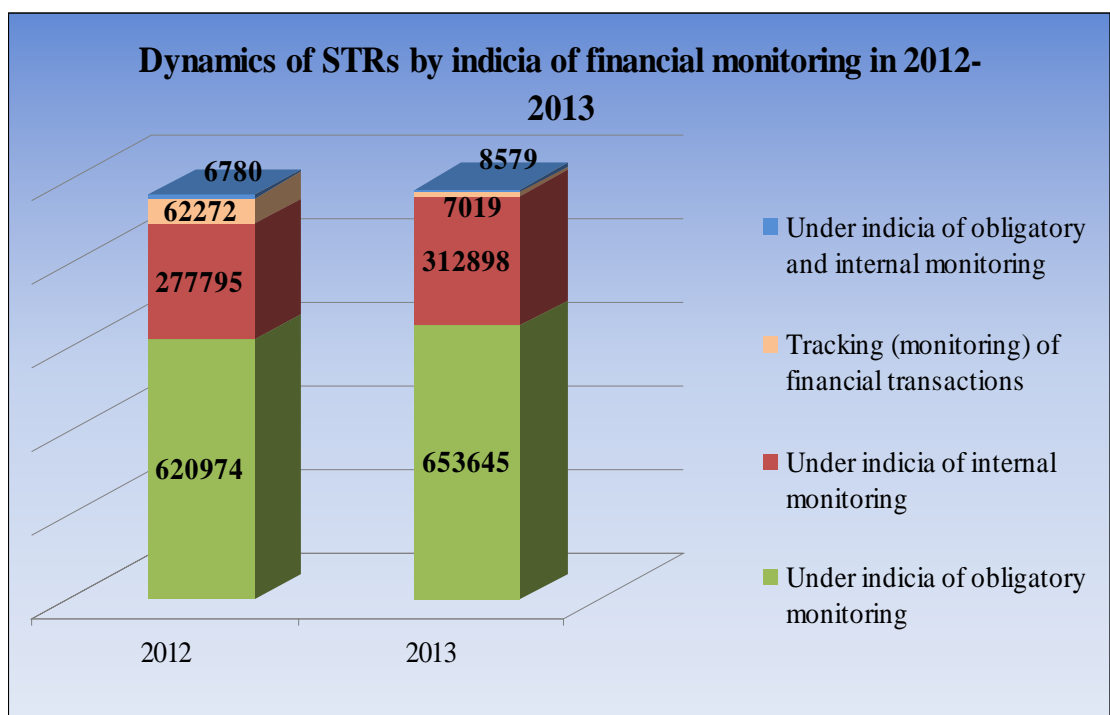
<b>Type of institution</b>	<b>Number</b>	<b>Share</b>
Insurance institutions	28 831	79,68
Other entities that provide financial services	1 680	4,64
Securities dealer	5 357	14,80
Entities that conduct lotteries	258	0,71
Notaries	29	0,09
Other reporting entities	30	0,08



Distribution of reports registered in reporting period in perspective of financial monitoring indicia is the following (Figure 3.5):

- under the obligatory monitoring – 60,60 % (780 234);
- under the internal monitoring – 38,10 % (490 617);
- under the obligatory and internal monitoring – 0,95 % (12 167);
- financial transactions on the request concerning tracking (monitoring) of financial transactions – 0,35 % (4 478).

Figure 3.5



### Number of reporting entities

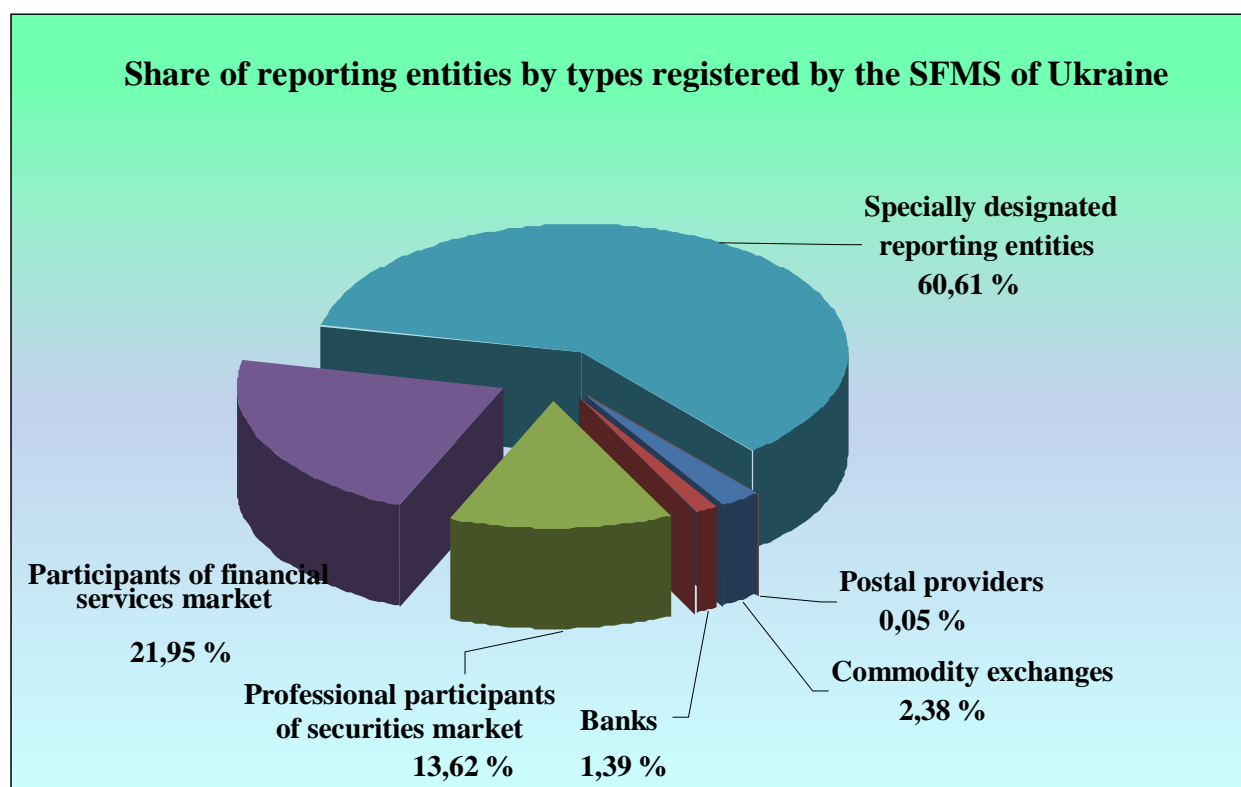
There have been 23 172 reporting entities (including 10 173 separate branches) registered by the SFMS of Ukraine as of 01.01.2015 (Figure 3.6).

### Share of reporting entities registered by the SFMS of Ukraine as of 01.01.2015 (Figure 3.6)

Types of reporting entity	Number*	Share (%)
Banking institutions	162	1,25
Participants of financial services market	2 968	22,82
Professional participants of securities market	1 753	13,49
Commodity exchanges	315	2,42
Postal providers	6	0,05
Specially designated reporting entities (DNFBPs)	7 795	59,97

\* Data without considering separate branches

Figure 3.6



## **4. ANALYTICAL ACTIVITY**

### **4.1. Information Analysis Process**

The SFMS of Ukraine within its competence provides collection, processing and analysis of information on financial transactions subject to financial monitoring, other financial transactions or other information related to ML/TF suspicions.

Information for analysis is received from the following sources:

- reporting entities;
- law enforcement agencies;
- regulators and other state agencies;
- Financial Intelligence Units of other countries.

The SFMS of Ukraine provides comprehensive analysis of information received and financial flows detected in different sectors of financial market.

Processing of the initial analytical information is performed by the analytical segment of the Unified state information system on financial monitoring.

All reports, which are kept in storage of the SFMS of Ukraine are divided into categories depending on the risk level and undergo substantial analysis considering all available information. Dossiers are formed for further financial investigation as a result of this analysis.

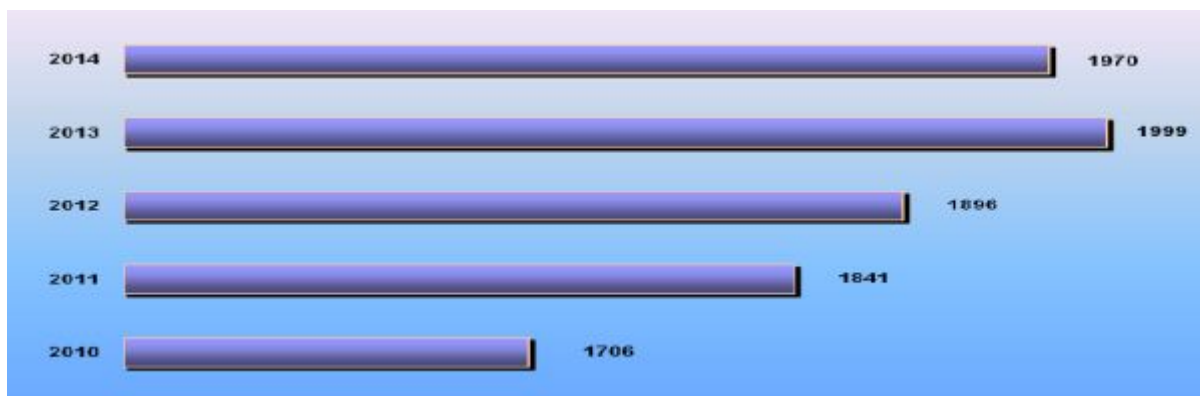
Thus, in 2014 there were 200 824 reports selected for active processing, which formed basis for 1 970 dossiers.

Dossiers are analyzed with the purpose of revealing grounds that financial transactions may be connected with legalization (laundering) of the proceeds of crime or terrorist financing or with commission of the other act envisaged by the Criminal Code of Ukraine.

The SFMS of Ukraine analyses financial transactions gradually increasing the level of analysis of financial transactions and dossiers formed on their bases.

In comparence with the 2013 the number of reported transactions, that have been the basis for the formation of the dossier, increased by 70.2% or 82,848 reports of financial transactions.

#### **Dynamics in forming dossiers in 2010-2014**



As a result of dossiers consideration 476 case referrals and 298 additional case referrals were submitted to the law enforcement agencies in 2014.

Analysis of the reports received is conducted on the base of additional information obtained as a response to the requests of the SFMS of Ukraine.

The SFMS of Ukraine forwarded 47 940 file-requests to 188 banking institutions and their subsidiaries during 2013. The file-requests were submitted concerning 4 803 transactions subject to research.

