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Current instruments, methods and mechanisms of illegal funds allocation and laundering

Department of Financial Investigation

State Financial Monitoring Service of Ukraine



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Introduction

The State Financial Monitoring Service in cooperation with state regulators, regulatory, law enforcement authorities of Ukraine and financial institutions annually conducts the study of methods and schemes of money laundering or the financing of terrorism and the financing of proliferation of weapons of mass destruction.

For efficient counteraction to money laundering and the financing of terrorism, there is a need to improve and take measures of organizational and legal, economic and political nature in the international and domestic sector. The above should be done by all parties to the process to prevent the use of the financial system of Ukraine's economy for money laundering and potential financing of terrorism (separatism) that could lead to poor economic condition of the country and violation of its territorial integrity.

The State Financial Monitoring Service and members of the national AML system, within their powers, take measures to create the effective AML system.

An important aspect for verification of the said results is a typological study in view of experience obtained by the participants.

The aim of the study was to identify and summarize current instruments, methods and mechanisms of the most common schemes of money laundering, terrorist financing and other crimes.

In this typological study the examples of any used schemes are summarized, the most popular economic areas of application are given.

1. Money laundering

The question of anti-money laundering is the up-to-date requirement and the most important for Ukraine.

Abusing its official powers, a natural person makes appropriate unlawful decisions aimed at obtaining benefits.

Any funds obtained from corruption schemes are subsequently used for purchase of luxury homes, VIP-class cars, precious metals and stones, antiques, securities, investment in business and other personal needs.

The identified schemes of money laundering are varied, from the most simple aimed at personal consumption, to more complex associated with investing in legitimate business activities.

The most popular ways of money laundering are as follows:

- crediting of funds in cash to the accounts of natural persons holding leadership positions in state enterprises, companies, organizations or connected natural persons or legal entities with further purchase of assets, services or investment into activity of legal entities being under their control or with crediting of funds to the deposit accounts and further the above mentioned investment;
- repayment of credits to be used for purchase of luxury homes, VIP-class cars, precious metals and stones, other assets;
- provision of financial assistance or increase of equity capital of enterprises owned by the persons affiliated with the officials of state enterprises, companies, organizations;
- crediting of funds as royalty fee.

Example

There is a scheme of money laundering by a person holding leadership position in state enterprise.

It has been found that the **natural person** being suspected in misuse of funds of state enterprise in a large amount settled transactions in a large amount, including in cash.

He/she used own accounts opened in different bank institutions of Ukraine. He/she credited and withdrew funds, repaid credits, credited the funds to the deposit accounts both in national currency and in US dollars.



The total amount of funds credited by **the natural person** to the account during 2003-2014 constituted the amount equal to **UAH 138.5 million** (including UAH 95.9 million – to the deposit accounts).

Thus, the official amount of income obtained by **the natural person** is lower than the amount of financial transactions settled, indicating the presence of disguised sources of income.

