

# 2019

# Annual Report

**THE STATE FINANCIAL  
MONITORING SERVICE  
OF UKRAINE**



<https://fiu.gov.ua>

Kyiv – 2020





# **2019**

# **Annual Report**

**THE STATE FINANCIAL  
MONITORING SERVICE  
OF UKRAINE**

Kyiv – 2020

# Contents

<b>Address of the Head of the State Financial Monitoring Service of Ukraine Igor CHERKASKYI</b>	<b>4</b>
<b>1. ABOUT THE SFMS</b>	<b>6</b>
<b>1.1. KEY RESULTS OF THE SFMS WORK IN 2019</b>	<b>7</b>
<b>1.2. Human resources</b>	<b>8</b>
<b>1.3. Financing of the SFMS</b>	<b>10</b>
<b>2. DEVELOPMENT OF THE AML/CFT LEGISLATION</b>	<b>11</b>
<b>3. STATISTICS ON THE REPORTS RECEIVED</b>	<b>14</b>
<b>3.1. General dynamics of the reports received</b>	<b>15</b>
<b>3.2. Dynamics of the reports received from the reporting entities</b>	<b>16</b>
<b>4. ANALYTICAL ACTIVITY</b>	<b>20</b>
<b>4.1. The process of information analysis</b>	<b>21</b>
<b>4.2. Suspension of financial transactions</b>	<b>23</b>
<b>4.3. Financial investigations</b>	<b>24</b>
4.3.1. Countering terrorist and separatism financing	25
4.3.2. Laundering of proceeds from corruption	26
4.3.3. Investigation of transactions related to budget funds and other state assets	29
4.3.4. Investigation of transactions related to the activity of “conversion” centres and enterprises with signs of fictitiousness and cash withdrawal	32
<b>5. CASE REFERRALS</b>	<b>35</b>
<b>6. ENSURING FUNCTIONING AND DEVELOPMENT OF THE UNIFIED INFORMATION SYSTEM IN THE AML/CFT AREA</b>	<b>38</b>

<b>7. INTERAGENCY COOPERATION . . . . .</b>	<b>43</b>
7.1. Relations with regulators and other state authorities . . . . .	44
7.2. Interaction with the reporting entities. . . . .	52
7.3. Methodical support, training of the financial monitoring entities staff . . . . .	53
7.4. National Risk Assessment . . . . .	56
<b>8. ACTIVITIES OF THE ACADEMY OF FINANCIAL MONITORING . . . . .</b>	<b>58</b>
<b>9. INTERNATIONAL COOPERATION . . . . .</b>	<b>64</b>
<b>9.1. Cooperation with international organizations . . . . .</b>	<b>65</b>
9.1.4.1. Cooperation with NATO . . . . .	70
9.1.4.2. Cooperation with the European Union. . . . .	70
9.1.4.3. Co-operation with the United Nations (UN)/United Nations Office on Drugs and Crime (UNODC) . . . . .	70
9.1.4.4. Cooperation with the Organization for Democracy and Economic Development (GUAM) . . . . .	71
9.1.4.5. Cooperation with the Organization for Security and Cooperation in Europe (OSCE) / FIU of the Republic of Poland within the framework of the project of International technical assistance of the Republic of Poland . . . . .	71
9.1.4.6. Cooperation within the framework of the project “EU Anticorruption Initiative in Ukraine” (EUACI) . . . . .	73
9.1.4.7. International events of general nature . . . . .	74
<b>9.2. Exchange of information with foreign financial intelligence units. . . . .</b>	<b>75</b>
<b>STRATEGIC DIRECTIONS OF THE SFMS WORK IN 2020 . . . . .</b>	<b>76</b>
<b>ANNEXES . . . . .</b>	<b>78</b>
List of regulations adopted in 2019, developed by the SFMS . . . . .	78
List of abbreviations. . . . .	79

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



## Dear Ukrainians!

Let me present to your attention 2019 Annual Report of the State Financial Monitoring Service of Ukraine, which highlights the main results of work in the AML/CFT area.

In the reporting period the key aspects in the work of the Ukrainian financial intelligence unit have been focused primarily on practical financial investigations, harmonization of the national legislation with the world standards, international cooperation and national risk assessment in this area.

Therefore, the past year has been very busy with the landmark and important events in the field of work of the Ukrainian anti-legalization system, which are powerful locomotives for its development in the near future.

Thus, in July 2019, at the MONEYVAL meeting held in Strasbourg (the French Republic) the first Follow-up report of Ukraine following the results of the MONEYVAL's 5th round mutual evaluation of Ukraine was approved, which has been formed under the SFMS coordination.

Endorsement of this report reaffirmed the approval of the international community of steps taken by our state towards increasing effectiveness of the national financial monitoring system.

In 2019, the SFMS has completed the second national risk assessment conducted on the basis of the updated methodology and concluded financial monitoring entities activities for three previous years.

The presentation of the second national risk assessment report was made with the participation of the MONEYVAL Chairman, the OSCE Project Coordinator in Ukraine and the representatives of all authorities concerned, the specialists of private sector and the public.

The core legal event was the adoption by the Parliament of Ukraine on December 6, 2019 the new AML/CFT Law, the key part in the development of which has been taken by the SFMS.

The updated AML/CFT Law was adopted upon the execution of goals of the Government activity program for the purpose of implementing the 4th EU Directive and partial implementing of the 5th EU Directive.

In addition, in April 2019, a team formed by the SFMS's leadership with the idea "Mechanism of verification ultimate beneficial owners" called as "DO100%VIRNO" has become a winner and received an award "The Most Innovative Solution" following the EU Association Lab Pilot Program.

Also, in order to increase informing the public, the new SFMS web-portal (in test mode) began to operate under the Internet address: <https://fiu.gov.ua>.

At the same time, within the SFMS practical activity, 893 case referrals and additional case referrals have been prepared and submitted to law enforcement authorities. The amount of financial transactions in these referrals which may be related to legalization of money, and commission of another crime defined by the Criminal Code of Ukraine is UAH 92,2 bln.

In 2019, as a result of analytical work, the SFMS has conducted and brought to the financial monitoring entities attention the typological study "Laundering proceeds from embezzlement money and property of state-owned enterprises and other entities being funded by state and local budgets".

Summarizing the year and looking ahead with optimism to the year 2020, I would like to express my gratitude to the SFMS team and everyone who actively participates with our team in the improvement and strategic development of the national financial monitoring system.

The SFMS together with all financial monitoring entities and the public will continue to improve the national AML/CFT system in order to protect the rights and legal interests of citizens, the society and the state.

Respectfully,



Igor CHERKASKYI

# 1 ■ ABOUT THE SFMS



## 1.1. KEY RESULTS OF THE SFMS WORK IN 2019



### International cooperation

At the 58<sup>th</sup> MONEYVAL Plenary (Strasbourg, the French Republic) the 1<sup>st</sup> Follow-up report of Ukraine within the MONEYVAL 5<sup>th</sup> mutual evaluation round was approved

### Financial investigations

The SFMS has prepared and submitted 893 case referrals in the amount of UAH 92,2 bln. to law enforcement authorities



### National coordination

Mechanism of verification ultimate beneficial owners (UBO) called as “DO100%VIRNO” has become a winner and received an award “The Most Innovative Solution”

### Legislative initiative

The updated AML/CFT Law was adopted



### Training activity

The Academy of Financial Monitoring provided anti-legalization training to 2044 representatives of the private and public sectors. In total, the SFMS representatives have taken part in 95 training events

### National Risk Assessment

The second National Risk Assessment has been conducted and its Report was presented



### Methodical activity

Over 300 written recommendations and about 4000 telephone consultations have been provided to the reporting entities

### Typological study

Typological study: “Laundering proceeds from embezzlement money and property of state-owned enterprises and other entities being funded by state and local budgets” has been prepared



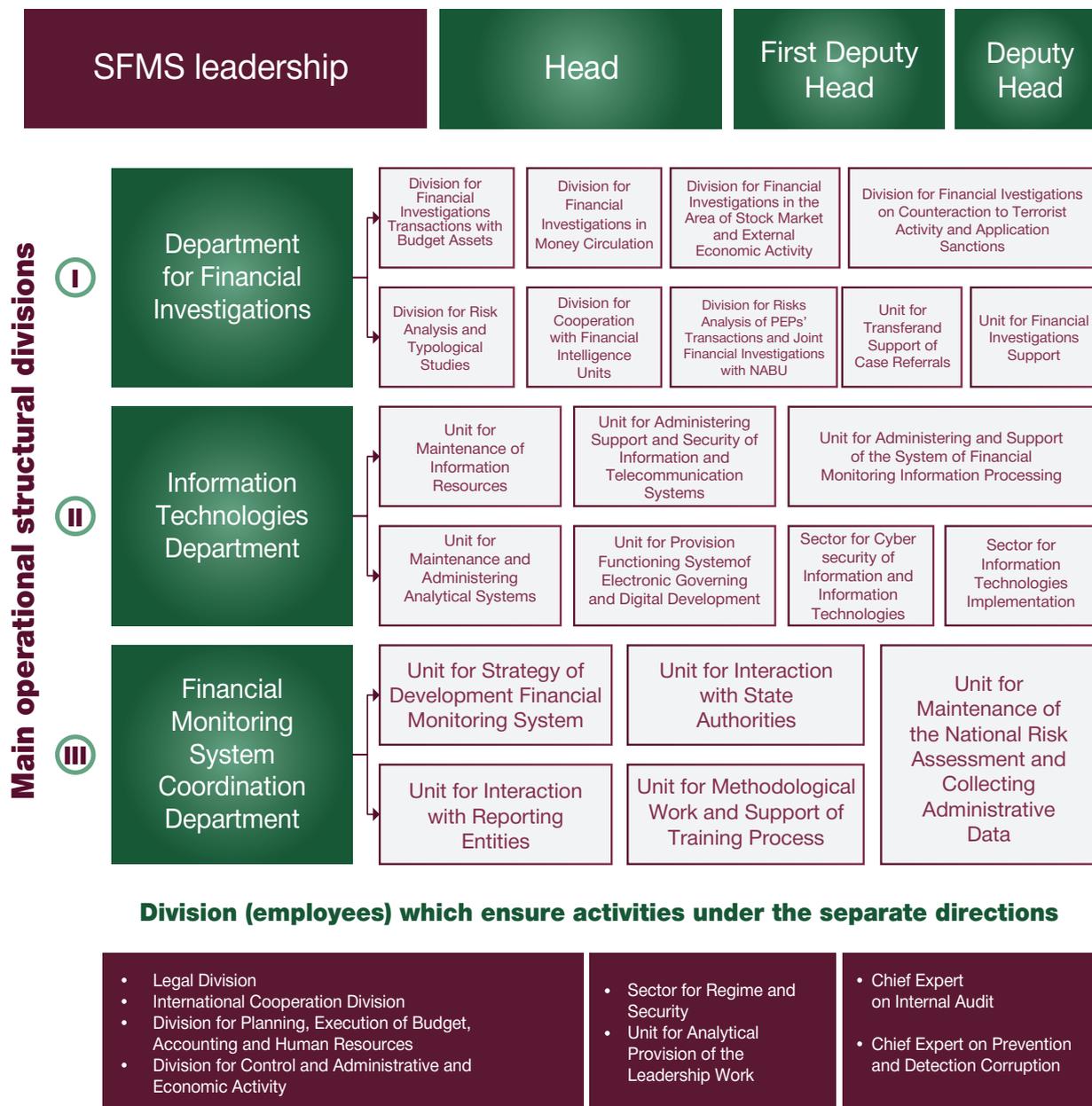
1.2. Human resources

The human resources policy of the SFMS is implemented according to the requirements of the Constitution of Ukraine, legislation on public service, ensuring principles of prevention and counteraction to corruption, other legal regulations

under which the state provides conditions for citizens to realize the right to work, for staff training and professional development according to social needs.

The below mentioned Pic. 1.1. provides the SFMS structure.

The SFMS Structure



Pic 1.1

The authorized personnel complement of the SFMS is 237 persons. As of January 1, 2020, 208

employees actually work in the SFMS. Dynamics of the actual number of the SFMS employ-

ees in 2015-2020 is provided on Pic. 1.2:



Pic. 1.2 Dynamics of the actual number of the SFMS employees in 2015 – 2020

Gender distribution of the SFMS employees is the following: 82 men (39,4%) and 126 women (60,6%). Among the senior management, there are 33 men and 41 women.

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

The SFMS staff consists of highly qualified specialists with complete higher education. 11 SFMS employees have a scientific degree and 5 of them have an academic degree. 12 SFMS employees have a Master’s degree in Public Administration.

At the same time, in the past year the SFMS representatives actively participated in the civil servants sports contest and succeeded in chess and billiards (Pic. 1.3).

Also, in 2019, the SFMS held 3 competitive selections for filling civil servants vacancies, where 80 persons participated. Following the results of the competitive selection, 12 persons were appointed.



Pic 1.3. The SFMS sport awards

### 1.3. Financing of the SFMS

In 2019, the SFMS was financed from the state budget within the budgetary allocations pursuant to the Law of Ukraine “On State Budget of Ukraine for 2019”.

In 2019, according to budgetary allocations obtained, the SFMS expended UAH 85.4 million. The structure of funds expenditure is provided in Table 1.1 below.

Expenditures	Amount in UAH thousand
Salaries and charges	75 098,1
Utility services and energy carriers expenditures	1 598,8
Business trip expenditures	150,6
Other expenditures to ensure activity and maintenance of the State Information System and Information and Analytical System of the SFMS	8 508,4
<b>Total</b>	<b>85 355,9</b>

Table. 1.1 The structure of the SFMS budgetary allocations in 2019

# 2.

## DEVELOPMENT OF THE AML/CFT LEGISLATION



In 2019, the SFMS took measures for the development of proposals to improve the AML/CFT regulations.

Thus, the SFMS has continued the work on accompanying the Draft AML/CFT Law.

25.09.2019, the refined Draft AML/CFT Law was approved by the Cabinet of Ministers of Ukraine and registered by the Parliament of Ukraine under No. 2179.

The SFMS has actively participated in processing and discussing the Draft AML/CFT Law at the meetings of the Parliament Committee for Financial, Tax and Customs Policy (pic 2.1).

On December 6, 2019, the Parliament of Ukraine adopted the Draft AML/CFT Law in the second reading and on the whole.



*Pic. 2.1. The SFMS representative attends the Parliament Committee meeting*

The mentioned Draft Law is aimed to:

- implement FATF Recommendations;
- implement provisions of the 4th Directive (EU) 2015/849 “On the prevention of the use of financial system for the purposes of money laundering and terrorist financing” and Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 “On information accompanying transfers of funds” which are obligatory to be implemented by EU member states and states intending to get membership in EU;
- implement recommendations mentioned in the MONEYVAL 5<sup>th</sup> round MER approved at the 55<sup>th</sup> MONEYVAL Plenary.

The Draft Law provides for comprehensive changes of the legislation which are as follows:

- increasing the threshold (from UAH 150 000 to UAH 400 000) and decreasing in the amount of features (from 17 to 4) of financial transactions which reporting entities are obliged to report to the SFMS;
- transferring to risk-oriented approach when reporting on suspicious financial transactions by reporting entities;
- extending the range of reporting entities covering business entities providing tax consultations, persons providing services on establishment, ensuring activities or management of legal entities as well as virtual asset services providers;
- improving the procedure for identifying UBO;
- implementing the mechanism of relying on third parties for exercising due diligence;
- amending the Criminal and Criminal-Procedure Codes.

The Law comes into force in four months from the date of its publishing.

## THE AML/CFT LAW EVOLUTION

The Law of Ukraine «On Preventing and Counteracting to Legalization (Laundering) of Proceeds from Crime»	The Law of Ukraine «On Preventing and Counteracting to Legalization (Laundering) of Proceeds from Crime or Terrorism Financing»	The Law of Ukraine «On Preventing and Counteracting to Legalization (Laundering) of Proceeds from Crime, Terrorism Financing and Financing Proliferation of Weapon of Mass Destruction»	The new Law of Ukraine «On Preventing and Counteracting to Legalization (Laundering) of Proceeds from Crime, Terrorism Financing and Financing Proliferation of Weapon of Mass Destruction»
28.11.2002 No 249-IV	18.05.2010 No 2258-VI	14.10.2014 No 1702-VII	06.12.2019 No 361-IX
11.06.2003	21.08.2010	06.02.2015	28.04.2020
FATF Recommendations 1996	FATF Recommendations 2003	FATF Recommendations 2012	EU Directive 2015/849 2015

Pic. 2.2

It's worth mentioning that it's the fourth wording of the AML/CFT Law since 2002 (Pic. 2.2).

At the same time, the SFMS, within its competence, has agreed draft AML/CFT regulation in the manner prescribed by law.

Thus, in 2019, 51 draft regulations have been developed by other state authorities, 43 of them have been agreed without comments, and 8 with comments.

Simultaneously, in the reporting period 6 regulations have been adopted developed by the SFMS (the list is mentioned in the Annex A).

# 3 ■ STATISTICS ON THE REPORTS RECEIVED

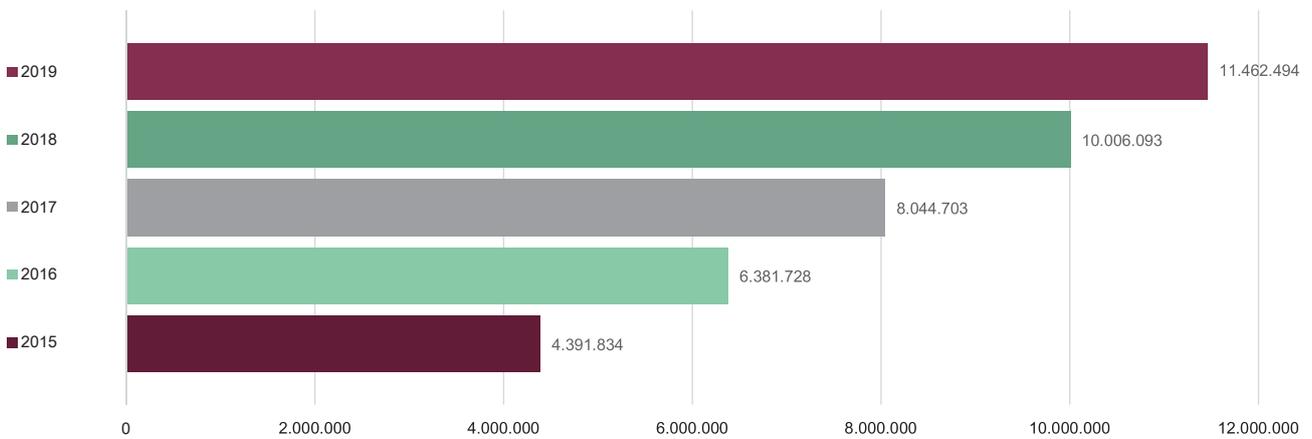


### 3.1. General dynamics of the reports received

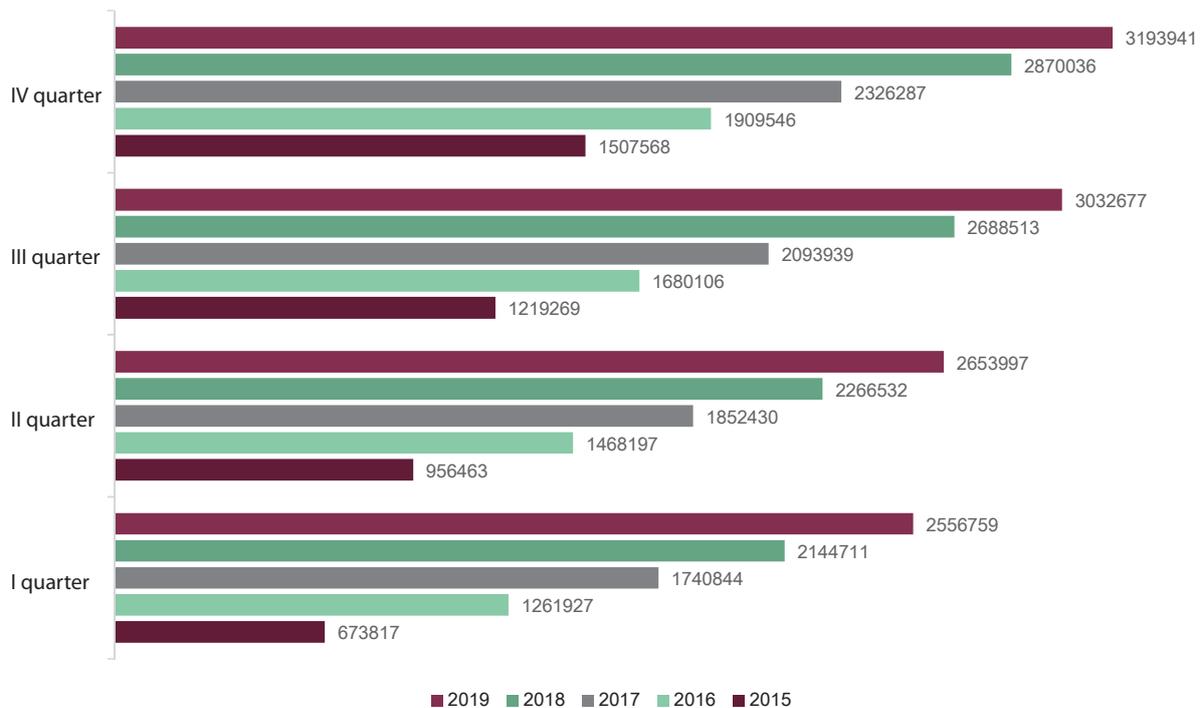
In accordance with the AML/CFT Law, reporting entities submit to the SFMS information on financial transactions, which according to the law are subject to mandatory financial monitoring or which is suspected of being involved in money laundering or terrorist financing.