The AML/CFT Law provides instrument for obtaining additional information – tracking (monitoring) of financial transactions.

The information on tracking (monitoring) of financial transactions is provided to the SFMS of Ukraine in the form of reports.

The SFMS of Ukraine prepared 20 requests for tracking (monitoring) of financial transactions to reporting entities during 2014. The reporting entities sent 4 478 reports on financial transactions to the requests on financial monitoring.

#### **4.2. Freezing of financial transactions**

The Law provides for right to freeze financial transactions. The Ministry of Finance of Ukraine adopted the Order No 992 as of 14.09.2012, registered in the Ministry of Justice of Ukraine on 05.10.2012 under N 1694/22006 On Approval of the Procedure on Taking Decision by the SFMS of Ukraine on Freezing Financial Transactions. The total period of suspension of financial transactions can not exceed 14 working days by paragraph five of Article 17 of the Basic Law.

According to the Article 17 p.5 of the Law of Ukraine "On prevention of legalization (laundering) of proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction", which came into force on February 6, 2015, the total period of suspension of financial transactions can not exceed 30 working days.

Under this Procedure the decision-making and order giving process by the SFMS of Ukraine was defined.

Thus, the following decisions are taken and orders given:

- on further freezing of financial transaction in the cases provided by part 2 and 5 of the Article 17 of the AML/CFT Law;
- on freezing of debit transactions under the accounts of the customers (persons) according to part 3 and 5 of the Article 17 of the AML/CFT Law;
- on cancellation of its decision to freeze the debit transactions according to part 5 of the Article 17 of the AML/CFT Law;
- on freezing/renewal by a reporting entity of conducting or providing monitoring of the financial transaction of a certain person under request of the authorized foreign agency – under the part 5 of the Article 22 of the AML/CFT Law.

In 2014 the SFMS of Ukraine in compliance with the Article 17, 18, 20 and 22 of the AML/CFT Law has prepared and forwarded 467 decisions and gave 4 orders on freezing financial transactions, particularly:

- 114 decisions - according to part 2 of the Article 17 of the AML/CFT Law;
- 1 175 decisions - according to part 3 of the Article 17 of the AML/CFT Law;
- 1 114 decisions - according to part 5 of the Article 17 of the Law;
- 3 orders - according to part 5 of the Article 22 of the Law.

#### **4.3. Financial investigations**

In 2014, special attention was paid to particular areas of the following financial investigations:

- investigation of financial transactions carried out by the former President of Ukraine Viktor Yanukovich, his family and high level officials of the former government, state agencies, local government;
- investigation of the facts of illegal activity of converting centers and fictitious businesses involved in the legalization (laundering) of proceeds from crime;
- investigation of cases related to misappropriation of funds of business entities and individuals in particular through interference with operation of computers;
- investigation of financial transactions related to the financing of terrorism and separatism;
- investigation of financial transactions related to securities and debt obligations;
- investigation of financial transactions related to embezzlement / misappropriation of funds and other state assets;
- investigation of financial transactions related to purchase and sale of precious metals;
- investigation of financial transactions of fraud in insurance sector;
- investigation of financial transactions related to illegal export of cash abroad;
- investigation of financial transactions in the investment sector.

**Investigation of financial transactions carried out by the former President of Ukraine Viktor Yanukovich, his family and high level officials of the former government, state agencies, local government.**

The SFMS of Ukraine continues active work on investigation of the facts of laundering of proceeds from corruption, embezzlement and misappropriation of state funds and property of the former President of Ukraine Viktor Yanukovich, his relatives, high level officials of the former government and related persons as well as individuals involved in the deliberate mass murder of people.

The SFMS of Ukraine prepared and sent to the law enforcement agencies 268 case referrals (72 case referrals and 196 additional case referrals) regarding financial transactions conducted by the former President of Ukraine Viktor Yanukovich, his family and high level officials of the former government, state agencies, local government.



The total amount of financial transactions that could be related to the legalization of proceeds from crime in these case referrals is 147.8 billion UAH, and the amount of financial transactions that could be related to the commission of other crimes is 11.1 billion UAH.

As a result of taken measures the SFMS of Ukraine revealed 538 bank accounts of 93 individuals and 81 bank accounts of 32 legal persons connected with the aforementioned individuals, and blocked funds in the total amount of 1.73 billion UAH, 194.3 million USD, 18.1 million EUR and 21.7 million RUB, precious metals (gold and silver) on 3 million UAH, and securities on 2.6 billion UAH and 1 billion USD.

Within the financial investigations there were revealed 44 financial transactions of non-resident companies registered in Cyprus, Panama, UK, Belize, Seychelles, Austria, associated with Viktor Yanukovich and his inner circle.

For the period 2010-2013 specified non-resident companies through the accounts opened with the Bank of Latvia made the transfer of funds to accounts opened with Ukrainian banks in the amount of 1.37 billion USD, considerable part of which was used to purchase domestic government bonds (hereinafter - bonds).

The SFMS of Ukraine blocked funds on accounts abovementioned non-resident companies in Ukraine in the amount of 1.37 billion USD, which were seized by the rulings of Pechersk District Court.

Moreover, as a result of close cooperation of Ukrainian and Latvian FIUs, there were blocked 23 accounts of non-resident companies on amount of 49.51 million USD.

The amount of blocked funds from accounts of 44 non-resident companies controlled by "Yanukovich family" reached 1.42 billion USD, 1.37 billion USD in Ukraine and 49.51 million USD abroad.

As a result of taken measures the total amount of detected and blocked by the SFMS of Ukraine funds are equal to 1.49 billion USD.

Special attention is paid to search of the aforementioned assets abroad. Thus, the SFMS of Ukraine sent requests to FIUs of 136 countries to establish and further blocking of bank accounts, corporate rights, securities and other legal requirements, property, real estate and other assets abroad.

Particularly active cooperation is carried out with FIU and state agencies of the United States. Starting from March 2014 the meetings with representatives of the US Embassy in Ukraine, US Department of Justice, the US Treasury and the Federal Bureau of Investigation, Office of Foreign Assets Control (OFAC) were held.

In addition, on October 17, 2014 in Zurich, Switzerland, a working meeting of financial intelligence units to investigate cases of asset recovery of the former high level officials, including experts from the FIU of Ukraine was held.

This meeting was next important step for Ukraine after the Conference "Ukrainian Forum on Asset Recovery", held in London, UK, 29 - 30 April 2014.

After the meeting was initiated processing and approval of documents on cooperation in the framework of the joint criminal investigations and assets freezing, and planned appropriate bilateral practical measures.

**Concerning the investigation of the facts of illegal activity of "converting centers" and fictitious businesses involved in the legalization (laundering) of proceeds from crime.**

In 2014 the SFMS of Ukraine prepared and submitted to the law enforcements 124 case referrals and additional case referrals, including 102 case referrals and 22 additional case referrals.

In financial transactions included to these materials, the most common reasons for cash withdrawal were:

- purchase of agricultural products – 15,3%;
- purchase of goods / services payment – 13,7%;
- providing financial assistance / loan – 0,8%;
- undefined (other) purposes – 70,2%.

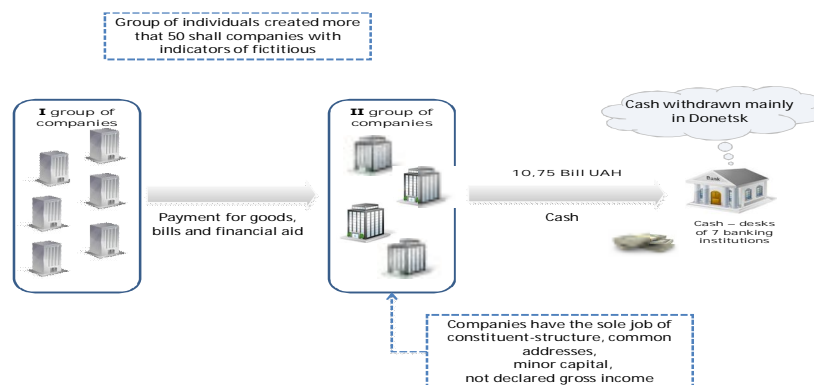
**Case 1.**

During the analysis of the financial operations of several companies there were detected signs of a large-scale operation "conversion center" in Eastern Ukraine.

Become known, that group of individuals created more than 50 shell-like entities, which were used for accumulating of funds and further convert into cash. Funds totaling 10,75 bil. UAH have been withdrawn from the accounts of 7 entities of the a.m. group. Funds have been withdrawn from 7 different banking institutions mostly situated in Donetsk. Previously funds were received from great number of entities as payment for goods and bills also as financial assistance.

Entities have the sole constituent-structure, joint address, negligible share capital, not declared gross income.

Ongoing criminal proceeding under the indicia of crime as of Article 212 p.3 «Evasion of taxes, fees or other compulsory payments Article 205 p.2 «Sham business» Article 209 p.3 «Legalization of criminally obtained money and other property» in accordance with Criminal Code of Ukraine.



## **Investigations related with missappropriation of funds of business entities and individuals in particular, by the way of invetervention into the EOM.**

According to the results of information analysis concerning financial operations which might be related with unauthorized intervention into the banking system in order to misappropriate funds in 2014 law enforcement authorities received 105 case referrals.

The SFMS received information from banking institutions regarding 415 attempts to launder income, from unauthorized withdrawals from bank client's accounts. Unauthorized intrusion attempts were made in 53 banks of Ukraine.

The most vulnerable spot for cyber crimes in banking system is online services or client's remote access to their own accounts, electronic wallets with card accounts binded to them. Such occasions of funds being abducted from client's accounts have become more frequent.

According to the information received from the law enforcement authorities of Ukraine, as of case referrals related with cyber crimes, such procedural decisions have been made:

- Commenced criminal proceedings (pre-trial investigations, registered in the unified register of pre-trial investigation) according to the case referrals – 9;
- Additions to the ongoing criminal proceedings (pre-trial investigations) – 17;
- Pre-trial investigations accomplished, closed criminal proceedings – 2;
- No information received from the law enforcement authorities' regarding register in the unified register of pre-trial investigations or any other decision have been made in accordance with legislation of Ukraine – 77.

