# ANNUAL REPORT THE STATE FINANCIAL MONITORING SERVICE OF UKRAINE





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Kyiv - 2018

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

#### **Dear Colleagues!**

Service of Ukraine Annual report for 2017, which highlights 2019 on the implementation of the Strategy for development the main results of work in the AML/CFT area.

It is worth mentioning that the last 2017 was not only a year of challenges in the work of our institution, but also a year of new ideas and significant achievements.

The SFMS, as the Financial Intelligence Unit of Ukraine, focused its main priorities of the work on extending international relations, enhanced financial investigative work, regulatory provision of financial monitoring system, as well as on strengthening cooperation with the public.

Literally, the most important event in the area of international cooperation was MONEYVAL's 5th round mutual evaluation of the AML/CFT system of Ukraine.

Thus, in March-April, 2017, the onsite visit of MONEYVAL's evaluation team took place in Kyiv.

The SFMS has accompanied the whole evaluation process, which lasted more than a year and was started in August 2016.

As a result, the 5th round mutual evaluation Report of Ukraine was approved by MONEYVAL within the 55th MONEYVAL Plenary held in Strasbourg (French Republic), 4-7 December 2017

The approval of the Report confirmed that Ukraine is a reliable AML/CFT jurisdiction, and does not require special control measures (beacons) of MONEYVAL and FATF.

It should be emphasized that as a result of evaluation and according to the relevant monitoring procedures, Ukraine is at the level of the following FATF member countries evaluated earlier: Australia, USA, Canada, Singapore, Denmark, Sweden and Switzerland.

This is an unconditional success of the national financial monitoring system and international recognition of the effectiveness of its participants' actions.

In 2017, the SFMS has resolutely continued to take measures to combat the legalization challenges and risks of terrorism financing at the national level.

In order to identify and regulate clear guidelines for the effective operation and development of the financial monitoring system, in August of the year under review, the

Let me present you the State Financial Monitoring Government of Ukraine approved the Action Plan for 2017of the AML/CFT system elaborated by the SFMS

> The specified strategic plan contains a number of practical actions recommended following the results of the first National AML/CFT Risk Assessment in the area of prevention and counteraction to the legalization (laundering) of the proceeds from crime and terrorist financing (coordinated by the SFMS).

> In addition, the most important mission of the SFMS's activity, being under its continuing review, are financial and intelligence activities in the context of preventing, terminating and destroying ML/FT schemes.

> In this aspect, in 2017, an unprecedented example of the effective SFMS's work were the orders on confiscation of criminal proceeds in the amount of about USD 1.5 bln. into state income, which had been detected and blocked by the SFMS as a result of a multi-stage and complex financial investigation in accordance with the AML/CFT legislation.

> At the same time, in 2017, based on the results of work on the disclosure of modern schemes and methods used by criminals for ML/FT, the SFMS prepared two thematic typological studies: «Risks of Cash Use» and «Risks of Terrorism and Separatism», which outline the main methods and the schemes by which criminals and criminal groups carry out cash transactions for money laundering and finance terrorism (separatism).

> Furthermore, the SFMS unconditionally continued to take proactive part in the international cooperation on operational and methodological aspects, and also ensured an active exchange of information with foreign FIUs within the Egmont Group.

> I thank everyone who took an active part in cooperation with the SFMS for further development of the national AML/CFT system.

> I am confident that we will achieve conclusive positive results for stability, transparency and reliability of the financial system of Ukraine and the economic security of the state as a whole, only through joint, balanced efforts of the state, private sector and the public.

Sincerely, **Igor CHERKASKYI** 

-

## **KEY RESULTS**



## International cooperation

As a result of international assessment of Ukraine by MONEYVAL (March-April, 2017), Ukraine was evaluated as a reliable AML/CFT jurisdiction, and the SFMS's activity was considered to be stable, effective and successful

## **Confiscation of funds**



In 2017, criminal proceeds were confiscated into state income in the amount of about USD 1.5 bln. which had been detected and blocked by the SFMS as a result of multi-stage financial investigation



## **National coordination**

On August 30, 2017, the Government of Ukraine based on the SFMS's submission approved the National AML/CFT Action Plan for 2017-2019 taking into account the National Risk Assessment conducted

## **Financial investigations**

As a result of financial investigations, the SFMS has submitted 712 case referrals with the suspicious financial transactions in the amount of UAH 59.4 bln. to law enforcement authorities

## **OF THE SFMS'S WORK IN 2017**

## **Training activity**

The operation of the State Institution of Postgraduate Education "Academy of Financial Monitoring" was started

## Legislative initiative

Proposals on amending the legislation to implement the EU 4th Directive were drafted



## **Methodical activity**

With the assistance of the OSCE a compilation of legal acts on financial monitoring were released.

3 248 consultations were provided in the AML/CFT sphere.

## **Typological studies**

At the first time two Typological studies "Risks of Cash Use" and "Risks of Terrorism and Separatism" were prepared



## **1. ABOUT THE SFMS**

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

According to 29 FATF Recommendation, countries should establish an FIU with responsibility for acting as a national by the AML/CFT Law and the Regulation on the State Financial centre for receipt and analysis of suspicious transaction Monitoring Service of Ukraine, approved by the Cabinet of reports and other information relevant to money laundering, associated predicate offences and terrorist financing; and for the dissemination of the results of that analysis. The FIU should be able to obtain additional information from reporting entities and have timely access to financial, administrative and law enforcement information that it requires to properly undertake its functions.

Pursuant to the Law of Ukraine "On Ratification of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing proceeds from crime, terrorist financing and the financing of of Terrorism", the SFMS is a body authorized by Ukraine to undertake functions of the Financial Intelligence Unit (FIU).

The SFMS is the FIU of administrative type and a central executive body that implements state policy in the AML/CFT area.

The SFMS's duties, rights, functions and powers are defined Ministers Ukraine dated July 29, 2015, No. 537

The SFMS's activity is directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Finance of Ukraine.

The main FIU's tasks and functions is collecting, processing and analysing (operational and strategic) of information on financial transactions that are subject to financial monitoring, other financial transactions or information that might be related to the suspicion of the legalization (laundering) of the proliferation of weapons of mass destruction.



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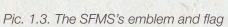
#### - Pic. 1.2. The SFMS's building

Therefore, the SFMS's role is that it processes suspicious transaction reports received from reporting entities and in case on partnership principles in accordance with the Statute of the of ML/FT suspicions submits case referrals to law enforcement Egmont group of financial intelligence units and in accordance authorities.

An important component of the SFMS's activity is establishing constructive cooperation with international institutions and foreign counterparts, entrusted by the international community with responsibility for organizing an effective AML/CFT regime.

The SFMS actively exchanges information with foreign FIUs with the Memoranda of Understanding.





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## Assessments of the international organizations in official reports of the FIU's activity

#### **FATF** February 2004

The SFMS has a potential to be a very effective financial intelligence unit. The evaluation team was impressed with its achievements and plans for the future. The SFMS actively collects, analysis and submits information on suspicious or extraordinary transactions to the competent authorities of Ukraine

#### IMF

#### September 2005

The SFMS has promptly developed its potential in terms of provision of all components necessary for undertaking functions of an FIU

#### **EU Assessment Missions to Ukraine** May 2006

The SFMS has an effective strategy for the prevention of money laundering. The SFMS is a young organization and therefore has not been forced to deal with established structures and methods. This is probably the most advanced body in Ukraine. It should be highlighted as an example of "best practice" which should be aligned with other law enforcement organizations

#### **MONEYVAL's 3rd round mutual evaluation** March 2009

The traditional tasks of the FIU (receiving, analyzing and disseminating STRs) are performed effectively by the SFMS, which has direct access, through the Unified Information System created in 2007 to numerous databases of state agencies of Ukraine

#### **EU Assessment Missions to Ukraine** October 2015

Progress was also made when it comes to the coordination on the training programs of the different LEA's and other partners. The FIU does take up a leading role. The positive thing is that the FIU and its Training Centre continue to set out guidelines for the private sector

#### **MONEYVAL's 5th round mutual evaluation** December 2017

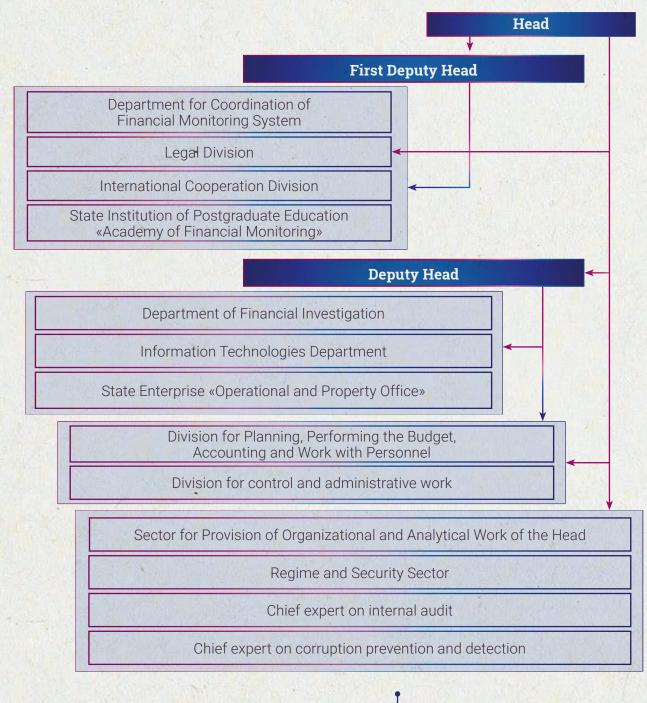
The FIU produces good quality financial intelligence and strategic analysis based on a broad range of sources, including the very high number reports filed by REs. Cooperation at operational level and information exchange between authorities is generally positive, particularly where the FIU is involved

#### 1.2. Human resources

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

The below mentioned Pic. 1.4. provides the SFMS's structure. The authorized personnel complement of the SFMS is 237 persons. As of January 1, 2018, 209 employees actually work in the SFMS. Dynamics of the actual number of employees of the SFMS in 2013-2018 is provided on Pic. 1.5:

Gender distribution of the SFMS's employees is the following: 79 men (37,7%) and 130 women (62,3%). Among the senior management there are 31 men and 39 women.

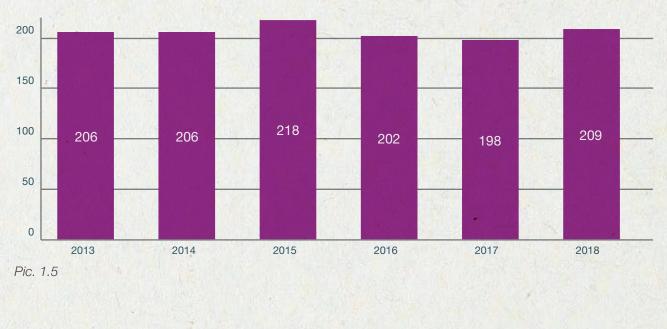


Pic. 1.4. The structure of the SFMS

Persons from 35 years old constitute the most numerous have a Master's degree in Public Administration. age group within the age structure of the SFMS's employees:

degree and 4 of them have academic degree. 12 SFMS's employees were appointed.

In 2017, the SFMS held 4 competitive selections for filling The SFMS's staff consists of high qualified specialists with civil servants vacancies, where 70 applicants participated. complete higher education. 10 SFMS's employees have scientific Following the results of the competitive selection, 40 persons



#### Dynamics of the actual number of the SFMS's employees in 2013-2018

#### 1.3. Financing of the SFMS

In 2017, the SFMS was financed from the state budget within the budgetary allocations pursuant to the Law of Ukraine SFMS expended UAH 139.9 million. The structure of funds «On State Budget of Ukraine for 2017».

In 2017, according to obtained budgetary allocations, the expenditure is provided in Table 1.1 below.

#### The structure of the SFMS budgetary allocations in 2017

Expenditures	Sum in UAH thousand	
Salaries and charges	53 336,0	
Utility services and energy carriers expenditures	1 503,1	
Business trip expenditures	205,1	
Other expenditures to ensure activity and maintenance of the State Information System and Information and Analytical System of the SFMS	84 855,8	
Total	139 900,0	

Table. 1.1.



## 2. PREPARATION AND CONDUCTION MONEYVAL'S 5TH ROUND OF MUTUAL EVALUATION

From March 23 to April 8, 2017, the SFMS has organized the on-site visit of MONEYVAL's evaluation team within the framework of the 5th round of mutual evaluation of the national AML/CFT system<sup>1</sup>.

MONEYVAL's evaluation included extensive consultations with representatives of state authorities, the private sector and public associations, as well as examination of the level of the effectiveness of practical implementation of FATF Standards in the national AML/CFT system.

In accordance with the provisions of 11 Immediate Outcomes, during the on-site visit the evaluation team reviewed the practice for application of financial monitoring legislation in Ukraine, in particular:

- Risk, policy and coordination (Immediate Outcome 1);
- International cooperation (Immediate Outcome 2);
- Supervision (Immediate Outcome 3);
- Preventive measures (Immediate Outcome 4);
- Legal persons and arrangements (Immediate Outcome 5);
- Financial intelligence ML/TF (Immediate Outcome 6);
- ML investigation and prosecution (Immediate Outcome 7);
- Confiscation (Immediate Outcome 8);
- TF investigation and prosecution (Immediate Outcome 9);
   TF preventive measures and financial sanctions (Immediate Outcome 10):
- PF financial sanctions (Immediate Outcome 11).

<sup>1</sup> MONEYVAL is a principal European AML/CFT arbiter and conducts mutual evaluations of countries with regard to all relevant international standards in legal, financial and law enforcement area. Ukraine is a member of MONEYVAL since 1997.



Pic. 2.1. Joint photo of SFMS's employees and MONEYVAL's evaluation team, Kyiv, April 7, 2017

Hereafter, pursuant to the Rules of Procedure for the 5th round of mutual evaluations, in order to further discuss the draft efforts were focused on the completeness of information Mutual Evaluation Report of Ukraine, the delegation of Ukraine and analytical provision of the evaluation team as well as on headed by the SFMS's representative took part in face-to-face meetings with MONEYVAL's representatives which was held in this area, in particular with the PGO, the NABU, the SSU, the on October 2-4, 2017 in Strasbourg, French Republic.

During the above mentioned meeting the technical aspects of the national AML/CFT system (based on the FATF Methodology work at all stages of preparation and conducting international 2012) and the effectiveness of compliance with 11 Immediate evaluation of Ukraine. The OSCE Project Co-ordinator in Ukraine Outcomes were discussed.

In the framework of further cooperation with MONEYVAL, representatives of the Cabinet of Ministers of Ukraine, the MFU, the SFMS, the MOJ, the MFA, the NBU, the PGO, the SFS, the NPU, the SSU coordinated by the SFMS took part in the 55th MONEYVAL Plenary meeting, on December 4-7, 2017 in Strasbourg, French Republic.

Pic. 2.3. Title page of the MER of Ukraine

the Mutual Evaluation Report of Ukraine within the 5th round and confirms growing of the effective actions of the AML/ mutual evaluation was approved (Pic. 2.3)

MONEYVAL confirmed the significant level of operational (findings are specified in the annex A).

A positive MONEYVAL's decision following the results of mutual evaluation of Ukraine was preceded by a number of unprecedented complex organizational and practical measures which have been taken and coordinated by the SFMS during the whole evaluation process within the 5th round mutual evaluation which lasted more than a year and started in August 2016 (See Chart 2.1).

It should be mentioned in this context that the significant coordination of joint actions with state authorities of Ukraine SFS, the NPU, the NBU and other authorities.

The SFMS was the main moderator of the above mentioned is provided active assistance of the SCFM.

As a result of well coordinated and constructive cooperation the expanded delegation of Ukraine which consisted of the with MONEYVAL, the Report widely and impartially highlights the state of technical compliance and effectiveness of the AML/CFT measures in Ukraine.

> In general, the Report confirms that Ukraine is a reliable AML/CFT jurisdiction, which does not require special control measures (beacons) of MONEYVAL and FATF.

The mentioned result proves an unconditional progress As a result of the on-site visit and the Plenary meeting in development of the national financial monitoring system CFT system participants.

This international document analyzes the level of compliance and institutional capacity of the SFMS according to all ratings of the legislation of Ukraine with FATF Recommendations, evaluates the practical operation and effectiveness of the financial monitoring system in Ukraine and provides recommendations for its improvement.