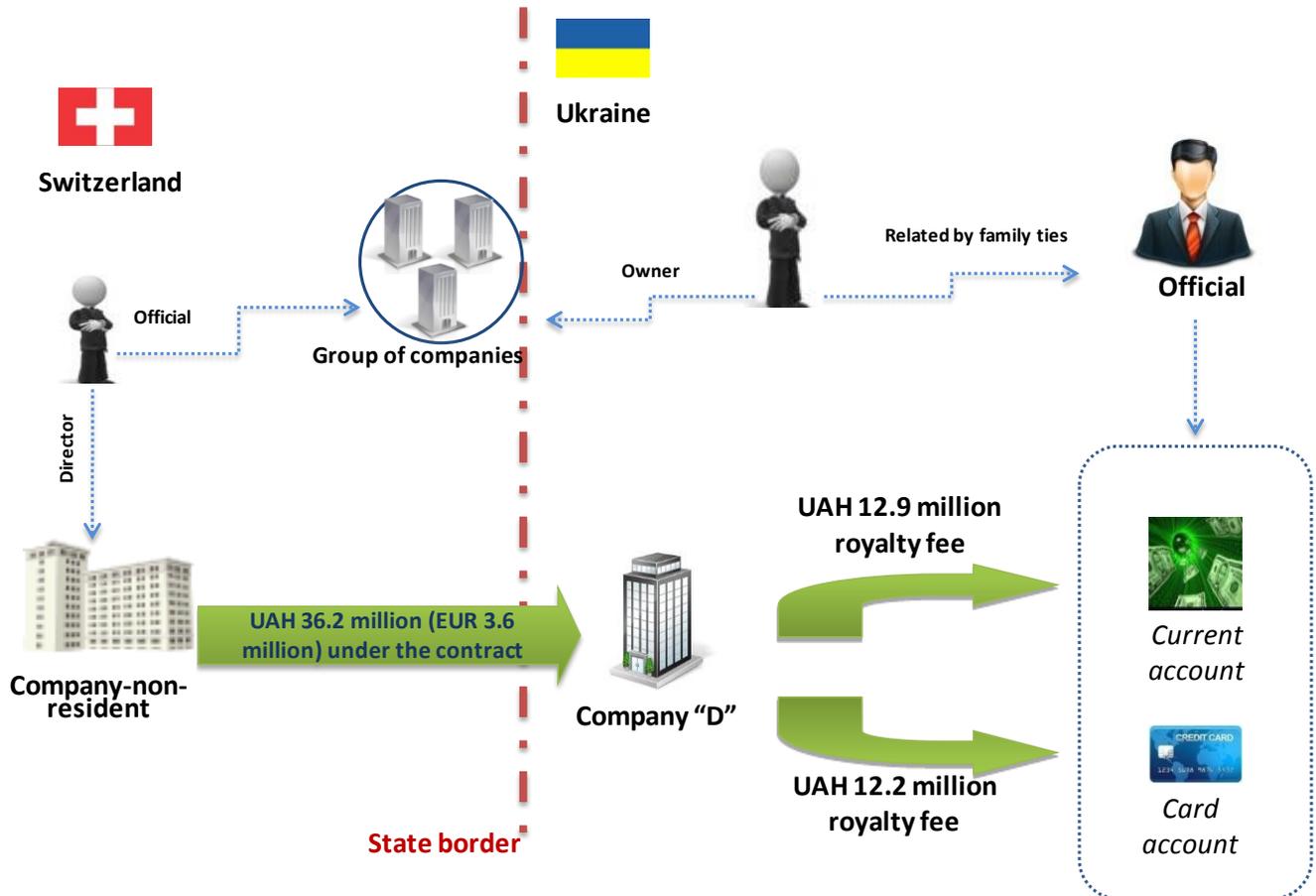
The amount of income received by **the natural person** during 2003-2014 constituted UAH 1.3 million that is 100 times less than the total amount of financial transactions settled.

It is also found that **the natural person** owns a number of luxury cars, two objects of expensive real estate.

The law enforcement authority carries out an investigation.

Example

It is found for the scheme potentially connected with receipt by the official of illegal benefit.



The Company-non-resident (Switzerland) credited funds to the account of the legal entity - **Company "D"** in the amount equal to **UAH 36.2 million (EUR 3.6 million)** with the purpose of payment "under the contract".