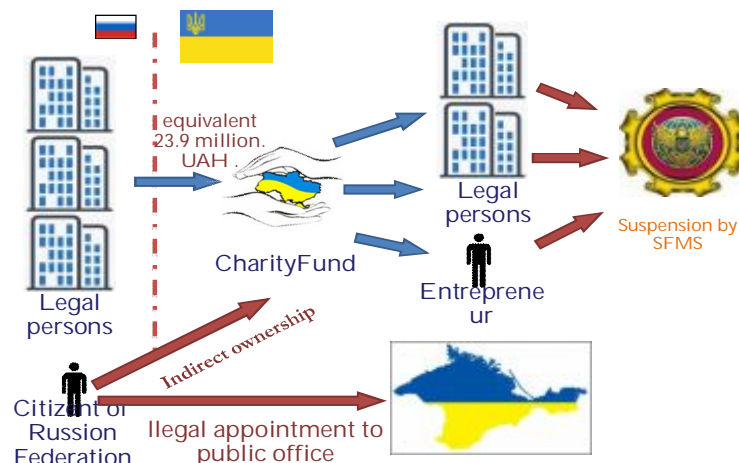
## **Regarding financial investigations related with terrorist financing and separatism**

One of the main objectives for the State Financial Monitoring Service of Ukraine is to search and block funds related with persons which are financing terrorism, publicly calling for violent change or overthrow of the constitutional order or changes of the national border of Ukraine.

During 2014 the SFMS prepared and handed to the law enforcement authorities 73 case referrals (55 case referrals and 18 additional case referrals).

### **Case 2.**

According to the information received from the law enforcement authorities, criminal proceeding has been initiated regarding Russian individual, which organized the flow of funds totaling 23,9 mil. UAH to the undercontrolled banking accounts of the charitable institution, which were further transferred to the accounts of legal and physical persons - entities as financial assistance. Main objective of which were to conduct illegal activity in the territory of illegally annexed Crimea. In accordance with the law, accounts of the shell entity have been blocked.



### **Regarding investigation of financial operations, related with securities and obligations**

During 2014 according to the results of the financial operations analysis, related with payment/repayment of securities and debts SFMS prepared and handed 72 case referrals (case referrals – 46 and additional case referrals – 26).

Financial operations, included to the a.m. case referrals and most commonly used securities as follows:

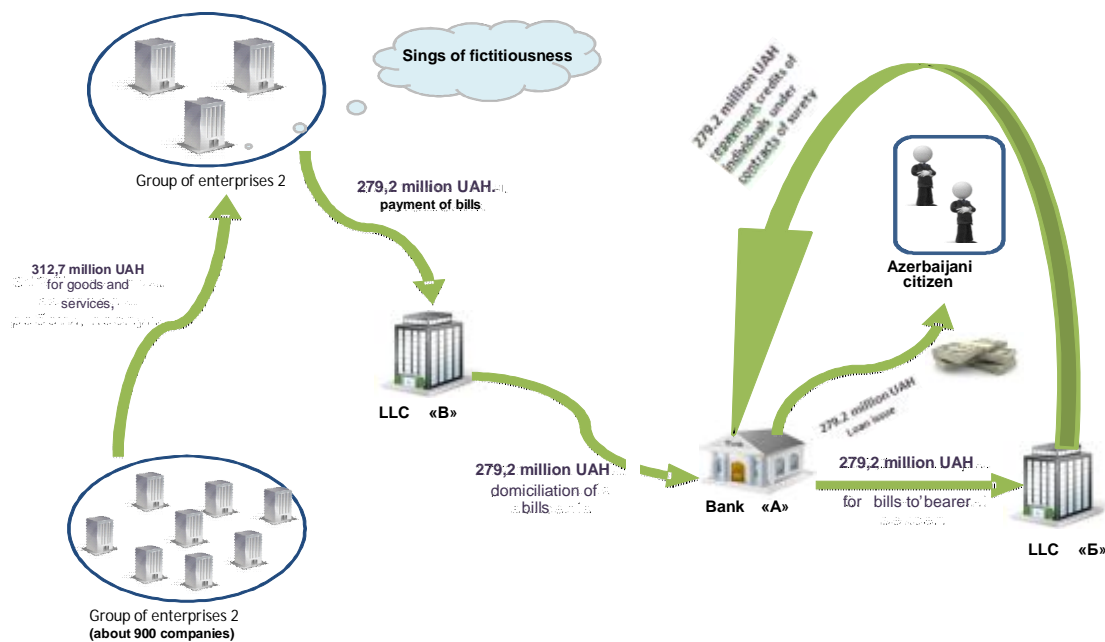
- Promissory note – 54,1%;
- share – 22,8%;
- investment certificate – 12,9%;
- bonds – 1,9%;
- saving certificates – 1,8%;
- another types of securities – 6,5%.

In the schemes of legalization of proceeds from crime, as a financial instrument used securities and financial assistance, including:

- Securities with signs of "fictitious" and "junk" securities;
- return "questionable" financial aid, which was subsequently withdrawn in cash;
- Cash withdrawals, which previously was provided enterprises with signs of "fictitious".

### **Case study 3**

Uncovered scheme to direct on conversion non-cash resources in cash with exploitation such financial instrument like fictitious bills and loans.



Thus, the Bank "A" gave out to the citizens of Azerbaijan Republic credit money in cash to the amount of 279,2 million UAH.

In further, credits were repaid Ltd. "B" on the basis of a contract of guarantee, concluded between the Bank "A" and Llc. "B" in the amount of 279.2 million UAH.

It is set that the funds used to repay credits and previously received in favor LLC "B" from the Bank "A". These funds were received as payment for a bills of exchange presented to redemption with the signs of fictitious nature issued by the Llc. "B".

In its turn, Llc. "B" transferred funds to the Bank "A" as the depositing of funds for repayment own bills under contracts of domiciliation, totaling 279.2 million UAH. The funds received as payment of bills totaling \$ 279.2 million USD from group companies with signs of fictitiousness.

The source of funds were proceed from goods and services of about 900 companies totaling \$ 312.7 million UAH.

Conforming to the materials of SFMS of Ukraine, Ministry of Internal Affairs of Ukraine conducts preliminary inquiry under Art. 205 Part. 2 "Fictitious Business" and Art. 209 Part 3 "Legalization (Laundering) Proceeds of Crime" Criminal Code of Ukraine.

## **Investigation of schemes of public funds embezzlement and other public assets**

Public management remains rather attractive for misuse of financial resources taking to account amounts of funds allocated for procurements of goods, works and services for needs of publicly owned businesses, institutions and organizations as well as for businesses including government take.

According to the analysed information concerning financial transactions related to possible misappropriation of budget funds there were 35 case referrals submitted to law enforcement agencies including 19 of them taking to account information received from law enforcement agencies.

Submitted case referrals concerning financial transactions related to misappropriation of budget funds via:

- their no-purpose or inefficient use;
- no-purpose use of the funds, which were enumerated on the supply of equipment and implementation of works;
- conclusion of contract for the supply of goods with a non-resident without competitive bidding and transferring funds without the delivery of the goods;
- "transit" transfer of public funds through the accounts of companies - residents and their subsequent removal in cash;
- "transit" transfer of public funds through the accounts of companies - residents and their subsequent withdrawal abroad;
- attempts of unauthorized debiting funds;
- transfer of budget funds for implementation of state programs in favor companies with signs of fictitiousness;
- transfer of budget funds to companies that further were fully converted into cash.

In the schemes of embezzlement or misappropriation were used the following methods and tools:

- providing returnable financial assistance;
- VAT compensation;
- financial lease;
- securities (bills);
- transfer of funds from Ukraine without actual delivery of goods;
- transferring funds to the winner of the tender and further bill payment and withdrawal of cash;
- transferring funds to the fictitious companies and further transferring through a series of accounts of legal enterprises and cash withdrawals;
- cash withdrawal through POS-terminals;
- computer fraud.

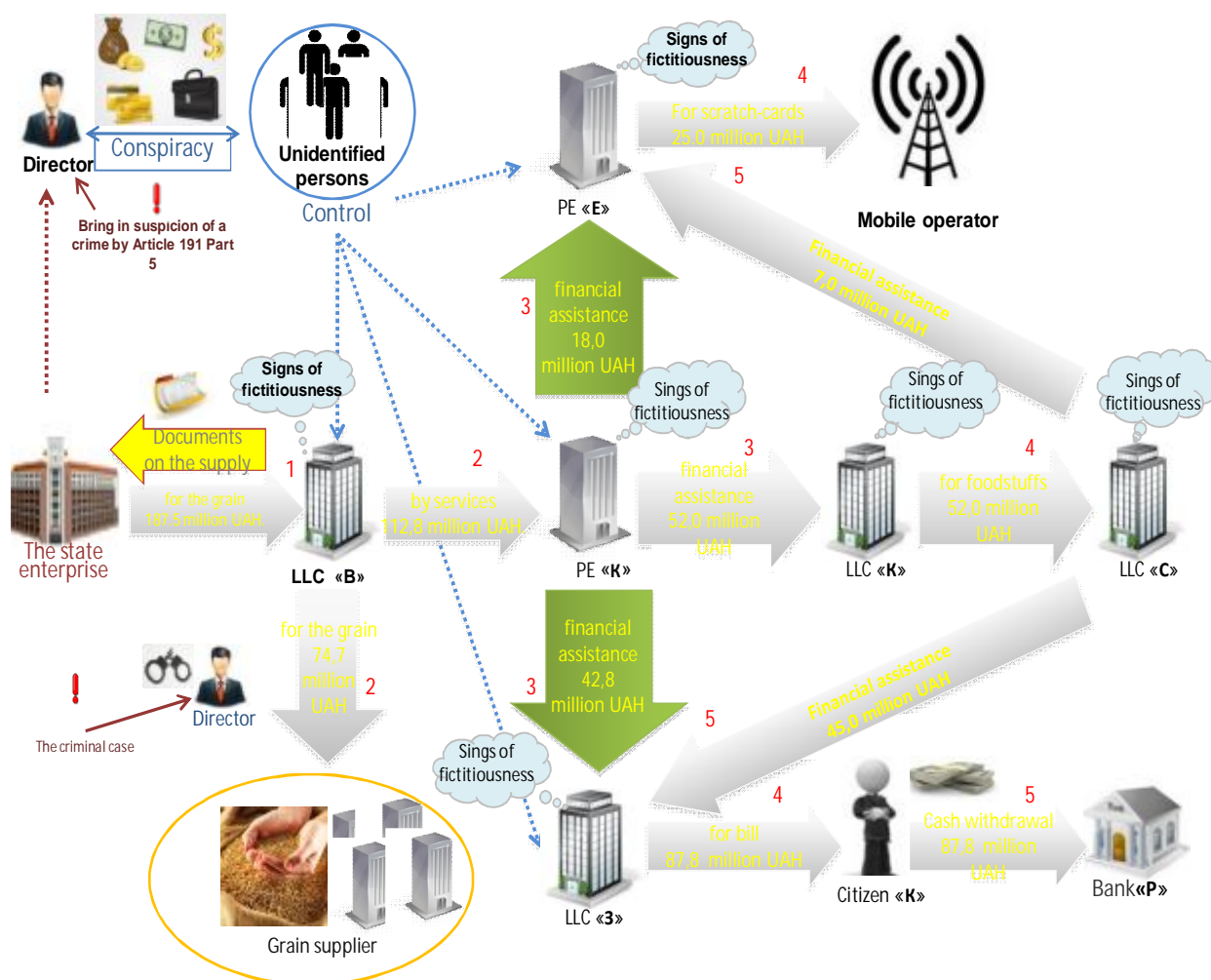
#### **Case study 4**

State enterprise for the purpose of artificially inflating the cost of grain purchased using illegally obtained through investigation unidentified persons details of documents LLC. "O" for registration of transactions transferred to the accounts of the last one 187.5 million. UAH.