> As a result of evaluation of technical compliance of the legislation, Ukraine was rated positively. In particular, it was established that the national legislation fully complies with 12, largely complies with 20, partially complies with 7 FATF Recommendations and one Recommendation is not applicable in Ukraine (See Table 2.1)



Pic. 2.2. The delegation of Ukraine takes part in face-to-face meeting, Strasbourg, October 2, 2017 \_

## Main stages of preparation and organization of the MONEYVAL evaluation

#### **Stage I:** September – December, 2016

The detailed questionnaires (including examples, statistics and other professional information) on technical compliance of the legislative framework of Ukraine with FATF Standards, and the effectiveness of financial monitoring system have been completed, translated in English and sent to MONEYVAL

#### Stage II:

January – March, 2017

The SFMS has held practical, methodological and outreach meetings, consultations and trainings with the participants of the financial monitoring system. About 40 such events have been organized and held

#### Stage III:

March 23 – April 8, 2017

The SFMS has organized the stay of MONEYVAL's evaluation team in Kyiv which conducted more than 70 meetings with certain representatives from Ukrainian side

#### **Stage IV:** April – September, 2017

The SFMS ensured cooperation with MONEYVAL Secretariat which included phone calls and consultations on processing draft MER

#### Stage V: October – December, 2017

The SFMS ensured participation of the delegation of Ukraine in face-to-face meeting with the evaluation team which was held in Strasbourg, French Republic (October 2-4, 2017) and further processing of the draft MER

#### Stage VI: December 4-7, 2017

The SFMS ensured the organization of participation of the delegation of Ukraine in the meeting of the Working Group on Evaluations and the 55th MONEYVAL Plenary meeting (Strasbourg, French Republic), during which the MER of Ukraine within the 5th mutual evaluation round was approved

#### Stage VII:

December 8, 2017 – January 30, 2018

The SFMS took part in detailed analysis of the approved MER for quality and consistency following the affirmed procedures of MONEYVAL

Chart 2.1. Main stages of preparation and organisation of the MONEYVAL 5th Round Mutual Evaluation

#### Ratings of Ukraine on technical compliance of the legislation of Ukraine with FATF Recommendations

R.1	R.2	R.3	R.4	R.5	R.6
Assessing risk & applying risk-based approach	National cooperation and coordination	Money laundering offence	Confiscation & provisional measures	Terrorist financing offence	Targeted financial sanctions – terrorism & terrorist financing
LC	С	LC	LC	PC	PC
R.7	R.8	R.9	R.10	R.11	R.12
Targeted financial sanctions – proliferation	Non-profit organisations	Financial institution secrecy laws	Customer due diligence	Record keeping	Politically exposed persons
PC	LC	С	LC	с	LC
R.13	R.14	R.15	R.16	R.17	R.18
Correspondent banking	Money or value transfer serv <del>i</del> ces	New technologies	Wire transfers	Reliance on third parties	Internal controls and foreign branches and subsidiaries
С	LC	LC	С	N/A	LC
R.19	R.20	R.21	R.22	R.23	R.24
Higher-risk countries	Reporting of suspicious transactions	Tipping-off and confidentiality	DNFBPs: Customer due diligence	DNFBPs: Other measures	Transparency & BO of legal persons
С	С	С	LC	LC	LC
R.25	R.26	R.27	R.28	R.29	R.30
Transparency & BO of legal arrangements	Regulation and supervision of financial institutions	Powers of supervision	Regulation and supervision of DNFBPs	Financial intelligence units	Responsibilities of law enforcement and investigative authorities
PC	LC	LC	PC	С	Α
R.31	R.32	R.33	R.34	R.35	R.36
Powers of law enforcement and investigative	Cash couriers	Statistics	Guidance and feedback	Sanctions	International instruments
authorities c	LC	PC	C	PC	LC
R.37	R.38	R.39	R.40		and and a set
Mutual legal assistance	Mutual legal assistance: freezing and confiscation	Extradition	Other forms of international cooperation		
LC	LC				

Table 2.1. Ratings of Ukraine on technical compliance

ratings Ukraine has achieved by the two Immediate outcomes (see. Table 2.2). «Significant» rating, by the eighth Immediate outcomes -

By the level of efficiency, in accordance to the established «Moderate» rating and by the one rating a low level of effectivenes

<b>IO.1</b> Risk, Policy and Coordination Substantial	<b>IO.2</b> International Cooperation Moderate	<b>IO.3</b> Supervision Moderate	IO.4 Preventive Measures Moderate	IO.5 Legal persons and arrangements Moderate	IO.6 Financial intelligence ML/TF Substantial
<b>IO.7</b> ML investigation and prosecution	<b>IO.8</b> Confiscation	<b>IO.9</b> TF investigation and prosecution	IO.10 TF preventive measures and financial sanctions	<b>IO.11</b> PF financial sanctions	
	Moderate	Moderate	Moderate	Moderate	

#### Table 2.2. Ukraine ratings on Effectiveness

risk to be included to the FATF sanction lists (as it was during MONEYVAL Committee. previous assessments in 2001 and 2010). The specified work is

Currently the SFMS is preparing a corresponding Action and urgent. Plan to address the identified deficiencies by the results of the MONEYVAL's 5th round of mutual evaluation, to be able

Thus, obtained ratings ensured that Ukraine did not have a to present the Progress Report at the first meeting of the

The specified work is defined by the SFMS as a priority





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

proposals to improve AML/CFT regulations.

Thus, the SFMS continued its work in order to achieve compliance of the draft Law of Ukaine «On amendments to certain legislative acts of Ukraine in the field of prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and financing of the proliferation of weapons of mass destruction» to implement the provisions of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 «On the prevention of the use of the financial system for the purposes of money laundering or terrorist financing» and Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 «On information accompanying transfers of funds» and pursuant to paragraph 36 of the Memorandum of Cooperation between Ukraine and the IMF.

Project Co-ordinator in Ukraine and participation of authoritative is given in appendix B) was adopted.

In 2017, the SFMS took measures for the development of experts has developed the Compilation of legislative acts on Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime, Terrorist Financing and Financing of the Proliferation of Weapons of Mass Destruction (with comments and explanations) (Pic.3.2).

> The Compilation is prepared by generalization and systematization of the current regulations in the area of financial monitoring. The publication contains comments, official explanations and historical references on regulations, for their effective application in the implementation of the norms of law.

The publication is intended for employees of reporting entities, law enforcement and judicial authorities, scientists, as well as lecturers, postgraduates, students of higher law schools and practicing lawyers. At the same time, during the At the same time, the SFMS with the support of the OSCE reporting period, 4 legal acts, developed by the SFMS (the list



Pic. 3.1. Head of the SFMS Mr. Igor Cherkaskyi at the working meeting of the Verkhovna Rada Committee for Financial Policy and Banking Activity

In addition, in 2017, the SFMS adopted 194 orders of organizational and regulatory nature, as well as processed 55 draft regulations received from state authorities, 53 of which were approved, after adjustment of the SFMS position with the Ministry of Finance of Ukraine.



#### ЗЫРКА АКТІБ ЗАКОПОДАВСТВА З ПИТАНЬ ЗАПОБІГАННЯ ТА ПРОТИДІЇ ЛЕГАЛІЗАЦІЇ (ВІДМИВАННІО) ДОХОДІВ, ОДЕРЖАНИХ ЗЛОЧИННИМ ШЛЯХОМ, ФІНАНСУВАННЮ ТЕРОРИЗМУ ТА ФІНАНСУВАННЮ РОЗПОВСЮДЖЕННЯ ЗБРОЇ МАСОВОГО ЗНИЩЕННЯ

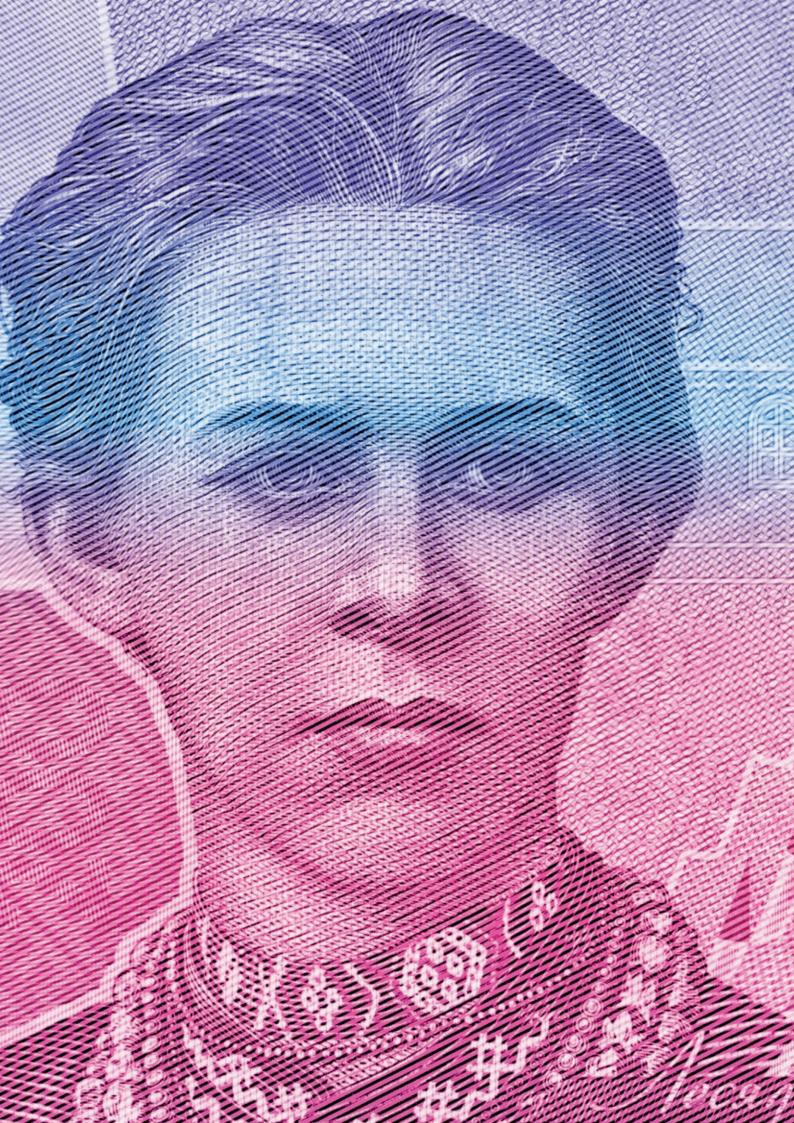
З КОМЕНТАРЯМИ ТА РОЗ'ЯСНЕННЯМИ



Pic. 3.2. \_\_\_\_\_







## **4. STATISTICS ON THE REPORTS RECEIVED**

#### 4.1. General dynamics of the reports received

mandatory financial monitoring or which is suspected of being transactions subject to financial monitoring were received and involved in money laundering or terrorist financing.

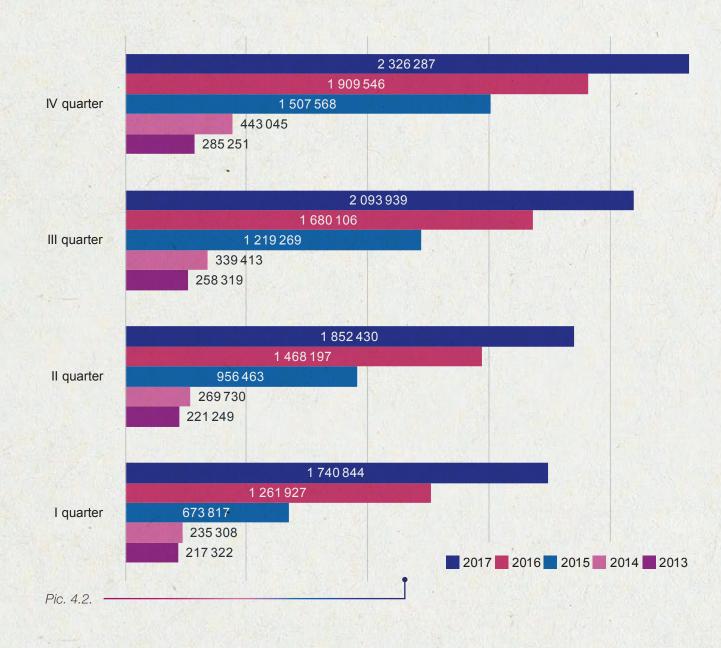
In accordance with the Basic Law, reporting entities submit In total, since the beginning of information and analytical to the SFMS information on financial transactions subject to system operation of the **SFMS**, **27.4 mln. reports** on financial processed among which 8 mln. reports were received during 2017 (Pic. 4.1.).



Dynamics of informing on suspicious financial transactions in 2013-2017

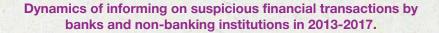
It should be noted that in 2017 the SFMS registered on 26.8 % more reports on financial transactions than in 2016 (Pic. 4.2).

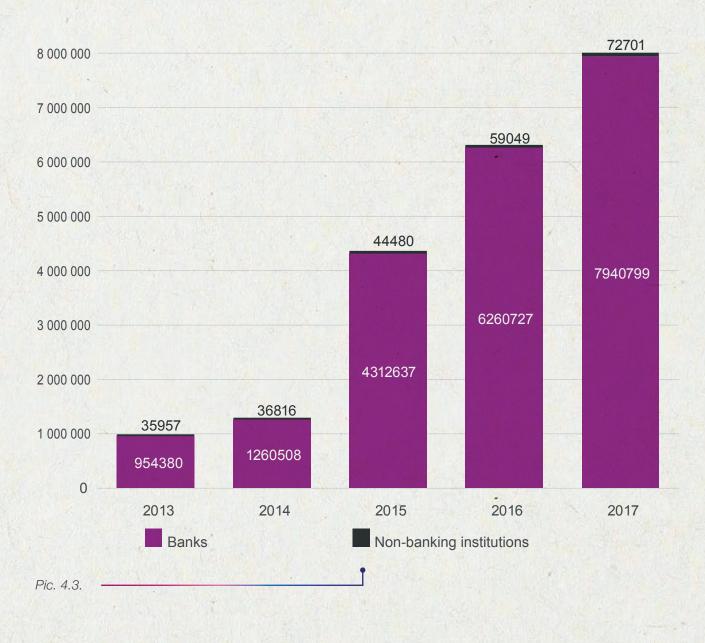
#### Dynamics of the number of reports of suspicious financial transactions, taken by the SFMS for registration in 2013-2017



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

The most active reporting entities in the reporting system are banks that provide the majority of reports on financial reports on financial transactions of a total number of reports (Pic. 4.3.).





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Also, it should be mentioned that the proportion of errors in the reports is 0.12 % from the total number of reports on submitted by reporting entities to the SFMS in correct way financial transactions received by the SFMS during 2017.

Thus, the percentage of financial transactions reports constitutes 99.88 % from the total number of reports.

#### Number of reports on financial transactions registered by the SFMS, in the context of means of submitting as of 01.01.2018

Type of rSeporting entity	Number of reports in electronic form	Number of reports in paper form
Banks	7 940 799	A Contraction
Non-Banking institutions	72 230	471

#### Table. 4.1.

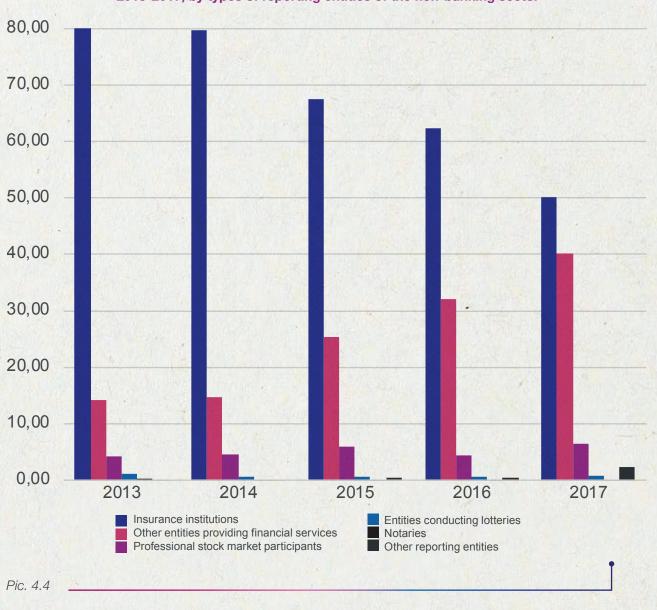
In 2017, the number of reports on financial transactions the SFMS reports by the mentioned type of reporting entity. to 50.14 % (Chart 4.2, Pic. 4.4).

Among non-banking institutions, the insurance sector is the received and registered by the SFMS from non-banking institutions most active in reporting. The share of such communications in in electronic form increased by 23.25% in comparison to 2016 the total amount of registered accounts of financial transactions and amounts to 99.35 % of the total number of submitted to submitted to the SFMS from the non-banking sector amounted

#### The share of reports in the total number of registered reports on financial transactions, received by the SFMS from non-banking sector in 2017

Type of reporting entity	Number	Share
Insurance institutions	36 451	50,14 %
Other entities providing financial services	4 747	6,53 %
Professional stock market participants	29 181	40,14 %
Entities conducting lotteries	603	0,83 %
Notaries	21	0,03 %
Other reporting entities	1698	2,33 %

Table . 4.2.