In total, since the beginning of the SFMS Financial Monitoring Information System operation, **48 840 986 reports** on financial monitoring subject to financial monitoring have been received and processed among which **11 462 494 reports** have been received during 2019 (Pic. 3.1.).

It should be mentioned that in 2019 the SFMS registered 11 437 374 reports on financial transactions which is 14.7% more than in 2018 (Pic. 3.2).



Pic. 3.1. Dynamic of informing on financial transactions which subject to financial monitoring in 2015–2019

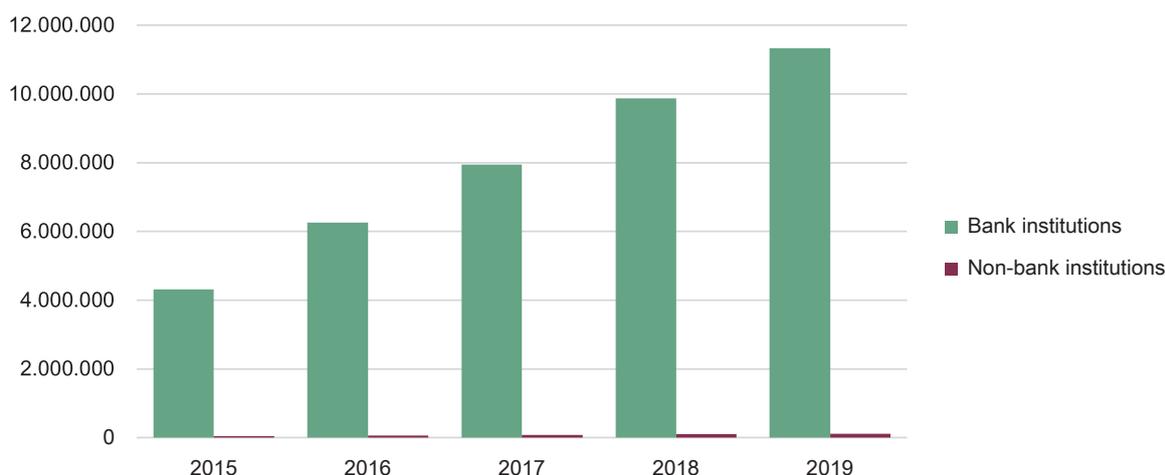


Pic. 3.2. Dynamic of the number of financial transactions which subject to financial monitoring registered by the SFMS in 2015–2019

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

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

During 2019, the SFMS received from banks 99.04% of a total number of reports on financial transactions (Pic. 3.3.).



Pic. 3.3. Dynamics on Informing about reports on financial transactions by bank and non-bank institutions during 2015-2019

Also, it should be mentioned that the proportion of mistakes in the reports is 0.06% of the total number of reports received by the SFMS during 2019.

Thus, the percentage of reports on financial transactions correctly submitted by the reporting entities to the SFMS during 2019 constitutes 99.94% of the total number of reports (Table 3.1).

Type of institution	Number of reports in electronic form	Number of reports in paper form
Bank institutions	11 327 040	–
Non-bank institutions	110 095	239

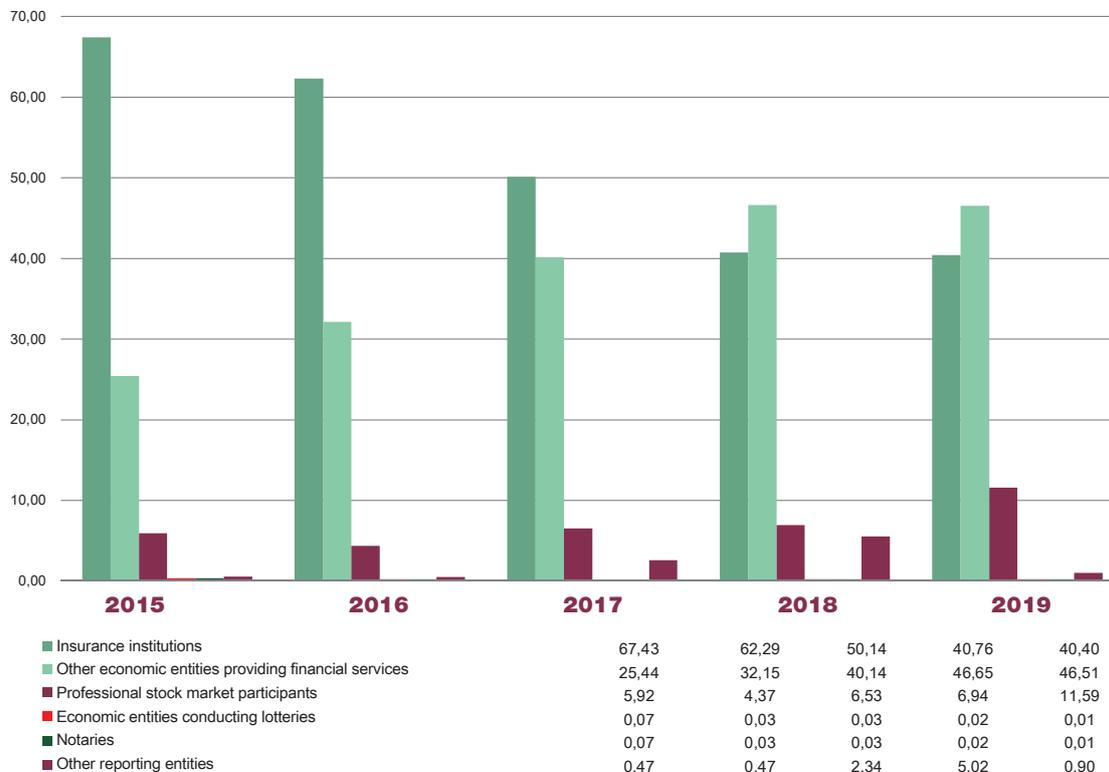
Table. 3.1. Number of reports on financial transactions registered by the SFMS by the types of submitting as of 01.01.2020

In 2019, a number of reports on financial transactions received and registered by the SFMS from non-bank institutions in electronic form increased by 12.45% in comparison to 2018 and amounts to 99.78% of the total number of reports submitted to the SFMS by the mentioned type of reporting entity.

Among the non-bank institutions, the professional stock market participants are the most active in reporting. The share of such reports in the total amount of the reports received by the SFMS from non-bank sector amounted to 46.51% (Table 3.2 and Pic. 3.4).

Type of institution	Number of reports	Share, %
Insurance institutions	44 577	40,40
Other economic entities providing financial services	12 783	11,59
Professional stock market participants	51 318	46,51
Economic entities conducting lotteries	648	0,59
Notaries	11	0,01
Other reporting entities	997	0,90

Table 3.2. The share of reports in the total amount of the reports on financial transactions received from non-bank sector and registered by the SFMS in 2019



Pic. 3.4. Dynamics of the share of financial transactions, which are recorded by the SFMS during 2015-2019, by types of entities of the non-banking sector

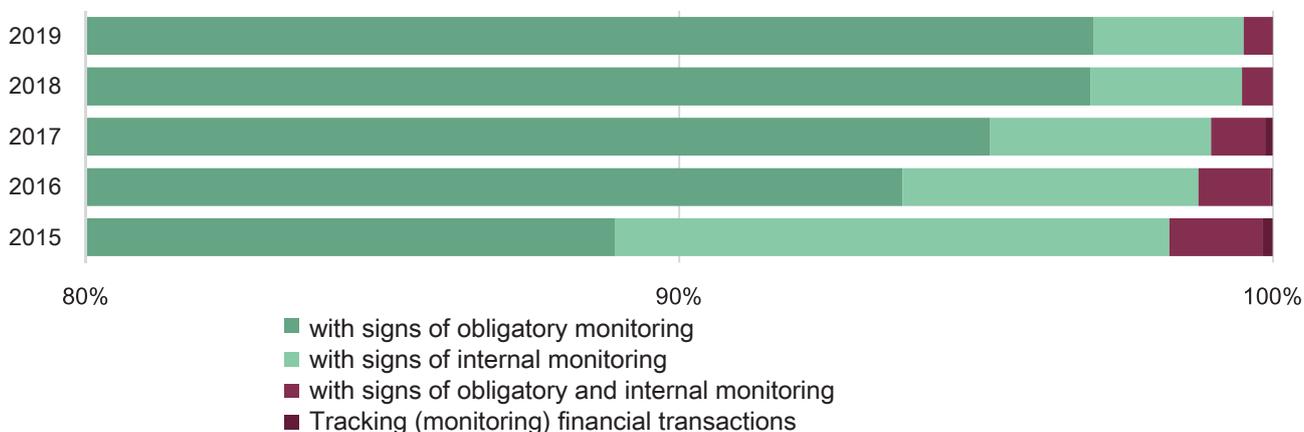
As it is shown on the Pic. 3.4, the share of financial transactions registered by the SFMS from professional stock market participants in the total number of non-bank reporting entities has a tendency to increase from 2016, with a simultaneous decrease in the share of financial transactions submitted 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 in the number of insurance institutions in Ukraine.

The distribution of the reports registered in the 2019 under the signs of financial monitoring is as follows (Pic. 3.5):

- under the signs of obligatory monitoring – 96,986% (11 092 670);
- under the signs of internal monitoring – 2,521% (288 317);
- under the signs of obligatory and internal monitoring – 0,489% (55 964);
- financial transactions received on the request of tracking (monitoring) financial transactions – 0,004% (423).

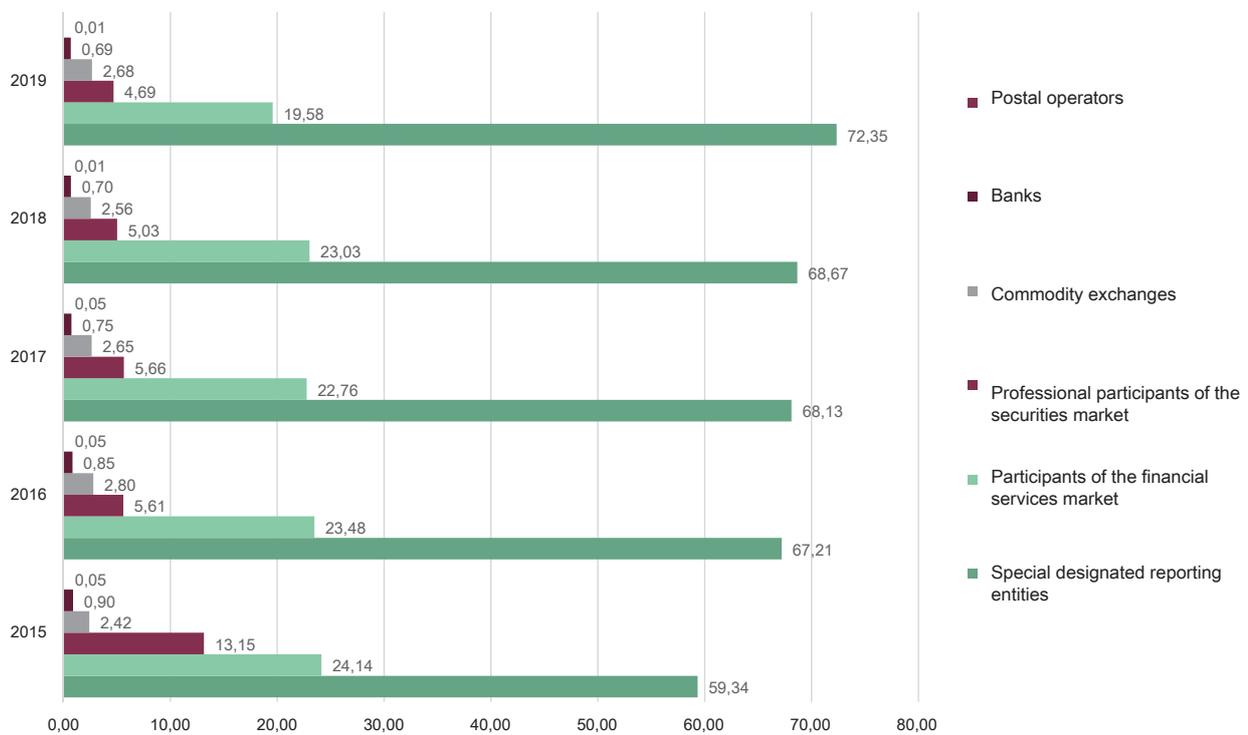
Starting from 2016, there is a rapid increase of the share of financial transactions with the signs of obligatory financial monitoring registered by the SFMS with simultaneous decrease of the share of financial transactions with signs of internal financial monitoring in the total number of reports submitted by the reporting entities.

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



Pic. 3.5. Share of financial transactions total amount registered by the SFMS under the signs of financial monitoring

As of 01.01.2020, there are 23 055 reporting entities (including 12 202 separated subdivisions) registered in the SFMS (Pic. 3.6).



Pic. 3.6 Growing up the share of reporting entities that are registered in the SFMS by their types

# 4. ANALYTICAL ACTIVITY



#### 4.1. The process of information analysis

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

Information for analysis (operational and strategic) comes from:

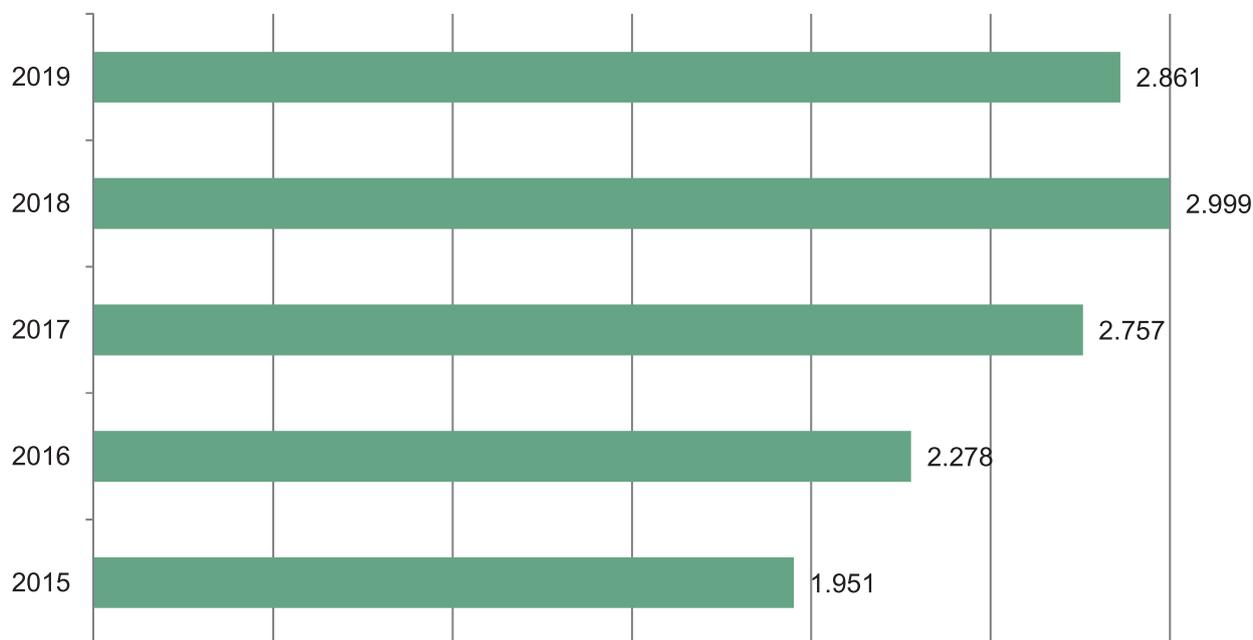
- Reporting entities;
- Law enforcement authorities;
- State financial monitoring entities and other state authorities;
- Foreign FIUs and other sources.

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

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

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

Thus, during 2019, 530 393 reports on financial transactions have been selected for an active work, which became the basis for creation of 2 861 dossiers (Pic. 4.1).



Pic. 4.1. Dynamics of dossier creation in 2015-2019

Dossier is analysed to identify reasons to believe a financial transaction may be related to ML/FT or the commission of other act defined by the Criminal Code of Ukraine.

The SFMS conducts an analysis of financial transactions on a risk based approach considering AML/CFT international experience.

In comparison with the previous 2018, a number of reports on financial transactions, which became the basis for creation of dossiers, increased by 0,8% or by 4 021 reports.

In 2019, as a result of dossiers processing, 893 referrals, including 503 case referrals and 390 additional case referrals have been submitted to law enforcement and intelligence agencies.

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

Thus, during 2019, the SFMS has sent 12 981 files-requests on providing additional information to 69 bank institutions.

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

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

During 2019, the SFMS has sent 3 requests to the reporting entities for tracking (monitoring) of financial transactions.

Using the own practice and practice of other participants of the national financial monitoring system, the SFMS has prepared typological study on “Laundering proceeds from embezzlement money and property of state-owned enterprises and other entities being funded by state and local budgets” (Pic. 4.2).

This typological study summarizes risks in the budget sphere, identifies tools, typical schemes and mechanisms for laundering criminal proceeds related to theft and misuse of budget funds.

The typological study is published on the SFMS official website in the section “Typologies/Recommendations for detection of money laundering schemes”.



Pic. 4.2. Title page of the Typology

## 4.2. Suspension of financial transactions

---

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

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

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

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

During 2019, the SFMS pursuant to Article 17 of the Basic Law has suspended financial transactions of 171 persons.

### 4.3. Financial investigations

The SFMS, as a FIU of Ukraine, is taking increased practical AML/CFT measures.

According to the results of the analysis and generalization of the identified (typical and newest) methods, ways, financial instruments and schemes of AML/CFT, the following priority directions of financial investigations were defined:

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

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

Particular attention within the AML area is paid to the detailed study by participants of the national financial monitoring system of laundering of proceeds from embezzlement of funds and property of state enterprises and other entities, which are financed by state and local budgets.

The budgetary sphere is a vital area of economic relations, since it is directly related to the process of formation, allocation and control over the use of budgetary funds. The effectiveness of the implementation of state social programs designed to meet the basic needs of population and the ensuring of adequate living conditions depends on the legitimacy of these relationships.

At the same time, the budgetary system of Ukraine remains enough attractive for illegal encroachments. Crimes in this area take a significant share in the economic crime structure. Detecting crimes related to embezzlement of funds and property of state enterprises and other entities, which are financed by the state and local budgets is a complicated process and requires rapid response and well-coordinated work of all state and law enforcement authorities, participants of anti-money laundering system.

The typological study “Laundering proceeds from embezzlement money and property of state-owned enterprises and other entities being funded by state and local budgets”, conducted by the SFMS in 2019, aimed at recognizing and studying the technologies of criminal activity in the budget sphere by all participants of the system of counteraction to the legalization (laundering) of proceeds from crime, which is essential to ensure effective prevention mechanism and rapid response to shadowy deals with funds and assets of state and local budgets.