LLC "O" transferred to the accounts of the actual suppliers of grain part of the funds in the amount of 74.7 million. UAH., another part of the funds - 112.8 million. UAH. transited through the accounts of a group of companies with fictitious (private company "K", LLC "K" private company "E", LLC "C" and of "C"), opened in the Bank "P" were accumulated in the accounts of legal and physical people who used them as follows:

- citizen "K" received funds in the amount of 87.8 million. UAH. in cash through the Bank cash "P";
- private company "E" transferred funds in the amount of 25.0 mln. UAH. to the accounts listed company of mobile operator as payment for scratch cards

It is known that the Director of the State enterprise issued suspicion of committing a crime under Article 191 Part 5 "appropriation, embezzlement or taking possession of another's property through abuse of their official position in a large scale or organized group" and director of LLC "O" was found guilty in a crime by Article 27 Part 5 "A person that advice, instructions, providing means or instruments or elimination of barriers contributed to the commission of a crime other accomplices" and Part 2 Article 205 "fictitious business, which caused great material damage to the state."



## **Investigation of financial transactions related to buying and selling precious metals**

According to the analysed information concerning financial transactions related to buying and selling precious metals by 2014, 34 case referrals were submitted to law enforcement agencies totaling 2 192 630 000 USD..

In these materials natural persons are carry out a purchase of precious metals in following amounts:

- 1 955.74 kg of gold totaling 1 901 370 000 USD;
- 2 234.50 kg of silver totaling 11.86 million UAH.

Moreover, in accordance with materials it was sold bank metals by natural persons in following volumes:

- 655.88 kg of gold totaling 266.10 million UAH;
- 715 kg of silver totaling 5.73 million UAH;
- 18,21 kg of platinum totaling 7.57 million UAH.

### **Case study 5**

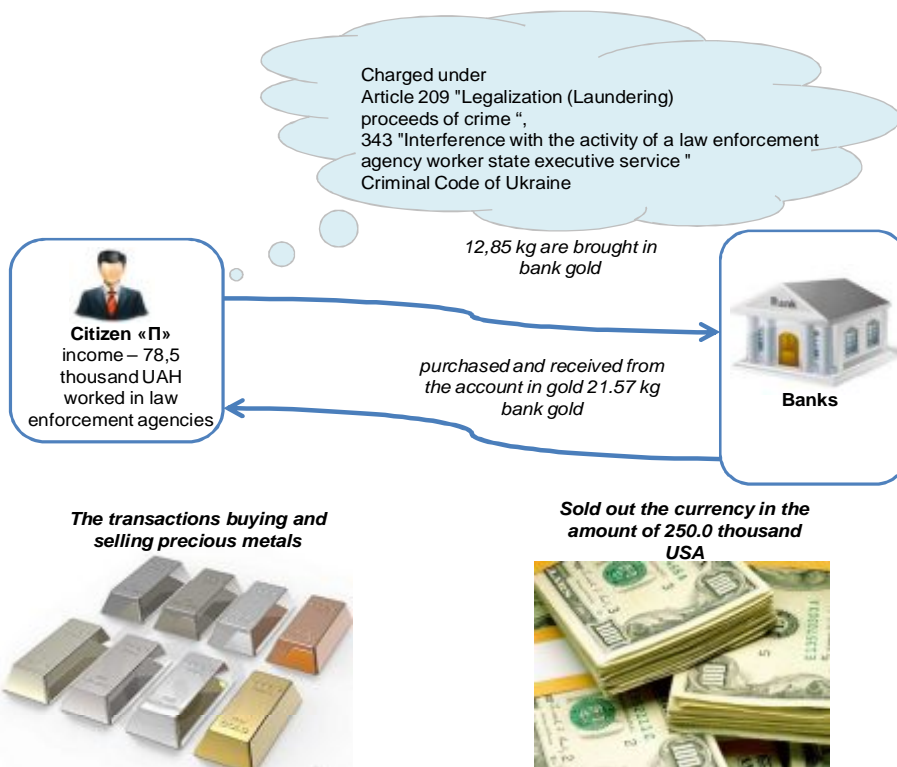
SFMS of Ukraine conducted and submitted case referrals regarding financial transactions related to the committing of an offense under the Criminal Code of Ukraine.

Identified citizen "P" who has carried out operations associated with the acquisition of precious metal. This citizen were conducted operations on purchase and obtaining of credit in precious metals gold over 21.5 kg and 12.85 kg of gold entering the account. Besides banking institution has sold foreign currency worth 250 thousand USD. With respect to the citizen "P", the following additional information: worked in LEA, conducted financial transactions do not meet the financial condition, declared income for the last three years of operations amounted to 78.5 thousand. UAH.

A citizen charged under Articles 209 "Legalization (laundering) of proceeds from crime" and Article 343 "Interference in the activities of the law enforcement agency, the state executive service employee" of the Criminal Code of Ukraine.

Case referrals are checked by the regional authority of the ministry of internal affairs.





### **Regarding investigation of financial operations related with fraud activity in the sphere of insurance.**

During 2014 year under results of the analysis of the information on financial transactions related to financial transactions in the insurance area, 32 case referrals (16 case referrals and 16 additional case referrals) were prepared and submitted by the SFMS of Ukraine to the law enforcement agencies.

Submitted case referrals concerning financial transactions related to committing crime via:

- Transfer of funds from the accounts of social insurance funds as funding for settlement with insurers for nonexistent sick leaves payments;
- misuse of social insurance funds;
- abuse of authority;
- masking the source of funds;
- credit of the insurance payments in favor of insurance companies previously received from the state entities;
- use of sham agreements with a purpose of receiving insurance compensations by «fictitious» insurance cases through a number of entities with a further convert into cash;
- realization the fraudulent financial transactions;
- misuse of budget funds;
- use of the funds from crime.

In the schemes embezzlement or misappropriation of funds in insurance activities used the following methods and tools:

- payment of fictitious sick voucher;
- insurance payments;

- insurance compensation;
- deposit;
- loan;
- contribution to the share capital;
- financial lease;
- financial assistance (loan);
- securities (safety stock, investment securities, bills, bonds).

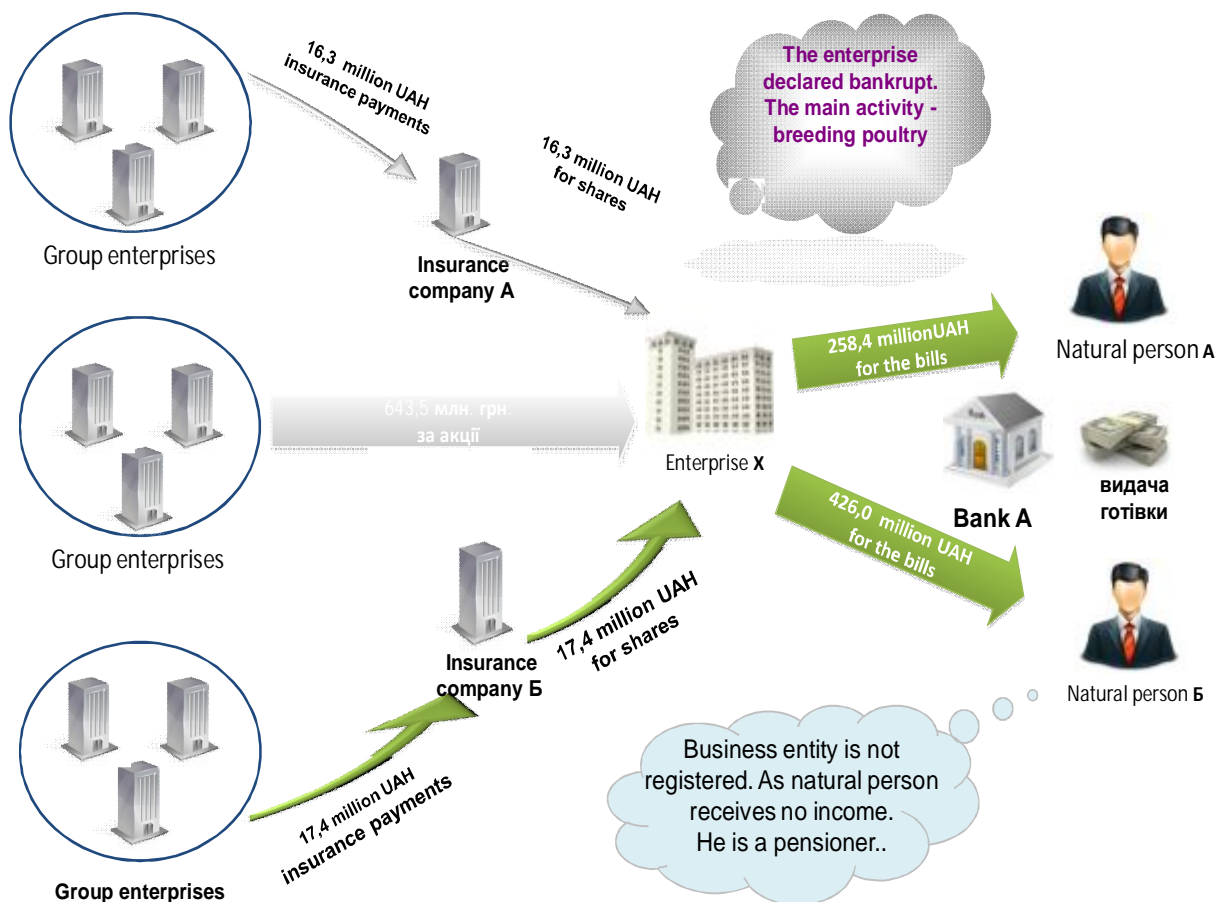
## Case 6

Becom known that, entity «X», received funds from a number of entities including two insurance companies totaling 677,2 mil. UAH as payment for securities.