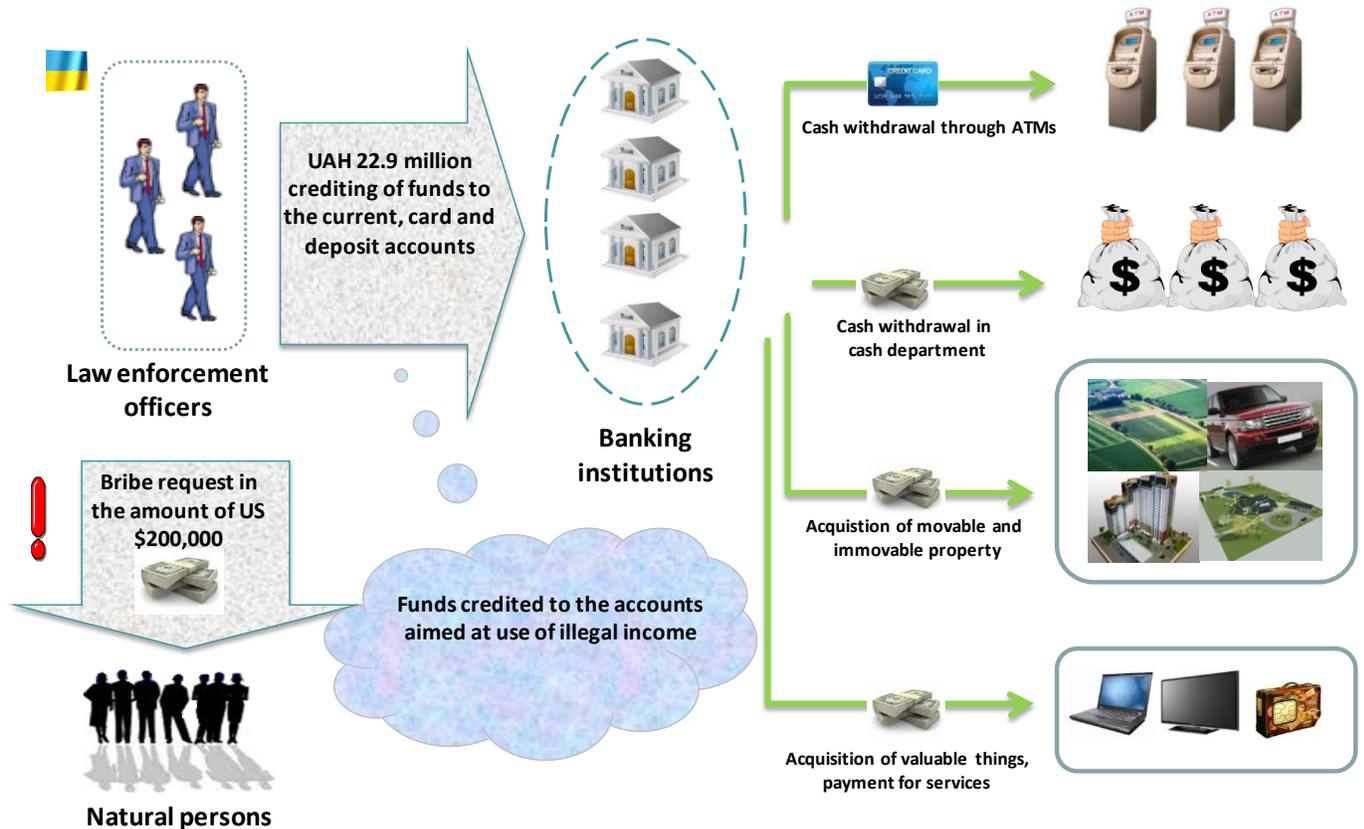
Further, **the Company "D"** transferred funds received to the card and current accounts of the natural person, being an executive official, in the amount of **UAH 12.9 million** and **UAH 12.2 million**, respectively, as royalty fees.

It should be noted that the Director of **the Company-non-resident** (Switzerland) is the official of the group of companies controlled by its close relative.

Upon receiving the undue benefits on a large amount, the law enforcement authority carries out an investigation.

Example

There has been the scheme of potential money laundering as a result of soliciting and receiving the undue benefits.



It has been found that **the natural persons**, being law enforcement officers, during 2012-2015, credited a large amount of funds to their own accounts opened in various banking institutions of Ukraine, mostly in form of crediting cash, replenishment of deposit and card accounts. The total amount of funds credited to the above persons' accounts - **UAH 22.9 million** that does not meet the declared profits.

Further, funds at the accounts were used by **the natural persons** for purchase of real estate, cars, a variety of goods, payment for services. Also, funds were withdrawn in cash from ATMs and cash departments.

Each natural person opened from 5 to 40 accounts in more than 10 banking institutions.

The natural persons are law enforcement officers and involved in extortion in an especially large amount.

According to the facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of acquisition by the officials of the state authority of undue benefits for assistance in making the decisions on receipt of permits and money laundering.

The Citizen P., holding a leadership position of **the state authority** and having the powers to issue permits, received the undue benefits for mediation of **the Citizen B** and **the Citizen M.**

To implement the given scheme, **the Citizen B** opened in banking institutions a number of accounts to which those persons concerned in the matter of receiving permits credited funds in the amount of **UAH 3.7 million.**

The Citizen M also credited funds in the amount of **UAH 230 thousand** to the accounts of **the Citizen B** that was probably received by her from the persons concerned in receiving permits.

Subsequently, funds were transferred to the accounts of **the Citizen B**, placed on the deposit accounts, then returned to the main accounts, together with accrued interest and withdrawn in cash, used for purchase of goods, payment for services in the total amount of **UAH 3.7 million** personally by **the Citizen B** and his wife **the Citizen P.**

2. Misuse of public funds and funds of public enterprises

The scope of government management is very attractive for embezzlement, taking into account a large amount of funds allocated for purchase of goods, works and services to meet the needs of enterprises, institutions and organizations of state property and enterprises with state shares.

In recent years, offences in public sector became actual and are the subject of constant attention from the side of international organizations and governments of countries.

The most sensitive areas of government management are funds of public entities. It is common for procurement of goods, works and services from companies with questionable or no business reputation, which have no production capacity, storage facilities or appropriate personnel. The presence of such intermediaries leads to overestimation of the cost for acquisition of goods, works and services at the expense of state-owned enterprises and enterprises with state shares.