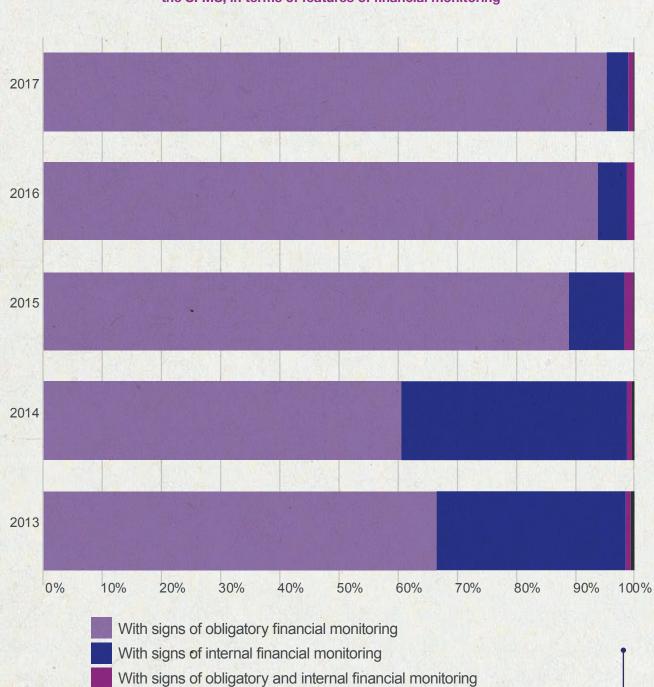
Dynamics of the share of the reports registered by the SFMS of Ukraine in 2013-2017, by types of reporting entities of the non-banking sector

As it is shown on the Pic. 4.4, the share of financial institutions in Ukraine. transactions registered by the SFMS from professional stock The distribution of market participants in the total number accountable to the year in the context of the features of financial monitoring is non-banking reporting entities has a tendency to increase from 2015, with a simultaneous decrease in the share of financial transactions submitted by insurance institutions.

This tendency is primarily due to an increase of the number of financial transactions with signs of obligatory financial monitoring, registered by the SFMS from professional stock market participants and a decrease of the number of insurance

The distribution of the registered reports of the reporting as follows (Pic. 4.5)

- on the basis of obligatory monitoring 95.24% (7 631 690);
- on the basis of internal monitoring 3.72 % (298 394);
- on the basis of obligatory and internal monitoring -0.91 % (73 300);
- financial transactions received on the request of tracking (monitoring) financial transactions - 0.13 % (10 116).



Tracking (monitoring) of financial transactions

The share of financial transactions in the total number registered by the SFMS, in terms of features of financial monitoring

Pic. 4.5

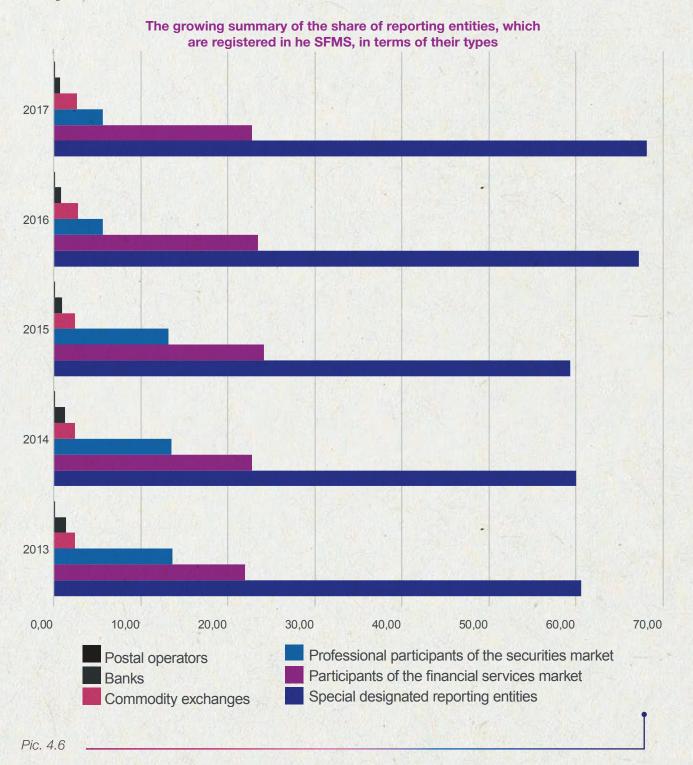
of obligatory financial monitoring, while a decrease of the the level of UAH 150 000. share of financial transactions with signs of internal financial monitoring in the total number of reports submitted by the reporting entities.

The increase of the share of financial transactions with signs of obligatory financial monitoring in the total number 12 637 separated subdivisions) registered in the SFMS of of reports submitted by reporting entities is due to the price rising as well as the devaluation of the national currency -UAH against the USD dollar at the fixed maximum amount of

Starting from 2015, there is an increase of the share of the submission by reporting entities information on financial registered by the SFMS financial transactions with the signs transactions with signs of obligatory financial monitoring at

> However, in accordance with clause 1 of the second paragraph of Article 6 of the AML/CFT Law, the Reporting entity is obliged to register in the SFMS.

> As of 01.01.2018 there are 23 831 reporting entities (including Ukraine (see Pic. 4.6).





## **5. ANALYTICAL ACTIVITY**

#### 5.1. The process of information analysis

subject to financial monitoring, other financial transactions or information that may be related to the suspicion in legalization (laundering) of proceeds from crime, terrorist financing, and the financing of the proliferation of weapons of mass destruction. Information for analysis (operational and strategic) comes from:

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

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

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

by risk levels and are subject to subsequent analysis, taking

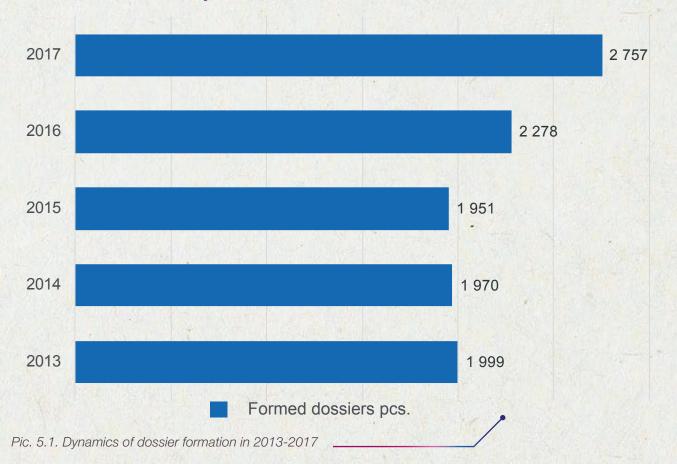
The SFMS, in accordance with the given powers, collects, into account all available information. Following the results processes and analyzes information on financial transactions of the analysis, dossiers shall be created for conducting financial investigations.

> Thus, during 2017, 397 902 reports on financial transactions have been selected for active investigation, which became the basis for the formation of 2757 dossiers.

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

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

In comparison with the previous 2016, reports on financial transaction, which became the basis for the formation of All reports, received by the SFMS depository, are divided dossiers, increased by 37.9% or by 109 288 reports. (Pic. 5.1)



Dynamics of dossier formation in 2013-2017

As the result of the dossiers processing in 2017, 712 cases (among of them 382 case referrals and 330 additional case entities for tracking (monitoring) of financial transactions. referrals) were submitted to the law enforcement authorities.

into account the additional information received on the SFMS requests.

Thus, in 2017, 17 876 files-requests on providing additional and Separatism» and «Cash Use Risks». information were sent to 89 banks.

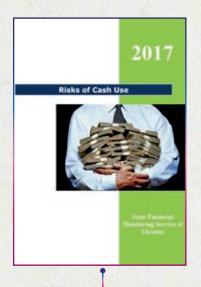
The AML/CFT Law provides the tool for additional information receipt - tracking (monitoring) of financial transactions. Information on tracking (monitoring) of financial transactions shall be submitted to the SFMS in the form of reports on official website of the SFMS in the section «Typologies» / financial transaction.

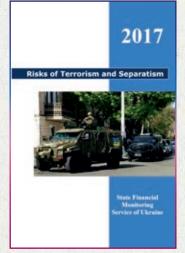
During 2017 the SFMS has sent 11 requests to the reporting

In accordance with Article 18 of the AML/CFT Law, the SFMS, The analysis of received reports shall be carried out taking in conjunction with the state financial monitoring entities, as well as state authorities, including law enforcement authorities, conducted typological research on «The Risks of Terrorism

> Typological studies show the basic methods and schemes of the criminals and criminal gangs on financing of terrorism (separatism) and transfer of non-cash funds into cash.

> The results of typological research are posted on the «Recommendations on the detection of money laundering schemes».





Pic. 5.2. SFMS Typologies Research 2017

#### 5.2. Suspension of financial transactions

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

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

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

- regarding prolongation of financial transaction suspension in cases stipulated in parts 2 and 5 of Article 17 of the Basic Law:
- regarding suspension of debit transactions on customers' (persons') accounts according to parts 3 and 5 of Article 17 of the Basic Law;
- regarding abolishment of its decision on suspension of debit transactions in accordance with part 5 of Article 17 of the Basic Law;

regarding suspension/revocation by the reporting entities of monitoring of financial transaction of a relevant person under the request of the authorized body of a foreign state in accordance with part 3 of Article 23 of the Basic Law.

During 2017 the SFMS pursuant to Article 17 of the Basic law suspended 399 financial transactions

# 5.3. Financial investigations

The SFMS as the FIU of Ukraine takes enhanced practical • measures on AML/CFT.

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

terrorism and separatism financing;

- laundering of proceeds from corruption (money laundering with the participation of national PEPs and senior officials, appropriation of funds from budget institutions and funds of state enterprises, etc.);
- use of cash in schemes for legalization (laundering) of proceeds from crime.

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

# 5.3.1. On the investigation of financial transactions related to terrorism and separatism financing

In accordance with the legislation of Ukraine, the SFMS together with the law enforcement authorities, take measures aimed at preventing and countering the financing of terrorist activities, separatism. To the most common me financing can be attributed: money transfer through systems, electronic and

Thus in 2017 the SFMS submitted to the law enforcement authorities 69 cases (41 case referrals and 28 additional case referrals), related to financial operations of persons who may be involved in the financing of terrorism, separatism and/or persons who publicly call for the violent change or overthrow of the constitutional order or the change of borders of the territory or state border of Ukraine, including following:

- 14 cases (9 case referrals and 5 additional case referrals), which contained information, including from the Internet, regarding the collection or provision of funds for charity and assistance to the terrorist and separatist groups;
- 6 case referrals, related to suspicions in the conduct of financial transactions by persons involved in the ISIL activities or other extremist groups having illegal contacts on the territory of Ukraine.

In 2017 the SFMS has blocked in 31 cases funds related to financial transactions of individuals, who could be connected to terrorism and separatism financing totaling at UAH 51.6 million.

The most sought instruments for terrorist financing are:

- charitable contribution;
- cash;
- provision of financial aid, assistance to relatives;
- replenishment of card accounts, electronic wallets, mobile phones;
- securities, in particular, bills, stocks and investment certificates;
- assignment of claim rights.

To the most common methods of terrorism and separatism financing can be attributed:

- money transfer through international electronic payment systems, electronic and web wallets;
- material provision of terrorist groups, by providing such support to non-profit (charitable) organizations controlled by such a group or individuals;
- financing of terrorism by non-residents under the guise of lawful activities;
- voluntary transfer of own cash funds to individuals representatives of terrorist and/or separatist organizations;
- transferring funds to card accounts of members of terrorist groups;
- use of fictitious financial structures to receive cash;
- use of third parties to raise funds, use of cash withdrawals from third-party bank accounts, cash couriers;
- the use of netting to cover cash flows, the transfer of property and other assets directly to persons involved in terrorism;
- demand of financial assistance from entities for further terrorism and separatism financing, including by leaders of armed units operating on the territory of the occupied regions of Donetsk and Luhansk oblasts;
- committing robberies, theft, kidnapping people in order to obtain funds for their ransom.

## Case study 1. Use of fictitious non-governmental organizations for possible financing of terrorism and separatism

public organizations of the Ukrainian NGO B for conducting mass events in Ukraine for the purpose of informational propaganda (Pic. 5.2).

In March 2017, an attempt to transfer funds in the form of an irrevocable grant amounting to RUB 0.5 million was made leadership is subject to political elites of a foreign state. in favor of the Ukrainian NGO B from the foreign NGO A for

In relation to the mentioned transaction, it was taken through informational propaganda. decision to suspend the financial transaction.

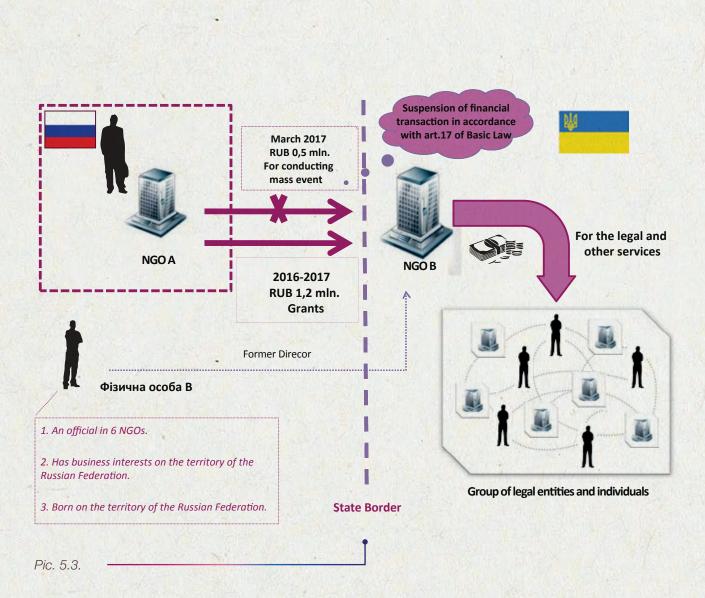
During the investigation, it was found that for the benefit proceedings. of NGO B during 2016-2017, regular transfers from foreign

The SFMS has identified a scheme of funding by foreign charitable foundations and public organization were carried out as grants for a total amount of RUB 1.2 million. Subsequently, the funds were converted in UAH and transferred to individuals and legal entities for the provided legal and other services.

Individual B receives income from a political party whose

Thus, the funds provided by the NGO A for mass events holding an unauthorized mass event on the territory of Ukraine. may be aimed at conducting a hybrid war against Ukraine

Law enforcement authorities are carried out criminal



#### Case study 2. Use of trade field in the terrorist financing schemes

transactions and additional information received, the SFMS entrepreneurs for the total amount of UAH 28 million. has identified a scheme related to suspicion of terrorism financing through the purchase of components and other UAH was transferred as a payment for work in favor of the goods that could be used for the manufacture of special technical means with the further realization in favor of the illegal armed formations of occupied regions of Donetsk and Luhansk oblasts.

It has been established that in favor of the Enterprise A were transferred funds, mainly from state institutions and charitable organizations, as payment for the goods (components, special equipment) and charitable aid, for the total amount of UAH 226 million.

In addition, officials of the Enterprise A transferred on its accounts cash in the amount of UAH 6 million (including in the form of sales revenue in the amount of UAH 3 million) in connection with which there are suspicions that they were received from the sale of special technical equipment manufactured in the company premises and for the remuneration transferred in favor of the illegal armed formations of occupied regions of Donetsk and Luhansk oblasts.

Subsequently, accumulated on the accounts of Enterprises A funds were transferred to the purchase of components and other goods that could be used for the manufacture of special technical means, in favor of 200 business entities for the

According to the results of the analysis of financial total amount of UAH 84 million and in favor of 116 individual

Part of the indicated funds in the amount of 24 million controlled Enterprise B, which in turn transferred these funds monthly to the benefit of individual entrepreneurs L and M as payment for programming services.

It should be noted that the founders of Enterprise A are Citizen D and Citizen N, who are spouses. In turn, Enterprise A and Citizen N are the founders of Enterprise B.

Representatives of law enforcement authorities during computers search of the Company A employees found correspondence with the representatives of occupied regions of Donetsk and Luhansk oblasts and confirmation of the fact of providing software for representatives of occupied regions of Donetsk and Luhansk oblasts.

It is possible to suppose that part of the money from the total amount of transfers for purchase of components and other goods that could be used for the production of special technical means was used to manufacture and sell these means in favor of illegal armed formations of occupied regions of Donetsk and Luhansk oblast.

Law enforcement authorities are carried out criminal proceedings.

## 5.3.2. On the investigation of financial transactions related to corruption

The SFMS continues work on investigation of money laundering from corruption, theft and appropriation of state funds and property, including by Viktor Yanukovych, his relatives, other officials and their related persons. The most of engagemen with a «con

In 2017, the SFMS submitted 211 cases (63 case referrals and 148 additional case referrals) to the law enforcement authorities regarding financial transactions related to money laundering from corruption, theft and appropriation of state funds and property, including by Viktor Yanukovych, his close relatives, other officials and related persons, in particular to:

- National Anti-Corruption Bureau of Ukraine 101 cases;
- Prosecution Authorities of Ukraine 98 cases;
- Fiscal Service Authorities of Ukraine 1 case;
- Internal Affairs Authorities of Ukraine 1 case;
- Security Service Authorities of Ukraine 10 cases.

The abovementioned case referrals content information regarding financial transactions related to legalization (laundering) or commitment of other criminal offenses, amounting to UAH 16.2 billion.