Entity «X» declared bankrupt.

Further from the account of entity «X» funds were transferred to the accounts of individual «A» totalling 258,4 mil. UAH and individual «B» totalling 426, mil. UAH payment details: for the bill of credit. Individual's withdrawn cash through the same banking institution «A».

The a.m. individuals don't possess enough assets. Moreover one of the individuals is a pensioner.



## **Investigation of schemes related to extraction of assets outside the country**

As a result of analysis of reports concerning financial transactions the SFMS of Ukraine has submitted to law enforcement agencies 21 case referral (20 case referrals and 1 additional case referral) on illegal extraction of assets outside the country and on illegal transport of large amounts in cash by natural persons (cash couriers).

In the schemes were used the following methods:

- transport of large amounts in cash by natural persons (cash couriers);
- payment of import contracts without actual delivery of the goods to the custom territory of Ukraine;
- purchasing overpriced goods;
- import of the production at low-cost.

### **Case 6.**

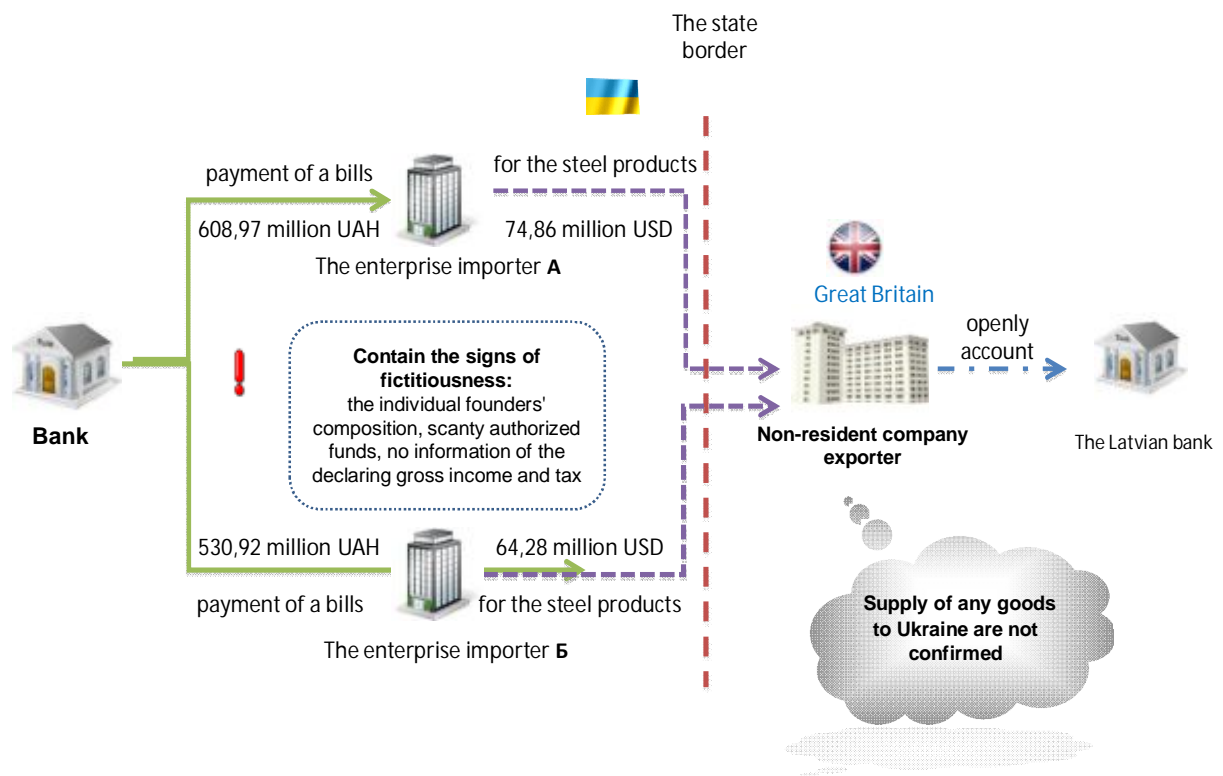
Become known of the money flow scheme that allows Ukrainian entities to transfer abroad funds that contain signs of fictitious.

Ukrainian entities «A» and «Б» transferred funds totalling 139,14 mil. UAH to the account of British non-resident company opened with Latvian bank as payment for metal products.

Origin of funds located on the accounts of entities «A» and «Б» were the funds received from Ukrainian banking institution as repayment of the nominal value of the bill nominal endorsement totalling 609,97 mil. UAH and 530,92 mil. UAH.

Supply of any goods by non-resident companies in favour of Ukrainian entities is missing.

Ukrainian import entities «A» and «Б» has the signs of «fictitious», namely: sole founding composition, scanty authorized funds, no information on the declaration of gross income and taxes.



### Investigation of financial transactions in the investment area

During 2014 year under results of the analysis of the information on financial transactions related to financial transactions in the investment area, 8 case referrals (7 case referrals and 1 additional case referral) were prepared and submitted by the SFMS of Ukraine to the law enforcement agencies.

Submitted case referrals concerning financial transactions related to committing crime via:

- transfer of funds from abroad from non-resident company under the guise of investment, followed by cash withdrawals;
- transfer of funds from abroad from non-resident company under the guise of investment, with further purchase of OVDP and placement on the bank deposit accounts, part of which is refunded to the accounts of non-resident companies;
- transfer of funds from abroad from non-resident company under the guise of investments for the formation of the authorized capital of Ukrainian enterprises;
- Individuals investement into house construction;
- Purchase of entire property complex with further contribution into the equity capital of the legal person and sale to the non-resident company.

In the schemes were used the following methods:

- nominal investment securit;
- loans;
- direct credit to the share capital;
- domestic government bonds;
- deposits;

- direct credit to purchase real estate;
- financial assistance

## 5. CASE REFERRALS. SUBMISSION AND CONSIDERATION

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

During 2014, 476 case referrals and 298 additional case referrals prepared were forwarded to the agencies:

- the General Prosecutor's Office of Ukraine (GPO) – 88 case referrals and 187 additional case referrals;

- the State Fiscal Service of Ukraine (SFS) – 102 case referrals and 40 additional case referrals;

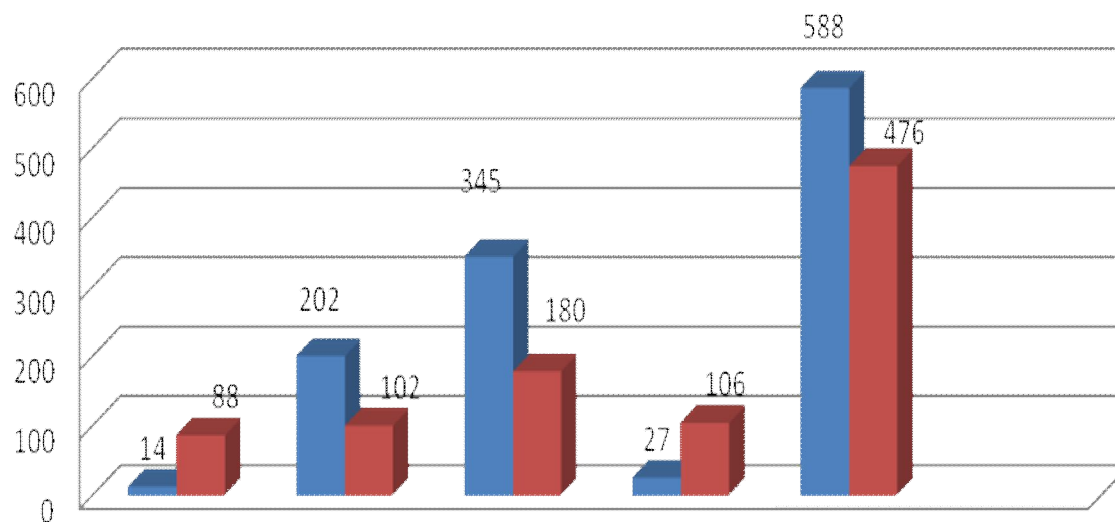
- the Ministry of Internal Affairs of Ukraine (MIA) – 180 case referrals and 55 additional case referrals;

- the Security Service of Ukraine (SSU) – 106 case referrals and 16 additional case referrals.

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

- Legalization - is 267.4 billion. UAH .;
- Committing of another crime, as defined by the Criminal Code of Ukraine - is 52.6 billion. UAH.

**Case referrals submitted (2013 and 2014)**



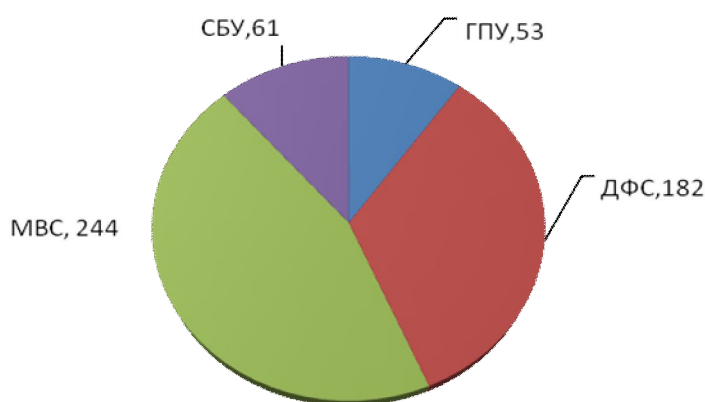
Under results of consideration of 584 case referrals (considering case referrals submitted during 2003-2013):

- under results of inspection of 291 case referrals there were 299 criminal proceedings initiated by law enforcement agencies and 293 case referrals in 241 criminal proceedings were used;

- there were 79 criminal proceedings initiated by law enforcement divisions under 83 case referrals were concluded due to production of indictments before court;

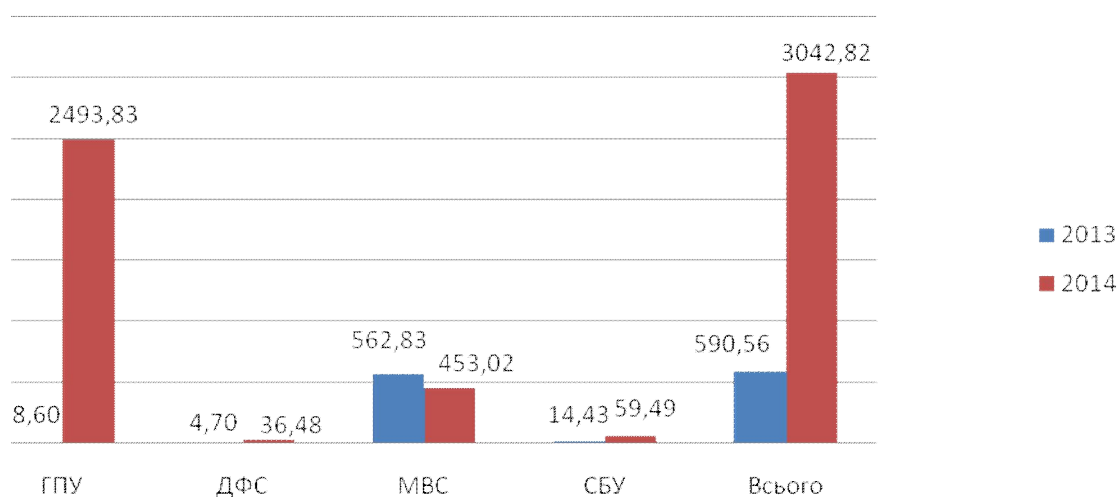
- courts have considered 156 criminal cases initiated following consideration of 171 case referrals with judgments of conviction or decisions based on nonjustifying circumstances.