For money laundering from state and local budgets, state enterprises, public entities with state shares in the authorized capital, standard instruments were used:

- involvement of nominees and shell corporations;
- conclusion of fictive trade agreements, cobber;
- use of “dirt” securities and non-repayable financial assistance;
- conversion into cash through the accounts of legal entities and natural persons.

The most used ways of embezzlement and money laundering of state enterprises are as follows:

- a state enterprise credits funds in favor of the enterprises (winning bidders) related to management of state enterprise. Further, funds are to be credited in favor of shell companies for conversion into cash;
- a newly established entity that has no employed workers and production capacity receives funds from a state enterprise, the portion of which is to be transferred in favor of mediators for implementation of bid, other portion is subject to conversion

into cash or to be credited to the accounts of the officials of state enterprise and any affiliated persons or enterprises;

- any funds received from a state enterprise for goods, works, services shall be further divided and allocated among a large number of shell enterprises for the purpose of payment: financial assistance, securities, debt transfer with final conversion into cash;
- a state enterprise credits funds in favor of a public enterprise without actual supply of goods and provision of services.

Example

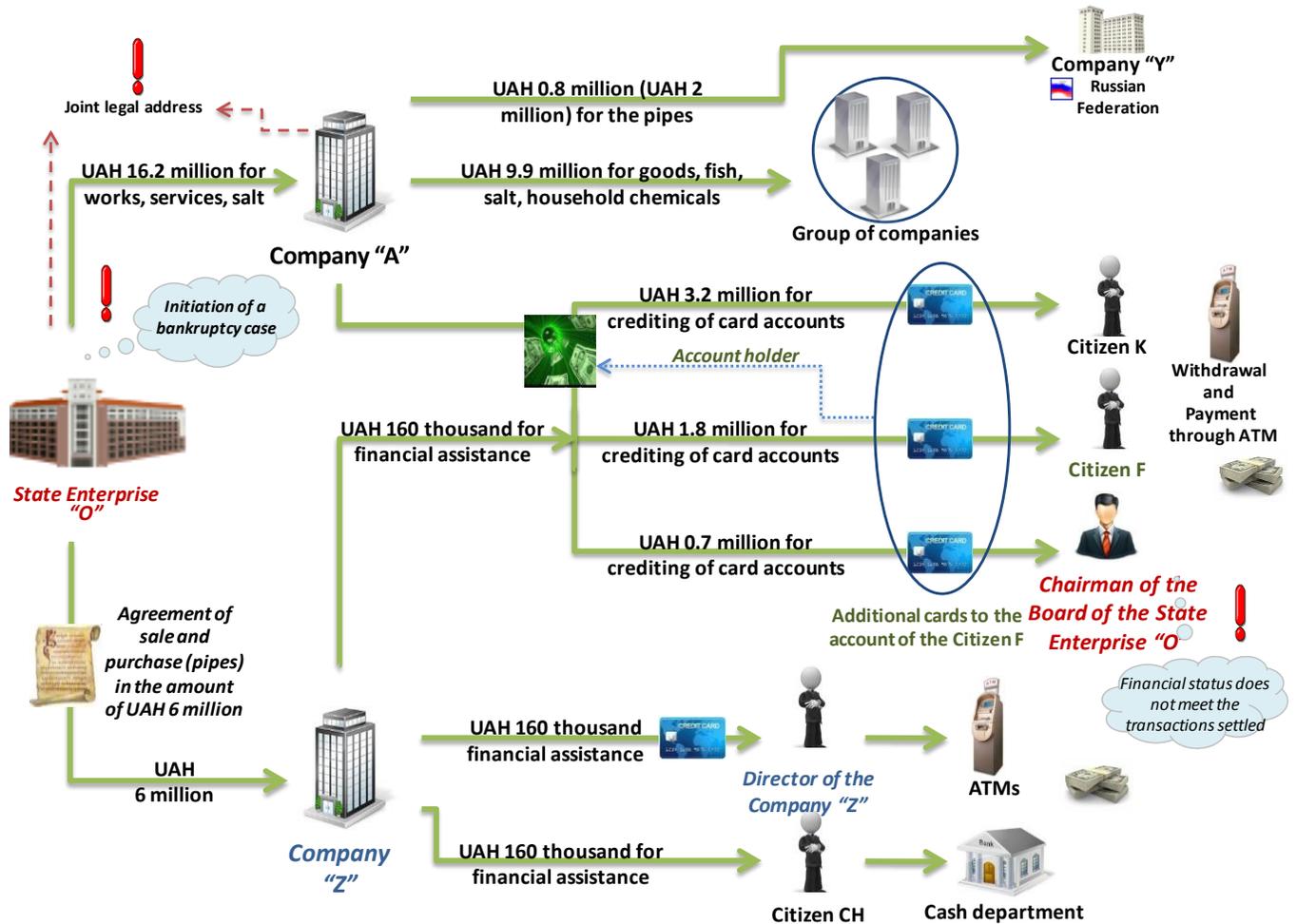
There has been the scheme of illegal embezzlement of public funds with the assistance of the official of state enterprise with further laundering through “conversion” into cash.