#### 4.3.1. Countering terrorist and separatism financing

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

Thus, in 2019, the SFMS has submitted to the law enforcement authorities 106 referrals (38 case referrals and 68 additional case referrals) related to financial transactions of persons who may be involved in the financing of terrorism, separatism and/or persons who publicly call for the violent change or overthrow of the constitutional order or the change of borders of the territory or state border of Ukraine, including:

- 34 referrals (1 case referrals and 33 additional case referrals), that related to the conducting of financial transactions on individuals accounts whose identification data coincides with the identification data of persons included in the list of persons involved in terrorist activities or for which international sanctions were applied;
- 15 referrals (6 case referrals and 9 additional case referrals) related to conducting financial transactions by persons included in the annexes to the National Security and Defence Council of Ukraine decisions (enacted by the Decree of the President of Ukraine as of May 15, 2017, № 133/2017, as of June 21, 2018 № 176/2018 and as of March 19, 2019 № 82/2019);
- 9 referrals related to suspicions in conducting financial transactions by persons involved in the international terrorist group activities “Islamic State of Iraq and the Levant” (hereinafter – ISIL) or other extremist groups;
- 48 referrals (22 case referrals and 26 additional case referrals) that related to suspicions of terrorist/separatism financing (including financing illegal armed formations in the temporarily occupied territories of the Donetsk and Luhansk oblasts) and/or treason.

Mentioned referrals were sent to the Security Service of Ukraine, the Prosecutor General’s Office of Ukraine, the National Anti-Corruption Bureau of Ukraine and the State Bureau of Investigations.

32 referrals of 106 submitted referrals, contained information about detected relations with the Russian Federation.

In 2019, the SFMS has sent 48 referrals to the law enforcement authorities, in which financial transactions were suspended (debit financial transactions) under the facts of terrorist and separatism financing. As result of the decisions taken, the SFMS has blocked funds in the amount of UAH 27.7 million.

The main instruments used in submitted referrals are the following:

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

#### 4.3.2. Laundering of proceeds from corruption

The SFMS is paying particular attention to investigation of money laundering from corruption, theft and embezzlement of state funds and property.

In particular, in 2019, the SFMS has submitted 211 referrals to the law enforcement authorities (47 case referrals and 164 additional case referrals), which are related to suspicion of corruption, in particular to:

- the NABU – 155 referrals (41 case referrals and 114 additional case referrals);
- the prosecutor general's offices of Ukraine – 38 referrals (1 case referral and 37 additional case referrals);
- the SSU – 14 referrals (4 case referrals and 10 additional case referrals);
- the fiscal service offices of Ukraine – 3 referrals (1 case referrals and 2 additional case referrals);
- the internal affairs offices of Ukraine – 1 additional case referral.

In the mentioned referrals, the amount of financial transactions that may be related to legalization of proceeds and/or the commission of another crime, as determined by the Criminal Code of Ukraine, is UAH 41,8 billion.

The participants of suspicious financial transactions in these 211 referrals were persons authorized to perform state and local self-government and equal to them functions.

Tools that have been used:

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

**Case study 1. Misuse of a housing and communal enterprise funds with the participation of risky business entities**

As a result of financial investigation, the SFMS has detected a scheme of misuse of local budget funds through a housing and communal enterprise of the city council (Pic 4.3).

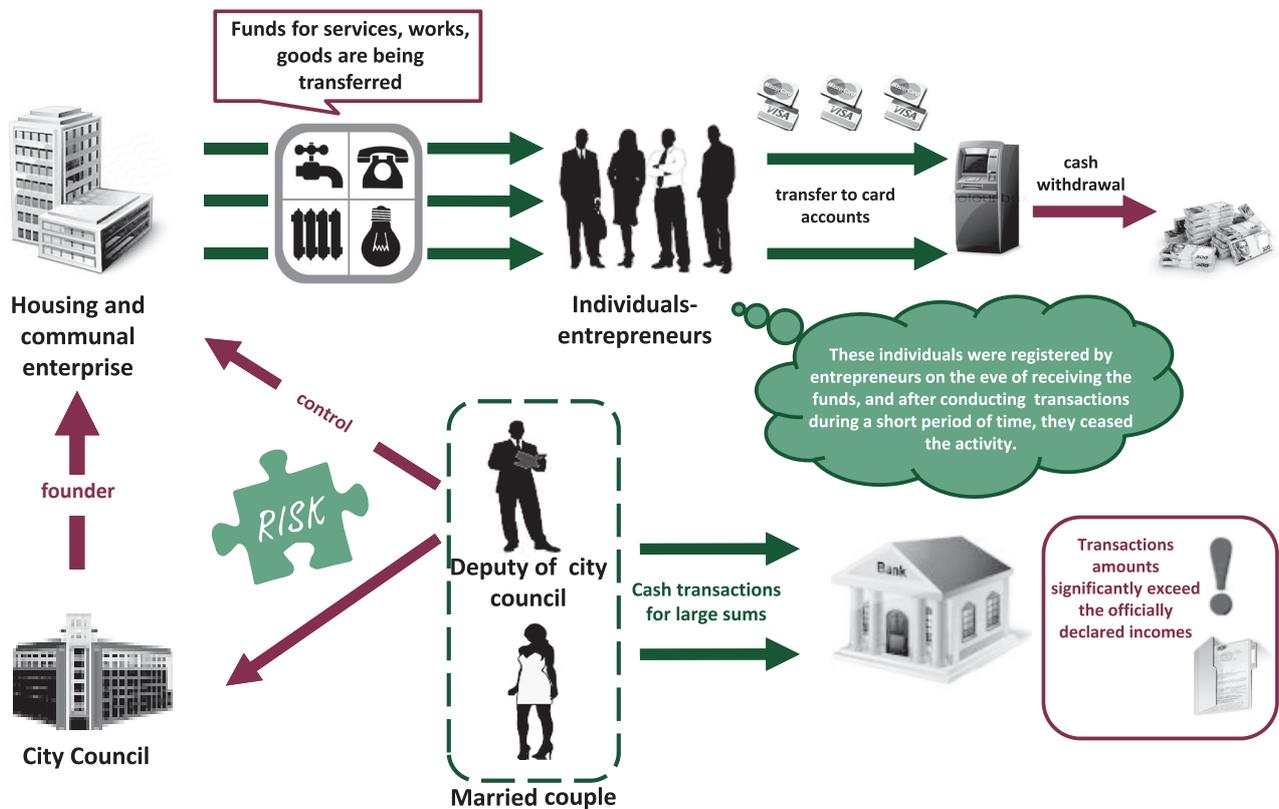
It was established a **Housing and communal enterprise** transferred funds to the accounts of individuals-entrepreneurs, opened in different bank institutions, with payment appointment – payment for work performed, services provided and for goods purchased. Then, the mentioned funds have been transferred to own card accounts of

these entrepreneurs and partially withdrawn in cash.

After receiving funds from a **Housing and communal enterprise**, the activity of these entrepreneurs was terminated.

At the same time, the control over the activity of a **Housing and communal enterprise** has been carried out by a deputy of city council, who together with his wife has carried out cash transactions in amounts that did not correspond to their financial condition.

Law enforcement authorities are conducting pre-trial investigation in criminal proceedings under Article 191 of the Criminal Code of Ukraine.



Pic. 4.3

**Case study 2. Abuse of office by persons of a state institution**

The SFMS in cooperation with law enforcement authorities detected a scheme of financial transactions related to receiving illegal benefit by officials of a state institution through abuse of office (Pic. 4.4).

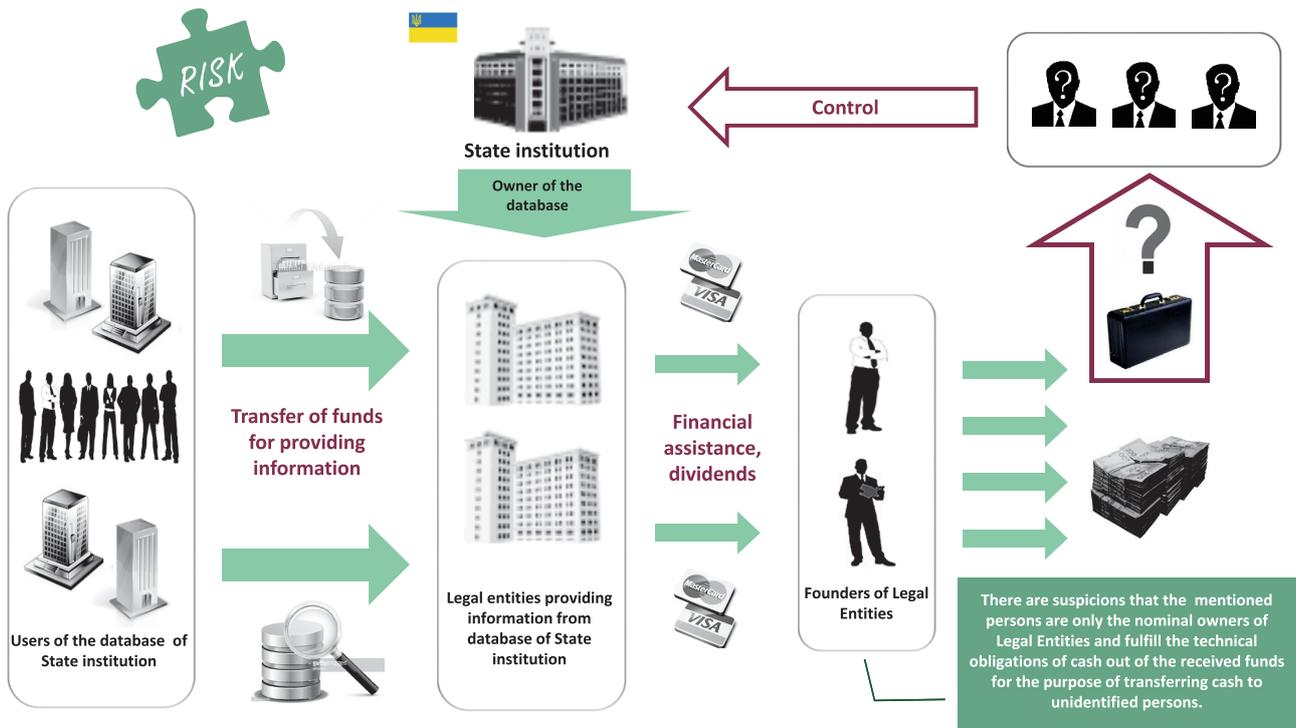
Officials of a **State institution** blocked the public access to this institution’s electronic database, instead introduced the receiving information from the registry exclusively on a paid basis. The main recipients of the funds were two **Legal Entities**.

It was established that a significant part of the funds, received by **Legal entities** for the services provided, were further transferred in the form of financial assistance and payment of dividends to the card accounts of two **Individuals** who are sole proprietors of the enterprises. Then, the mentioned funds were withdrawn in cash.

**Individuals** previously had low incomes, and even after receiving cash in large amounts, the nature and the amount of expenditures of the mentioned persons have not changed.

The mentioned persons are only the nominal owners of **Legal Entities** and have fulfilled only the technical obligations on transferring of the received funds into cash for the purpose of transferring cash to unidentified persons.

Law enforcement authorities are conducting pre-trial investigation in criminal proceedings under Articles 28, 364 of the Criminal Code of Ukraine.



Pic. 4.4

### 4.3.3. Investigation of transactions related to budget funds and other state assets

In 2019, the SFMS has submitted 45 referrals (35 case referrals and 10 additional case referrals) to law enforcement authorities on budget assets misuse.

In the mentioned referrals, the amount of financial transactions that may be related to legalization of proceeds, and/or with the commission of another crime, determined by the Criminal Code of Ukraine, is UAH 1 555,9 million.

The amount of involved state funds was UAH 6 373,0 million.

Submitted referrals related to budget funds theft through:

- transfer of budget funds to the accounts of individuals with further cash out;
- use of newly established enterprises to obtain budgetary funds;
- use of non-resident companies with fictitious features;
- purchase of goods and services at higher prices, including with involvement of non-resident companies;
- carrying out non-commodity transactions;
- dispersion of public funds between related business entities.

Tools that were used:

- financial assistance agreements (loans);
- cash;
- payment cards;
- deposits;
- overpricing.

**Case study 3. Misappropriation of funds, involved within the international cooperation**

The SFMS in cooperation with FIU of a foreign country detected a scheme of misappropriation of funds allocated to Ukraine by the International Financial Institution within the international cooperation (Pic 4.5).

It has been established that a loan from an **International Financial Institution** was involved by an **Executive Authority** for the implementation of the social project. Also, in order to provide consultations an **Executive Authority**, within the implementation of the mentioned project, established the **Consortium** as a part of a **Non-resident Company A** and a number of **Ukrainian enterprises** and concluded Agreement on provision of services.

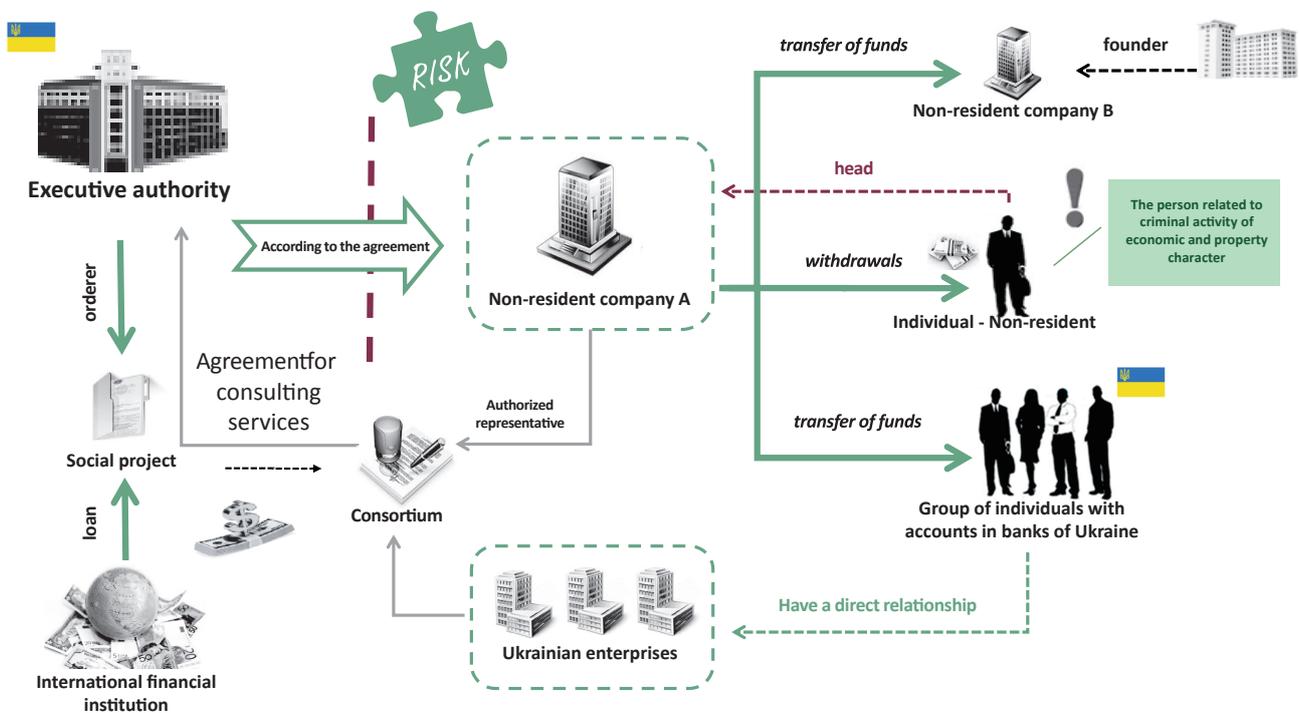
According to the information of a foreign FIU, it was found that an **Executive authority** transferred funds in favour of a **Non-resident Company A** with payment appointment – payment for services provided, a part of which was withdrawn in cash by the head of this company, and a part was transferred in favour of another **Non-resident Company B**, which has doubtful reputation, a part was transferred to Ukraine in favour of a **Group of Individuals**.

A foreign FIU provided a negative information regarding the head of a **Non-resident company A**, related to criminal activity of economic and property character.

It was found out that among a **Group of Individuals** in favour of which a **Non-resident Company A** transferred part of the funds, there were persons related to enterprises that are part of the **Consortium**.

There are suspicions to believe that an **Executive Authority** has misappropriated funds, allocated within the international cooperation for the purpose of further criminal proceeds legalization.

Law enforcement authorities are conducting a pre-trial investigation in criminal proceedings under Articles 191, 212 of the Criminal Code of Ukraine.



Pic. 4.5

**Case study 4. Theft of state enterprise funds using shadow services**

According to the results of the analysis of financial transactions and taking into account information received from law enforcement authorities and a foreign FIU, the SFMS was established a scheme of embezzlement funds by officials of a **State Enterprise** through their transfer outside Ukraine on the basis of agreements on provision of shadow services for the defence complex (Pic 4.6.).

It was established that a **State Enterprise**, which was declared bankrupt by a court decision and has a considerable debt on payment the obligatory payments to the budget, concluded an agency agreement with a **Non-resident Company** according to which a company has provided services to an enterprise for the sale of its products.

In order to execute the mentioned contract, a **State Enterprise** transferred funds in favour of a **Non-resident Company** with the appointment of payment – payment

for the services rendered. At the same time, foreign organizations did not have actual business relations with a **Non-resident Company**.

In addition, when opening accounts of the mentioned company in two foreign banks, different countries of registration of a company and different activities were indicated, which may testify to the fictitiousness of a company. It was also established that beneficiaries of a **Non-resident Company** are natural persons – citizens of Ukraine.

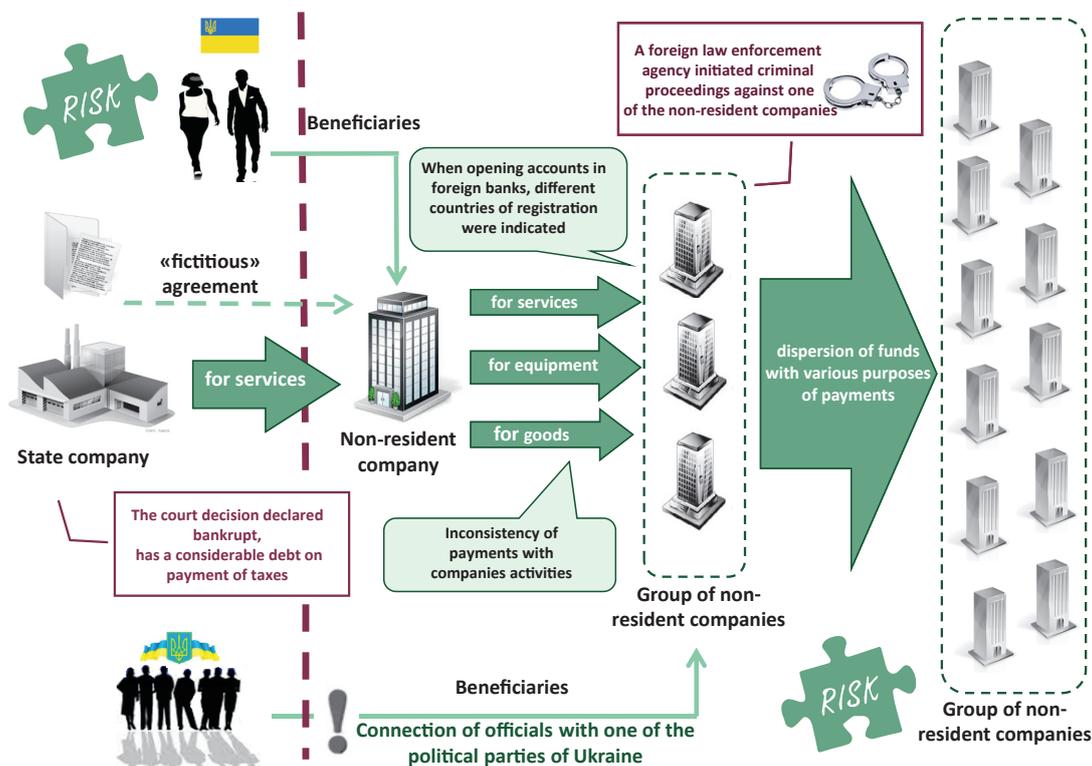
In turn, a **Non-resident Company** transferred funds mainly for the purpose of payment for equipment in favour of a group of **Non-resident Companies** which officials were connected with one of the political parties of Ukraine. At the same time, neither the type of activity of a **Non-resident Company** nor the type of activity of the counterparties directly correspond to the content of the performed transactions.