### Case referrals under which criminal cases initiate/used in criminal cases



According to the information available at law enforcement agencies total amounts of property (assets) frozen and of property (assets) seized during criminal proceedings initiated by law enforcement agencies following consideration of case referrals provided by the SFMS of Ukraine are UAH 3 042.82 million and UAH 27,4 million, respectively.

### Frozen/seized (UAH million)



## **6. ENSURING OPERATION OF UNIFIED STATE INFORMATION SYSTEM IN AML/CFT SPHERE**

In 2014 according to the key objectives determined by the article 18 of the Law the SFMS of Ukraine ensured functioning of the Unified State Information System in AML/CFT area (USIS).

Unified State Information System in AML/CFT area provides round-the-clock and non-stop technological process regarding, primary and analytical processing and guaranteed storage of information received from subjects of initial financial monitoring, subjects of state financial monitoring, also supports informational cooperation and other structural subdivisions of SFMS. USIS functions (24/7) in accordance with regulations of SFMS.

Components of the USIS are Secured multi-service automated corporate system of the SFMS of Ukraine (FINNET) and Unified information system of the financial monitoring (UIS FM), which provides interagency cooperation of the state bodies in AML/CFT sphere.

USIS started to function in 2003 with reception and processing of financial transactions subject to financial monitoring.

As of January 2007 USIS started to function consisting of:

- central subsystem (SFMS);
- information and telecommunication systems of financial monitoring (in accordance with positive expert conclusions on a comprehensive information security system USIS FM);
- subsystems support;
- comprehensive information security system (in accordance with positive expert conclusions on a comprehensive information security system USIS FM);
- functional subsystem of the state authority – subjects of USIS FM.

As of January 2009 put into operation protected multiservice automated corporate system of SFMS (FINNET).

Currently the USIS system has been under commercial operation for 11 years. The 2003-2014 has seen significant extension of list of reporting entities that should ensure provision of information and comply with the requirements concerning information exchange with them.

The SFMS of Ukraine provided conducting of incessant technological processes concerning receiving, initial and analytical processing of the information of the reporting entities and states bodies, and support of the information environment and cooperation of its entities.

Access to information resources of the Ministry of Internal Affairs, State Fiscal Service of Ukraine, (including the State Tax Service of Ukraine, Ministry of Revenue and Duties and the State Customs Service of Ukraine), State Statistics Service of Ukraine was provided via information and telecommunication system. Access to



resources of other UIS FM subjects was provided via regular updates of the relevant information resources available in the UIS FM data storage.

In order to ensure effective analysis of the information on financial transactions, during 2014 by the means of the UIS FM in response to 1 767 638 regulation requests has been obtained additional information from the state authorities - subjects of the Unified Information System.

To ensure information protection within USIS an additional state expert examination of the complex information protection system (CIPS) of the Internet segment in FINNET and of CIPS FINNET in whole was conducted. Following the expertises the protected information processing period and protected information analysis periods in USIS were extended.

To ensure transparent and public activity the SFMS of Ukraine ensured operation of a public information recording system to be accesses via official website of the SFMS of Ukraine. In 2014 information concerning 26 207 documents has been entered into the system.

Taking into account new legal requirements, information technology development, increased international standard requirements relating to prompt response to public security threats, increased information resources security threats, necessary improvements to cooperation technologies for authorities and other subjects, in particular, with the use of Internet means, need for USIS upgrade has become essential. Such measures shall ensure compliance of the national AML/CFT system with amendments to FATF Standards, integration of additional information resources of public authorities and USIS, replacement of the outdated hardware and software, improvement of the complex information protection system in accordance with the new threats to its security.

Currently developed measures of improvement and development USIS in accordance of the Law of Ukraine On preventing and counteracting the legalization (laundering) of illegally derived income, financing terrorism, and financing proliferation of weapons of mass destruction, which came into force on February 6, 2015.

This upgrade should ensure that national system of anti-money laundering and financing of terrorism and proliferation of weapons of mass destruction accordance to FATF Standards, the integration of additional information resources of public authorities to USIS, replacement of outdated machinery and software improvements, comprehensive information security system in accordance with the new threats to security .

Proposals for modernization submitted to the National Programme information for the years 2015-2017, as a program "Modernization of a single state information system on prevention and counteraction to legalization (laundering) of proceeds from crime and terrorist financing."

## **7. INTERAGENCY COOPERATION**

In 2013 the organization of AML/CFT interagency cooperation has been carried out by the SFMS of Ukraine in accordance with:

- the AML/CFT Law;
- the Strategy for Developing Anti-Money Laundering and Counter Terrorist Financing System for the Period up to 2015 approved by the decree of the Cabinet of Ministers of Ukraine dated 09.03.2011 № 190-p;
- the Anti Money Laundering and Counter Terrorist Financing Action Plan for 2013 approved by the resolution of the Cabinet of Ministers of Ukraine and the National bank of Ukraine dated 25.12.2014 № 971.

The abovementioned work has been conducted by the SFMS of Ukraine in the following directions:

- coordination of implementation by state authorities of the Anti Money Laundering and Counter Terrorist Financing Action Plan for 2013 as well as notifying the Cabinet of Ministers of Ukraine and the National bank of Ukraine on the results of its implementation;
- organizing and conducting meetings of the AML/CFT methods and trends council;
- processing and coordinating draft legal acts of the state financial monitoring entities and other state authorities;
- signing of joint agreements, protocols, other documents on cooperation with state authorities;
- organizing and conducting joint working sessions on adjusting cooperation, interaction, coordination and information exchange with state authorities – participants of AML/CFT system;
- participating of the SFMS of Ukraine representatives in working groups established under the Cabinet of Ministers of Ukraine or other state authorities;
- generalizing, preparing and forwarding information on the state of prevention and counteraction to legalization (laundering) of the proceeds from crime, or terrorist financing to the Administration of the President of Ukraine, the Committee of the Parliament of Ukraine for finance and bank activities, the Committee of the Parliament of Ukraine for counteraction to organized crime and corruption and the Cabinet of Ministers of Ukraine as well as an analysis of actions effectiveness, functioning of financial monitoring system in the state on the base of information received by state authorities;
- providing methodical assistance to the reporting entities;
- organizing supervisory activities over the reporting entities.

### **7.1. Interaction with regulators and other state agencies**

Interagency cooperation types include concluding and implementation of interagency agreements, protocols, joint orders, memoranda of interaction with law

enforcement agencies, regulatory and supervisory agencies, state authorities and other AML/CFT organizations.

As of January 01, 2015 such documents have been signed with 5 state regulators, 15 state authorities, as well as 19 other agencies and organizations.

In 2014 the SFMS of Ukraine has signed 2 declarations on general bases of cooperation, including:

- Agreement "On information and interagency cooperation between the Ministry of income and fees Ukraine and the SFMS of Ukraine" and 4 protocols to this Agreement on rules of transferring information;
- Memorandum on cooperation in the sphere counteracting the legalization (laundering) of illegally derived income, financing terrorism, and financing proliferation of weapons of mass destruction between the SFMS of Ukraine and Kyiv National Taras Shevchenko University.

In the frameworks of concluded joint orders on cooperation the SFMS of Ukraine provides regulators with the information in order to enhance the supervision efficiency of compliance with AML/CFT legislation requirements, particularly:

- administrative data on the financial transactions that are subject to financial monitoring received by the SFMS of Ukraine from the reporting entities;
- data on mistakes made by the reporting entities in the course of submission of the information on the financial transactions that are subject of financial monitoring;
- data on the state of registration of the reporting entities in the SFMS of Ukraine;
- information on facts disclosed by the SFMS of Ukraine that attest to violations of the legislation by the reporting entities;
- information on protocols composed by the SFMS of Ukraine on administrative violations committed by officials of the reporting entities, and the results of consideration thereof;
- information on ML/TF financial schemes and methods analysis.

During 2014 the SFMS of Ukraine has organized and held 2 meetings of AML/CFT Methods and Trends Interagency Council established by the Resolution of the Cabinet of Ministers of Ukraine dated 06.01.2010 № 25 during which the important issues for *financial monitoring system* were discussed.

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

In 2014 the SFMS of Ukraine on the permanent basis conducted analysis of effectiveness of the reporting entities' activity in AML/CFT area.

Under result of the mentioned analysis in 2014 the SFMS of Ukraine has developed a number of methodical recommendations, in particular:

- features of financial transactions identifying by reporting entities which are a subject of financial monitoring, government regulation and supervision of which performs SFMS of Ukraine

- features of registration entities, governmental regulation and supervision of the activities are in the sphere of combating legalization (laundering) of proceeds from crime or terrorist financing makes SFMS of Ukraine;
- information about profitable operations in the accounts, which suspended operations expenditure in accordance with the decision of SFMS of Ukraine
- details of filling file messages by bank on financial transactions relating to unauthorized withdrawals from customer accounts;
- risks related to separatist and terrorist financing activities in Ukraine
- procedure of submitting reporting entities corrected information to SFMS of Ukraine in case message about the changes in the information that was the basis for registration

During 2014 4 meetings of the Working group on consideration problem issues of the reporting entities-non-banks were organized.

During the above mentioned meetings of the Working group actual issues of implementation by the reporting entities of AML/CFT legislation were considered.