It should be noted that compared to last year, the main regularities of corruption crimes have not undergone significant changes.

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

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

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

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

### Case Study 3. Money laundering implemented by an individual familyrelated to a judge with the use of a non-profit organization

has detected a money laundering scheme implemented by an twelve times. individual family-related to a judge. (Pic. 5.4).

account in the amount of UAH 7.1 million that were further transferred to a bank account of the Non-Profit Organization M and detailed as «loan provision».

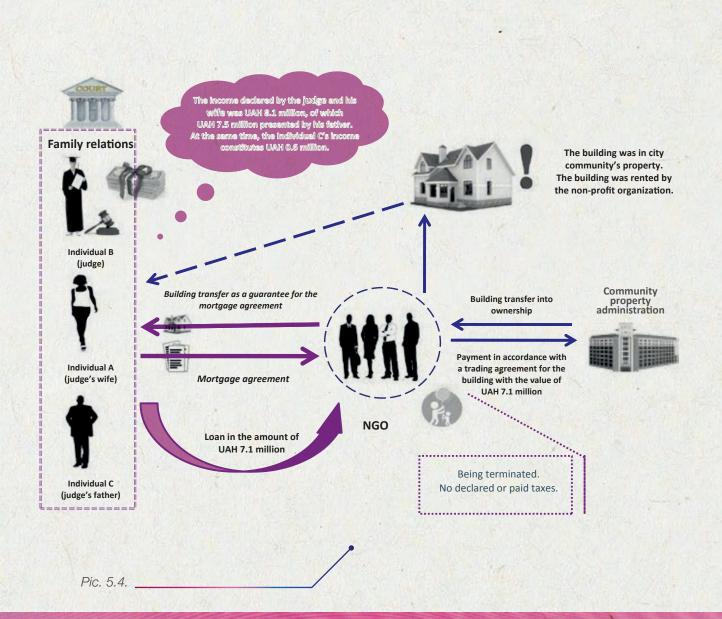
Information on the income officially earned by the Individual A is not available. At the same time, the husband of the above person, the Individual B, works as a judge and declared the fact of cash acquired as a gift from his father, the Individual C, in the amount of UAH 7.5 million.

The judge's father declared his income in the amount of proceedings.

In accordance with an analysis implemented, the SFMS UAH 0.6 million, which is less than the amount of the gift by

The Non-Profit Organization M entered a mortgage agreement The Individual A deposited fund in cash to a personal with the Individual A. The item of the mortgage is a rented nonresidential building with the total area of 467.9 m<sup>2</sup> owned by the city community. The above building was further procured by the Non-Profit Organization M from the community property administration under a trading agreement with the value of UAH 7.1 million. The above funds had been previously acquired from the Individual A and handed to the above person as a guarantee for the related loan agreement.

The law enforcement authorities are carried out criminal



#### Case Study 4. Money laundering with the use of a PEP outside Ukraine

In accordance with an analysis implemented, the SFMS has detected a money laundering case outside Ukraine implemented by the Individual S who is a politically exposed person (Pic. 5.5).

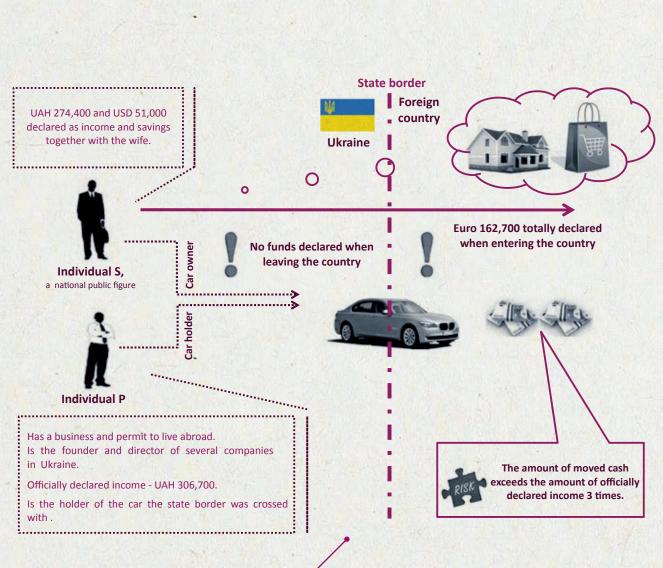
The financial intelligence unit of a foreign country notified the SFMS of Ukraine of declaring cash in the total amount of EUR 162,700 by the Individual S when entering the above country with a special note that the above funds were personal savings Individual S, but this vehicle is not specified in a related and would be used inside the above country for procurement of real estate and other purchases.

At the same time, according to the data from customs authorities of Ukraine, the Individual S had not declared any cash when leaving the territory of Ukraine.

The Individual S and his wife have their income and savings declared in the amount of UAH 274,400 and USD 51,000. Therefore, the amount of moved cash exceeds the amount of income and savings officially declared by the Individual S by three times.

The state border was crossed on the car owned by the declaration. The Individual P is registered as the holder of the above car, who is the founder and director of several companies in Ukraine with a permit to live abroad and the amount of officially declared income - UAH 306,700.

The law enforcement authorities are carried out criminal proceedings.





### The investigation of transactions related to budget funds and other state assets

During 2017, the SFMS has submitted 38 case referrals (among them 30 case referrals and 8 additional case referrals) • to the law enforcement authorities regarding abusive practices • with budget assets.

In these case referrals, the amount of financial transactions that may be related to the legalization of funds and the commission of another crime, determined by the Criminal Code of Ukraine, is UAH 3.6 billion.

- Typical methods of budget funds appropriation include: «transit» transfer of state funds through accounts of related
- companies with signs of fictitiousness; «transit» transfer of state funds through accounts of other legal entities and subsequent transfer to the benefit of companies with signs of fictitiousness;
- procurement of products at inflated prices, with the involvement of non-resident companies;
- appropriation of public funds by a group of related persons;
- acquisition of a share of the state enterprise at a reduced cost:
- transfer of budget funds to accounts of individualsentrepreneurs with subsequent transfer into cash;
- abuse of office;
- fraudulent takeover of property of the state enterprise;
- non-transparent insurance contracts.

The main tools used to launder budget funds include: financial assistance contracts (loans);

- «dirty» securities;
- loans;
- goods and services;
- agency service contracts;
- deposits;
- cash:
- procurement of goods of inadequate quality;
- insurance contracts;
- commission contracts.

### Case Study 5. Embezzlement of budget funds and laundering through partial conversion to cash

In accordance with an analysis implemented, the SFMS laundering

During several years of procurement of food products for the needs of military servicemen, state institutions and military proceedings. bases paid to presumably shell companies of dubious record.

Hence, the funds allocated to procurement of food products in the total amount of UAH 49.8 million were transferred to LLC A.

In accordance with an analysis implemented, further movement of the above funds has been established:

- 28 % of the total amount of acquired funds (UAH 14.0 million) was transferred for the benefit of various legal entities as a payment for canned products, other food products and similar product clusters;
- 72 % of the total amount of acquired funds (UAH 35.8 million) was transferred to other bank accounts, opened deposit accounts as well as for the benefit of a number of presumable fictitious economic entities as financial aid.

UAH 2.6 million of the total amount of funds used not for has discovered a state funds looting scheme with their further their intended purpose were withdrawn in cash and transferred to a individual's account.

The law enforcement authorities are carried out criminal

## 5.3.3. Investigation of transactions related to cash withdrawal

The SFMS is actively working on the detection and termination • of legalization (laundering) of proceeds from crime schemes with the involvement of cash.

The SFMS focused on identifying primarily operations related to the activities of "conversion" centers and enterprises with signs of fictitiousness, as well as other operations, in particular, related to the illegal trade in narcotic (psychotropic) substances, their analogues and precursors.

On the basis of the schemes studied by the SFMS, it can be clearly stated that criminals use cash as an instrument that avoids leaving a financial trace in all economic crimes, in combination with other tools that make it impossible to identify the beneficial owners and controllers of financial flows.

Among the combinator tools it can be distinguished the following:

- involvement of legal entities registered on the strew men;
  opening of a large number of accounts by one legal entity
- or individual in different banking institutions;
- involvement of trustees from socially vulnerable groups of the population, persons with a criminal record and persons with losted IDs (fictitious persons) to carry out financial transactions.

The proceeds of crime can be integrated into the financial system under legal transactions, in particular by:

- crediting of cash in authorized capital of economic entities;
   depositing of cash to the accounts of business entities by
- founders or officials;
- crediting of cash on deposit accounts of business entities or individuals with the subsequent withdrawal or the next day withdrawal;
- crediting of cash on deposit accounts of business entities or individuals and assignment of the right to receive them by bank credit agreements;

- crediting of cash on savings accounts of business entities or individuals with the issuance of savings certificates of bearer;
- crediting of cash to economic entities account, the holders of bank loans.

The SFMS also revealed that the combination of other financial instruments in parallel with cash in the money laundering schemes is traced, in particular:

- contracts on legal claim cession;
- use of strew men to provide pseudo-services;
- "fictitious" securities (bills, stocks, investment certificates);
   "fictitious" services, in particular, insurance indemnity for fictitious insurance cases;
- financial and charitable assistance;
- other types of loans.

An important element for the transfer of cashless funds in cash schemes is the subject of financial transaction, which may actually vary as during the transfers between bank accounts of participants of the schemes and as well as directly in the transfer of cashless funds in cash transactions, in particular: • legal entities and individuals – entrepreneurs are

- characterized by:
  - for the purchase of goods, services, works;
  - for economic or administrative needs;
  - entrepreneurial income;
  - purchase of securities from individuals;
  - loans / financial assistance to employees;
  - individuals are characterized by:
  - loan / financial aid;
  - credit of card accounts by third parties;
  - withdrawal of cash from card accounts with a dubious source of origin.

## The investigation of operations related to the activity of "conversion" centers and enterprises with signs of fictitiousness

The SFMS conducted activities aimed at revealing facts and terminating the illegal activity of "conversion" centers enforcement authorities of Ukraine 132 cases (including 111 and enterprises with signs of fictitious activities involved in case referrals and 21 additional case referrals) related to the legalization (laundering) of proceeds from crime, terrorist cash withdrawal. financing and financing of the proliferation of weapons of mass destruction.

During 2017, the SFMS prepared and submitted to the law

## Case study 6. Money laundering implemented by individuals while involving a non-resident company

financial transactions that can be related to money laundering (Pic. 5.5).

It is known that Individual P transferred funds to the Individual of one of the above entities. L in the amount of Euro 1.3 million for the development of the Non-Resident Company R. The above funds, which are considered suspicious since the Individual P only declares an insubstantial amount of funds, are transferred for the benefit of the Company R. In case the loan acquired by the Individual L is not paid back, 100% of the Company R's assets shall be handed into the ownership of the Physical Person P.

It is known that the Non-Resident Company R implemented transactions in the amount of Euro 0.3 million for the benefit of

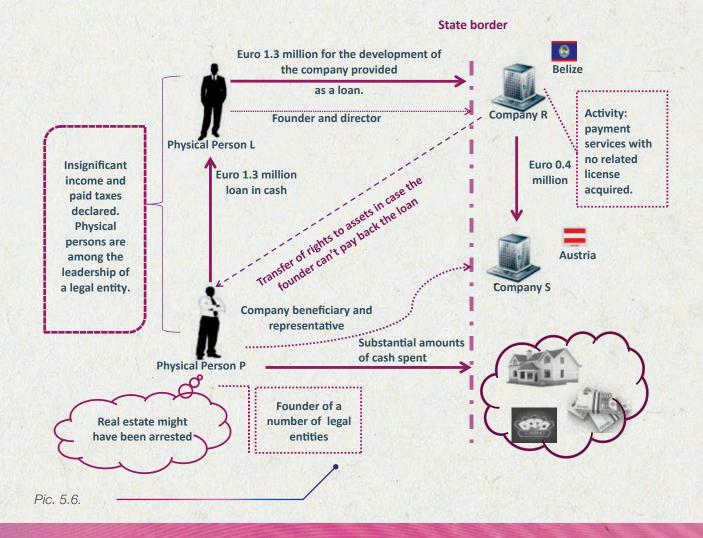
In accordance with the information acquired from foreign, the Non-Resident Company S which is owned by the Individual the SFMS has implemented an analysis to detect a scheme of P as a beneficial owner.

Moreover, the Individual P is the founder of a number of legal entities, with the Individual L registered as the director

It is worth mentioning that that the Individual P spends a substantial amount of money outside Ukraine as hotel fees, at casinos and as cash withdrawals

Hence, there are reasons to suspect the Individual P and Individual L of joint activities in laundering of non-declared assets of suspicious origin.

The law enforcement authorities are carried out criminal proceedings.



#### Case Study 7. Cashless-to-cash asset conversions

has discovered a professional money laundering scheme with pay minimum taxes while having substantial amounts of the use of a conversion centre (Pic. 5.7.)

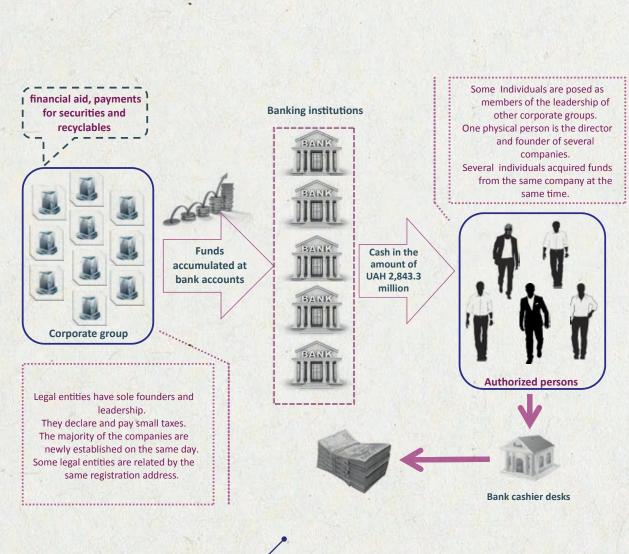
It has been established that funds from various legal entities were transferred to accounts of 10 legal entities as persons are also founders, directors and/or accountants of financial aid, payments for recyclables and securities. The a group of other companies. Some of the above individuals above funds were further accumulated at the bank accounts acquired substantial amounts of funds simultaneously from a of the aforementioned companies and withdrawn in cash by authorized persons through bank cashier desks for the further withdrawn in cash. One of the above physical persons procurement of goods. The total amount of funds converted is the director and founder of two of the aforementioned to cash constituted UAH 2 843.3 million.

The majority of the aforementioned legal entities have sole founders and leadership, with the most of those being newly established and registered on a single day. Some of them

In accordance with an analysis implemented, the SFMS have the same address of registration. The above companies declared gross income.

> A peculiar fact is that the aforementioned authorized sole company involved in the scheme. The above funds were companies.

> The law enforcement authorities are carried out criminal proceedings.



Pic. 5.7.

During 2017, the SFMS sent 5 case referrals (including enforcement authorities, related to drug trafficking in Ukraine. referrals.

The amount of financial transactions that may be related 4 case referrals and 1 additional case referral) to the law to the legalization of funds is UAH 17.7 million in these case

## Case study 8. Laundering of proceeds earned through drug and psychotropic substance trafficking

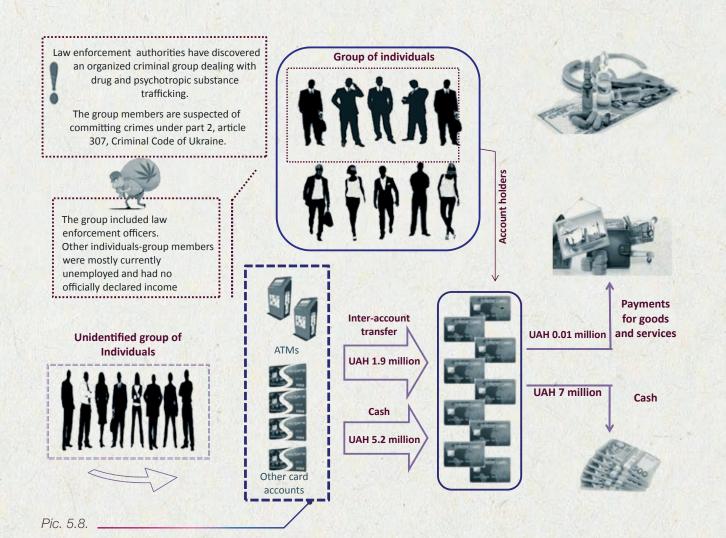
The SFMS acquired information from a law enforcement authority on implication of a group of individuals in creation of by account holders as payments for goods and services. an illicit drug and psychotropic substance trafficking scheme to acquire illicit gains in substantial amounts (Pic. 5.8.).

In accordance with an analysis of financial transactions implemented, the SFMS has detected that funds in the amount of UAH 1.9 million had been transferred in the cashless format to card accounts held by 10 individuals from card accounts of another group of individuals (inter-account transfers). Another UAH 5.2 million were transferred in cash through ATMs. The total amount of cashless/cash replenishments constituted UAH 7.0 million.