The banking institution, where the state enterprise has opened the account, informed the State Financial Monitoring Service on a number of withdrawals from the account and at the same time **the State Enterprise “O”** violated the proceedings in bankruptcy.

The State Enterprise “O”, with the assistance of the official, credited funds to the account of the **Company “A”** in the amount of **UAH 16.2 million** for works, services, salt and to the account of the **Company “Z”** in the amount of **UAH 6 million** for the pipes.

The Company “Z” transferred a large portion of funds received by three equal payments over **UAH 160 thousand** as financial assistance to the card accounts of natural persons, one of which was owned by **the Chairman of the Board of the State Enterprise “O”** that withdrew funds through ATMs and cash departments.

The Company “A” credited funds received in installments to the accounts of companies in the amount of **UAH 9.9 million** as payment for fish, salt, household chemicals and in favor of non-resident – **Company “Y”** (Russian Federation) in the amount equal to UAH 0.8 million as payment for the pipes.



Besides, the Company "A" credited funds in the amount of **UAH 5.7 million** to the account of the **Citizen F (UAH 1.8 million)** and additional payment cards to his account were opened in the name of the **Citizen K (UAH 3.2 million)** and the **Chairman of the Board of the State Enterprise "O" (UAH 0.7 million)**.

Further, funds were withdrawn from the payment cards in cash through ATMs.

The State Enterprise "O" and the Company "A" have joint legal address.

The Company "A" and the Company "Z", being involved in the schemes of embezzlement of public funds with further conversion into cash, have signs of shell companies (sole founder, non-declared gross revenues, unpaid taxes, tax debt and minor equity capital).

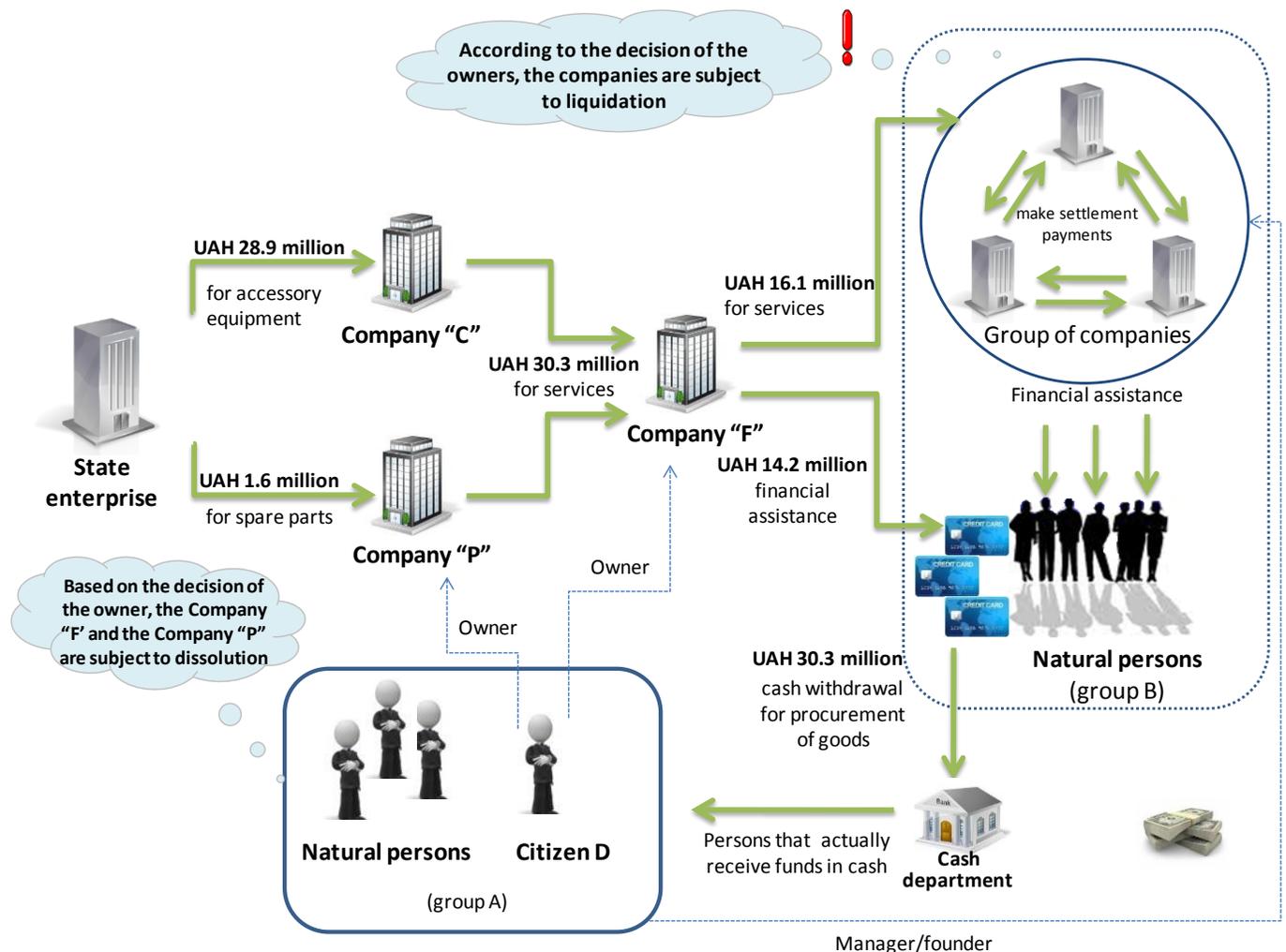
Based on these facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of illegal embezzlement of public funds, with the assistance of the official of state enterprise, with further laundering through “conversion” into cash.