During 2013 18 reporting entities, state regulation and supervision over the activities on implementation the AML/CFT legislation of which conducts the SFMS of Ukraine, were inspected. Such inspections included, in particular:

17 inspections of business entities providing intermediary services in immoveable property buy/sell transactions;

1 inspection of legal entities fulfilling financial transactions with goods (performing works or providing services) for cash provided amount of such financial transaction is equal or exceeds UAH 150 000.

Procedure for conducting of inspections jointly with subjects of state financial monitoring is governed by relevant protocols of cooperation during the planning and conducting of inspections of reporting entities. Such protocols are signed with the Ministry of Finance of Ukraine, Ministry of Economic Development and Trade of Ukraine and National Securities and Stock Market Commission.

In 2014 employees of the SFMS of Ukraine took part in 4 such inspections with the Ministry of Justice of Ukraine.

Also, in accordance to paragraph 9 of the protocol instruction of the Prime Minister of Ukraine 02.04.2014 SFMS of Ukraine representative in the working group of the State Financial Inspection of Ukraine took part in the inspection of the State Concern "Ukroboronprom".

### **7.3. Interaction with the public**

The participation the civil society in ensuring the process of SFMS in carrying out in the following areas:

- organization of the Public Council of the SFMS and other working groups;
- public assessment of draft regulations;
- placement on the official Web site of SFMS the information about working staff and vacant positions;
- interaction with the media.

The SFMS approved tentative plan for public consultation in 2014, which agreed with the Public Council of the SFMS and posted on the Web site of SFMS.

However the SFMS gives per month to the Cabinet of Ministers of Ukraine the measures of public consultation and based on them quarterly derives to the Cabinet of Ministers of Ukraine Statement of SFMS concerning conduction public consultations.

In 2014 the SFMS conducted 3 meetings of the Public Council under SFMS, where a number of important issues in the context of interaction with the public were discussed. The materials containing the information about the Public Council of the SFMS were posted on the official Web site of the SFMS.

During 2014 the SFMS organized and took part in 8 working meetings with representatives of organizations that bring together reporting entities and SROs.

Also, a public debate approved by the Ukraine Parliament in the October 14, 2014 Law of Ukraine «On prevention and counteracting the legalization (laundering) of proceeds from crime financing terrorism and financing proliferation of weapons of mass destruction» took place.

#### **7.4. Supporte and education the subjects of financial monitoring**

During 2014 the SFMS representatives participated in 11 educational events for the workers of the law enforcement agencies, tax authorities and other public bodies organized by the National Academy of Security Service of Ukraine and the Center for retraining and professional management personnel of the Ministry of Income and Fees of Ukraine, the Main Investigation Department of the Ministry of Internal Affairs of Ukraine, the Prosecutor Office of Ukraine and the Prosecutor's Office of Kyiv region, the State Educational and Scientific Institution "the Academy of Financial Management" and Odessa State University of Internal Affairs. The event was attended by 312 people.

In addition, employees of the SFMS participated in 29 educational events for the reporting entities, which were organized for Ukrainian Institute of the Stock Market, the International Academy of Finance and Investment the Ukrainian Chamber of Commerce and Industry, LLC «The Institute of Continuing Education and Business», State educational and scientific institution "The Academy of Financial Management" and the University «Poltava University of Economics and Trade» and the University of Banking of the National Bank of Ukraine. The event was attended by more than 800 people.

Also during 2014 the SFMS representatives participated in 29 educational events, organized by the Training Center the SFMS of Ukraine. In studies conducted activities were 713 students. In general, in 2014 the SFMS representatives took part in 69 events, conducted more than 1 800 people.

In addition, during 2014 the SFMS employees were given more than 3 200 consultations by telephone "hot" telephone line, and prepared and sent 332 letters recommendatory to the subjects of financial monitoring.

## **8. ACTIVITIES OF THE TRAINING CENTER OF THE SFMS OF UKRAINE**

The main aim of the Training Center of the SFMS of Ukraine (TC SFMS of Ukraine) is retraining and professional development for specialists on financial monitoring of the AML/CFT in order to ensure unified approach to retraining and professional development for specialists of subjects of state financial monitoring, law enforcement agencies and judicial authorities, representatives of the reporting entities in charge of its conducting, and representatives of foreign states or international organizations.

In 2014 Training Center trained 1 035 representatives of state and reporting financial monitoring entities, including:

- 474 professionals – of the state authorities:

98 representatives of the state financial monitoring entities and other agencies of state power including State Commission for Regulation of Financial Services Markets of Ukraine, National Securities and Stock Market Commission, Ministry of Economic Development and Trade of Ukraine, Ministry of Justice of Ukraine, Ministry of Infrastructure of Ukraine and the State Financial Inspection of Ukraine;

376 representatives of law enforcement agencies and judicial authorities, in particular, Ministry of Internal affairs of Ukraine, Security Service of Ukraine, Ministry of Revenue and Duties of Ukraine, State Court Administration of Ukraine, Prosecutor General's Office of Ukraine and the Foreign Intelligence Service of Ukraine.

- 561 professionals – responsible officers of the reporting entities:

452 representative of the participants of financial service markets;

27 representatives of the business entities that provide intermediary services in immovable property purchase/selling transactions;

18 representatives commodity and others exchanges, that conduct financial transactions on goods;

11 representatives of business entities who provide legal services;

43 representatives of post service;

10 representatives of the professional participants of securities market.

In 2014, trainings at the Training Center were based in Kyiv, Kharkiv and Lviv, in particular:

- 260 representatives of state agencies were trained in Kyiv, among them – 60 entities of state financial monitoring, 200 representatives from law enforcement agencies and judicial authorities, 218 participants of financial services markets, 14 representatives of the business entities, that provide intermediary services during buy-sell transactions on immovable property, 19 professionals from commodity and other exchanges, that conduct financial transactions on goods, as well as 11 representatives of business entities who provide legal services; 10 representatives from professional securities market participants.

There were also seminars held with 194 participating responsible persons from reporting entities.

## **9. INTERNATIONAL COOPERATION**

### **9.1. Cooperation with international organizations**

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

In 2014 the SFMS of Ukraine efficiently cooperated with leading international organizations and institutions in AML/CFT area, in particular: Financial Action Task Force (FATF); FATF-style regional bodies: Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and Eurasian group on combating money laundering and financing of terrorism (EAG); Egmont Group of FIUs, Council of Europe and European Commission, United Nations Office on Drugs and Crime (UNODC), World Bank, International Monetary Fund, Organization for Security and Co-operation in Europe (OSCE), Organization for Democracy and Economic Development (GUAM) and other international organizations.

In order to improve AML/CFT awareness within the European and Eurasian region the SFMS of Ukraine was used as an educational event platform for representatives from these regions.

In 2014 representatives from the SFMS of Ukraine presented Ukraine's AML/CFT experience and enhanced bilateral cooperation during international seminars held under the auspices of leading international organizations.

The SFMS of Ukraine signs international interagency agreements (Memoranda of Understanding) with foreign FIUs. Thus, there have been 69 cooperation agreements signed with foreign FIUs within 2003-2014.

In the reporting period there have been 4 Memoranda of Understanding signed with FIUS, namely: cooperation agreement between the SFMS of Ukraine and Republic of India, South Africa, Guernsey and Special AML commission of Lebanese Republic.

#### **9.1.1. The cooperation with FATF**

During 2014 the SFMS representatives actively participated in the plenary sessions and working groups of the FATF particularly in the extraordinary plenary FATF, the Plenary sessions FATF, the sessions of the International Co-operation Review Group FATF (ICRG), sessions of the Europe/Eurasia Regional Review Group (EERG).

During these meetings they discussed the practice of checking the implementation the action plans of the countries on combating money laundering and terrorist financing, that carried out the Europe/Eurasia Regional Review Group FATF since the adoption in February 2012 the new FATF Recommendations and strategy FATF on interaction with the private sector and other stakeholders.

Following the meeting prepared two public documents defining jurisdiction that may pose risks to the financial system.

In addition, representatives of the SFMS participated in the sessions of the International Co-operation Review Group FATF, during which, considered the progress of jurisdictions that are under monitoring procedures.

#### **9.1.2. Cooperation with Egmont Group**

The SFMS on a regular basis the activity cooperate with the Egmont Group of the FIUs. The representatives of the SFMS took active part in the Egmont Group, namely in the meetings of Egmont Committee, in the Regional groups, in the meetings of the Egmond Legal working group, in the Operational Working Group, in the Working Group to attract new members, in the Training Working Group and in the Working Group on Information Technology. In order to represent the interests of Ukraine and the European region in combating money laundering and terrorist financing, participated in various training activities.

In addition, representatives of the SFMS are parts of many Egmont Working groups and participating in its projects.

During these meetings they discussed:

- updated information on FIUs the candidates to the Egmont Group of Financial Intelligence Units;
- interaction between FIUs to exchange information in the field of combating money laundering and terrorist financing;
- the issue of implementation of new standards Egmont Group of Financial Intelligence Units;
- an update on the application of Statutory Instruments Egmont Group of Financial Intelligence Units;
- the cases that were submitted for the contest "The best case of the Egmont Group".

#### **9.1.3. Co-operation with the Council of Europe / European Commission**

On an ongoing basis continued the close cooperation the SFMS with MONEYVAL. During the reporting period during meetings was considered:

- the Calendar of MONEYVAL within the 5th round of mutual evaluations MONEYVAL;
- the Regulation of the 5th round of mutual evaluations MONEYVAL;
- the issue about transfer of the 4th round of mutual evaluations MONEYVAL of the Ukraine and the date of the 5th round of mutual evaluations of the Ukraine;
- the information on initiatives in the AML / CFT in the states and territories that are members of MONEYVAL (round table);



- the regulations of the 5th round MONEYVAL assessment, the MONEYVAL questionnaires and templates within the 5th round of mutual evaluations MONEYVAL;
- the information about the initiatives of other international organizations;
- the concept of types and importance of financial analysis, conducted by FIU for law enforcement agencies;
- approaches that are used in the analysis of reports of suspicious transactions (FIU administrative type, law enforcement type, or mixed type);
- the issue of criminal money flows and identify potential vulnerabilities regional;
- the issue of laundering the proceeds from organized crime;
- the issue of prosecution of organized crime of AML;
- the issue of identifying obstacles to obtain convictions for third party regarding AML;
- the issues relating to convictions and confiscation third party of AML;
- the issue of organized crime in financial institutions: judicial proceedings aimed at the destruction of relations between management and owners of financial institutions and organized criminal groups;
- the typological studies and other important issues related to the typological work;
- the scheme of voluntary tax compliance;
- the future representation on the sessions of the FATF.