The above funds were further withdrawn in cash or used

The group of participants of the above scheme included individuals who were employed by law enforcement authorities of Ukraine. Other physical persons-group members were mostly currently unemployed and had no officially declared income.

The law enforcement authorities are carried out criminal proceedings.



45



# **6. CASE REFERRALS**

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

Employees of the law enforcement authorities subdivisions are engaged in expert commission as experts.

During 2017, the SFMS prepared 712 cases (382 case referrals and 330 additional case referrals) and submitted them to (Pic. 6.1):

- the PGO 87 case referrals and 146 additional case referrals;
- the SFS 125 case referrals and 47 additional case referrals;
- the NPU 54 case referrals and 20 additional case referrals;
- the SSU 80 case referrals and 52 additional case referrals;
- the NABU 36 case referrals and 65 additional case referrals.

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

- legalization is UAH 45.1 billion;
- committing another crime, defined by the Criminal Code of Ukraine is UAH 14.3 billion.

#### The number of submitted case referrals

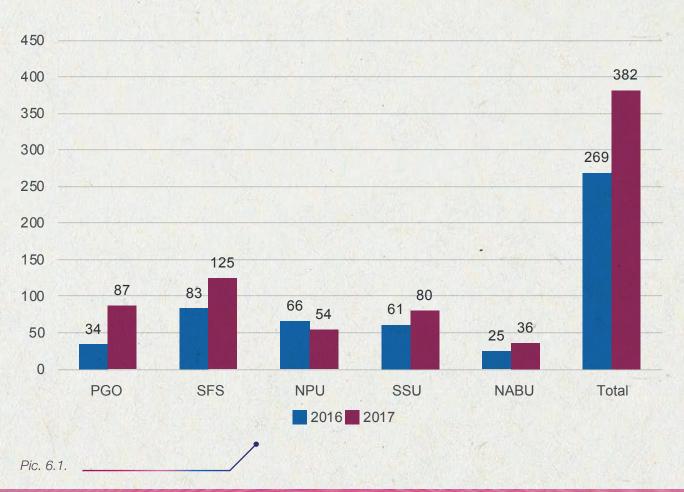
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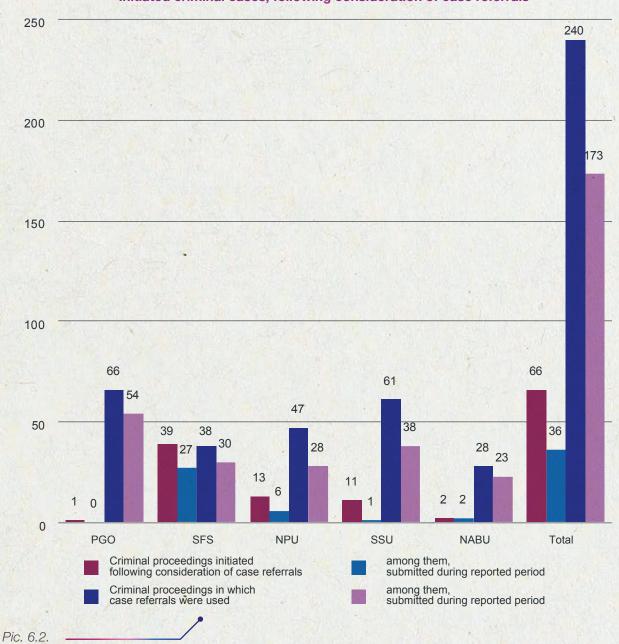
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331 case referrals (including case referrals submitted during • past years) were used by the law enforcement authorities during pre-trial investigations in 306 criminal proceedings, namely (Pic. 6.2):

- under results of consideration of 66 case referrals there were 66 criminal proceedings initiated by law enforcement authorities;
- 265 case referrals were used in 240 criminal proceedings.



Law enforcement authorities units completed 63 criminal proceedings, initiated under 70 case referrals, with the application the total amount of property (assets) arrested and seized during to the court with indictments.

following the results of consideration of 120 case referrals, with the conviction or rendering rulings based on non-justifying circumstances.

According to the information of law enforcement authorities criminal proceedings initiated by law enforcement authorities Courts have considered 115 criminal cases, initiated following consideration of case referrals provided by the SFMS is UAH 3 342.2 million.

#### An example of a court conviction

from the case referral submitted by the SFMS, initiated criminal proceedings on the grounds of criminal offenses under part 1 of Article 205 (Fictitious business), part 2 of Article 361 (Unauthorized interference into the work of electronic computing machines (computers), automated systems, computer networks or telecommunication networks, if repeated or committed by a group of persons upon their prior conspiracy, or if they caused a significant damage), part 3 of Article 190 (Fraud committed in respect of a gross amount or by unlawful operations involving computerized equipment), part 2 of Article 200 (Illegal actions in respect of remittance documents, payment cards and other means providing access to bank accounts, and equipment for their production, if repeated or committed by a group of persons upon their prior conspiracy), part 2 of Article 209 (Legalization (laundering) of proceeds from crime if repeated, or committed of gross amounts), part 2 and part 3 of Article 301 (Importation, producing, sale or distribution of pornographic items) of the Criminal Code of Ukraine.

The investigation of the criminal proceeding established that Individual F offered for remuneration to another individual to re-register the already established business entity LLC «C» in his name, while retaining the right to dispose of the account and signing settlement documents of the LLC

Subsequently, the Individual «F» for the purpose of appropriation of someones property, by deception, not intending to perform his obligations to sell the goods received as a by the fictitious Company cashless funds in the amount of more than UAH 170 000, disposed of these funds at their own discretion and took measures to conceal the traces of the crime and to avoid responsibility for the illegal appropriation of someones property (left the office space, that was reported of proceeds from crime by confiscating all property to the to the representatives of LLC «A» and did not answer on their State budget. telephone calls), so has committed a criminal offense under

The law enforcement authorities, on the basis of information part 3 of Article 190 of the Criminal Code of Ukraine.

In addition, the Individual «F» under the previous conspiracy with unidentified individual installed on a hard magnetic disk of the system unit of the personal computer PC «L» malicious software for the theft of personal data, electronic-digital keys, passwords to electronic payment banking systems.

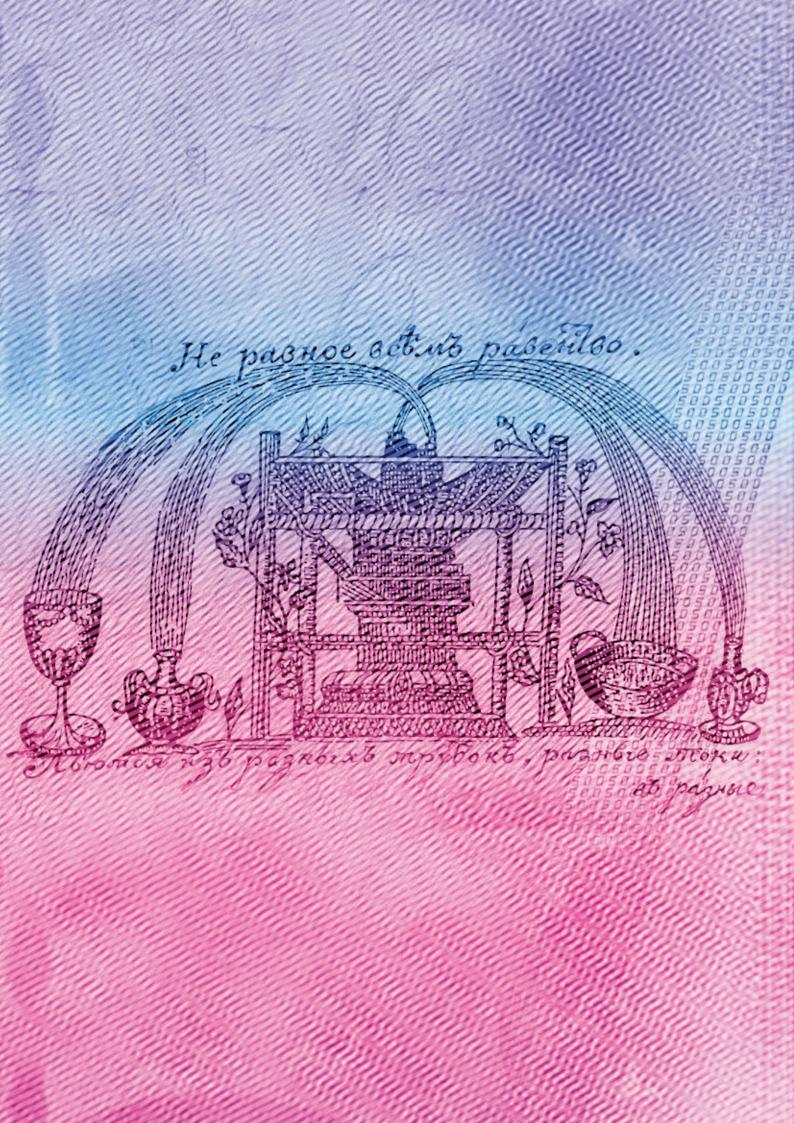
After using the installed malicious computer programs, they deliberately interfered with the operation of the PC «L» and blocked users access to the bank account management system, formed an electronic payment order for the transfer of cashless funds to the account of a pre-created fictitious Company that was sent for execution and executed by bank by means of transfer of cashless funds in the amount of almost UAH 140 000.

Later, the person «F» transferred money to a card account, by a group of persons upon their prior conspiracy, or in respect and using the corporate card of the fictitious Company through ATMs converted them into cash.

> In addition, the individual «F», in order to legalize money received as a result of illegal operations using electronicallycalculated equipment, forged and used a payment order, which gave the right to carry out transactions of funds that were in the account of LLC «C».

> The court sentenced the individual «F» guilty for criminal offenses under part 1 of Article 205, part 2 of Article 361, part 3 of Article 190, part 2 of Article 200, and part 2 of Article 209 of the Criminal Code of Ukraine.

According to part 1 of Article 70 of the Criminal Code of prepayment from LLC «A» to the settlement account created Ukraine, for multiple offenses, by absorption of less severe punishment by more severe, the individual «F» has been finally sentenced in the form of imprisonment for a term of 7 years imprisonment with the deprivation of the right to engage in entrepreneur activity for a term of 2 years with confiscation



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

by Article 18 of the Basic Law, ensured functioning of the Unified State Information System in the AML/CFT area (UIS) (Pic. 7.1), in particular, maintaining of ongoing technological processes on the receipt of the initial and analytical processing of information from the reporting entities and state authorities, as well as support of the information environment of interaction between all financial monitoring entities.

UIS works with 24/7 availability, according to the regulations approved by the SFMS.

Due to the limitation of allocations for UIS and changes in information resources of state authorities - entities of the Unified System in 2017 access to the information resources of other UIS entities was mainly provided by updating relevant accordance with the specified law the SFMS of Ukraine in 2017 information resources in the UIS data storage.

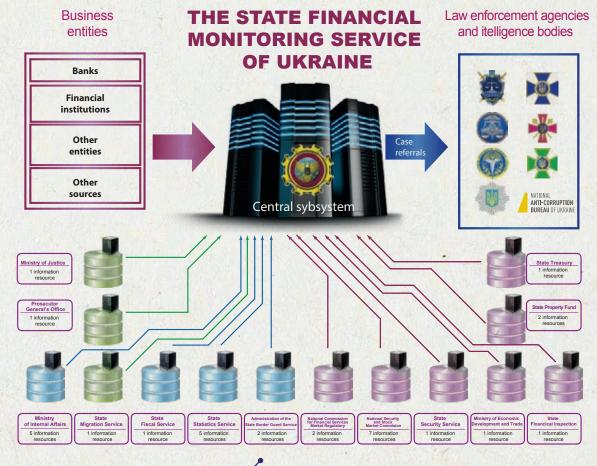
In order to ensure the development on UI, the SFMS has developed a project on Modernization of the unified information system in the area of prevention and counteraction to the legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction (hereinafter as the UIS Modernization Project) and its feasibility study. The UIS Modernization Project is being UIS Modernization Project were, in particular:

In 2017, the SFMS, according to the key objectives determined implemented as a project of the National Informatization Program.

> In accordance with the requirements of the Law of Ukraine «On the National Program of Informatization», the UIS modernization project was submitted for examination by the National Program of Informatization, which resulted in a positive expert opinion on this project.

> As a result of to the request of the SFMS to the Ministry of Finance for additional allocations in 2017 to ensure the functioning and modernization of UIS, changes were made to the State Budget of Ukraine for 2017, which were taken into account in the Law of Ukraine «On Amendments to the Law of Ukraine on the State Budget of Ukraine for 2017». In additional allocations to the budget program KPKV 3509010 «Management and administration in the field of financial monitoring» are allocated, part of which in the amount of UAH 81 377.89 thousand was directed on implementation of measures to ensure the functioning of the UIS and its development in accordance with the project of modernization of UIS

> In 2017, the main directions of the implementation of the



Pic. 7.1. UIS

- Modernization of the infrastructure of the hardware and software complex UIS (HSC UIS) for the purchase system, the ISIP was modernized, in particular: of server, network and computer equipment, system software
- modernization of analytical information processing systems of UIS (1 step);
- modernization of the database management system of the data storage (DBMS) of the UIS (1 st step updating the DBMS of the data storage of the UIS);
- modernization of the corporate electronic document management system with the introduction of electronic digital signature (KSEDO-E) (1 step);
- protection UIS (ISIP UIS) (1 st step).

For the modernization of the HSC UIS, the SFMS experts analyzed the characteristics of the equipment and software used in the UIS, the function of the UIS, the performance of which is provided by the HSC, the requirements for ensuring the reliability and fault tolerance of the system, as well as solutions for ensuring stable operation of similar systems and the requirements for modernization of the HSC of the UIS to ensure the proper level of information security were installed. have been developed.

An implementation was proposed, in particular:

- virtualization technologies that optimize the load on equipment and its backup;
- · application of reliable estimated network equipment and system software, which will reduce the cost of implementation of ISIP UIS;
- application of advanced monitoring and management technologies of UIS;
- modern solutions for preservation / restoration of information resources;
- · use of equipment that has better «cost of ownership».

In the course of the modernization of UIS, first of all the work of the existing functional and technology of the system on the updated platform of the HSC UIS was provided.

At the same time, the improvement of the technologies of operational analysis was carried out in the following directions:

- upgrade the MicroStrategy analytics platform to version 10.5 and migration of software systems to the updated platform;
- updates of the IBM i2 Analyst's platform to version 9, migration of software systems to the updated platform and expansion of functionality of software systems.

The proposed and implemented solutions have made it possible to reduce the cost of modernization of the HSC UIS on more than 60 %.

Improvement of UIS database management systems was carried out by updating the servers and DBMS software and improving the working efficiency, DBMS performance, archiving of data storage and their retrieval.

During the improvement of the UIS information security

- Inspection of UIS functioning environments and detection of new threats and assessment of their implementation possibilities;
- · development and approval of the Task Schedule for the ISIP UIS and UIS Modernization Project;
- commissioning, user training and preparation of the ISIP implementation;
- preliminary testing and introduction of ISIP UIS into the pilot operation of the ISIP.

Requirements for the implementation of information security • modernization of the integrated system of information mechanisms are realized at the expense of the purchase of evaluated hardware and software information protection, in particular cryptographic and antivirus protection of information. Partialy, requirements for the implementation of information security mechanisms are realized by embedded systems of information protection of equipment and software systems of the ISIP UIS and DBMS. In order to ensure the protection the characteristics of modern equipment, technologies and of information in UIS the modern means of cryptographic protection of information, modern network and server solutions

As a result of the implementation of the above measures on the modernization of UIS and its ISIP, the SFMS has ensured:

- modernization of the HSC UIS (outdated equipment and system software replacement);
- improvement of information and telecommunication system of UIS (replacement of network equipment with reliable built-in means of information protection, transition to modern information exchange technologies);
- increased productivity of UIS;
- · introduction of full-scale electronic document circulation;
- improving the efficiency of information processing in the AML/CFT field, bringing the technologies of the electronic document flow formats of UIS to the requirements of the current legislative and regulatory acts:
- improvement of information security system of UIS;
- improvement of the process of electronic interaction
- with financial monitoring enteties; bringing the system of processing and analysis of
- information in line with the FATF Standards.





# 8. INTERAGENCY COOPERATION

# 8.1. Interaction with regulators and other state authorities

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

- improvement of the legislative framework for interagency cooperation;
- securing the activity of the Council on prevention and counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction issues;
- the conclusion of joint interagency documents with the state authorities;
   the conclusion of joint interagency documents with the
- implementation of the direct exchange of information with

state financial monitoring entities;

enhancing interaction with the public.

The SFMS coordinates work on preparation and performance by state authorities of the Action Plan for 2017-2019 on the implementation of the Strategy for the Development of the Prevention and Counteraction to Legalization (Laundering) of the Proceeds from Crime, Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction for the period up to 2020, approved by the decree of the Cabinet of Ministers of Ukraine as of August 30, 2017 No. 601-p (Pic. 8.1).