In addition, criminal proceedings were initiated against one from a **group of non-resident companies** by a foreign law enforcement authority. Several non-resident companies are also owned by Ukrainian citizens related to one of Ukraine’s political parties.

In the future, from the accounts of a **group of Non-resident Companies**, the funds of a **State Enterprise** were dispersed to a large number of foreign companies with various payment purposes.

Thus, through contracts for providing doubtful agency services, the funds of a **State Enterprise** were illegally withdrawn from Ukraine.

Law enforcement authorities are conducting a pre-trial investigation under part five of Article 191 of the Criminal Code of Ukraine.



Pic. 4.6

#### 4.3.4. Investigation of transactions related to the activity of “conversion” centres and enterprises with signs of fictitiousness and cash withdrawal

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

During 2019, the SFMS has submitted to law enforcement authorities 128 referrals (113 case referrals and 15 additional case referrals) related to cash withdrawal.

The total amount of conducted ML-related financial transactions amounted to UAH 9 384,8 million.

Including cash withdrawals – UAH 8 876,4 million, in particular, for the following purposes:

- withdrawal of funds – UAH 4 696,0 million;
- cash withdrawal from card account – UAH 1 230,6 million;
- agricultural products purchase – UAH 1 117,7 million;
- cash back for loans repayment – UAH 917,8 million;
- purchase of goods/payment of services – UAH 875,6 million;
- depositing corporate cards with subsequent cash withdrawal – UAH 27,2 million;
- purchase of scrap metal – UAH 11,5 million.

At the same time, the SFMS took measures aimed to identify facts related to the activity of “conversion centres” connected with the mechanism of “counter flows”.

In 2019, the SFMS has submitted to law enforcement authorities 6 referrals (4 case referrals and 2 additional case referrals) related to the mechanism of “counter flows”.

The total amount of “converted” funds for these materials is – UAH 1 037,8 million, including the use of “counter flows” – UAH 527,6 million..

**Case study 5. Theft of budget funds using an extensive network of enterprises and business entities**

According to the results of the financial investigation, the SFMS, using information from law enforcement authorities, revealed a scheme of theft of funds from the state budget allocated for the maintenance of military units through the created network in a large number of legal entities and individuals (Pic 4.7).

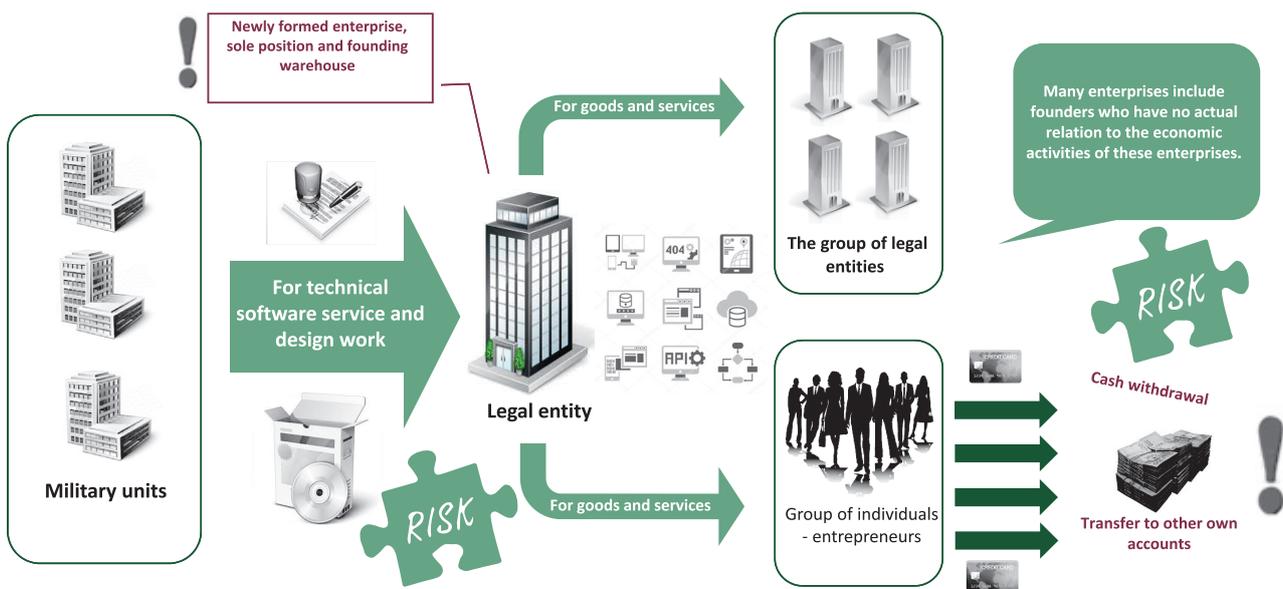
**The military units** transferred funds to the account of a newly created **Legal Entity** with the purpose of payment for the technical service of the software and project works.

In the future, a part of the funds received by a **Legal Entity** was transferred for the benefit of a **Group of high-risk legal entities**. It is established that in many enterprises the officials are founders who have no actual relation to the economic activity of these enterprises.

The rest of funds were transferred to accounts of a **Group of Individuals- Entrepreneurs** with the purpose of payment – payment of income to an individual. Subsequently, the funds received were partially withdrawn in cash or transferred to other persons’ own accounts. At the same time, it was established by the law enforcement authorities that the mentioned individuals-entrepreneurs did not provide the goods and services for which they received payment.

Law enforcement authorities conduct pre-trial investigation in criminal proceedings under Articles 191, 205, 209 of the Criminal Code of Ukraine.

That is, for the purpose of misappropriation of budgetary funds, a network was made up of a large number of legal and natural persons who provided money laundering services, including through the transfer of cashless in cash.



Pic. 4.7

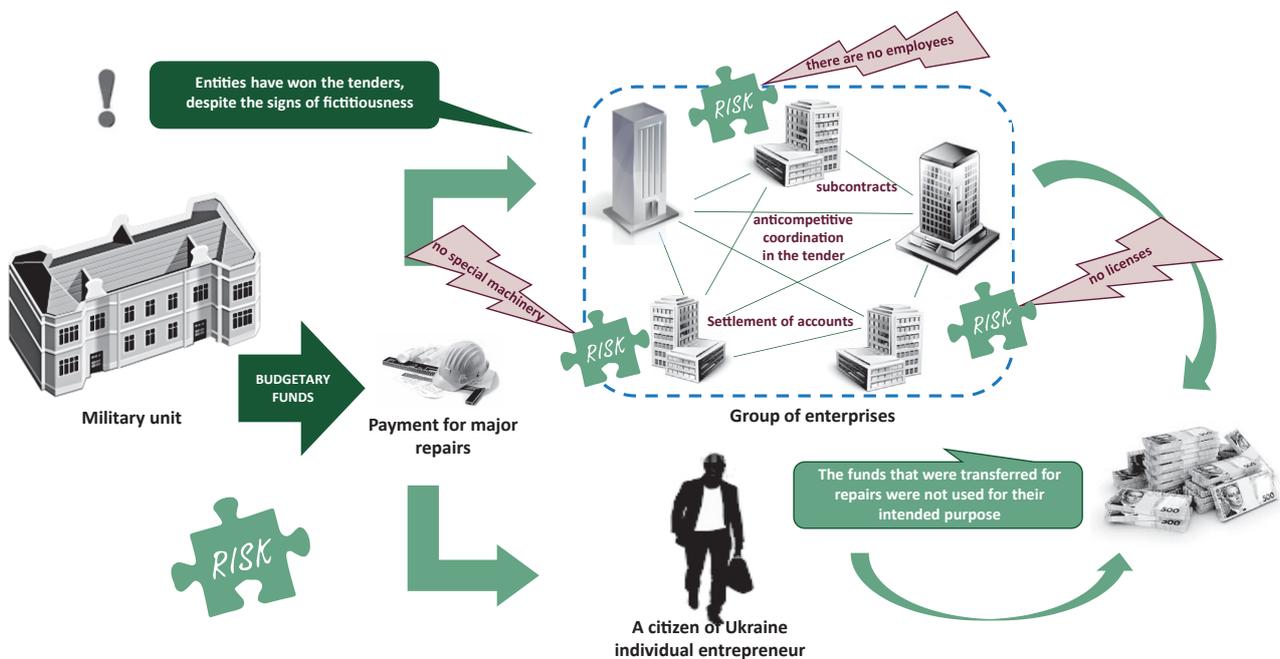
**Case study 6. Misappropriation of funds of a state authority through their inappropriate use by tenderers**

In the course of the financial investigation, taking into account information received from the military prosecutor’s office, the SFMS found out that **the Military Unit** paid for major repairs and reconstruction of buildings in the territory of the military unit. As winners of the tender, the funds for the abovementioned tender were received by **a Citizen A**, who is an individual entrepreneur, and **a Group of Enterprises** (Pic. 4.8).

It was established that **a Citizen A** and **a Group of Enterprises** did not have the necessary licenses, a specialized equipment and employees to carry out repairs on the territory of the military unit, but contracts were concluded with them as with the winners. In addition, concerted anticompetitive actions between the winners of the tender – mutual payments, conclusion of subcontracting contracts in order to misappropriate budget funds were identified.

In the course of the financial investigation, it was found out that a part of the budget funds transferred for the overhaul and reconstruction of buildings were subsequently withdrawn in cash using a chain of businesses.

Law enforcement authorities are conducting pre-trial investigation in criminal proceedings under Articles 410, 425 of the Criminal Code of Ukraine.



Pic. 4.8

# 5. CASE REFERRALS



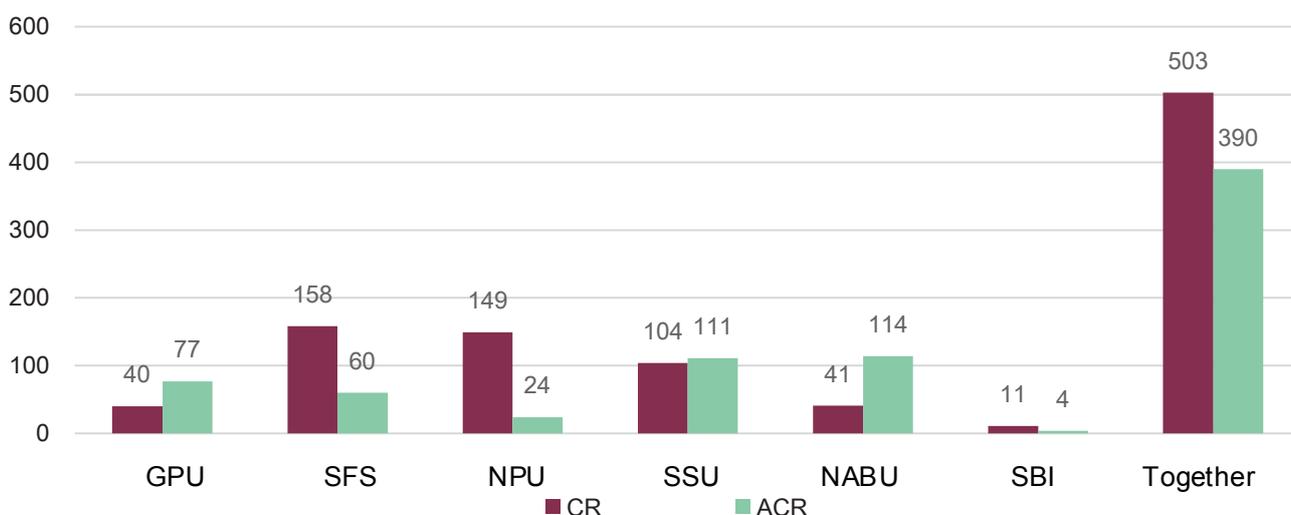
Under the Basic Law and according to the Procedure of submission and consideration of case referrals, approved by the interagency order of the Ministry of Finance of Ukraine and law enforcement authorities, the SFMS expert commission on consideration case referrals and additional case referrals, prepared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

During 2019, the SFMS has prepared 893 referrals (503 case referrals and 390 additional case referrals) and submitted them to (pic. 5.1):

- the Prosecutor General’s Office of Ukraine – 40 case referrals and 77 additional case referrals;
- the State Fiscal Service of Ukraine – 158 case referrals and 60 additional case referrals;
- the National Police of Ukraine – 149 case referrals and 24 additional case referrals;
- the Security Service of Ukraine – 104 case referrals and 111 additional case referrals;
- the National Anti-corruption Bureau of Ukraine – 41 case referrals and 114 additional case referrals;
- the State Bureau of Investigations of Ukraine – 11 case referrals and 4 additional case referrals.

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

- legalization is UAH 63,0 billion;
- committing another crime, defined by the Criminal Code of Ukraine is UAH 29,2 billion.



Pic. 5.1. Submitted case referrals and additional case referrals in 2019

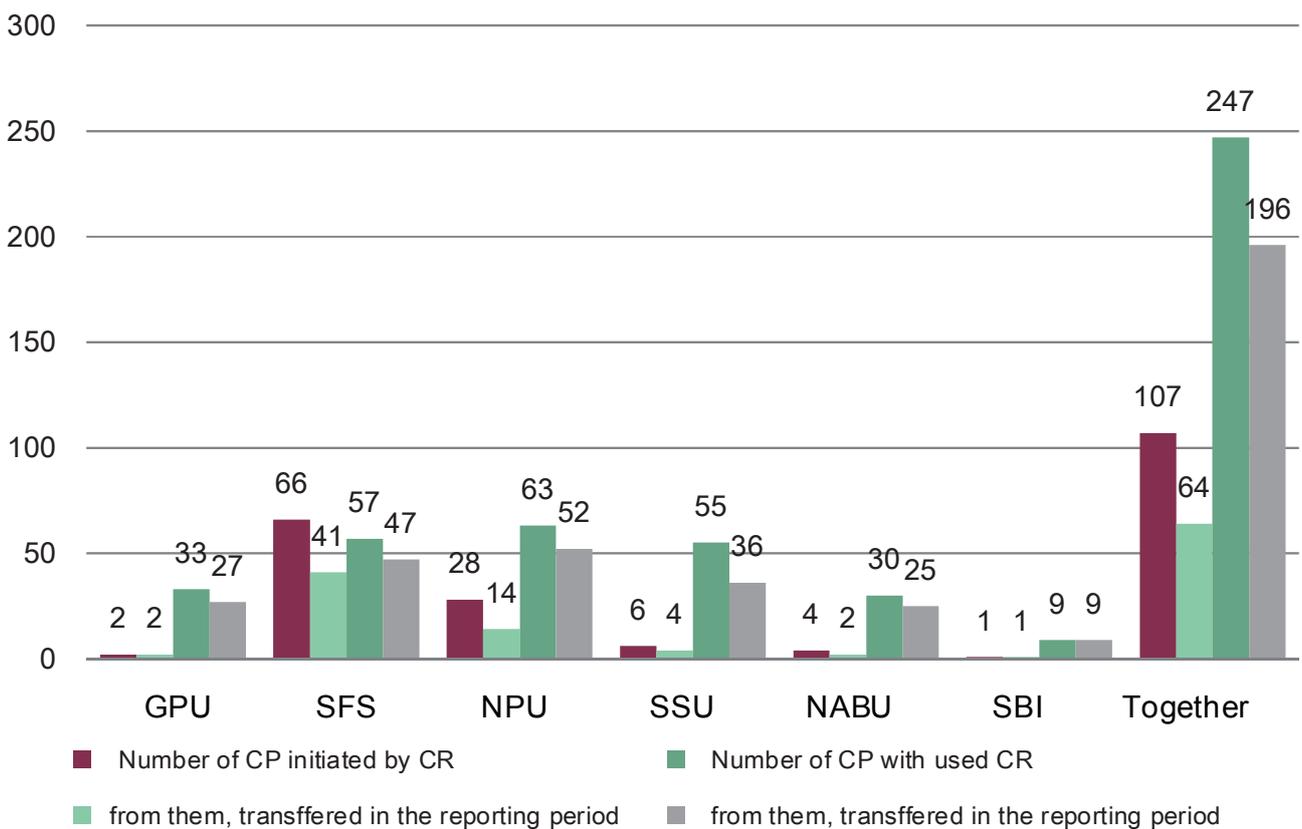
392 case referrals (including case referrals submitted during past years) were used by law enforcement authorities during the pre-trial investigations in 354 criminal proceedings, namely (Pic. 5.2):

- under the results of consideration of 108 case referrals there were 107 criminal proceedings initiated;
- 284 case referrals were used in 247 criminal proceedings.

Law enforcement authorities units completed 74 criminal proceedings, initiated under 74 case referrals, with the application to the court with indictments.

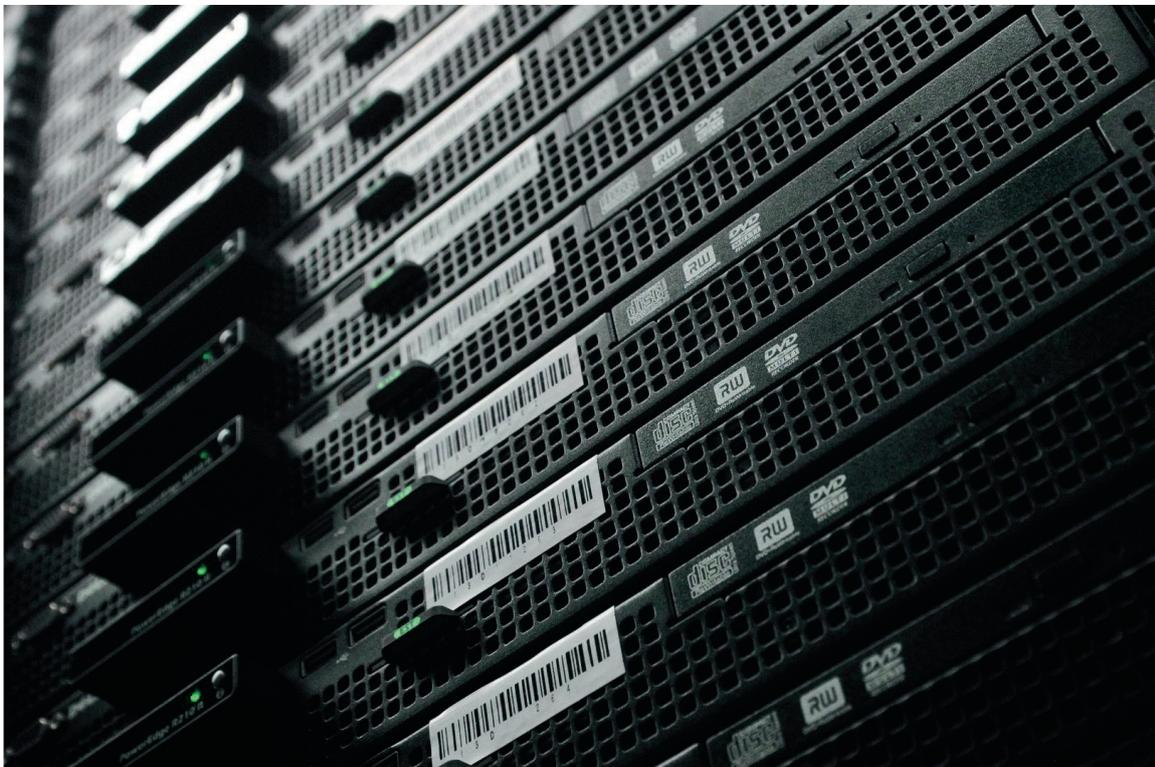
Courts have considered 78 criminal proceedings, initiated following the results of consideration of 79 case referrals, with the conviction or rendering rulings based on the non-rehabilitating circumstances.

According to the information received by the SFMS in 2019, in criminal proceedings initiated by law enforcement authorities as a result of consideration of the SFMS case referrals, the total value of the arrested and confiscated property (funds) is UAH 5.37 billion.



Pic. 5.2 Initiated criminal proceeding (CP) by the case referrals (CR)

# 6. ENSURING FUNCTIONING AND DEVELOPMENT OF THE UNIFIED INFORMATION SYSTEM IN THE AML/CFT AREA



During the reporting period, the SFMS in accordance with the main tasks defined in Article 18 of the Basic Law, ensured functioning and development of the Unified Information System in the AML/CFT area (hereinafter – the FMIS).