During 2014 the SFMS continued cooperation with the European Commission under the Technical Assistance and Information Exchange EC TAIEX.

Thus, during the reporting period under the Technical Assistance and Information Exchange the European Commission TAIEX, the SFMS representatives intensify bilateral cooperation and exchange of experiences in the fight against money laundering and terrorist financing and made a lot of study visits to the competent authorities the Greek Republic, the French Republic, the Kingdom of Spain, the Republic of Austria, the Republic of Italy and the Federal Republic of Germany.

In particular organized and held two international seminars:

- «The money laundering and other financial crimes. The Detection and investigation of financial crimes in the stock, foreign exchange markets and the insurance sector» (Kyiv, 1-2 July 2014)
- «International practice of creating a specialized agency of extraction and management confiscated funds. The legal regulation a cases of special confiscation, management confiscated or seized property in Europe» (Kyiv, 3-4 July 2014).

Underway made preparatory measures about holding seminars and realization study visits to the other FIUs of the European Region.

The Technical Assistance and Information Exchange Commission TAIEX is an effective mechanism for closer cooperation with the competent authorities of the Member States.

#### **9.1.4. Cooperation with the Eurasian Group**

The SFMS experts on a regular basis took part in meetings and activities of the Eurasian Group on Combating Money Laundering and Terrorist Financing.

From 17-23 August 2014 the SFMS representative took part in an international seminar in the Sary-Oi, Kyrgyz Republic on "Crime in Cyberspace and money laundering." The event was attended by representatives of states parties and observers EAG. In addition, representatives of the OSCE, the Secretariat of the EAG were participate in the event.

Was presented a role of the SFMS in combating cybercrime as an example of successful investigations and stressed that the key to effective cybercrime is efficiency in detecting unauthorized access to bank accounts and transfer of such information to law enforcement agencies and SFMS of Ukraine.

From 10-14 November 2014 in the Dushanbe, Tajikistan held 21st Plenary and Working Group meeting of the EAG in which the representative from SFMS, as the evaluator combating money laundering and financing of terrorism took part in the open EAG Plenary.

According to the report, Plenary Session decided to removal of the Kyrgyz Republic with monitoring procedures EAG.

Also, participation of the SFMS of Ukraine as an observer in the activities of the Eurasian Group is involvement of Ukraine in joint researches of EAG, training events and participation of the SFMS of Ukraine in mutual evaluations of EAG member states and its activities, in this regard representative of the SFMS of Ukraine was appointed as Co-chairman of the EAG working group on typologies.

#### **9.1.5. Other international events**

##### **Cooperation with the Organization of Security and Cooperation in Europe (OSCE)**

During 2014 continued fruitful cooperation between the State Financial Monitoring Service of Ukraine and Organization of Security and Cooperation in Europe (OSCE). The SFMS with the OSCE Project Coordinator in Ukraine was implemented technical assistance project «Strengthening the capacity of the Financial Monitoring System of Ukraine» which included in particular the development of this assessment methodology legalization (laundering) proceeds from crime and terrorist financing.

The final stage of which was a joint seminar the OSCE with the SFMS «Implementation of this assessment to money laundering and terrorist financing, as part of its policy shadow economy in Ukraine», which was held in November 25, 2014 in the Kyiv. The Organization's of Security and Cooperation in Europe projects

are enhance the level of cooperation between public authorities and SFMS of Ukraine and improve the quality of financial investigations (at national and international levels).

Participation of Ukraine in international events organized in cooperation with the OSCE is important, in view of the exchange of experience for deepening and acquiring new knowledge and representing Ukraine as a state that has a number of important steps to achieve international standards in the fight laundering proceeds of crime or terrorist financing.

Cooperation with the UN – United Nations Office on Drugs and Crime (UNODC), UN Security Council, Counter-Terrorism Committee, Organization for Democracy and Economic Development.

During the reporting period continued close cooperation the SFMS with the United Nations Office on Drugs and Crime (UNODC), UN Security Council and Counter-Terrorism Committee. At the end of 2013 in the SFMS expert consultations during the visit to Ukraine first monitoring visit of international experts from Counter-Terrorism Committee (CTC) of the United Nations (UN) to assess the state of implementation of Ukraine UNSCR 1373 (2001) "On the fight against international terrorism" and 1624 (2005) "On prevention of incitement to terrorism" were held.

In consultation considered the issue of state legislative and regulatory support system counteraction to legalization (laundering) and mechanisms of practical implementation of UNSCR particularly with respect to countering terrorist financing and possible areas of cooperation.

SCFM in the first quarter of 2014 worked out a draft final detailed report of the results of the monitoring visit the Counter-Terrorism Committee (CTC) the Security Council and submitted to the Ministry of Foreign Affairs of Ukraine.

The project "Capacity Building of GUAM member states in the field of cooperation at the national and regional levels in combating legalization from criminal means, and the detection, investigation, seizure and confiscation of proceeds from crime», that implemented by the Regional Office in Central Asia, United Nations Office on Drugs and Crime (UNODC ROCA) in cooperation with the Organization for Democracy and Economic Development (GUAM), to prepare the final report by the SFM S processed and forwarded the information to the Ministry of Foreign Affairs of Ukraine.

### **Participation in other international events**

In the 9 -10 September 2014, visit the SFMS representatives to the Vienna, Republic of Austria to participate in the Fifth Annual Conference of Global focal points on: «Integrated and productive approaches to asset recovery», organized by Interpol Unit on fighting corruption and financial crimes and initiatives for the return of stolen assets (Initiative StAR) the World Bank and the United Nations Office on Drugs and Crime (UNODC) was held.

In the 3 November 2014, representatives of the SFMS visited the Geneva, Switzerland, to participate in the Arab Forum on Asset Recovery on "Efficient use of channels FIUs».

In the 8-10 December, 2014 the SFMS representatives participated in the International Conference on the fight against corruption, where a discussion of issues related to challenges in combating money laundering and terrorist financing, which was held in Washington, United States was raised.

## **9.2. Exchange the information with foreign FIUs**

The SFMS receives from foreign partners financial information that may be associated with illegal activities. This allows to more fully investigating about complex transnational schemes.

In 2014, in cooperation with the 136 FIUs (further - FIU), all of which are members of the Egmont Group, which concluded Memoranda of Understanding. During the reporting period the SFMS sent 458 requests to 136 FIUs of other countries and received 395 responses to inquiries from the FIU 86 foreign countries.

The SFMS obtained 251 requests from 55 foreign FIUs and provided 253 answers to the 53 FIUs foreign countries.

During 2014 the SFMS provided requests to the FIUs: Latvia – 50, Cyprus – 34, USA – 33, Great Britain – 27, British Virgin Islands – 21, Austria – 17.

However, in 2014 the largest number of requests were received from the FIU, UK – 28, US - 21, Poland - 20, Austria - 16, Latvia – 13, Cyprus – 9.

During 2014 the SFMS met with liaison officers:

- 4 - with representatives of the US Embassy in Ukraine, the Embassy of the United Kingdom of Great Britain and Northern Ireland in Ukraine;
- 3 - with government representatives of the United States of America;
- 1 - with government representatives of the United Kingdom of Great Britain and Northern Ireland, the Polish Embassy in Ukraine, government of the Republic of Turkey, the Canadian Embassy in Ukraine, Embassy of the Republic of Serbia in Ukraine, the Ambassador and representatives of the Italian Embassy in Ukraine.

During the above meetings discussed issues of cooperation in the field of fight against money laundering, cyber crime, cooperation in the development and application of sanctions to persons support and finance terrorism in Ukraine.

Between 19 - 22 May 2014 (Budapest, Hungary) the SFMS participated in a seminar for Members information exchange network FIU.NET, and 5 - 7 November 2014 visited the Hague, Netherlands, to discuss connection the SFMS to the FIU.NET.

## **10. PLANS FOR 2014. DEVELOPMENT PERSPECTIVES.**

### **I. Development of the AML/CFT legislation, particularly through implementation of new FATF Standards**

The aim will be achieved by the following means:

- ensuring support in consideration of the Verkhovna Rada of Ukraine of draft law on amendments to legislation with the view to further implementation of FATF provisions;

- preparation and support in adoption of draft legal acts, in particular, draft laws, acts of the Government and the Ministry of Finance of Ukraine with regard to AML/CFT;

- ensuring consideration and coordination, in accordance with the established procedure, of draft legal acts prepared by the state AML/CFT agencies.

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

The aim will be achieved by the following means:

- drafting the Strategy of development of prevention and counteraction to legalization (laundering) of proceeds from crime or financing of terrorism and the financing of proliferation of weapons of mass destruction for the period until 2020 and its submission to the established procedure to the Cabinet of Ministers of Ukraine;

- provide a National Risks Assessment of money laundering and terrorist financing at the national level with the international experience;

- holding on a regular basis of meetings of ML/TF Methods and Trends Research Council as a constantly acting consultative and advisory agency, established by the Cabinet of Ministers of Ukraine;

- coordination of the state agencies in the course of fulfilment of the AML/CFT Action Plan for 2014.

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

The aim will be achieved by the following means:

- providing the participants of the national system of financial monitoring with consulting on AML/CFT measures and new FATF Standards;

- ensuring effective cooperation with the international organizations and institutions acting in the AML/CFT area;

- organization of international training events and information sharing in the AML/CFT area;

- concluding of AML/CFT international interagency agreements with foreign counterparts.

## **IV. Development and enhancement of unified state information system in the AML/CFT area**

The aim will be achieved by the following means:

- extension of information resources of unified state information system in AML/CFT area;

- enhancement of information interaction with the subjects of financial monitoring and other state agencies;
- updating of the information processing technologies.

**V. Organization and coordination of the activities on re-training and professional development of the specialists of the state agencies on financial monitoring and Compliance officers of the reporting entities in the AML/CFT area on the base of the Training Center of the SFMS of Ukraine**

The aim will be attained by the providing modern techniques and technology training and professional development of staff and heads of divisions entities responsible for financial monitoring, as well as government officials in the sphere of AML/CFT and proliferation of weapons of mass destroy.

**VI. Analysis of the information on financial transactions subject to financial monitoring, or the information that may be related to the suspicion in legalization (laundering) of the proceeds of crime and terrorist financing**

The aim will be attained by the following means:

- increasing effectiveness of the analysis of financial transactions that may be related to legalization (laundering) of the proceeds from crime or terrorist financing in order to forward to the law enforcement and intelligence agencies, pursuant to the competence, the case referrals;

- research of ML/TF trends and methods and raising reporting entities' awareness of them.