#### Legislative framework for interagency cooperation and coordination

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КАБІНЕТ МІНІСТРІВ УКРАЇНИ

РОЗПОРЯДЖЕННЯ

від 30 серпня 2017 р. № 601-р Київ

Про реалізацію Стратегії розвитку системи запобігання та протидії легалізації (відмиванню) доходів, одержаних злочинним шляхом, фінансуванню тероризму та фінансуванню розповсюдження зброї масового знищення на період до 2020 року

 Затвердити план заходів на 2017-2019 роки з реалізації Стратегії розвитку системи запобігання та протидії легалізації (відмиванню) доходів, одержаних злочинним шляхом, фінансуванню тероризму та фінансуванню розповсюдження зброї масового знищення на період до 2020 року, що додається.

2. Внести до розпорядження Кабінету Міністрів України від 30 грудня 2015 р. № 1407 "Про схвалення Стратегії розвитку системи запобігання та протидії легалізації (відмиванню) доходів, одержаних злочинним шляхом, фінансуванню тероризму та фінансуванню розповсюдження зброї масового знищення на період до 2020 року" (Офіційний вісник України, 2016 р., № 3, ст. 198) зміни, що додаються.

3. Міністерствам, іншим центральним органам виконавчої влади подавати щороку до 10 січня та 10 липня Державній службі фінансового моніторингу інформацію про виконання плану заходів, затвердженого цим розпорядженням, для подання щороку до 25 січня та 25 липня Кабінетові Міністрів України звіту.

Прем'єр-міністр України

В.ГРОЙСМАН

The Action Plan was drafted by the SFMS for 2017-2019 emergence and / or mitigation of adverse effects of the risks evolution as depicted on Chart 8.1. identified in the National Risk Assessment conducted in 2016.

The National Strategy for the Prevention and Counteraction and includes 88 legislative, organizational and institutional of the Legalization (Laundering) of the Proceeds from Crime, measures aimed at ensuring the stable and effective functioning Terrorism Financing and the Financing of Proliferation of of the national financial monitoring system and preventing the Weapons of Mass Destruction has undergone a significant

## National Strategy - 15 years of implementation

# 2005-2010

Concept of development of the System on Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime and Terrorist Financing for 2005-2010

(Resolution of the Cabinet of Ministers of Ukraine as of August 3, 2005 No. 315)

### 2011-2015

Development Strategy of the System on Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime or Terrorist Financing for the period till 2015

> (Resolution of the Cabinet of Ministers of Ukraine as of March 9, 2011 No. 190)

### 2016-2020

Development Strategy of the System on Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime or Terrorist Financing for the period till 2020

> (Resolution of the Cabinet of Ministers of Ukraine as of December 30, 2015 No. 1407-r)

Chart 8.1.

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

on Prevention and Counteraction to Legalize (Laundering) of for the financial monitoring system issues were discussed. Proceeds from Crime, Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction, established SFMS has been in place since 2001 (Chart 8.2). by the Resolution of the Cabinet of Ministers of Ukraine as of

During 2017, the SFMS organized 2 meetings of the Council September 8, 2016 No. 613, during the meetings important The relevant consultative and advisory body under the

> Consultative and advisory body: historical aspects of the establishment and functioning of the Council

# 2001-2003

Interagency working group on the research of methods and trends in money laundering and other proceeds from crime, analysis of the effectiveness of the measures taken to prevent and counteract the money laundering of such funds and incomes that operated under the State Tax Administration of Ukraine

> (Decree of the Cabinet of Ministers as of 21.08.2001 № 386)

## 2003-2010

Interagency working group on the research of methods and trends in money laundering from crime under the Cabinet of Ministers of Ukraine

> (Resolution of the Cabinet of Ministers as of 2.10. 2003 № 1565)

# 2010-2016

Council on research of methods and trends in money laundering from crime and terrorist financing which activities were organized by the SFMS

> (Resolution of the Cabinet of Ministers as of 06.01.2010 № 25)

## from 2016

Council on the prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction, which activities are organized by the SFMS

> (Resolution of the Cabinet of Ministers as of 08.09.2016 № 613)

First of all, during 2017 the activity of the Council, as a consultative and advisory body, was aimed at consideration and providing suggestions to the state authorities on performing the following key tasks:

- discussion of the conduction of the MONEYVAL 5th Round Mutual Evaluation of the national AML/CFT system
- compliance of REs with the requirements of the legislation

on individuals involved in the commission of terrorist activities or in respect of which international and/or national sanctions have been applied;

improving the efficiency of the information exchange system between the SFMS and law enforcement (intelligence) authorities, etc.

# The conclusion of joint interagency documents with state authorities

In order to improve the mechanisms of information exchange between the participants of the system of financial monitoring, currently there were signed documents on interagency cooperation between the SFMS and 7 state financial monitoring entities, 19 state authorities, 23 other institutions and organizations.

- In 2017 the SFMS signed:
- Agreement between the SFMS and National Agency of Ukraine for Finding, Tracing and Management of Assets

Derived from Corruption and Other Crimes on interagency and information cooperation in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction and prevention of corruption in Ukraine;

Protocol on the procedure for information exchange between the SFMS and Ministry of Justice of Ukraine regarding the deregistering of the reporting entities in the SFMS in connection with termination of relevant activities.

# Spontaneous information exchange with state financial monitoring entities

To increase the efficiency of supervision over compliance • with the requirements of the legislation on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction by the reporting entities, within the signed joint orders with the Ministry of Finance of Ukraine, the National Securities and Stock Market Commission, the National Commission For State Regulation of Financial Services Market, the Ministry of Infrastructure of Ukraine, the Ministry of Justice of Ukraine, the Ministry of Economic Development and Trade of Ukraine and the National Bank of Ukraine, in 2017 the SFMS provided the mentioned state financial monitoring entities with the information, in particular, on the following:

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

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

# Interaction with the public

During 2017 the SFMS ensured a closed interaction with members of the civil society which consisted, first of all, on:

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

with the public upon the implementation of the Resolution of the Cabinet of Ministers of Ukraine as of November 3, 2010 No. 996 of «On the public's participation in the formation and implementation of state policy» in 2017 the SFMS has assisted to the Pubic Council's activity in every way.

Altogether, in 2017 the Public Council has held 4 meetings at which the urgent issues on the SFMS's interaction with the public have been considered and solved, as well as the draft acts have been considered and the current acts in the sphere of financial monitoring have been discussed. The materials of the Public Council's meeting are posted on the official website of the SFMS.

The SFMS approved and performed the Tentative plan for carrying out consultations with the public for 2017, which has been agreed with the Public Council of the SFMS and posted on the website of the SFMS.

In addition, the SFMS supported the legislative innovation In order to improve the mechanisms of interaction of SFMS regarding the publicity of state authorities. On April 14, 2017 the Public Report was presented by the Head of the SFMS Mr. Igor CHERKASKYI (Pic. 8.2, 8.3).

> In total, in 2017, within the framework of interaction with the public the SFMS has organized:

- participation of the public members in the international scientific AML/CFT workshops; posting on the official website of the SFMS over 1100
- information notifications on financial monitoring;
- posting 49 SFMS's information materials on the Government's Web-portal;
- monthly submission of the information on actions concerning carrying out consultations with the public to the Cabinet of Ministers of Ukraine.



Pic. 8.2. Presentation of the Public Report by the Head of the SFMS Mr. Igor CHERKASKYI



Pic. 8.3. Presentation of the Public Report by the Head of the SFMS Mr. Igor CHERKASKYI

# 8.2. Interaction with the reporting entities

In 2017 the SFMS on the permanent basis conducted analysis of effectiveness of the reporting entities' activity in the AML/CFT area.

Under results of such analysis in 2017 the SFMS has developed a number of recommendations for the reporting entities, in particular concerning filling in forms of submission of information related to carrying out of financial monitoring (in the part of forming the code of the type of financial transaction) and regarding the application of personal special economic and other restrictive measures (sanctions).

At the same time, during 2017, 10 trainings for the reporting entities were conducted by the SFMS to carry out the 5th round of mutual evaluation of the national system of counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction regarding the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism in the framework of preparation for the visit of MONEYVAL Committee of Experts of the Council of Europe (Pic. 8.4).

In addition, during 2017, 3 meetings of the Working group on consideration problem issues of the reporting entities-nonbanking institutions and analysis of an effectiveness of actions taken by them for AML/CFT and 2 meetings of the Working group on consideration problem issues of the reporting entitiesbanking institutions were conducted.

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

- problematic issues arising from the participants of the Anti-Money Laundering and Terrorism Financing system during the preparation for Ukraine's evaluation by the MONEYVAL Committee and developing of common position in the context of future consultations with international experts;
- the legal status of cryptocurrency and regulation of their operations.



Pic. 8.4. Training of the reporting entities regarding the Moneyval 5th round of mutual evaluation (March 3, 2017)

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

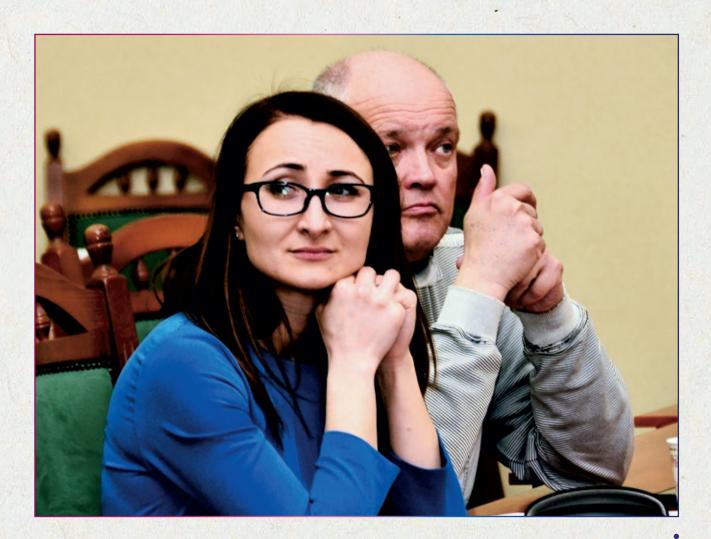
During 2017, the SFMS representatives participated in 22 educational events organized by the National Police of Ukraine, National Academy of Security Service of Ukraine, LLC «The Institute of Post-Graduated Education and Business», the National Centre for Training of Bank Employees of Ukraine, Financial Monitoring Department of the National Bank of Ukraine, «EMA» Ukrainian Interbank Payment System Member Association, the Ukrainian Association of Investment Business, the Institute of Law and Post-graduated Education of the Ministry of Justice of Ukraine and the State Educational and Scientific Institution «The Academy of Financial Management».

The mentioned events were attended by 877 persons – representatives of the reporting entities, law enforcement authorities and other financial and non-financial institutions.

Also, during 2017, the SFMS representatives participated in 76 educational events, organized by the Financial Monitoring Academy (previous title – the Training Centre of the SFMS of Ukraine) which were attended by 1991 listeners.

In general, during 2017, the SFMS representatives took part in 98 events, conducted for more than 2 860 persons.

Besides, according to the Resolution of the Cabinet of Ministers of Ukraine as of August 19, 2015 of No. 610 «On approval the Procedure for organization and coordination of the work on retraining and professional development of specialists on financial monitoring», in the reporting period, the SFMS has signed the agreements on cooperation with private joint-stock company «Kharkiv Centre for Research Technical and Economic Information» and The National Centre for the Training of Bank personnel of Ukraine of retraining and advanced training of specialists on financial monitoring.



Pic. 8.5. Participation of the League of Insurance Organizations of Ukraine and the Association of Real Estate Specialists of Ukraine representatives in the activities of the SFMS



# 9. ACTIVITIES OF THE FINANCIAL MONITORING ACADEMY

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

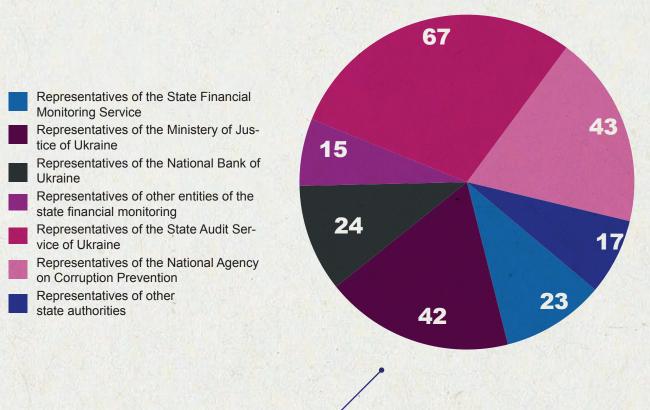
The Academy's educational programs are a product of practical experience of experts, created created from the experience of international organizations such as FATF, MONEYVAL and implemented in the course of lectures and practical seminars.

During the years 2005 (first groups of listeners) – 2017, 11 758 specialists on financial monitoring issues were trained; 5 914 of which were trained during 2014 – 2017.

In 2017 the Financial Monitoring Academy trained 1853 listeners who are the representatives of state authorities, law enforcement, intelligence, judiciary and reporting entities, including:

 700 professionals – in the framework of public contract, including 231 – representatives of the state authorities, 469 – representatives of law enforcement, intelligence and judiciary authorities (Pic. 9.1, 9.2);

#### A number of representatives of the state authorities that have been trained in 2017



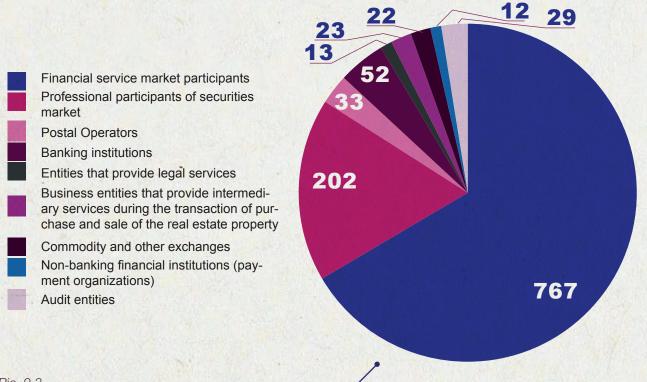
# **Chapter 9**

## A number of representatives of the law enforcement, intelligence and judiciary authorities that have been trained in 2017

1 43 Representatives of the State Fiscal Ser-44 vice of Ukraine Representatives of the Ministry of Interior of Ukraine 28 Representatives of the National Police of Ukraine Representatives of the National Anti-Cor-33 ruption Bureau of Ukraine Representatives of the Ministry of Defence of Ukraine Representatives of other law enforce-45 ment agencies 86 Representatives of the Foreign Intelligence Service of Ukraine 70 Representatives of the judicial agencies Pic. 9.2.

1153 specialists – compliance officers of the reporting entities (Pic. 9.3).

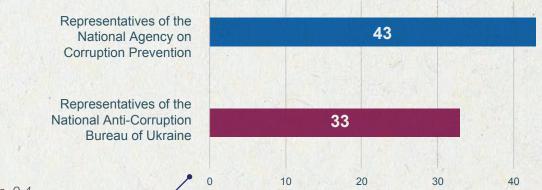
A number of compliance officers of the reporting entities that have been trained in 2017



**Chapter 9** 

During 2017, the Financial Monitoring Academy trained 76 representatives of the anti-corruption authorities of Ukraine (Pic.9.4)

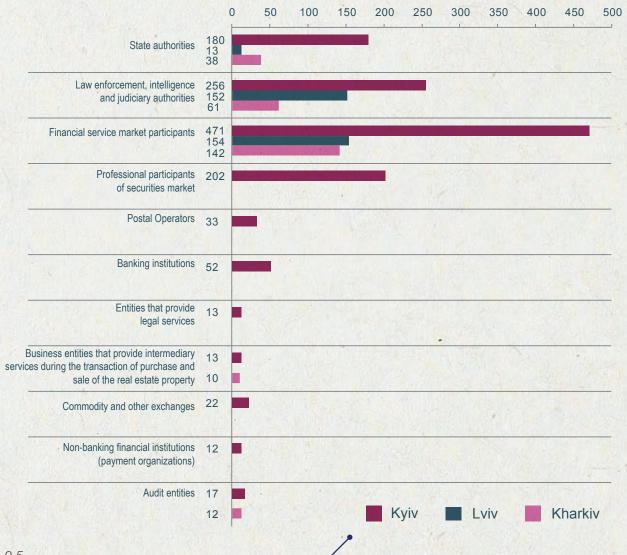
## A number of representatives of anti-corruption authorities that have been trained in 2017



Pic. 9.4.

In 2017, trainings were held on the basis of the regional Offices of the Academy in Kyiv, Kharkiv and Lviv (Pic. 9.5).

# Dynamics of trainings of the representatives of the state authorities, representatives of law enforcement, intelligence and judiciary authorities and reporting entities in 2017 by the regional Offices of the Academy



Pic. 9.5.

65

In 2017, 52 representatives of the banking sector - banks with a state share, private capital banks, and banks of foreign banking groups were trained at the Academy.



events of the Academy as lecturers. The representatives of the which was held on November 27, 2017 at the National Bank SFMS and the Academy participated in a practical workshop on of Ukraine.