In 2019, in order to ensure operative collection, effective processing and comprehensive analysis of information on financial transactions, detecting the facts of masking the illegal origin of proceeds and the mechanism for their legalization, prevention of legalization (laundering) of such proceeds, financing of terrorism and financing proliferation of weapon of mass destruction, the SFMS continued the modernization of the FMIS, the main purpose of which is the implementation of the modern secure information technologies in this area.

In 2019, it was ensured the continuous maintenance of the technological operations and processes for obtaining, primary and analytical processing of information from the reporting entities and state authorities, support of the information environment of interaction with the financial monitoring entities. In the reporting period, the FMIS functioned in a regimen mode, with a significant reserve for handling peak loads.

In order to ensure the effective exploitation of the FMIS, with the support of the project “EU Anti-Corruption Initiative in Ukraine” (EUA-CI), in the reporting year the practice of training users and administrators of the FMIS, including in Cisco, Oracle, Microsoft, VMware, MicroStrategy courses, the equipment and software of which is used in FMIS was continued.

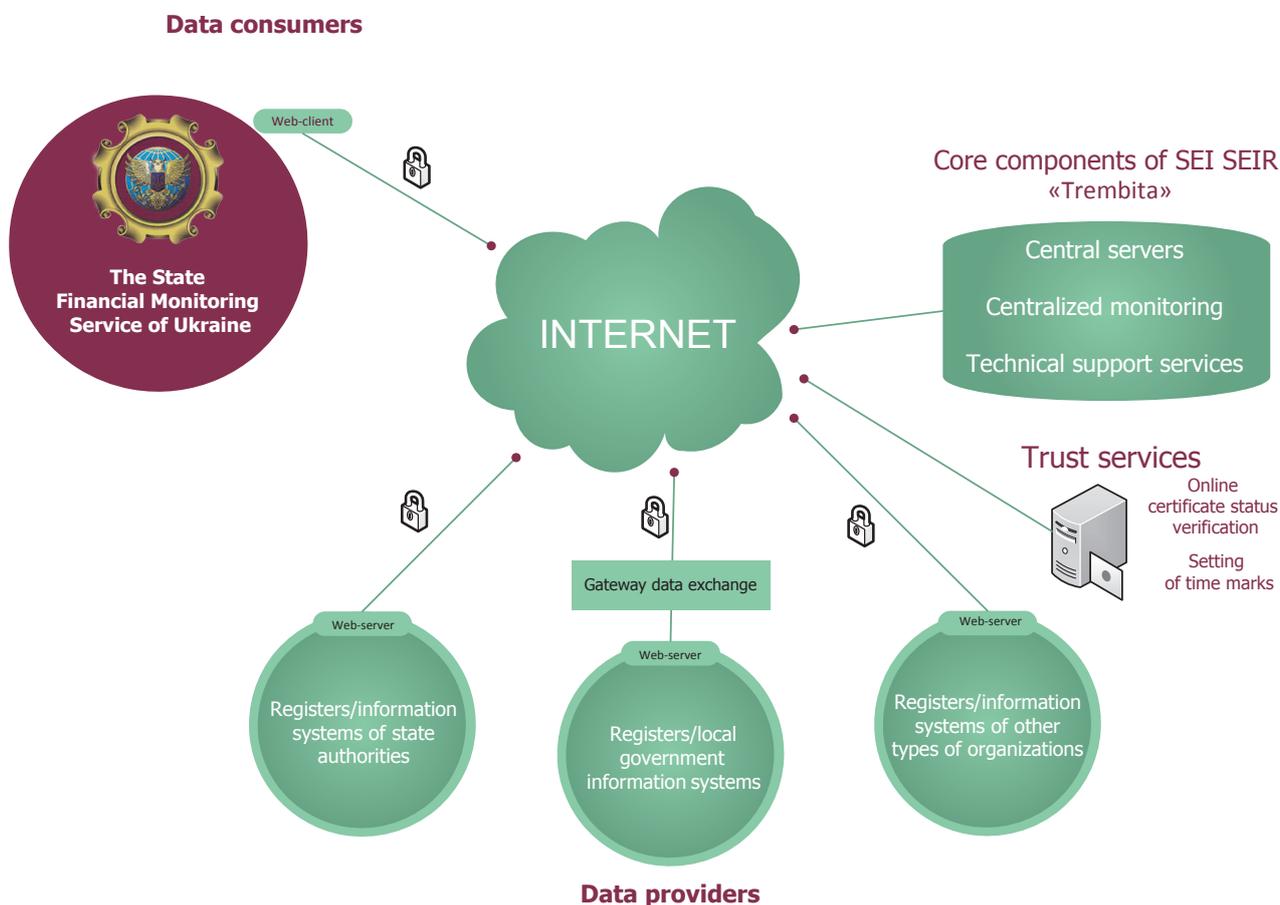
In 2019, the priority area of further development of the FMIS was improving its functionality by conducting the activities as follows:

- highly effective mechanisms of “additional cleaning” and preliminary preparation of data for operational analysis were introduced;
- mechanisms for searching for interconnected financial transactions and hidden connections were developed and implemented based on financial information obtained from various sources;
- new algorithms for automated data preparation for conducting financial investigations were developed and implemented;
- storage and access to data system was improved.

These measures made it possible to reduce the processing time of typical technological requests by an average of 50%.

In accordance with the Regulation on the Unified State Information System in the AML/CFT area, an access to information resources of state bodies – entities of the Unified System was provided mainly by updating the relevant information resources of the FMIS Central data warehouse.

In 2019, the modernization of data processing and analysis complexes of the Unified System for access to information resources of databases by integration of FMIS into the System of electronic interaction of the state electronic information resources “Trembita” (hereinafter – the SEI SEIR) was started. In particular, in the reporting year, the FMIS was connected to the SEI SEIR, software and processing of requests/responses to requests and replies to state electronic information resources of state bodies connected to the SEI SEIR were developed and put into operation (Pic. 6.1).

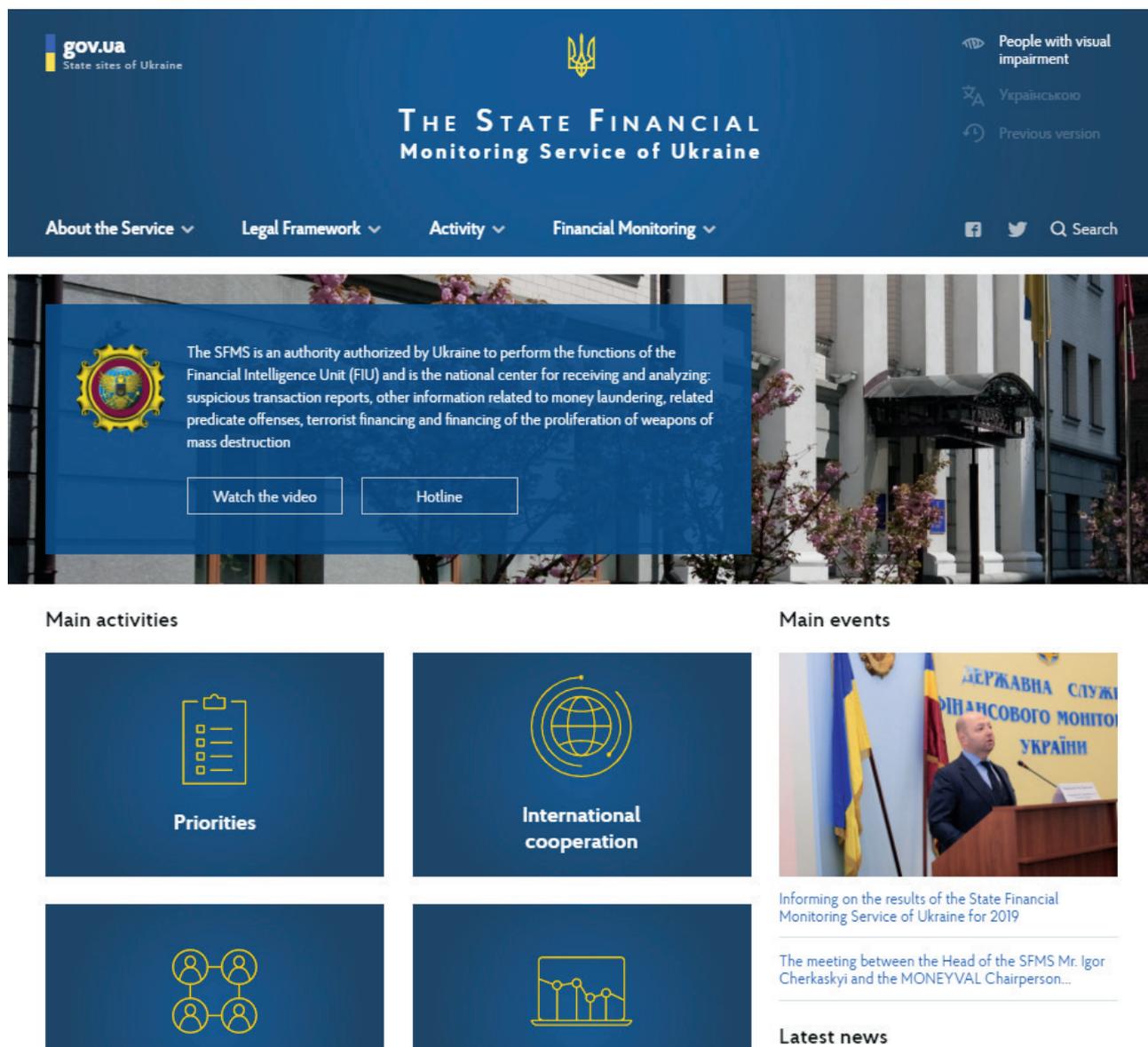


Pic. 6.1

Regarding an access to state electronic information resources not connected to the SEI SEIR – alternative API access technologies has been implemented and an appropriate software has been developed and is tested, including for an access to the Ministry of Justice electronic registers.

Also, in 2019, one of the priority areas of the FMIS development was the creation of a new web portal for the SFMS.

In particular, with the support of the EUACI project, measures have been taken to update the official website of the SFMS (Pic. 6.2). The updated website has received a modern technological platform that provides information to users in a comfortable way for them. The design and functionality of the website have been developed in accordance with the 2019 updated requirements for official state authorities websites. The established system of protection of information of the updated website according to the results of the state expertise in the field of technical protection of information confirmed compliance with the requirements of the legislation.



Pic. 6.2. The SFMS's updated website

Another direction of the SFMS web portal, with the support of the EUACI project, in order to provide by the SFMS an information exchange exclusively in the electronic form, was the creation of the secure SFMS web-site – “e-cabinets of the financial monitoring system” (hereinafter – E-cabinets of the FME). E-cabinets of the FME are created for electronic interaction between

the SFMS, reporting entities and state financial monitoring entities, as well as law enforcement and other state bodies and entities.

Modern technologies, platforms and services are used in the development of E-cabinets of the FME. In particular, in order to ensure the secure access of users to E-cabinets of the FME,

the project implemented the identification of users through the Integrated electronic identification system service. After identification, a user is given the opportunity to submit to the SFMS the information defined by the law and to obtain the information necessary to ensure their effective operation.

In 2019, considerable attention was paid to ensuring the FMIS cybersecurity and information security contain therein. According to the results of the state examination, the conformity of the comprehensive system of information security of the FMIS with the requirements of the legislation of Ukraine in the sphere of information security was confirmed, as certified by attestations of conformity dated 27.06.2019 No. 19518 and 28.12.2019 No. 21032 (Pic. 6.3).

The measures implemented by the SFMS to ensure the functioning and development of the FMIS allow to ensure its sustainable, reliable, protected and its efficient functioning.



Рис. 6.3

# 7 ■ INTERAGENCY COOPERATION



**7.1. Relations with regulators and other state authorities**

In 2019, the interagency cooperation of the SFMS was focused on measures to coordinate the financial monitoring system, in particular:

- ensuring coordination of the implementation of the Action plan for 2017-2019 on Implementing the Strategy of Development of the Financial Monitoring System;
- ensuring the activities of the AML/

CFT Council;

- providing coordination on the implementation of the actions to improve the national financial monitoring system based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine and the preparation of the first Follow-up report;
- the conclusion of the joint inter-

agency documents with the state authorities and public organizations;

- direct exchange of information with state financial monitoring entities;
- enhancing interaction with the public.

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

In 2019, the SFMS has continued to coordinate measures to implement the Action plan on Implementing the Strategy of Development of the Financial Monitoring System, approved by the Resolution of the Cabinet of Ministers of Ukraine as of August 30, 2017 No. 601-p, in particular, to develop a system of reliable identification of an ultimate beneficial owner.

Thus, in April 2019, a team formed under the leadership of the SFMS with the idea “Mechanism of verification ultimate beneficial owners” called as “DO100%VIRNO” became the winner and received the award “Most Innovative Solution” (Pic. 7.1) under the results of the pilot Program “EU Association Lab”, which started in July 2018 and aimed to create a new formation of civil servants.

This program was accompanied by the EU-Ukraine Consultative Support Fund, implemented by the German Agency “Collaboration with Germany for the Development of GIZ Ukraine”, on behalf of the Government of Germany, together with its beneficiary, the Government Office for Coordination of European and Euro-Atlantic Integration, and with “1991 Open Data Incubator”.



Pic. 7.1. The SFMS award

The main aim of the team is to implement the idea of developing a mechanism for verification of ultimate beneficial owners in order to ensure transparency of corporate property in Ukraine (Pic. 7.2). The team also included representatives of other state authorities and public organizations. As a result, the team developed a prototype of the Concept of 33-Steps being proposed to introduce a mechanism of verification business owners.

The purpose of the Concept is to fill in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Formations (the USR) with reliable information about the ultimate beneficial owners (controllers) of legal entities (UBO). The Concept includes legislative proposals, procedures for their implementation and introduction of advanced IT solutions.

At the same time, on July 18, 2019, a Memorandum on cooperation in the development of the system of verification of information on the ultimate beneficial owners was signed.



*Pic. 7.2. Team members on implementation the idea of development a mechanism of verification of UBO*

### Activity of the AML/CFT Council

During 2019, the SFMS has organized 2 AML/CFT Council meetings, established by the Resolution of the Cabinet of Ministers of Ukraine as of September 8, 2016 No. 613, during which important for the financial monitoring system issues were discussed (Pic. 7.3).

In 2019, the Council's activity, as a consultative and advisory body, was focused on consideration and providing suggestions to the state authorities for the implementation of the following main tasks:

- discussing the state and results of conducting by the SFME of the risk assessment of the use of reporting entities for ML/FT (sectoral risk assessments);
- discussing the state of implementation, the action plan to improve the national financial monitoring system which is based on the results of 5th round mutual evaluation and preparation for the presentation of the first Follow-up report;
- discussing the amendments to the legislation in terms of regulation the activity of foreign trusts in Ukraine;
- approval of the Second NRA report;
- discussion of the concept of mechanism of verification of companies UBOs "DO100%VIRNO"

At the same time, the importance of the area of financing monitoring in the security of the state was confirmed by including the Head of the SFMS Igor Cherkaskyyi in the membership of the National Security and Defence Council of Ukraine.



Pic. 7.3. The Council meeting

### Ensuring coordination on the implementation of the Action plan for improving the national financial monitoring system based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine and preparation of the first Follow-up report

During 2019, the SFMS coordinated the implementation of the Action Plan to improve the national system of financial monitoring based on the results of the MONEYVAL 5th round mutual evaluation of Ukraine (hereinafter – the Action Plan).

Thus, at the end of 2019, the SFMS together with other interested state authorities accomplished more than 62% of the Action Plan tasks.

In addition, at the beginning of 2019, the SFMS, together with the concerned state bodies, worked out the first Follow-up report following the results of the MONEYVAL 5th mutual round evaluation of Ukraine.

The first enhanced Follow-up report analyzes the progress of Ukraine regarding the elimination of technical compliance deficiencies, as well as the implementation of the new requirements concerning the FATF Recommendations, which have been amended since the adoption of the Mutual Evaluation Report of Ukraine: Recommendations 2, 7, 18 and 21.

In July, 2019, in Strasbourg (France) at the 58th MONEYVAL Plenary meeting, the delegation of Ukraine headed by the representative of the SFMS presented the first Follow-up report of Ukraine under the results of the MONEYVAL 5th round mutual evaluation of Ukraine (Pic. 7.4).

According to the results of the review the international experts recommended Ukraine to continue its efforts to address the identified shortcomings in order to improve the implementation of the AML/CFT measures.

Presentation of the second Follow-up report of Ukraine following the results of the MONEYVAL 5th round mutual evaluation of Ukraine is planned for 2020 within the framework of the 60th MONEYVAL Plenary meeting.



Pic. 7.4. First page of the Report

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

In order to improve the mechanisms of information interaction between the participants of the financial monitoring system, it has been concluded documents on interagency cooperation between the SFMS and 6 state financial monitoring entities, 24 state authorities, 26 other institutions and organizations.

In 2019, the SFMS signed:

- Amendments to the Agreement No. 2 dated 28.10.2015 between the SFMS and the NBU;
- Memorandum with the Department of Counterintelligence Security of the State Interests in the area of information security of the Security Service of Ukraine on the organization of interaction on the exchange of information on the cyber incidents using the Malware Information Sharing Platform & Threat Sharing “Ukrainian Advantage”;
- Memorandum with National Institute for Strategic Studies on the general principles of cooperation in the AML/CFT area;
- Agreement on connection to electronic interaction system of state electronic information resources and Contract on joining to the integrated electronic identification system (for the FMIS) with the State Agency for Electronic Government (now – the Ministry of Digital Transformation of Ukraine);
- Memorandum on cooperation with the LLC “YouControl”;
- Memorandum on cooperation and transfer of a copy of information database “Public register of national politically exposed persons of Ukraine” with the Public organization “Anticorruption Action Centre”;
- Protocols of automated access of the SFMS to the State Register of Real Estate Rights and the Unified State Register of Legal entities, individuals – entrepreneurs and Public formations with the MOJ.

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

In order to increase the efficiency of the supervision over the compliance by the reporting entities with the requirements of the AML/CFT legislation, in the framework of signed joint orders on cooperation with the Ministry of Finance of Ukraine, the National Securities and Stock Market Commission, the National Commission for State Regulation of Financial Services Markets, the Ministry of Infrastructure of Ukraine, the Ministry of Justice of Ukraine, the Ministry for Development of Economy, Trade and Agriculture of Ukraine and the National Bank of Ukraine,

during 2019, SFMS provided the following information to the state financial monitoring entities, in particular:

- administrative data on financial transactions subject to financial monitoring, received by the SFMS from the reporting entities;
- information on mistakes made by the reporting entities when submitting information about financial transactions subject to financial monitoring;
- information on the registration of the reporting entities in the SFMS;
- information on the facts detected by the SFMS that may indicate a violation of the requirements of the law by the reporting entities;
- information on the protocols drawn up by the SFMS on administrative violations committed by the officials of the reporting entities and the results of their consideration;
- information on the analysis of the methods and financial schemes of ML/FT.

### Interaction with the public

During 2019, the SFMS provided close cooperation with the participants of the public society, which was primarily in:

- organization work of the Public Council at the SFMS;
- conducting the public examination of draft by-laws;
- informing in media about the accomplished work.

In 2019, in order to improve the mechanisms of interaction between the SFMS and the public on the implementation of the Resolution of the Cabinet of Ministers of Ukraine dated 03.11.2010 No. 996 “On Ensuring Participation of the Public in the Formation and Implementation of the State Policy”, the SFMS has contributed in every way to the activities of the Public Council at the SFMS.

In general, in 2019, the Public Council at the SFMS has held 4 meetings and a constituent meeting on the formation of the new composition of the Public Council at the SFMS (Pic. 7.5), which considered and resolved urgent issues of interaction between the SFMS and the public and also considered current acts in the area of financial monitoring. The materials of the meeting of the Public Council at the SFMS are posted on the SFMS official website.



*Pic. 7.5. The new composition of the Public Council at the SFMS*

The SFMS approved and implemented the Tentative plan of public consultation for 2019, which was agreed with the Public Council at the SFMS and posted on the SFMS official website.