The state enterprise credited funds to the winning bidders in the total amount of **UAH 30.3 million** to the account opened in the **Bank “Y”**, namely: in favor of **the Company “C”**. – **UAH 28.9 million** as payment for accessory equipment and in favor of **the Company “P”**– **UAH 1.6 million** for spare parts.

Further, funds in the amount of **UAH 30.3 million** were transferred from the accounts of **the Company “C”** and **the Company “P”** to the account of **the Company “F”** opened in **the Bank “Y”** as payment for services.



In turn, public funds received from the account of **the Company “F”** (owner – **the Citizen D**) are partially aimed at settlement of payments with the group of legal entities in the amount of **UAH 16.1 million** and partially - in the amount of **UAH 14.2 million** – to

the card accounts of natural persons (**group B**) as financial assistance with further conversion by them and their attorneys (**group A with the Citizen D**).

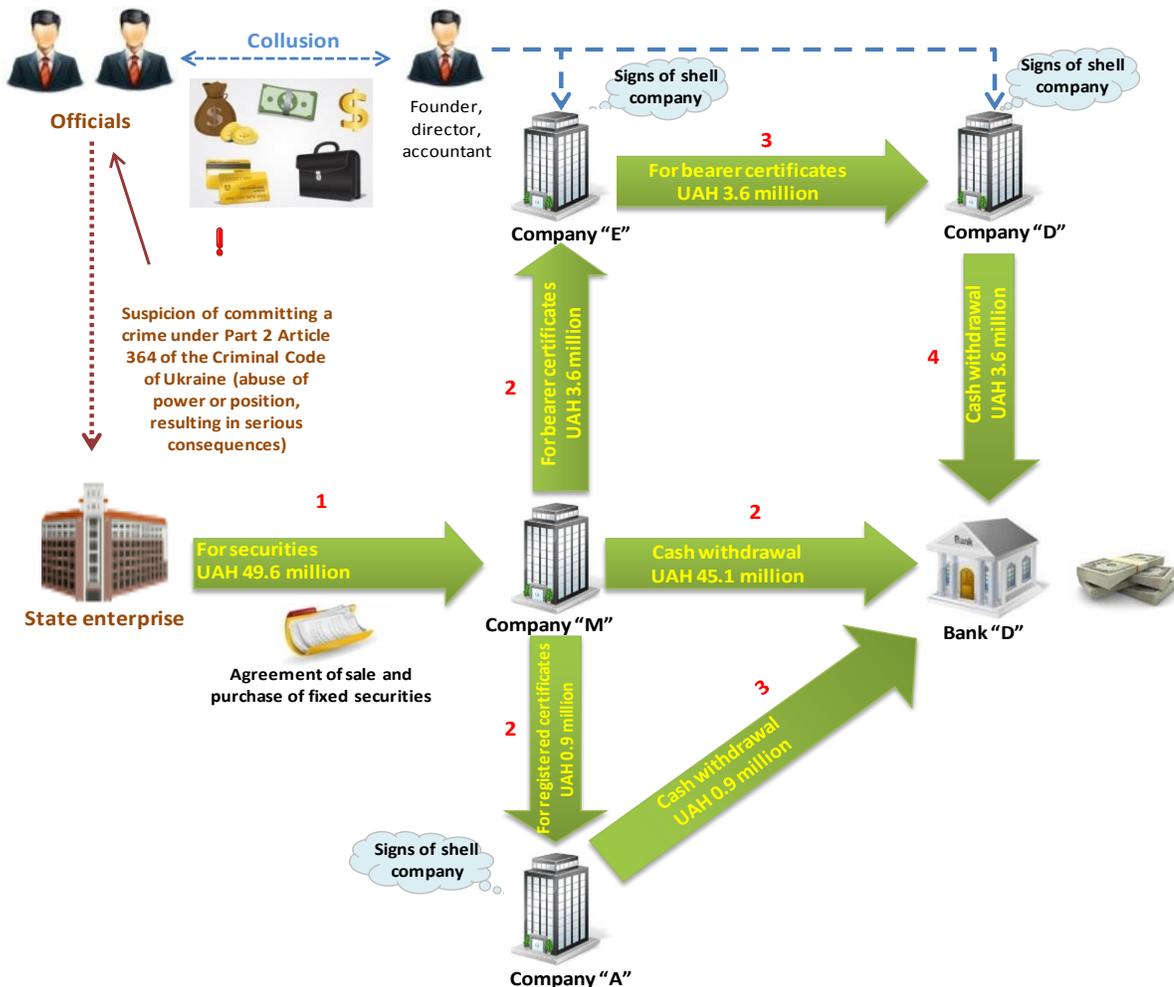
The Citizen D and natural persons of **the Group A** were the members of management/founder body of enterprises majority of which were shell companies and were attorneys of natural persons from **the Group B**.

Those enterprises and natural persons involved in the scheme used the accounts opened in **the Bank “Y”**.

Based on these facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of capturing and/or embezzling funds of state enterprise as a result of conclusion of the agreements of sale and purchase of fixed securities with their further conversion into cash.



The state enterprise concluded the agreements of sale and purchase of securities issued by shell enterprises and credited to the account of **the Company “M”** (type of activity: securities exchange) in the total amount of **UAH 49.6 million** for investment certificates.