Representatives of state regulators take part in the training experience exchange: "Best Practices of Financial Monitoring"



Pic. 9.6. Workshop "Best Practices of Financial Monitoring" (27.11.2017, Kyiv)



Number of the reporting entities - notaries, who participated in workshops during 2017

For the most numerous category of reporting entities the workshops on «A notary as a reporting entity» which were Academy participated in the preparation and conduction of attended by 284 representatives of the specially designated the following activities: reporting entities - notaries were conducted (Pic. 9.7).

Also, according to the Resolution of the Cabinet of Ministers of Ukraine as of August 19, 2015 of No. 610 «On approval the Procedure for organization and coordination of the work on retraining and professional development of specialists on financial monitoring» in 2017 the employees of the Financial Monitoring Academy in Kyiv have organized and conducted the exams for 290 representatives of reporting entities - participants of the financial service markets which have been trained at the premises of other educational institutions.

In addition, in 2017, employees of the Financial Monitoring

- conference on: «The use of crypto-currency for money laundering and terrorist financing: The issue of prevention in Ukraine» for the representatives of the public sector (May 12, 2017, Kyiv);
- international workshop jointly with the FIU of the Republic of Poland on: «Cooperation regarding the development of an anti-legalization financial monitoring system: International and national aspects» (October 17-18, 2017, Lviv);
- international workshop jointly with the FIU of the Republic of Poland on: «International experience and cooperation in counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction» (November . 14-15, 2017, Kyiv);
- international workshop on: «Key risks of the AML/CFT system: MONEYVAL 5th round evaluation outcomes» (December 14-15, 2017, Lviv).



Pic. 9.8. Workshop participants (17-18.12.2017, Lviv)



Pic. 9.9. Workshop participants (14-15.12.2017, Lviv) -

Academy was placed on the official websites of the regional state administrations. Its representatives participated in Fiscal Service of Ukraine, National Prosecution Academy of events organized by the SFMS, the Academy and foreign Ukraine and Simon Kuznets Kharkiv National University of partners.

Thus, the first deputy Chairman of the Lviv Regional institutions were signed.

In 2017, in order to increase the effectiveness of involving State Administration, Mr. Rostislav Zamlynskyi, took part in financial monitoring entities at the state and primary levels, the international workshop on "Cooperation regarding the cooperation with regional state administrations was initiated. development of anti-legalization financial monitoring system: The information on educational activities of the International and national aspects" which was held in Lviv.

In 2017, the Memoranda with the University of the State Economics in the framework of the partnership of educational

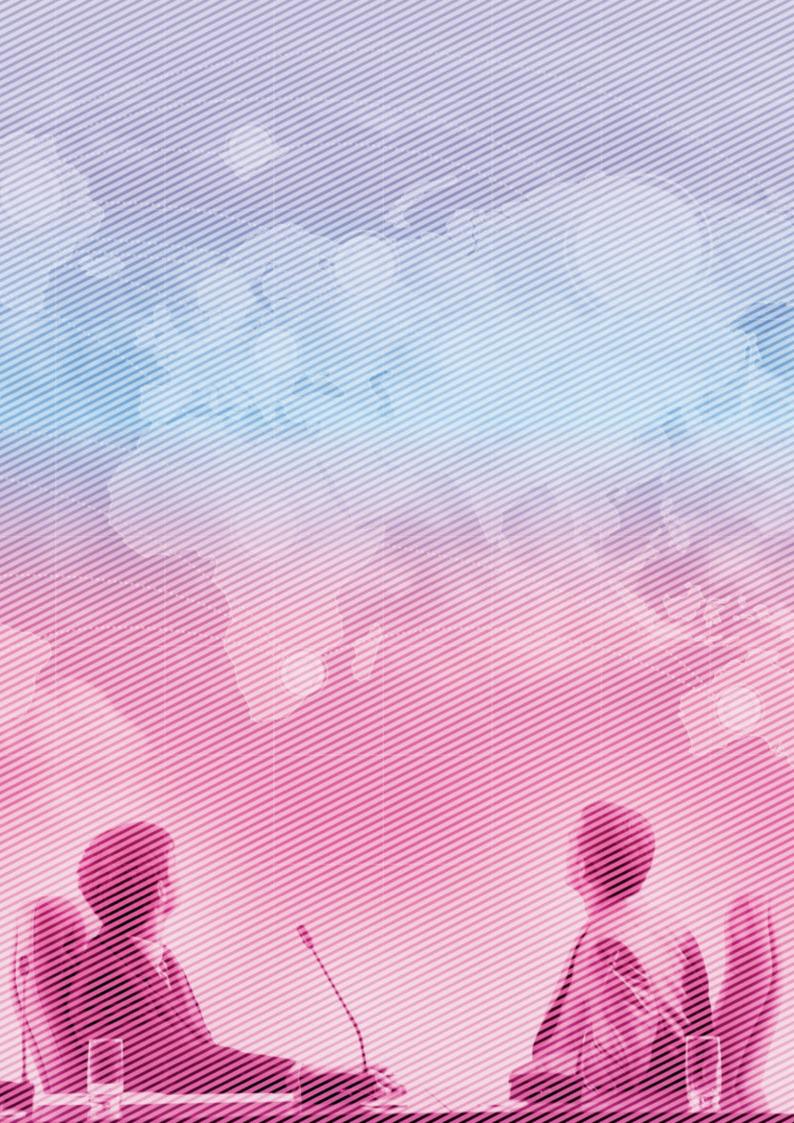






The priorities of the Academy's development are retraining and professional development of specialists on financial monitoring with the use of modern methods and technologies, development of P2P education, expansion of the network of partner educational institutions, implementation of new directions of training of specialists, and cooperation with anti-corruption authorities of Ukraine on issues of retraining and professional development.





## **10. INTERNATIONAL COOPERATION**

#### 10.1. Cooperation with international organizations

One of the important components of the SFMS activity is to set cooperation with international institutions and foreign Ukraine's AML/CFT experience, and improved cooperation at partners responsible for the organization of an effective AML/ CFT measures.

During 2017, the SFMS actively cooperated with leading international organizations and institutions engaged in this area, such as the Financial Action Task Force (FATF), the Committee of Experts of the Council of Europe on the Evaluation of Anti-Money laundering and Financing of Terrorism (MONEYVAL), the Egmont group of Financial Intelligence Units, the Council of Europe, the UN Office on drugs and crime (UNODC), the • World Bank, the International Monetary Fund, the Organization for Security and Cooperation in Europe (OSCE), the project "European Union Anti-Corruption Initiative", the Organization for Democracy and Economic Development (GUAM) and other international partners.

Also, in 2017, the representatives of the SFMS represented the bilateral level during international workshops, conducted with the assistance of leading international organizations.

Besides, the SFMS, according to the assigned tasks, concludes international interagency agreements (MOUs) with FIUs of foreign countries. During 2003-2017, 74 agreements were concluded, in particular in 2017:

- Memorandum of Understanding with Saint Lucia Financial Intelligence Unit;
- Memorandum of Understanding with Eastern Republic of Uruguay Financial Intelligence Unit;
- Memorandum of Understanding with Togolese Republic Financial Intelligence Unit;
- Memorandum of Understanding with Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) DA Afghanistan Bank Islamic Republic of Afghanistan.

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



Within the framework of cooperation with • the FATF during the reporting period, the SFMS was sent to the FATF

the framework of the FATF joint project with the Egmont Group on vulnerabilities related to beneficial ownership;

information regarding the financial flows derived from human trafficking.

In addition, to FATF working group of Risk, Trends and • comments on the report developed within Methods a filled template with the information required for the Manual, which provides practitioners with recommendations on how to request a foreign country (FATF member) to apply targeted financial sanctions in accordance with Security Council Resolution UN 1373 was sent.

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



the framework of the 5th round of agenda. mutual evaluation of the Ukrainian national system of AML/CFT<sup>1</sup>, the SFMS cooperated with MONEYVAL in training activities, in particular: the

representatives of SFMS participated in the training workshop for MONEYVAL evaluators in the framework of the 5th round of Mutual Evaluation on May 15-19, 2017.

Also, as part of the delegation of Ukraine, the SFMS representatives participated in the three MONEYVAL plenary meetings, held in Strasbourg, French Republic:

- 53rd Plenary meeting May 29 June 1, 2017;
- 54th Plenary meeting September 25-28, 2017;
- 55th Plenary meeting December 4-7, 2017 (Pic. 10.1).

During the mentioned meetings, the Ukrainian delegation provided the updated information on the measures taken in

In addition to cooperation within AML/CFT and participated in the consideration of issues of

Simultaneously, during 2017, the SFMS actively cooperated with the European Commission in the framework of the Technical Assistance and Information Exchange TAIEX, which is an effective mechanism for establishing cooperation with the relevant competent authorities of the EU member states.

Thus, in the framework of TAIEX, the SFMS representatives participated in the event "Financial investigations as a key stage in successful counteraction to economic crimes" on February 13-14, 2017.

Besides, the SFMS representatives participated in training activities within the framework of the project of the Council of Europe on combating cybercrime "CyberCrime@EAP III" for the EU states "Eastern Partnership".

<sup>2</sup> Information about 5th round of mutual evaluation is presented in the Section 2 of this Report.



Pic. 10.1. 55th MONEYVAL Plenary meeting

Also, the SFMS representatives participated in the workshop "Circular economy" on November 7-8, 2017.

#### 10.1.3. Cooperation with Egmont group of Financial Intelligence Units



cooperation with the Egmont the Egmont group information assets or operations. on the Biennial Census 2017 template and information in the

Within the framework of framework of Regional Report Template 2017.

In addition, information is provided on case studies that group of financial intelligence units may be useful in analyzing and identifying vulnerabilities that during 2017, the SFMS has sent are misused by criminals to conceal the beneficial ownership

#### 10.1.4. Other international events

#### 10.1.4.1. Cooperation with NATO



Within the framework of the implementation of the Action Program NATO-Ukraine on the professional development of civilian personnel in the security and defense sector, the SFMS representatives have repeatedly participated in NATO activities, in particular:

- 28, 2017, Kyiv, Diplomatic Academy);
- course for the professional development within the framework of the project «YOUNG UA Summer Academy 2017» (June 12-16, 2017, Kyiv, DEC Place);
- joint Conference of NATO professional training programs,

which operates in Ukraine and Georgia (July 18-19, 2017, Kyiv, Diplomatic Academy);

- Modules on «Leadership. Management. Gender» (October 24-25, 2017, Kyiv, Diplomatic Academy);
- introductory modules course on «Champion 100», dedicated to summing up the results of the year (December 5, 2017, Kyiv, Diplomatic Academy).

Moreover, during 2017, the SFMS, on a permanent basis, has being taking actions prescribed by implementation of introductory course on Euro-Atlantic integration (April 27- the Annual Program of NATO-Ukraine cooperation for 2017.

#### 10.1.4.2. Cooperation with the European Union



representatives of the European financial investigations. Union Advisory Mission for Civilian Sector Reform of Ukraine with the purpose of discussing the progress of the activity of the Ukraine and the measures taken by the SFMS in this direction in

On April 12, 2017, the the context of improving cooperation with law enforcement SFMS was visited by the authorities and strengthening their capacity in the area of

On October 31, 2017, the SFMS was visited by Regional Project Coordinator in Ukraine with the purpose of discussing the issues related to cooperation with the EU West Project regarding the counteraction to drugs and organized crime financial monitoring system in in investigating illegal financial flows from opiate trade from Afghanistan (EU-ACT).

#### 10.1.4.3. Cooperation with the International Monetary Fund



During the visit of the necessary further development of AML/CFT regulatory base, International Monetary Fund legislative initiatives in the context of the implementation of the mission in Ukraine (May recommendations provided in the framework of previous version 2017) in SFMS meetings with of the Technical Assistance Report were held. In particular, the representatives of International issues of reforming the AML/CFT reporting system and the Monetary Fund with the purpose prospects for the functioning of the United State Register of of discussing issues concerning national public figures were considered.

#### 10.1.4.4. Cooperation with the UN - United Nations Office on Drugs and Crime (UNODC)/World Bank



2017, the SFMS was visited by the representatives of the Stolen Asset Recovery Initiative of the World Bank and United Nations Office on Drugs and Crime with the purpose of discussing issues concerning the state of investigation of the facts of money laundering derived from corruption and their further confiscation.

On December 4-6, 2017, the SFMS representatives, as part of the delegation of Ukraine, participated in the Global Forum on Asset Recovery (GFAR) which held in Washington,

On February 14 and July 26, US, organized by the United States jointly with Great Britain with the support of the Stolen Asset Recovery Initiative (StAR) partnership between the World Bank Group and the United Nations Office on Drugs and Crime (UNODC) (Pic. 10.2)

> The main purpose of the mentioned Forum was focused on assets tracking and assets recovery related to Nigeria, Sri Lanka, Tunisia and Ukraine.

> During the Forum, 3 working sessions were held, which gave the opportunity to countries, in particular, their law enforcement authorities and prosecutors, to improve coordination and cooperation. Representatives of countries were involved in a series of consultation meetings that focused on improving the results of asset recovery and asset tracking that were

concealed by complicated structures of fictitious companies.

In particular, the first session was attended by investigators, court auditors and representatives of the FIU. The aim of the mentioned session was regarding the exchanging experience in tracking assets in specific countries. During these meetings, various approaches which were used by the countries to open cases, creating asset recovery groups, identifying and tracking assets both internally and internationally, using multiple information channels to identify origin, location, and asset value were discussed.

In addition, the participants of the Forum had an opportunity to get acquainted with the modern technologies and innovative methods of assets tracking and assets recovery from crime.



Pic. 10.2. The SFMS representatives, as part of the delegation of Ukraine, during the Global Forum on Asset Recovery

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



During 2017, the SFMS representatives took part in the and Economic - GUAM events, particularly in:

the Working group on cyber security meeting - April 25-26, 2017;

the Working subgroup on in offshore zones. combating corruption and money

laundering meetings - April 27-28, October 12-13, 2017.

During the above meetings, the SFMS representatives Organization for Democracy took part in the exchange of information on new legal acts in cyber security; establishment of a Regional Center of Eastern Partnership against Cybercrime; exchange of information on investigation of money laundering schemes from corruption, including the search and assets recovery from crime, withdrawn

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



Organization for Security and Co-operation in Europe

During cooperation with the OSCE was carried out by the SFMS in accordance with the agreed OSCE project "Assistance to Ukraine in developing an Action Plan in counteraction to money

laundering and terrorist financing". In particular, within the framework of the mentioned OSGE project, the SFMS was assisted in the implementation of the results of the National Risk Assessment and in the preparation and conduction of the MONEYVAL 5th round mutual evaluation of the national system of AML/CFT.

With the support of the above mentioned project, as well as the European Union Anti-Corruption Initiative (EUACI), a joint international-workshop on "Key Risks of the AML/CFT

2017, active System: MONEYVAL 5th Round of Mutual Evaluation" took place in Lviv on December 14-15, 2017 (Pic. 10.3)

> In addition, on September 25-28, 2017, the SFMS representative made a visit to Vienna (the Republic of Austria). The mentioned visit was organized by the OSCE and aimed at establishing bilateral cooperation between the SFMS and the OSCE in combating financial incomes of criminal networks.

> Also, on October 20, 2017, the SFMS representative took part in the training-workshop "National Risk Assessment Report and Action Plan aimed at reducing identified risks in ML/TF" which was organized by the Office of the Co-coordinator of OSCE Economic and Environmental Activities and with the participation of the EU Delegation in the Republic of Moldova.



Pic. 10.3. "Key Risks of the AML/CFT System: MONEYVAL 5th Round of Mutual Evaluation" (Lviv on December 14-15, 2017)

#### 10.1.4.7. Cooperation within the framework of the project "European Union Anti-Corruption Initiative in Ukraine" (EUACI)

With the aim to streighten institutional capacity of the SFMS • in counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction at the beginning of 2017 the "European Union Anti-Corruption Initiative in Ukraine" (EUACI).

In addition, during the reporting period, with the assistance of the EUACI, the following activities, with the participation of international experts, were carried out for the representatives of the SFMS, the public and private sector in AML/CFT area:

- training-workshop on "The basic principles of operational analysis of financial transaction reports using a modern IT solution based on the implementation of risk-based approach. Methodology for analyzing cases of money laundering from corruption offences" (November 9-10,
- 2017, Kyiv) (Pic. 10.4); training-workshop on "The role of the FIU in detection and investigation of financial crimes. Analyzing Banking Documents" (November 24, 2017, Kyiv);

joint international workshop on "Key risks of the AML/ CFT system: MONEYVAL 5th Round Mutual Evaluation" (December 14-15, 2017, Lviv).

Besides, on June 1, 2017, the Head of the SFMS Mr. Igor SFMS initiated cooperation within the framework of the project Cherkaskyi participated in the grand meeting regarding the establishment of the European Union Anti-Corruption Initiative (EUACI) chaired by Mr. Johannes Hahn, the EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations (Pic. 10.5).