In addition, the Public Report was presented by the Head of the SFMS with the aim to inform the public more about the national system of financing monitoring (Pic. 7.6).

Also, the SFMS has actively participated in the government communication platform “#yedynyjholos”, which was approved by the order of the Cabinet of Ministers of Ukraine from December 12, 2018 No. 985-p. The purpose of this platform is to increase the level of public information about the activities of the executive authorities and the implementation of reforms, to highlight the current issues about the implementation of state policy.



*Pic. 7.6. Presentation of the Public Report by the Head of the SFMS Igor Cherkaskiy*

During the Third All-Ukrainian Forum of Specialists in the area of Government Communications #yedyjholos (May 2019), the SFMS staff was commended for the effective communication within the framework of the platform “#yedyjholos” (Pic. 7.7).

In total, in 2019, 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 over 550 information notifications on financial monitoring on the official website of the SFMS;
- posting 20 SFMS’s information materials on the Government’s Web-portal;
- monthly submission of the information on actions concerning carrying out consultations with the public to the Cabinet of Ministers of Ukraine.

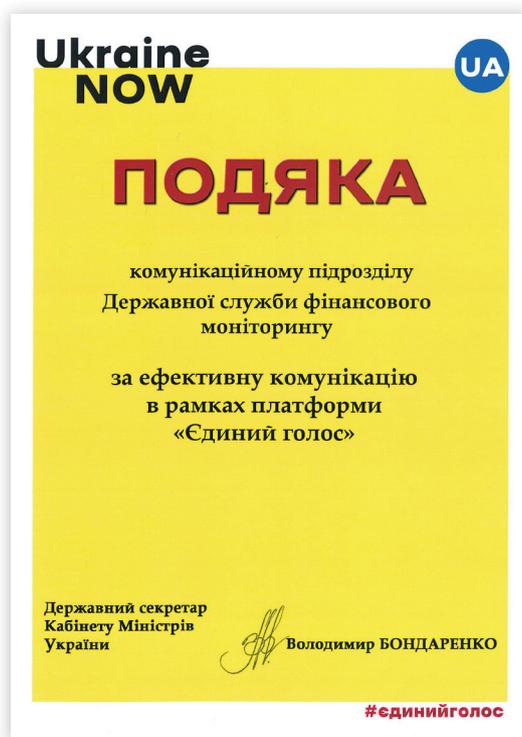


Рис. 7.7

## 7.2. Interaction with the reporting entities

In 2019, the SFMS on the permanent basis conducted an analysis of effectiveness of the reporting entities activity in the AML/CFT area.

In 2019, under the results of such analysis, the SFMS has developed and published on the official SFMS website the recommendations for the specially designated reporting entities on the assessment of sectoral risks and measures of internal control by the reporting entities in the AML/CFT area.

In addition, in 2019, 2 meetings of the Working group on consideration problem issues of the reporting entities – banking institutions and 1 meetings of the Working group on consideration problem issues of the reporting entities – non-banking institutions and analysis of an effectiveness of actions taken by them for AML/CFT (Pic. 7.8).

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

- attribution of financial transactions to the mandatory financial monitoring;
- transactions of high-risk clients;
- peculiarities of identification and examination of the non-resident banks, which place the interbank (fiduciary) deposits;
- providing the information to the SFMS in the paper form;
- regarding conducting identification, verification information about the client and its counterpart;
- responsibility of reporting and document formation.



*Pic. 7.8. The Working group meeting*

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

During 2019, the SFMS actively worked in the methodological area in order to assist in activities of the AML/CFT system participants.

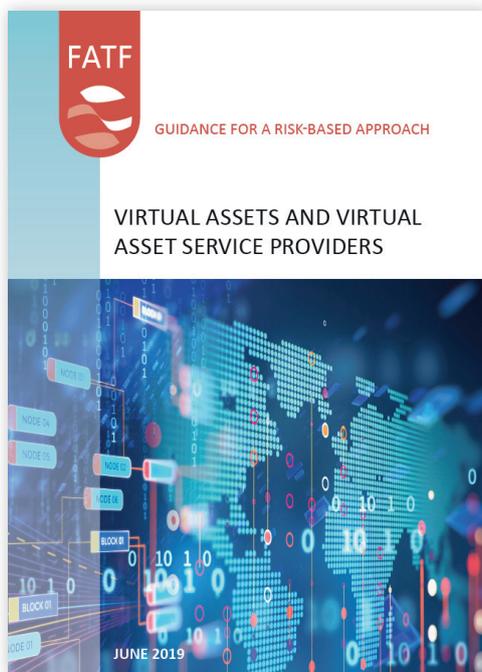
Thus, the SFMS translated and posted on its official website the FATF Guide for Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (Pic. 7.9).

In October 2018, FATF updated its standards to clarify the application of requirements for virtual assets and virtual asset service providers on counteraction to money laundering and terrorist financing by amending Recommendation 15 and adding two new definitions to the FATF Glossary.

The Guidance is designed to give practical effect to the FATF Recommendations for countries and competent authorities, as well as virtual assets and virtual asset service providers and other reporting entities involved in virtual assets activities, including financial institutions such as banks and professional participants in the securities market.

The document describes the full range of obligations applied to virtual assets and virtual asset service providers in accordance with the FATF Recommendations, and also emphasizes the need to understand the risks of money laundering and terrorist financing related to their activities and mitigation measures to reduce them.

The examples of the national approaches to the regulation and supervision of the virtual assets and virtual asset service providers contained in the Guidance designed to prevent the use of virtual assets for money laundering and terrorist financing.



*Pic. 7.9. Title page of the FATF Guidance*

Also, the SFMS, according to the results of the conducted research of the risks of using non-profit organizations in the schemes of money laundering and/or terrorist financing, prepared and published the Review on the use of non-profit organizations for illegal purposes (Pic. 7.10).

The results of the research show that non-profit organizations can be used directly for the purpose of committing a predicate crime and/or for money laundering and/or terrorist financing, and to serve as a cover for the illegal activities of other related entities.

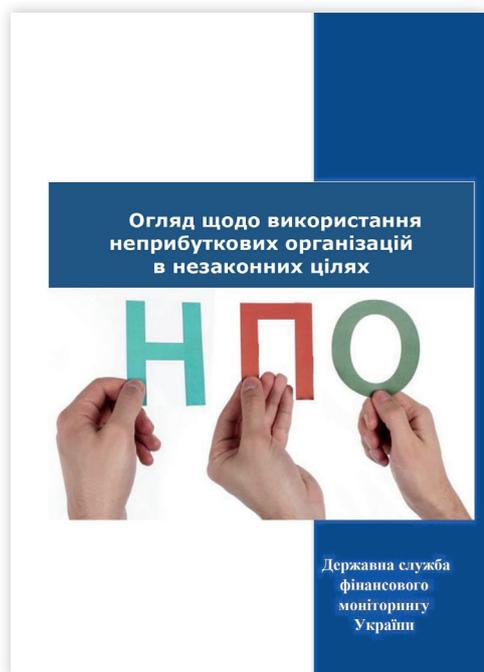
The advantage of using non-profit organizations in criminal schemes (committing predicate offenses, money laundering, terrorist financing) is that criminals can get double benefit: first, to create means for such illegal actions and, second, to provide cover for their activities.

According to the results of conducting by MONEYVAL the 5th round mutual evaluation of the AML/CFT system, Ukraine has a pretty good understanding of its risks related to ML/FT, but the sector about the use of non-profit organizations for illegal purposes needs constant updating and deepening of knowledge.

The results of this research can be used to reduce the potential risks of money laundering and/or terrorist financing with the participation of non-profit organizations. Understanding the threats and methods of illegal use of non-profit organizations and assessing the relevant risks will help to reduce the probability of their involvement in money laundering, terrorist financing and separatism.

During 2019, the SFMS representatives participated in 27 educational events organized by the private joint-stock company “Kharkiv Centre for Scientific, Technical and Economic Information”, the LLC “Institute of Postgraduate Education and Business”, European Union Advisory Mission in Ukraine, the SEI “Academy of Financial Management”, the University of the State Fiscal Service of Ukraine, the Institute of Law and Postgraduate Education of the Ministry of Justice of Ukraine, the Legal group EUCON, the National Bank of Ukraine and Ukrainian Association of Investment Business.

The mentioned events were attended by more than 1330 persons – representatives of the reporting entities and scientific environment.



*Pic. 7.10. Title page of the Review*

In particular, on October 29, 2019, the representatives of the SFMS participated in a conference on financial monitoring held under the auspices of the Forum of Leading International Financial Institutions and the NBU (Pic. 7.11).

The leading experts from the NBU, the Forum of Leading International Financial Institutions and representatives from the banking community also participated in the conference.

The main task of the conference is to exchange experience and best practices on financial monitoring in the banking sector, as well as to establish an effective strategic dialogue with the aim of further development of the financial sector in Ukraine.

Also, during 2019, the SFMS representatives participated in 68 educational events, organized by the Academy of Financial Monitoring which were attended by 2044 listeners.

In general, during 2019, the SFMS representatives took part in 95 educational events, conducted for more than 3370 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:

- the private joint-stock company “Kharkiv Centre for Scientific, Technical and Economic Information”;
- the LLC “Institute of Postgraduate Education and Business”.



Pic. 7.11

## 7.4. National Risk Assessment

In 2019, the SFMS, taking into account the International Standards and Recommendations following the results of the MONEYVAL 5th round mutual evaluation of Ukraine, has completed the second round of the National AML/CFT Risk Assessment.

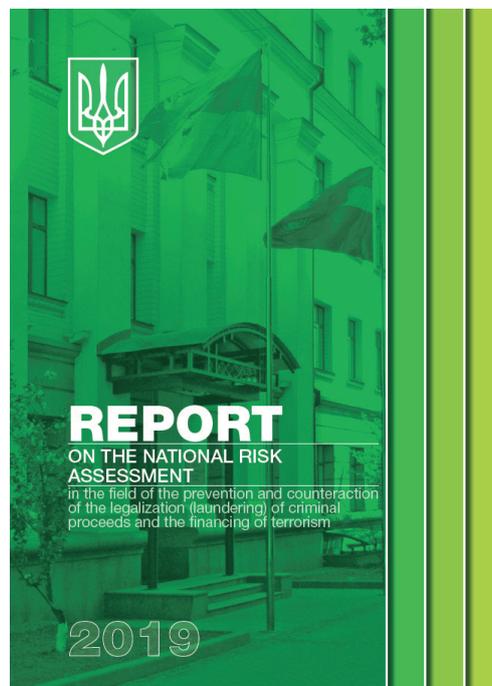
Within the framework of the second round of NRA during 2019, the SFMS conducted 2 meetings of the Working Group on Sectoral of Risks Assessment of the counteraction to the legalization (laundering) of the proceeds from crime, terrorist financing, in particular:

- discussed an indicative plan of actions for conducting sectoral risk assessment of the use of non-profit organizations for the purpose of money laundering and terrorist financing;
- presented the results of the SFME sectoral risk assessments of the use of the reporting entities for legalization (laundering) of proceeds from crime and terrorist financing.

In addition, during 2019, the working meetings with members of the AML/CFT system on the collection of administrative reporting, which characterizes the effectiveness of law enforcement and judicial authorities work in the AML/CFT system necessary for conducting the NRA.

The report on conducting the NRA was adopted on November 14, 2019 at the eighth meeting of the AML/CFT Council (Pic. 7.12).

On December 20, 2019, the mentioned Report was presented at the SFMS with the participation of more than 50 representatives of state financial monitoring entities, law enforcement authorities, other state authorities of the AML/CFT system, representatives of professional associations of reporting entities, leading scientific institutions and the public involved in combating money laundering and terrorist financing, representatives of foreign organizations and MONEYVAL leadership (Pic. 7.13, 7.14). The report is published on the website of the SFMS in the section “National Risk Assessment”.



Pic. 7.12. Title page of the NRA Report

During the second NRA the existing threats and risks identified by the first round of the NRA (conducted in 2016) have been reviewed and new ones identified.

Thus, according to the results of the second NRA, 11 threats of the AML/CFT system and 24 risks of money laundering and terrorist financing, 6 of them with high-risk and 16 with medium risk and 2 with low risk have been identified.

Currently, the SFMS, with the involvement of other members of the AML/CFT system, is implementing the measures to approve by the Cabinet of Ministers of Ukraine the action plan aimed to prevent occurrence and/or reducing the negative consequences of the identified risks.



*Pic. 7.13. The SFMS representative presents the NRA Report*



*Pic. 7.14. Participants of the NRA Report presentation*

# 8 ■ ACTIVITIES OF THE ACADEMY OF FINANCIAL MONITORING

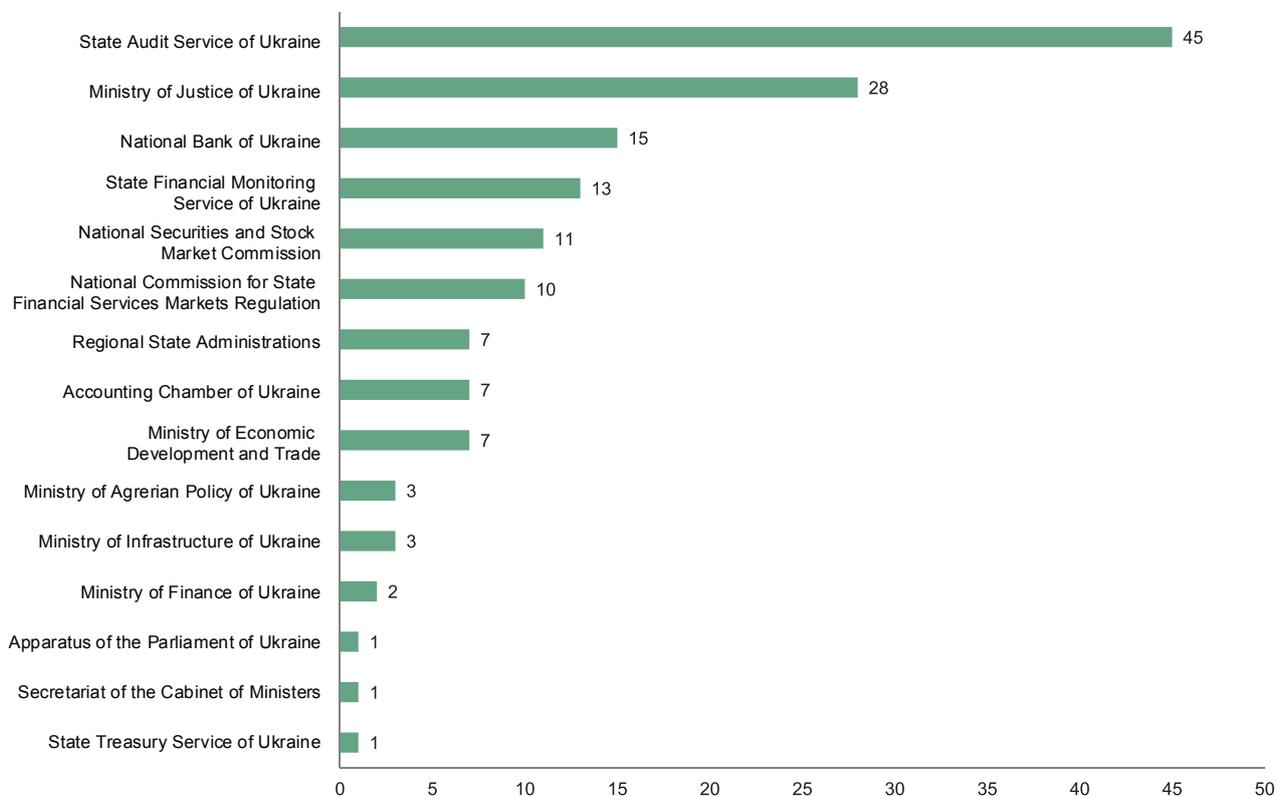


The Academy of Financial Monitoring in accordance with its basic tasks conducts retraining and professional development training of specialists on financial monitoring in the AML/CFT area in order to ensure the unified approach to retraining and professional development of specialists of the state financial monitoring entities, law enforcement and judicial authorities, representatives of the reporting entities in charge of its conducting, as well as representatives of foreign states or international organizations.

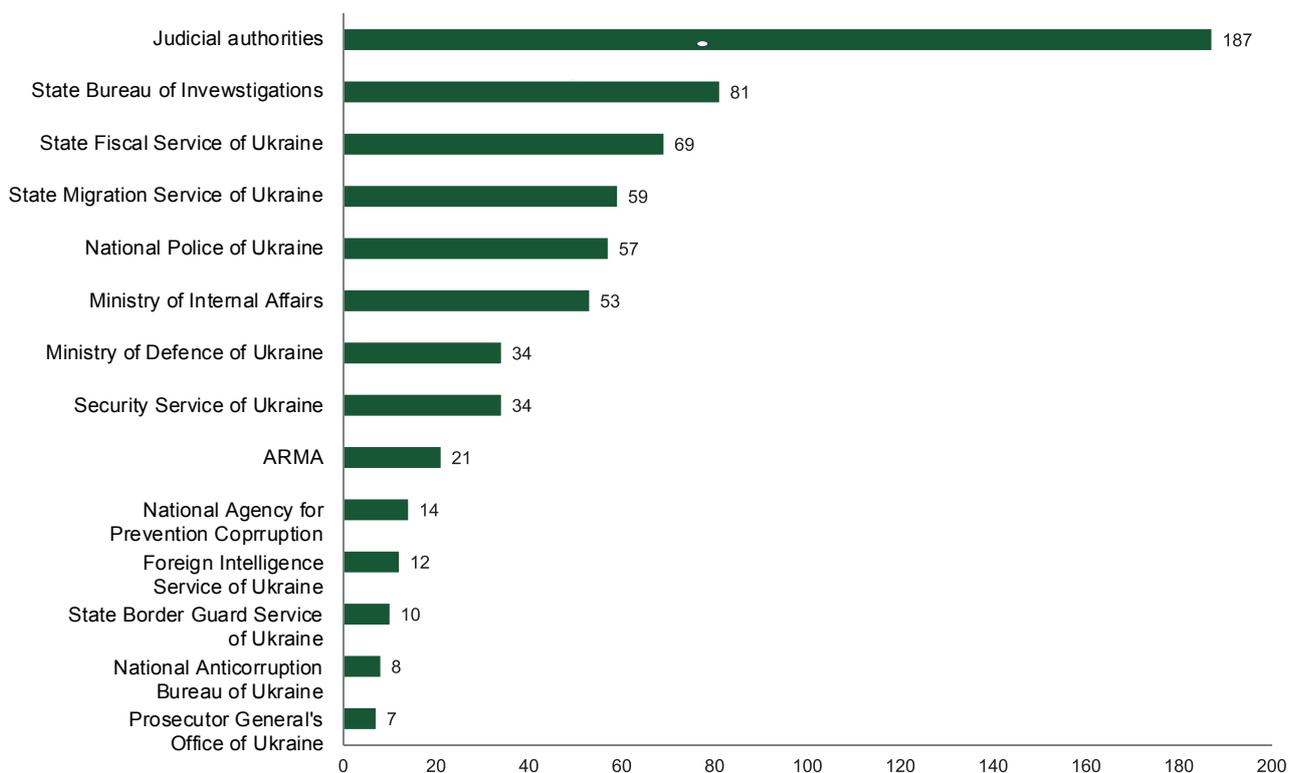
During 2005 (first groups of listeners) – 2019, 15 551 specialists on financial monitoring issues have been trained; 9 707 from whom have been trained during 2014-2019.