Further, the **Company “M”** withdrew the main portion of funds in the amount of **UAH 45.1 million** through the cash department.

The Company “M” transferred other portion of funds received from the state enterprise to the accounts of **the Company “A”**– **UAH 0.9 million** with the purpose of payment: “for registered certificates” and **the Company “E”**– **UAH 3.6 million** for the bearer certificates.

Further, the **Company “A”** withdrew funds in cash through the cash department of the same **Bank “D”**.

The Company “E” transferred funds received from **the Company “M”** to the account of the **Company “D”** as payment for “the bearer certificates” that further received funds in cash from the account through the cash department.

Those enterprise involved in the scheme appeared to be fictive.

Based on these facts, the law enforcement authority carries out an investigation.

3. Misuse of funds of banking institutions

Due to a great variety of financial services and instruments, customer database and accumulation of funds, the banking sector is attractive for the implementation of fraud schemes.

In many cases any criminal activity upon settlement of payment, deposit and credit transactions is performed with the involvement of bank officers, in particular, officials of banking institutions.

The main instruments to be used in the schemes of embezzlement and money laundering are as follows:

- “dirt” securities (shares, notes);
- debt obligations of shell enterprises;
- claim assignment;
- conversion into cash.

The most popular ways of embezzlement of funds of banking institutions are as follows:

- provision of credits by banking institutions to those borrowers affiliated with the owners of banking institutions;
- provision of credits by banking institutions to those shell enterprises;
- release of property through assignment of the right of ownership to the third parties;
- cash withdrawal through correspondent accounts in foreign banks.