> During the meeting, the main aspects of the anti-corruption initiative were presented, in particular in terms of strengthening the capacity of the newly established Ukrainian anti-corruption institutions, as well as strengthening external control over the process of anti-corruption reforms, involvement of civil society and the media. The Initiative also provides the support of anticorruption authorities in conducting investigations, criminal prosecutions, and the punishment of corruption cases. The expert assistance, as well as IT, is provided in the framework of the Initiative to the SFMS.



Pic. 10.4. Trainingworkshop on "The basic principles of operational analysis of financial transaction reports using a modern IT solution based on the implementation of risk-based approach. Methodology for analyzing cases of money laundering from corruption offences" (November 9-10, 2017, Kyiv)



Pic. 10.5. Participation of the Head of the SFMS Mr. Igor Cherkaskyi during the establishment of EUACI

#### 10.1.4.8. Cooperation with the Polish FIU within the framework of the project of international technical assistance of the Republic of Poland

During 2017, the representatives of the SFMS conducted • an exchange of experience in the AML/CFT area with the representatives of the FIU of the Republic of Poland within the framework of the project of international technical assistance

- of the Republic of Poland, in particular:
  On October 17-18, 2017, in Lviv, with the participation of representatives of the FIU of Polish Republic, a workshop on the subject: "Cooperation in the area of development of an anti-financial monitoring system: international and national aspects" was held (Pic. 10.6);
- On November 6-10, 2017, the delegation of Ukraine, which included representatives of the SFMS, conducted a study visit to the FIU of the Republic of Poland;
- On November 14-15, 2017, in the premises of the SFMS, with the participation of representatives of the FIU, an international scientific and practical workshop on the subject: "International cooperation and experience in the area of preventing and counteracting to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction" was held.

The cooperation of Ukrainian and Polish experts allows professionals to streghten their professional relationships and exchange practical experience, to better understand the subordination, structure and functioning of the FIU in the national financial systems as well as on international level.



#### Pic. 10.6.

#### 10.1.4.9. Cooperation with Organization for Economic Cooperation and Development (OECD)



On September 11-29, 2017, took part in the 2017 Mid-Level Financial Intelligence Program, which was held in the International Academy for the Investigation of Tax Crimes of OECD (Ostia, the Republic of Italy).

In addition, on November 7-8, 2017, the representative the representative of the SFMS of the SFMS took part in the 5th OECD Forum on taxes and crimes, which was held in London, UK.

> The workshop was aimed at getting acquainted with the international experience in combating tax crimes and with the experience and structure of the foreign authorities responsible for the implementation of the system for combating tax crimes, money laundering and terrorist financing in Great Britain, the Netherlands, the USA, Germany, Singapore, etc.

#### 10.1.4.10. International events of the general nature

took part in XIXth International scientific-practical conference an analysis of the provisions of the current Memorandum of "Information security in information and telecommunication systems"

On May 25-26, 2017 the representatives of the SFMS cooperation between the SFMS and the FIU of UK, as well as Understanding and the need to conclude a new Memorandum of Understanding due to creation of a new FIU of UK, the SFMS On August 10, 2017, in order to discuss the level of has visited the Liaison Officer of UK Embassy in Ukraine.

On August 28, on September 27, 2017, with the aim of Development (USAID) has visited the SFMS. improving cooperation between the SFMS and the United States Agency for International Development, and also issues, which are related to the draft Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine experience in the area of preventing and counteracting to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction", an external expert of AML/CFT issues of US Agency for International

On November 2-3, 2017, the representatives of the SFMS took part in the international workshop on "Promoting the effective implementation of UNSCR 1540 (2004) in the context of the evolution of the challenges and risks associated with the proliferation of weapons of mass destruction"

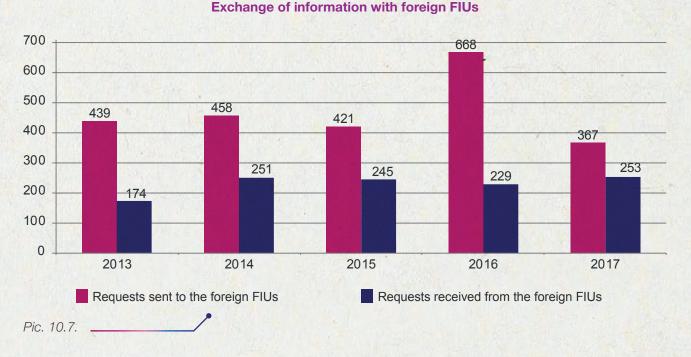
In addition, during 2017 the representatives of the SFMS took part in interagency consultations with the representatives of Finland, Germany and the USA.

#### 10.2. Information exchange with foreign Financial intelligence units

The SFMS provides interaction and information exchange with the competent authorities of foreign states, whose activities are directed on the AML/CFT.

Currently, the SFMS is cooperating with 152 FIUs.

During 2017, 367 requests to the 55th foreign FIUs were directed by the SFMS and 368 responses on requests from 60 foreign FIUs were received. Simultaneously 253 requests from 60 foreign FIUs were received by the SFMS and 240 responses to 59 foreign FIUs were provided (Pic. 10.7).



At the same time, in 2017, the SFMS conducted the most active information exchange on requests with:

- the FIU of Republic of Latvia (sent 51 requests);
- the FIU of UK (sent 28 requests);
- the FIU of Cyprus (sent 22 requests); .
- the FIU of USA (sent 21 requests);
- the FIU of FRG (sent 20 requests).

Simultaneously, in 2017 the most requests were received from.

- the FIU of Republic of Poland (received 32 requests); .
- the FIU of Republic of Latvia (received 23 requests);
- the FIU of Lithuania (received 19 requests).



## **11. PLANS FOR 2018. DEVELOPMENT PERSPECTIVES**

# I. Legislative improvement in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction.

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- The realization of this task is expected to be carried out by:
   continuing development of draft legal acts to implement the provisions: Recommendations of the Financial Action Task Force on Money Laundering (FATF), EU Directive 2015/849 of the European Parliament and Council on combating money laundering and the fight against terrorism and Regulation (EC) No 2015/847 of the European Parliament and Council on information accompanying transfers of funds;
- approval of the draft laws and regulations of other state authorities necessary for the implementation of the Law of Ukraine «On prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction» and the implementation of the EU Directive 2015/849 of the European Parliament and of the Council on the prevention of money laundering and the fight against terrorism.

# II. Improvement of interagency interaction between state authorities - participants of the national system on prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction.

The realization of this task is expected to be carried out by way of:

- Implementation of the Strategy for the Prevention and Counteraction of the Legalization (Laundering) of the Proceeds from Crime, or terrorist financing and the Financing of the Proliferation of Weapons of Mass Destruction for the period up to 2020;
- carrying out on a regular basis meetings of the Council on

AML/CFT issues, as a temporary consultative and advisory authority established by the Cabinet of Ministers of Ukraine; coordination of state authorities during the implementation

of the action plan for 2017-2019 on the realisation of the Development strategy system of prevention and counteraction to legalization (laundering) of the proceeds of crime, terrorist financing, and financing proliferation of weapons of mass destruction up to 2020.

# III. The Participation in the international cooperation in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction.

The realization of this task is expected to be carried out by:

- Ensuring effective cooperation with international organizations and institutions in the area of prevention and counteraction to legalization (laundering) of the proceeds
   from crime, terrorist financing, and financing proliferation of weapons of mass destruction;
- organization of international educational events and exchange of experience in the area of prevention and

counteraction to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction;

 conclusion of international agreements of interagency with the competent authorities of foreign countries in the area of prevention and counteraction to legalization (laundering) of the proceeds of crime, terrorist financing, and financing proliferation of weapons of mass destruction.

IV. Ensuring the functioning and development of a unified information system in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction.

The realization of this task is expected to be carried out by:

 provision within the limits of the maintenance of the hardware and software complex maintenance of a unified information system in the area of preventing and counteracting to legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction.

#### V. Organization of training on retraining and advanced training of specialists of state authorities on financial monitoring issues and responsible officers of reporting entities, and also employees, which are involved in conducting of financial monitoring on AML/CFT issues on the basis of the Financial Monitoring Academy.

 The realization of this task is expected to be carried out by:
 carrying out with the use of up-to-date methods and technologies for retraining and advanced training of employees and heads of units of primary financial monitoring entities responsible for conducting financial monitoring, as well as specialists of state authorities in the area of prevention and counteraction to legalization (laundering) of the proceeds of crime, terrorist financing, and financing proliferation of weapons of mass destruction.

## VI. Analysis of financial transactions, cooperation, interaction and information exchange with law enforcement and other government authorities.

The realization of this task is expected to be carried out by:

- researching methods and financial schemes legalization (laundering) of the proceeds from crime, terrorist financing, and financing proliferation of weapons of mass destruction, and bringing them to the attention of the participants in the system for combating the legalization of criminal proceeds;
- strategic analysis of information on financial transactions subject to financial monitoring, other financial transactions or information that may be related to suspicion of legalization (laundering) of the proceeds of crime, terrorist financing, and financing proliferation of weapons of mass destruction; providing law enforcement authorities with case refferals (additional case reffereals);
  - cooperation with state regulators.

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In The International States



## **ANNEXES**

### Annex A

The conclusions of MONEYVAL Committee in the context of evaluating performance of the SFMS as a national the FIU

The extract from the Mutual evaluation report of Ukraine by the MONEYVAL Committee
<ul> <li>«The Financial Intelligence Unit (FIU) pays a great attention to the risk of money laundering (ML) and its elimination. The FIU has introduced an automated system to prioritize analysis of STRs and successfully prepared difficult cases of ML, which concerned to risks of Ukraine.</li> <li>Ukraine has comprehensive mechanisms of national coordination and policy in the area of prevention and counteraction of ML, which includes political commitments. These mechanisms are also applicable to conteraction the financing of proliferation of weapons of mass destruction after amendments to the Law of Ukraine «On prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destructions in February 2015. At the operational level, the FIU coordinates development and implementation of these policies and activities related to them; the FIU also was a coordinator of carrying out the National risk assessment (NRA) and preparing the Report on NRA.</li> <li>Cooperation at the operational level and the information exchange between the authorities in general is positive, especially where the FIU is involved.</li> <li>National policies and activities in the context of the implementation of legislation in the relevant area are well coordinated by the SFMS and the Ministry of Finance. Both authorities are active».</li> </ul>
«The FIU is a member of Egmont group and strictly adheres to the principles of exchanging information of the Egmont Group».
«The FIU makes significant and positive efforts to the work of a training center, whose potential is used by all reporting entities (RE) and state financial monitoring entities of Ukraine. The FIU actively prepares and publishes publications on its website, promotes the use of the potential of the Training Center, including estate agents».
«The FIU and supervisors often carry out private-sector awareness-raising activities that include discussion of updated legislation and current issues of anti-money laundering and terrorist financing. The evaluation team, based on the results of discussions with the private sector, understood that the information provision of the sector by the FIU, in particular, is very useful. Those, who were reviewed told, that relationships with the FIU and supervisors are constructive, as a rule».

Immediate Outcome of effectiveness	The extract from the Mutual evaluation report of Ukraine by the MONEYVAL Committee
Immediate Outcome 5 (Legal persons and arrangements)	<ul> <li>«Ukraine made a number of positive legislative changes to promote the transparency of legal entities and reduce their attractiveness to conceal the proceeds of crime or terrorist financing.</li> <li>Controllers, directors and beneficial owners are displayed in the Unified State Register, the data are publicly available. In addition, the training of supervisors and the FIU, opened this resource to the private sector, which explained to the experts that USR is usually used by private sector as part of a due diligence, in particular, to verify the beneficial owner of any legal entities with whom they enter into business relations».</li> </ul>
Immediate Outcome 6 (Financial intelligence)	<ul> <li>«The FIU produces high-quality financial intelligence and strategic analysis based on a wide range of sources, including a very large number of reports submitted by reporting entities.</li> <li>During the mission, numerous cases were reported when financial investigations, conducted by the FIU (based on reports/ information received from reporting entities or as a result of information exchange with foreign FIUs) were used by law enforcement authorities in forming evidence for pre-trial investigation of predicate offences and money laundering.</li> <li>The FIU information is also crucial for the seizure of criminal assets through the use of its authority to suspend suspicious financial transactions.</li> <li>The evaluation team was informed by all law enforcement authorities and the main supervisors during on-site inspections that the FIU is clearly the main partner who has the power to decide when any type of financial analysis is necessary to enable the start or continuing of the investigation.</li> <li>The FIU managed to maintain its effectiveness by identifying priority cases in accordance with the risks identified in the NRA, as well as own risk analysis: the cases, which include PEPs, subjects of fictitious business, organized crime groups, offshore companies (in the context of corruption) and terrorist financing - have been identified as priorities.</li> <li>The FIU considered a significant number of cases for the period that was evaluated: answers to information requests from law enforcement authorities; cases already investigations; dissemination of case referrals to law enforcement authorities, taking into account their consistency».</li> </ul>
Immediate Outcome 7 (ML investigation and prosecution)	«Ukrainian authorities noted that the detection of crimes, related to ML is achieved through the use of case referrals, received from the FIU and reports from law enforcement authorities that initiate such investigations during operational and investigative measures during the investigation of other criminal proceedings. Requests for mutual legal assistance are also an important channel for obtaining information. In 2014, the PGO commenced and conducted, together with the FIU, complex and resonant pre-trial investigations related to corruption, appropriation, the theft of state property and abuse of power (with money laundering, as an auxiliary crime in 4 cases), with respect to former high-ranking officials of the previous regime».
Immediate Outcome 8 (Confiscation)	«The work that is currently under arrest and confiscation of cases involving high-level corruption and the ML outlined in the NRA, is positively evaluated.».

Immediate Outcome of	The extract from the Mutual evaluation report of Ukraine
effectiveness	by the MONEYVAL Committee
Immediate Outcome 9	«The FIU daily analyzes reports of financial transactions related to terrorist financing suspicions received from reporting entities, as well as received in the form of information from law enforcement authorities. In addition, the investigation into terrorist financing is based on a quarterly strategic analysis.
(TF investigation and prosecution)	In practice, the Anti-Terrorist Subdivision of the Security Service of Ukraine, with experts on countering the financing of terrorism in the FIU (with its strong analytical capacity) are the main players in detecting and investigating the financing of terrorism and other crimes related to terrorism. The Security Service of Ukraine prioritizes all case referrals on terrorist financing (TF), received from the FIU».
Immediate Outcome 10	«The FIU has established effective communication channels with financial institutions
(TF preventive measures and	and DNFBPs and considers TF risks in the sector in the context of the trainings,
financial sanctions)	which carrying out for reporting entities».
Immediate Outcome 11 (PF financial sanctions)	«Mechanisms for informing on TFS, related to proliferation, such as lists, explanations and typological studies of the FIU are available. The FIU regularly informs the reporting entities on relevant information on risks of proliferation (include FATF public statements) on its official website. In 2016-2017, various events for reporting entities with the purpose to raise their awareness of this issue weres held by the Training Center of the FIU».

#### **Annex B**

#### List of legal acts adopted in 2017, developed by the SFMS

- 1. The Regulation of the Cabinet of Minister of Ukraine as of 30.08.2017 № 601-p «On implementing the Development Strategy of the system on the prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction until 2020»;
- 2. The Order of MFU as of 17.07.2017 № 641 «On amendments to the Instruction on filling in forms of accounting and submission of information related to the implementation of financial monitoring», registered in MOJ of 03.08.2017 № 960/30828;
- 3. The Order of MFU as of 06.09.2017 № 742 «On approval of the Instruction on the organization of the permit and restricted area regime in the SFMS», registered in MOJ of 27.09.2017 № 1196/31064;
- 4. The Order of MFU as of 16.11.2017 № 944 «On approval of the Procedure for notifying reporting entity about the person's written notification on suspicion in a criminal offense, the closure of criminal proceedings and informing reporting entities about courts decisions», registered in MOJ of 11.12.2017 № 1487/31354.

### Annex C

### List of Abbreviations

FATF	Financial Action Task Force		
MONEYVAL	the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism		
Basic Law	Law of Ukraine «On prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction»		
DNFBP	Designated non-financial businesses and professions		
PGO	Prosecutor General's Office of Ukraine		
SFMS	the State Financial Monitoring Service of Ukraine		
SFS	the State Fiscal Service of Ukraine		
EU	European Union		
UIS	Unified Informational System in the area of prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction		
MFA	Ministry of Foreign Affairs of Ukraine		
MFU	Ministry of Finance of Ukraine		
MOJ	Ministry of Justice of Ukraine		
NABU	National Anti-Corruption Bureau		
NBU	National Bank of Ukraine		
NPU	National Police of Ukraine		
OSCE	Organization for Security and Cooperation in Europe		
AML/CFT	prevention and counteraction to legalization (laundering) of the proceeds from crime, terrorist financing and the financing of proliferation of weapons of mass destruction		
FIU	Financial Intelligence Unit		
SSU	the Security Service of Ukraine		
NGO	Non-Government Organisation		
ML	money laundering		
TF	terrorist financing		
PF	proliferation financing		

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