In 2019, the Academy of Financial Monitoring has trained 2044 listeners who are the representatives of state authorities, law enforcement, intelligence, judiciary, and reporting entities, including:

- 800 specialists – in the framework of the public contract, including 154 – representatives of the state authorities, 646 – representatives of law enforcement, intelligence and judiciary authorities (Pic. 8.1, 8.2);

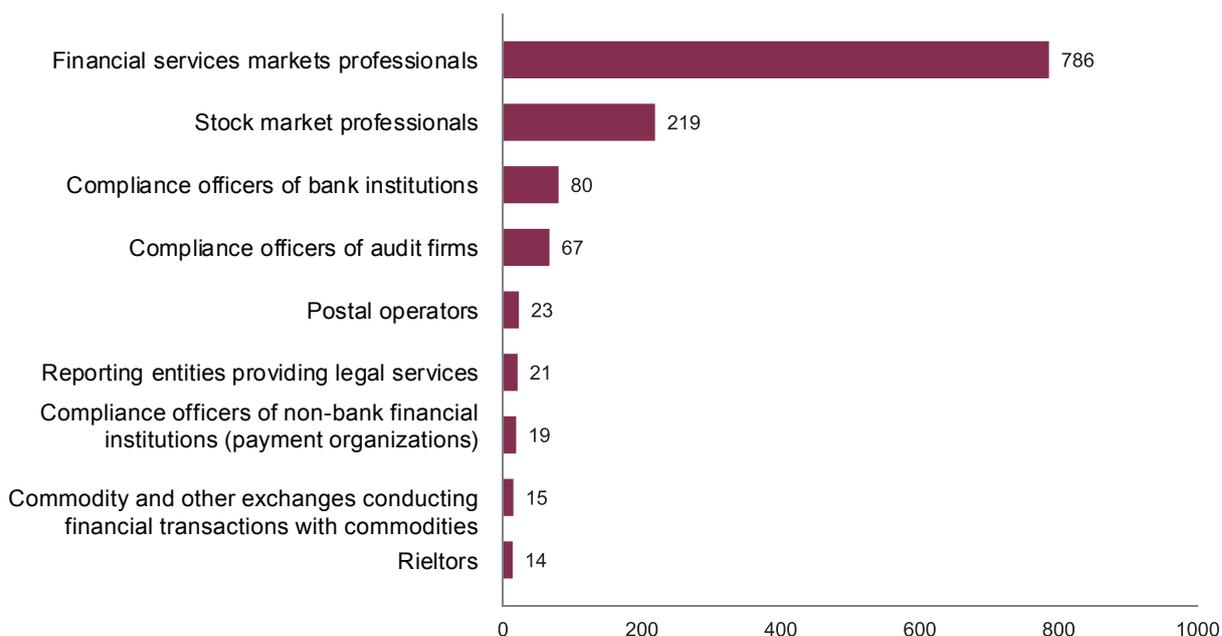


Pic. 8.1. Number of state authorities' representatives trained in 2019



Pic. 8.2. Number of law enforcement, intelligence and judicial authorities representatives trained in 2019

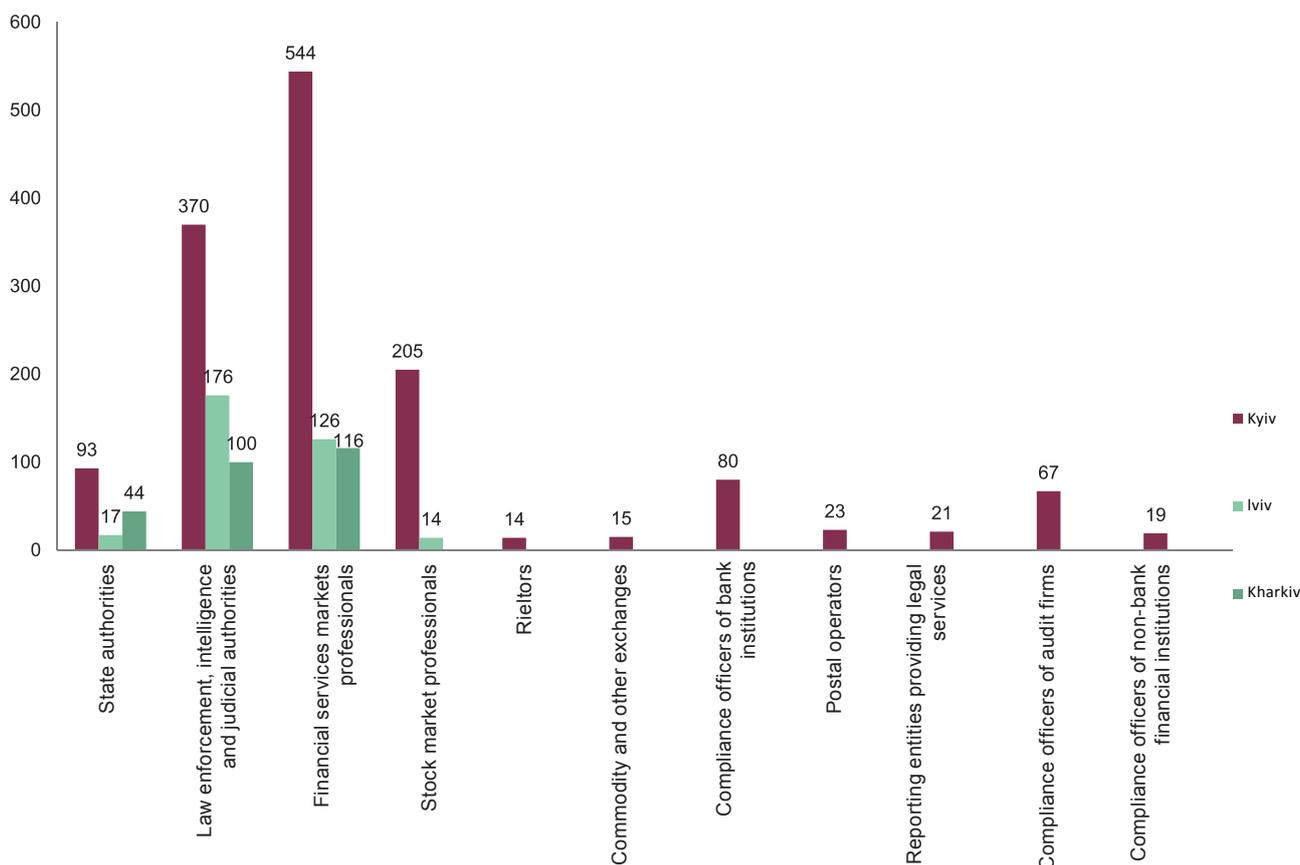
- 1244 compliance officers of the reporting entities (Pic. 8.3).



Pic. 8.3. Number of reporting entities compliance officers trained in 2019

- For 71 listeners from law enforcement, intelligence and judicial authorities special targeted trainings have been organized which considered the work specifics of a concrete listeners group as well as practical aspects of their activities.

In 2019, trainings were held on the basis of the regional Offices of the Academy in Kyiv, Kharkiv and Lviv (Pic. 8.5).

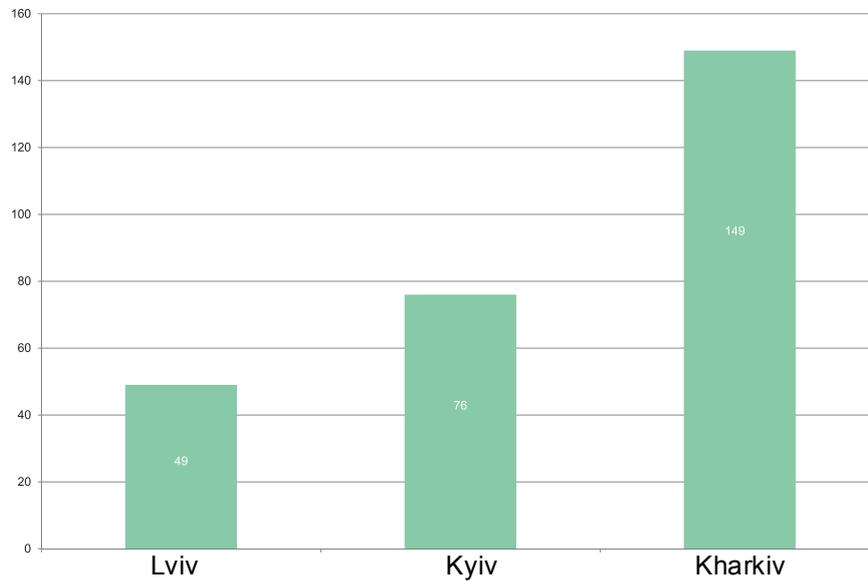


Pic. 8.4. Dynamics of trainings of state authorities', law enforcement, intelligence and judiciary authorities' and reporting entities' representatives in 2019 by the regional Offices of the Academy

In 2019, the Academy has trained 80 bank sector representatives – state-owned banks, banks with private equity, banks of foreign banking groups, where the representatives of the banking regulator – the National Bank of Ukraine participated as lecturers.

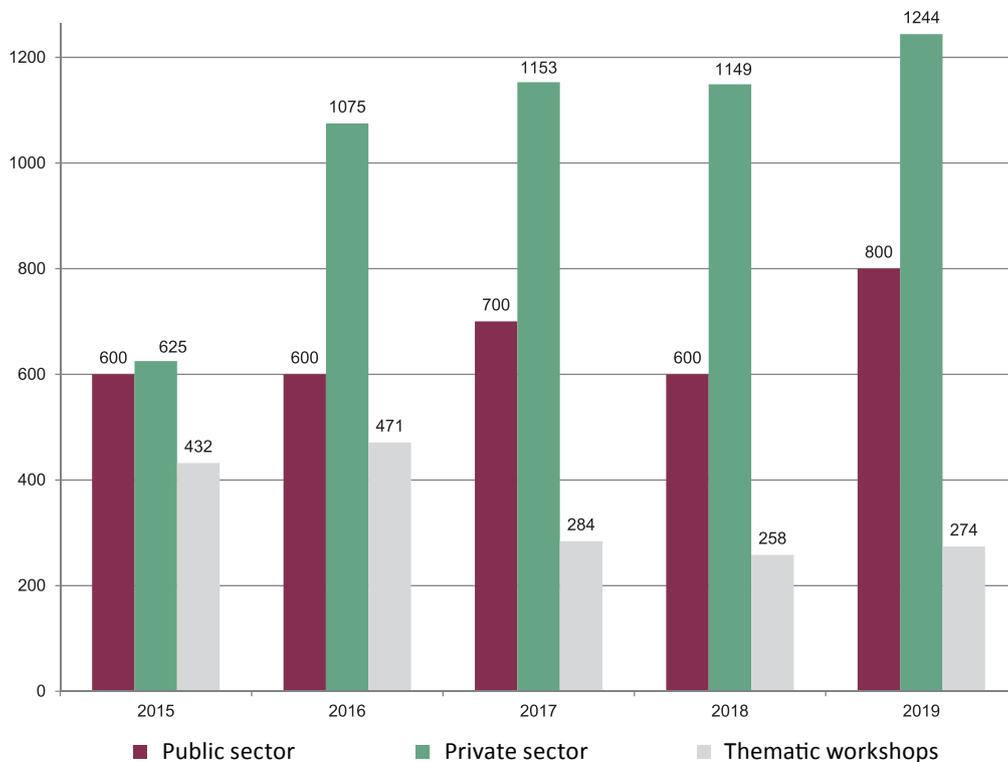
The cooperation with auditing, legal, consulting companies (88 listeners of this category have been trained by the Academy) has been continued which included Big 4 representatives of auditing and consulting companies.

In 2019 the topic workshops: “Notary as a reporting entity”, attended by 274 DNFBPs-representatives- notaries (Pic. 8.5).



Pic. 8.5. Number of the reporting entities – notaries participated in topic workshop during 2019

Dynamic of training indicators in the Academy for the last years is presented on Pic. 8.6



Pic. 8.6. Dynamic of training indicators in the Academy for the last years

Moreover, in 2019 the Academy of Financial Monitoring employees took part in preparation and conducting the following events:

- international scientific and practical workshop for law enforcement and judicial authorities on: “Actual issues in economic crimes investigations” (21–22 March 2019, Lviv) – with the support of the EU Advisory Mission in Ukraine (EUAM);
- joint international training for law enforcement authorities on: “Training on anti-money laundering/asset recovery, international cooperation and EU best practices, (3-5 December 2019, Kyiv) – together with EU-ACT Regional coordinator (EU Action against Drugs and Organised Crime).

Also, during 2019, the Academy representatives have participated in the following events:

- international scientific and practical conference “Hybrid threats to economic security of a state in transitional economy” (14 March 2019, Kyiv, on the basis of the National Aviation University);
- III international scientific and practical conference “Foreign language training of law enforcement and security sector officers” (27 March 2019, Kyiv, on the basis of the National Academy of Prosecutor’s General Office of Ukraine);
- Round table “Civil service in Ukraine: ways of reforming” jointly with the State Bureau of Investigations and the National Academy of Prosecutor’s General Office of Ukraine (22 May 2019, Kyiv);
- VI meetings of the Parliament and Public platform on: “On the way to the good governance: five years of reforms in the sector of civil security of Ukraine” (23 May 2019, Kyiv);
- IV international scientific and practical conference “Implementation of state anticorruption policy in the international dimension” (12 December 2019, Kyiv).

During 2019, the cooperation with EU-ACT project (EU Action against Drugs and Organised Crime), particularly with the Regional coordinator of the project Mr. Jose Manuel COLODRAS has been continued. The result of the cooperation became the above mentioned joint with the Academy training for law enforcement officers which took part on 3-5 December 2019. A range of agreements concerning continuation of cooperation in 2020 and activation of joint training activity has been reached.

Also, the cooperation with the EUAM has been continued – a range of joint educational events have been conducted as well as the cooperation directions in 2020 have been outlined.

In 2019, the Memoranda have been concluded between the Academy of Financial Monitoring and the B. Khmelnytskyi National Academy of Border Guard Service of Ukraine, the International Academy of Information, the National Academy of Prosecutor’s General of Ukraine. Areas of cooperation are: preparation and professional development training of employees in the AML/CFT area, holding joint scientific conferences, seminars, meetings, workshops, scientific research in the AML/CFT area, etc.

# 9 ■ INTERNATIONAL COOPERATION



## 9.1. Cooperation with international organizations

One of the important components of the SFMS activity is to set cooperation with international institutions and foreign partners responsible for the organization of the effective AML/CFT measures.

During 2019, the SFMS actively cooperated with leading international organizations and institutions which deal with counteraction to money laundering and terrorist financing issues, such as: the Financial Action Task Force (FATF), the Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering and Financing of Terrorism (MONEYVAL), the Egmont group of Financial Intelligence Units, the Council of Europe, the UN Office on Drugs and Crime (UNODC), the World Bank, the International Monetary Fund, the OSCE Project Coordinator in Ukraine, the project “European Union Anti-Corruption Initiative”, the Organization for Democracy and Economic Development (GUAM) and other international partners.

Also, in 2019, the SFMS's representatives presented Ukrainian AML/CFT experience as well as improved cooperation in course of international workshops conducted with the assistance of the leading international organizations.

Moreover, the SFMS, in accordance with its tasks, concludes international interagency agreements (Memoranda of Understanding) with foreign financial intelligence units. During 2003-2019, the SFMS has concluded 79 Memoranda, particularly in 2019:

- Memorandum of Understanding between the State Financial Monitoring Service of Ukraine and the Financial Intelligence Unit of the Republic of Austria concerning cooperation in the area of counteraction to legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction.
- Memorandum of Understanding between the State Financial Monitoring Service of Ukraine and the Kuwait Financial Intelligence Unit concerning cooperation in the area of counteraction to legalization (laundering) of the proceeds from crime, financing of terrorism and financing of proliferation of weapons of mass destruction.
- Statement of cooperation between the State Financial Monitoring Service of Ukraine and

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

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

- AML/CFT training institute;
- RBA Guidance for legal professionals, accountants, TCSPs, virtual assets and virtual asset service providers;
- financing of ISIL, Al-Qaeda and related organizations.

24-27 March 2019, the SFMS's representative took part in Joint FATF/MONEYVAL Expert Meeting (JEM) and the US Presidency Initiative on Judges and Prosecutors (TF Prosecution Workshop) which took place in Tel Aviv (Israel).

During the meeting the SFMS's representative participated in discussion FATF initiatives on TF risks and CTF, TF risks assessment, virtual currencies as well as held consultations with competent authorities' representatives of FATF and MONEYVAL member-countries in the AML/CFT area particularly in the area of detection, investigation and confiscation of cryptocurrency.

**9.1.2. Cooperation with Egmont Group of Financial Intelligence Units**

28-30 January, 2019, within co-operation with Egmont Group, the SFMS’s representatives participated in the Working Groups meetings held in Jakarta, Indonesia (Pic. 9.1).



*Pic. 9.1. Meetings participants*

During these meetings, the SFMS’s representatives discussed a number of projects aimed at improving the capacity of the financial intelligence units, including:

- Egmont Group project “FIU typologies on money laundering from corruption”, aimed at combating corruption, money laundering;
- Egmont Group project “Guidance on the Cooperation of FIUs with Customs authorities”, which aims to facilitate cooperation between FIUs and Customs authorities within the framework of their joint work to counteract the laundering of criminal proceeds in the customs sector;
- Egmont Group project “Flexible, consistent information exchange standards”, aimed at improving the ability of financial intelligence units to exchange information quickly and efficiently.

During June 30-July 4, 2019, the SFMS representatives participated in the Working Groups meetings and the Plenary Meeting of the Egmont Group held in The Hague, Kingdom of the Netherlands (Pic. 9.2).



*Pic. 9.2. The SFMS representatives – participants of the Egmont Group Plenary meeting*

During the Plenary meeting, the SFMS representatives participated in the approval of the Egmont Group documents by the Heads of FIUs, in particular on the projects of the Working Groups aimed at combating corruption, human trafficking, terrorism, improving the interaction of FIUs and customs authorities.

The SFMS was one of the leaders of the project team to prepare the Egmont Group Report on Corruption Cases Investigation Tools and Practices, within which a list of corruption indicators aimed at improving the ability of the public and private sectors to detect and prevent money laundering has also been prepared.

At present, the SFMS jointly with the FIU of Romania is the leader of the Egmont Group Asset Recovery Project – the role of FIUs, which aims to investigate this problematic issue globally with the further development of appropriate recommendations to improve the capacity of the jurisdictions in this issues.

Also, the SFMS is a participant of two more Egmont Group projects, namely:

- Project “Large Scale Cross-Border Money Laundering Schemes”, the leader of which is the FIU of Germany. Within the framework of this project, on November 12-13, 2019, one on-site meeting of the Working Group was held in Cologne, the Federal Republic of Germany, attended by the SFMS representatives. This project is aimed at investigating the issue of cross-border money laundering and identifying methods to counteract this activity. In addition, within the work related to the project, an operational meeting was held between representatives of a number of FIUs regarding further steps to investigate money laundering and asset recovery against one of the European banks;
- Project “Money Laundering of Serious Tax Crimes”, the leaders of which is the FIU of Argentina and FIU of France. This project is aimed at investigating the problematic issue of tax evasion with the subsequent laundering of criminal proceeds.

In addition, within the framework of cooperation with the Egmont Group Secretariat and foreign FIUs on other current and past Egmont Group projects, during the reporting period, the SFMS provided:

- completed questionnaire on the IEWG development;
- information for the 26<sup>th</sup> Plenary meeting on cooperation between state authorities;
- information on the comparative review of the procedures for licensing, supervision and analysis of the legal framework in the AML/CFT area for accountants;
- completed survey on the review of the support and compliance process “Procedural Trigger 4 – Limited statistical review”.

At the same time, the SFMS is one of the most active FIUs among the members of the Egmont Group and takes the 2<sup>nd</sup> place in the region in project activity and other Egmont Group activities.

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

8-12 April, 2019, within MONEYVAL 5<sup>th</sup> round mutual evaluations, the SFMS representative participated in the MONEYVAL 5<sup>th</sup> round Evaluators' Training Seminar in order to get experience in conducting AML/CFT mutual evaluation as well as the possibility of further cooperation in mutual evaluations of MONEYVAL member-states held in Ostia, Italy (Pic. 9.3).

7-18 October, 2019, the SFMS representative participated in the MONEYVAL 5<sup>th</sup> round mutual evaluation on-site visit to Slovakia.



*Pic. 9.3. Training seminar participants*

Moreover, within the framework of cooperation with MONEYVAL, the SFMS representatives as part of delegation of Ukraine participated in two MONEYVAL Plenary meetings, which were held in Strasbourg, France (Pic. 9.4):

- the 58th MONEYVAL Plenary meeting – 15-19 July 2019;
- the 59th MONEYVAL Plenary meeting – 2-6 December 2019.



*Pic. 9.4. MONEYVAL Plenary meeting*

At the same time, on December 20, 2019, the meeting between the SFMS Head Igor Cherkaskyi and MONEYVAL Chairperson Elżbieta Frankow-Jaśkiewicz took place (Pic. 9.5).



*Pic. 9.5*

During the meeting the main aspects and results of the 2<sup>nd</sup> NRA as well as measures taken by Ukraine to eliminate identified risks were discussed.

During the meeting it was assured that the course of Ukraine on the way to the implementation of the EU anti-legalization Directives and the harmonization of the national AML/CFT legislation with international standards wouldn't be changed.

As a result of the meeting, agreements were reached to continue the AML/CFT fruitful cooperation.

In addition, the SFMS has sent to MONEYVAL:

- statistics on counter terrorism financing;
- first project report to Guidance on TF risk assessment;
- information to Questionnaire/Survey on barriers/challenges and effective mechanisms in cross-border asset recovery cases (conviction-based);
- information to research project on gender and economic crime;
- measures taken by countries in the area of counteraction to terrorism;
- completed statistical survey to implement action item A (Understanding of TF risks) of MONEYVAL's Operational Plan to Combat Financing of Terrorism etc.

Also, during 2019, the SFMST representatives participated in the following events:

- working meetings in order to discuss issues on implementation the Council of Europe project "Strengthening measures to counter money laundering and financing of terrorism in Ukraine" (19 March and 26 July 2019, Kyiv);
- 1<sup>st</sup> meeting of the Steering Committee of the project "Strengthening measures to counter money laundering and financing of terrorism in Ukraine" (2 October 2019, Kyiv);
- workshop "Investigation and prosecution money laundering" (3-4 October 2019, Kyiv);
- regional workshop "Effective implementation of targeted sanctions related to the financing of proliferation of weapon of mass destruction and financing of terrorism" (9-10 December 2019, Strasbourg, France);
- training "Financial investigations and confiscation of proceeds from crime for law enforcement and judiciary" (16-17 December 2019, Kyiv).

At the same time, during 2019 the cooperation of the SFMS with the European Commission continued as part of the TAIEX technical assistance and information exchange instrument.

Thus, within the framework of TAIEX, 16-18 December 2019, the representative of the SFMS took part in the workshop on prevention of money laundering, financing of terrorism and proliferation of weapon of mass destruction on the stock market held in Kyiv.

#### 9.1.4. Other international events

##### 9.1.4.1. Cooperation with NATO

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

- six modules of the annual course on state policy of Euro-Atlantic integration of Ukraine “100 champions”;
- three meetings of the Euro-Atlantic Integration Coordination Commission which discussed key issues on coordination Euro-Atlantic integration;
- Constituent meeting, in the context of the drafting of the Annual National Program under the auspices of the NATO-Ukraine Commission for 2020 and with a view to improving interagency coordination in the process (29 March 2019, Kyiv);
- four training sessions on the implementation of the Result Based Management (RBM) methodology in the context of the drafting of the Annual National Program under the auspices of the NATO-Ukraine Commission for 2020 (Kyiv);
- meetings of the Euro-Atlantic Integration Coordination Commission to discuss the state and prospects of Ukraine’s cooperation with NATO (31 October 2019, Kyiv);
- consultations with international experts on the assessment of Ukraine’s implementation of the Annual National Program under the auspices of the NATO-Ukraine Commission for 2019 (5-8 November, 2019, Kyiv).

##### 9.1.4.2. Cooperation with the European Union

During 2019, representatives of the SFMS participated in the following events:

- a series of seminars and working meetings of the “EU-ACT” Project;
- planning and review workshop (13 June 2019, Kyiv);
- working meeting of the SFMS representatives with the Cocaine Route Monitoring and Support Project expert to discuss issues on the SFMS participation in the implementation of the “EU-ACT” Project (16 July 2019, Kyiv).

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

During, the SFMS representatives took part in the following events:

- financial disruption workshop on international money laundering networks (10-12 June 2019, Vienna, Austria);
- Paris Pact Expert Working Group meeting on Illicit Financial Flows in support of the Pillar II of the Vienna Declaration (27-28 June 2019, New Delhi, the Republic of India) (Pic. 9.6);
- Regional workshop “Development cryptocurrency market and related risks: drugs, money laundering, corruption” (25-27 September 2019, Minsk, Belarus);
- second conference on drug policy “Strategy in the area of drugs in Ukraine: implementation and plans for 2020-2030” (27-29 November 2019, Kyiv);
- financial disruption workshop on international money laundering networks (10-12 December 2019, Vienna, Austria);
- workshop “AML/CFT and cryptoeconomics” (19-21 December 2019, Kyiv).



Pic. 9.6. Participants of the Working Group meeting 27-28 December 2019, New Delhi, the Republic of India

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

During period 2019, representatives of the SFMS participated in the following events:

- meetings of the Working Group on Cyber-Security (22-23 January, 19-20 December 2019);
- meetings of the Working Subgroup on Combating Illicit Trafficking in Drugs (23-24 April, 19-20 November 2019);
- meeting of the Subgroup on Combating Terrorism (25-26 April, November 21-22 2019);
- meeting of the Subgroup on Combating Trafficking in Human Beings and Illegal Migration (7-8 May 2019);
- meeting of the Subgroup on Counteracting Corruption and Money Laundering (23-24 May, 28-29 November 2019).

**9.1.4.5. Cooperation with the Organization for Security and Cooperation in Europe (OSCE) /FIU of the Republic of Poland within the framework of the project of International technical assistance of the Republic of Poland**

During 2019, the SFMS cooperated with the OSCE Project Coordinator in Ukraine on the implementation at the national level of the project “Assisting Ukraine in Developing an Action Plan for Countering Money Laundering and Terrorism Financing”.

Thus, within the framework of the implementation of this project, during 28-29 May 2019, the SFMS together with the OSCE Project

Coordinator in Ukraine were conducting the International scientific-practical workshop “National system of anti-legal restraint: modern challenges and development prospects”, which took place in Kharkiv (Pic. 9.7).

During 2-4 July 2019, the SFMS representatives with the assistance of the OSCE Project Coordinator in Ukraine took part in a study visit to the FIU of the Kingdom of Spain with the aim to exchange experience and enhance international cooperation (Madrid, the Kingdom of Spain (Pic. 9.8)).

During 22-23 July 2019, the SFMS representatives took part in the workshop on the investigation of

crimes related to the use of cryptocurrencies, which was held in Kyiv.

During 12-13 December 2019, the SFMS representative took part in the thematic event: “Proactive and Intelligence-Led Approaches in Targeting Transnational Organized Crimes” which took place in Kyiv.

Also, with the assistance and support of the OSCE Project Coordinator in Ukraine the 2<sup>nd</sup> NRA Report was prepared.

At the same time, 18-22 November 2019, within the framework of the project of the Republic of Poland “Support the Ukrainian system of Anti-Money Laundering and Terrorist Financing” in order to

exchange an experience and strengthen the AML/CFT system, the SFMS representatives within the delegation of Ukraine conducted a study visit to the Republic of Poland.



Pic. 9.7. Opening of the workshop



Pic. 9.8

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

During 2019, with the assistance of the EUACI project, within the framework of the institutional capacity building of the SFMS in AML/CFT sphere, the SFMS representatives participated in sixteen specialized IT-courses.

In addition, with the assistance of the EUACI project, the SFMS representatives participated in the activities of the Egmont Group of Financial Intelligence Units:

- the meetings of the Working Groups of the Egmont Group of Financial Intelligence Units held in Jakarta, Indonesia from January 28-30, 2019;
- meetings of the Working Groups and the Plenary Meeting of the Egmont Group of Financial Intelligence Units held in The Hague, Netherlands, from June 30 to July 4, 2019;

- the meetings of the Working Groups in the framework of the project “Large-scale Cross-Border Money Laundering Schemes”, held in Cologne, Republic of Germany, from November 12 to 13, 2019.

On February 5 and March 5, working meetings with the representatives of the SFMS and EUACI to discuss the establishment of bank accounts register in Ukraine were held.

During the period from March 25-29, 2019, representatives of the SFMS took part in a workshop on “Mutual Legal Assistance and the Use of Offshore Jurisdictions for Hiding Beneficial Ownership”, held by the Basel Institute with the assistance of the EUACI project in Kyiv.

On May 22 and November 21, 2019, the SFMS representative participated in the regular meetings of the EU Anti-Corruption Initiative Steering Committee held in Kyiv.

During May 27-28, 2019, the SFMS representative with the assistance of the EUACI project participated in the conference “How to improve the efficiency of IO 11?” held in Riga, Republic of Latvia.

At the same time, from October 23-25, 2019, the SFMS jointly with the EUACI project and the OSCE conducted a workshop on “Money laundering and terrorism financing risk assessment: National and anti-corruption context” held in Chernivtsi (Pic. 9.9).



Pic. 9.9. Workshop participants

At the same time, during April and November 2019, there were four meetings of the SFMS representatives with representatives of the EU Anti-Corruption Initiative in Ukraine, to discuss the current state of cooperation and further directions of its development.

Also, on December 16, 2019, representatives of the SFMS participated in a meeting regarding the presentation of the results of the mid-term evaluation of the EU Anti-Corruption Initiative held in Kyiv.

In addition, with the assistance of the EUACI project, a typological study of the SFMS for 2018 was published and translated into English.

#### 9.1.4.7. International events of general nature

On February 13, 2019, a working meeting of the representatives of the SFMS with the Head of the Centre for combating economic crimes and corruption of the Republic of Moldova was held in Kyiv to discuss cooperation within the MONEYVAL activities.

On March 21, 2019, a working meeting of the representatives of the SFMS with the representatives of the International Centre for Asset Recovery was held in Kyiv to discuss issues related to legislative changes, problems, and challenges of investigating corruption offenses in Ukraine.

With the assistance of the US Embassy in Kazakhstan, the SFMS representative participated as an instructor in a course on financial investigations for law enforcement authorities (April 25-26, 2019, Nur-Sultan, Kazakhstan) and as an instructor in the anti-money laundering conference for the private sector (1-2 August 2019, Almaty, Kazakhstan).

During October 28-30, 2019, the SFMS representative participated in the meeting of the International Financial Intelligence Taskforce (IFIT) on the ABLV Bank case held in Riga, Latvia.

On June 19, 2019, the SFMS representative participated in the workshop on counteracting hybrid threats in the financial sector held in Helsinki, Finland.

During October 23-25, 2019, the SFMS representative participated in the workshop “Unique Slovak anti-letterbox companies’ law transparency of beneficial ownership”, held in Bratislava, Slovak Republic.

During November 7-11, 2019, in order to exchange experience, a training visit of the representatives of the FIU of the Republic of Azerbaijan to the SFMS took place.

During November 19-20, 2019, the SFMS representatives participated in the workshop “Detection of sensitive technologies illegal transfer to Iran” held in Odessa.

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

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

In 2019, the SFMS cooperated with 79 FIUs to ensure the organization of interaction and information exchange with the competent authorities of foreign states and international organizations.

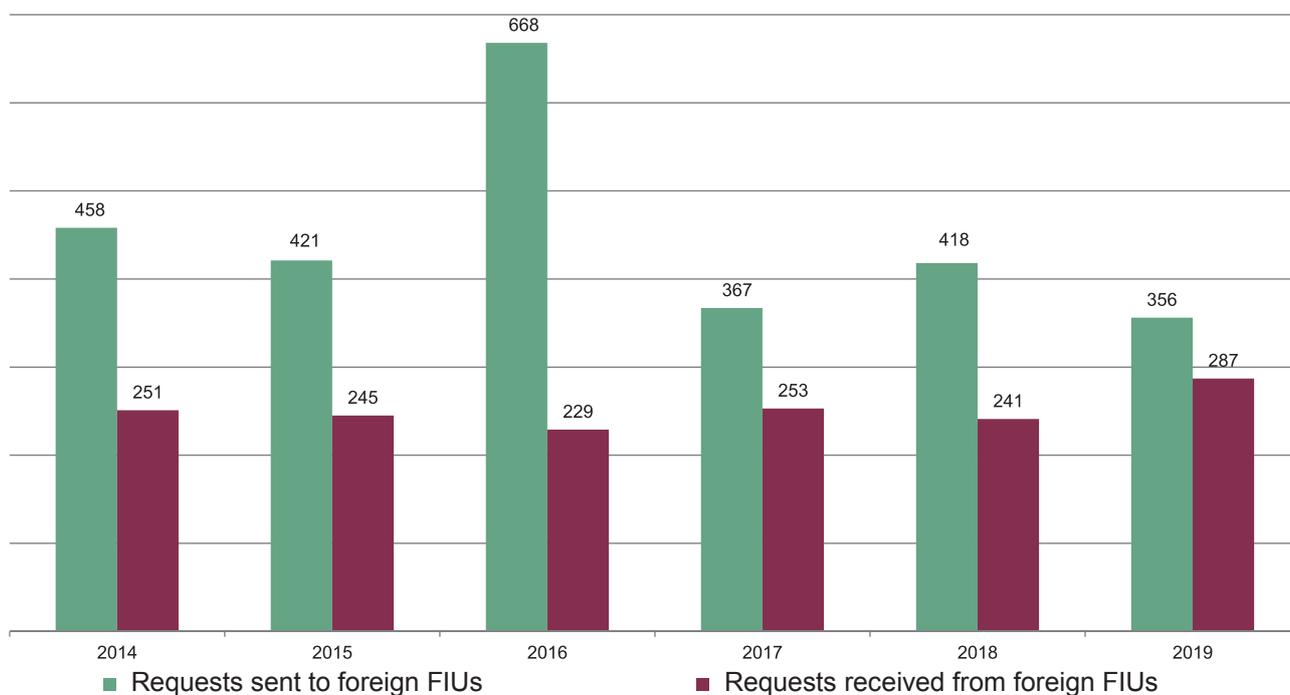
During 2019, the SFMS sent 356 requests to 61 foreign FIUs and received 335 replies to requests from 55 foreign FIUs. Also, the SFMS received 287 requests from 50 foreign FIUs and provided 287 replies to 50 foreign FIUs (Pic. 9.10).

In 2019, the SFMS most active information exchange was carried out with:

- FIU of Latvia (50 requests sent);
- FIU of Cyprus (30 requests sent);
- FIU of Switzerland (26 requests sent);
- FIU of Germany (21 requests sent),
- FIU of Poland (20 requests sent).

At the same time, in 2019, the largest number of requests was received from:

- FIU of Latvia (58 requests received);
- FIU of Poland (29 requests received);
- FIU of Lithuania (14 requests received);
- FIU of Moldova (12 requests received).



Pic. 9.10. Information exchange with FIUs

## STRATEGIC DIRECTIONS OF THE SFMS WORK IN 2020

### Strategic Goal 1



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

#### Ways of implementation:



Conducting a strategic analysis of information on financial transactions that are subject to financial monitoring, other financial transactions or information that may be related to ML/FT suspicion



Prevention of terrorism acts and terrorist activity commitment by timely identification and effective blocking of their financing source



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

### Strategic Goal 2



The research of ML/FT methods and financial schemes and providing case referrals to law enforcement and intelligence authorities

#### Ways of implementation:



Conducting research on the ML/FT methods and financial schemes and informing participants of the AML/CFT system



Detection of facts of financing of activities of terrorist organizations, smuggling operations, channels of illegal migration, illegal movement across the customs border of Ukraine of drugs, goods, funds, precious metals and stones that may be related to ML/FT



Detecting facts of concealment or masking of illegal origin of proceeds, identification sources of their origin, location and movement, directions of use

### Strategic Goal 3



Improvement of interagency cooperation between state authorities – participants of the national system of financial monitoring and providing methodological, methodical and other assistance to the reporting entities

#### Ways of implementation:



Coordination of ensuring the implementation of the Action Plan for the improvement of the national AML/CFT system according to the results of the Moneyval 5th round mutual evaluation of Ukraine, preparation and presentation of the 2nd Follow-up report



Conducting regular meetings of the AML/CFT Council (Resolution of the Cabinet of Ministers of Ukraine No. 613 dated August 09, 2016) and working groups to address the problematic issues of reporting entities



Providing the development and implementation of comprehensive administrative reporting in the AML/CFT area



Formation of changes to the list of persons related to the conduct of terrorist activity or subject to international sanctions, ensuring its updating and bringing to the attention of the reporting entities



Processing and approval of draft state financial monitoring entities regulations on AML/CFT issues

## STRATEGIC DIRECTIONS OF THE SFMS WORK IN 2020

### Strategic Goal 4



Ensuring the functioning and development of the FMIS

### Strategic Goal 5



Participation in the international cooperation

#### Ways of implementation:



Modernization of the Unified AML/CFT information system



Ensuring the functioning of the Unified AML/CFT information system

#### Ways of implementation:



Ensuring effective cooperation with international organizations and institutions



Organization of international trainings and exchange of experience



Concluding international interagency agreements with foreign FIUs

## Annex A

---

### List of regulations adopted in 2019, developed by the SFMS

1. Resolution of the Cabinet of Ministers of Ukraine as of August 14, 2019 No. 699 “On Amendments to the Resolution of the Cabinet of Ministers of Ukraine as of September 8, 2016, No. 613”.
2. Order of the Ministry of Finance of Ukraine as of March 4, 2019 No. 96 “On Amendments to certain orders of the Ministry of Finance of Ukraine”, registered in the Ministry of Justice of Ukraine on April 4, 2019, No. 350/33321.
3. Order of the Ministry of Finance of Ukraine as of April 8, 2019 No. 142 “On approving changes to certain orders of the Ministry of Finance of Ukraine”, registered in the Ministry of Justice of Ukraine on May 13, 2019, No. 490/33461.
4. Order of the Ministry of Finance of Ukraine as of August 19, 2019 No. 347 “On approval of the methodology for evaluating work on ensuring the rights of persons with disabilities in the State Financial Monitoring Service”, registered in the Ministry of Justice of Ukraine on October 18, 2019 No. 1120/34091.
5. Order of the Ministry of Finance of Ukraine, the Ministry of Internal Affairs of Ukraine, the Security Service of Ukraine as of March 11, 2019 No. 103/162/384 “On approval of the Procedure for providing and considering case referrals”, registered in the Ministry of Justice of Ukraine on April 8, 2019, No. 368/33339.
6. Order of the Ministry of Finance of Ukraine and the National Bureau of Investigations of Ukraine as of September 12, 2019 No. 376/255 “On approval of the Procedure for submission by the SFMS to the National Bureau of Investigations of Ukraine case referrals (additional case referrals) and obtaining by the SFMS information on the progress of their consideration”, registered in the Ministry of Justice on September 30, 2019, No. 1069/34040.

## Annex B

---

### List of abbreviations

- **FATF** – Financial Action Task Force
- **MONEYVAL** – 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 proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction”
- **ML/FT** - legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction
- **DNFBP** – Designated non-financial businesses and professions
- **PGO** – Prosecutor General’s Office of Ukraine
- **SFMS** – State Financial Monitoring Service of Ukraine
- **SBI** – State Bureau of Investigations of Ukraine
- **SFS** – State Fiscal Service of Ukraine
- **USR** – Unified State Register of Legal Entities, Individuals-Entrepreneurs and Public Formations
- **EU** – European Union
- **FMIS** – Unified AML/CFT Informational System
- **UBO** – Ultimate beneficial owner (s) (controller (s))
- **MIA** – Ministry of Internal Affairs of Ukraine
- **MFA** – Ministry of Foreign Affairs of Ukraine
- **MFU** – Ministry of Finance of Ukraine
- **MOJ** – Ministry of Justice of Ukraine
- **NABU** – National Anti-Corruption Bureau of Ukraine
- **NBU** – National Bank of Ukraine
- **NRA** – National AML/CFT Risk Assessment
- **NPU** – National Police of Ukraine
- **OSCE** – Organization for Security and Cooperation in Europe
- **AML/CFT** – prevention and counteraction to legalization (laundering) of proceeds from crime, terrorist financing and financing of proliferation of weapons of mass destruction
- **FIU** - Financial Intelligence Unit
- **SSU** - Security Service of Ukraine
- **SFME** – State financial monitoring entity
- **RE** – Reporting entity

**THE STATE FINANCIAL  
MONITORING SERVICE  
OF UKRAINE**

24, Biloruska st.,  
Kyiv, 04050, Ukraine

tel: (+38044) 594 16 01  
fax: (+38044) 594 16 00  
e-mail: [fiu@fiu.gov.ua](mailto:fiu@fiu.gov.ua)  
<https://fiu.gov.ua>