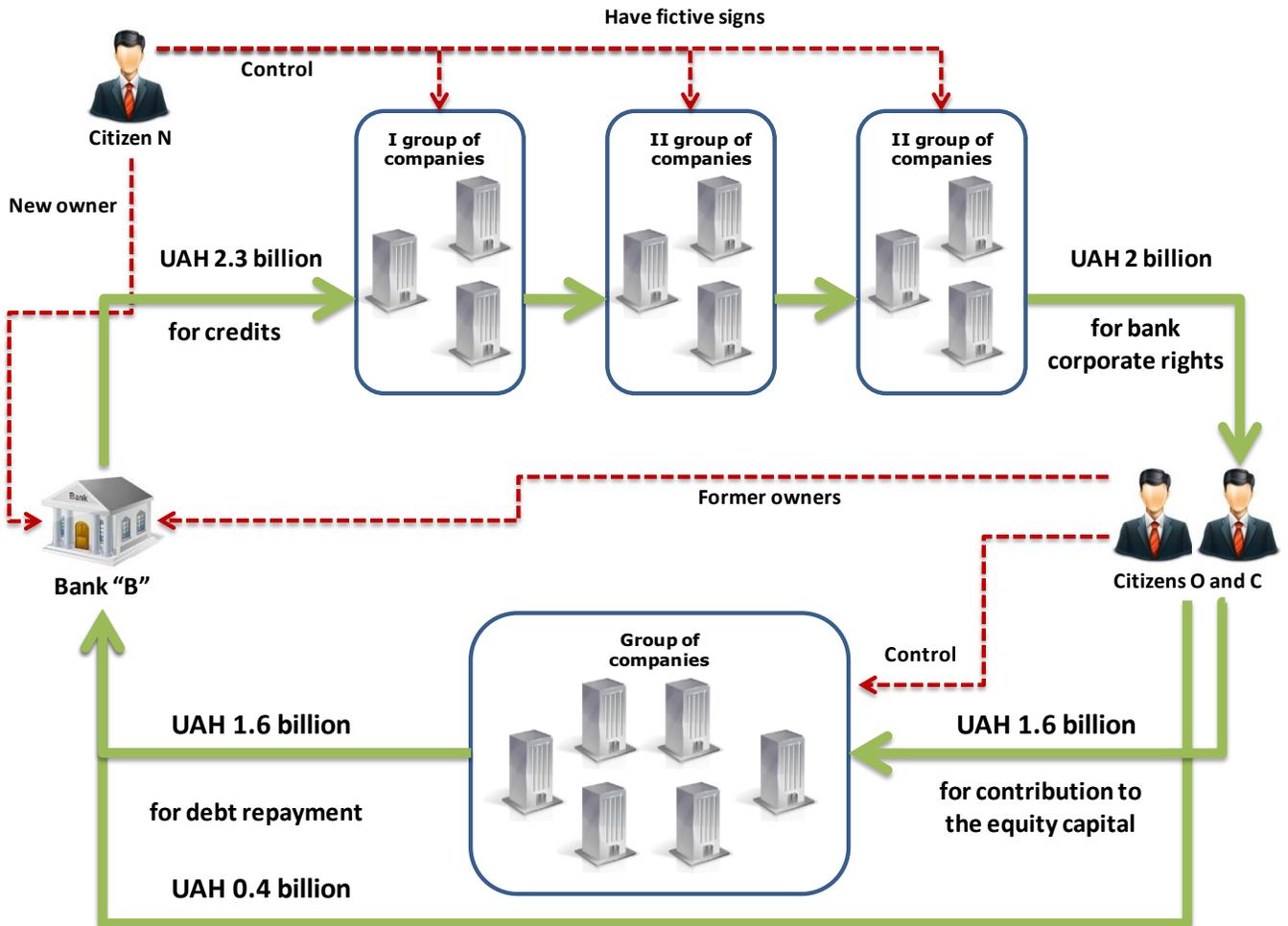
Example

Upon analysis of financial transactions, the State Financial Monitoring Service found the “round” scheme allowed making fictive sales of the control stock of **the Bank “B”** within one day involving shell enterprises.

It has been found that within one day **the Bank “B”** provided the **I group of companies** – newly established enterprises with credits secured on goods to be further purchased in the total amount of **UAH 2.3 billion**. At the same date, funds given were transferred to the accounts of the **II group of companies** that transferred such funds in favor of the **III group of companies**.

All the above mentioned **groups** were controlled by **the Citizen K** and were fictive.

At the same date, the **III group** of companies credited funds in favor of the **Citizens O and C** as payment for the control stock (80%) of shares of **the Bank “B”**.



The Citizen O and C used funds received in the amount of **UAH 2 billion** for repayment of own debt and debt of the controlled enterprises to **the Bank “B”** for previously granted credits.

It is resulted in actual debt assignment of the **Citizen O and C** and their controlled enterprises to the shell companies of **the Citizen N**.

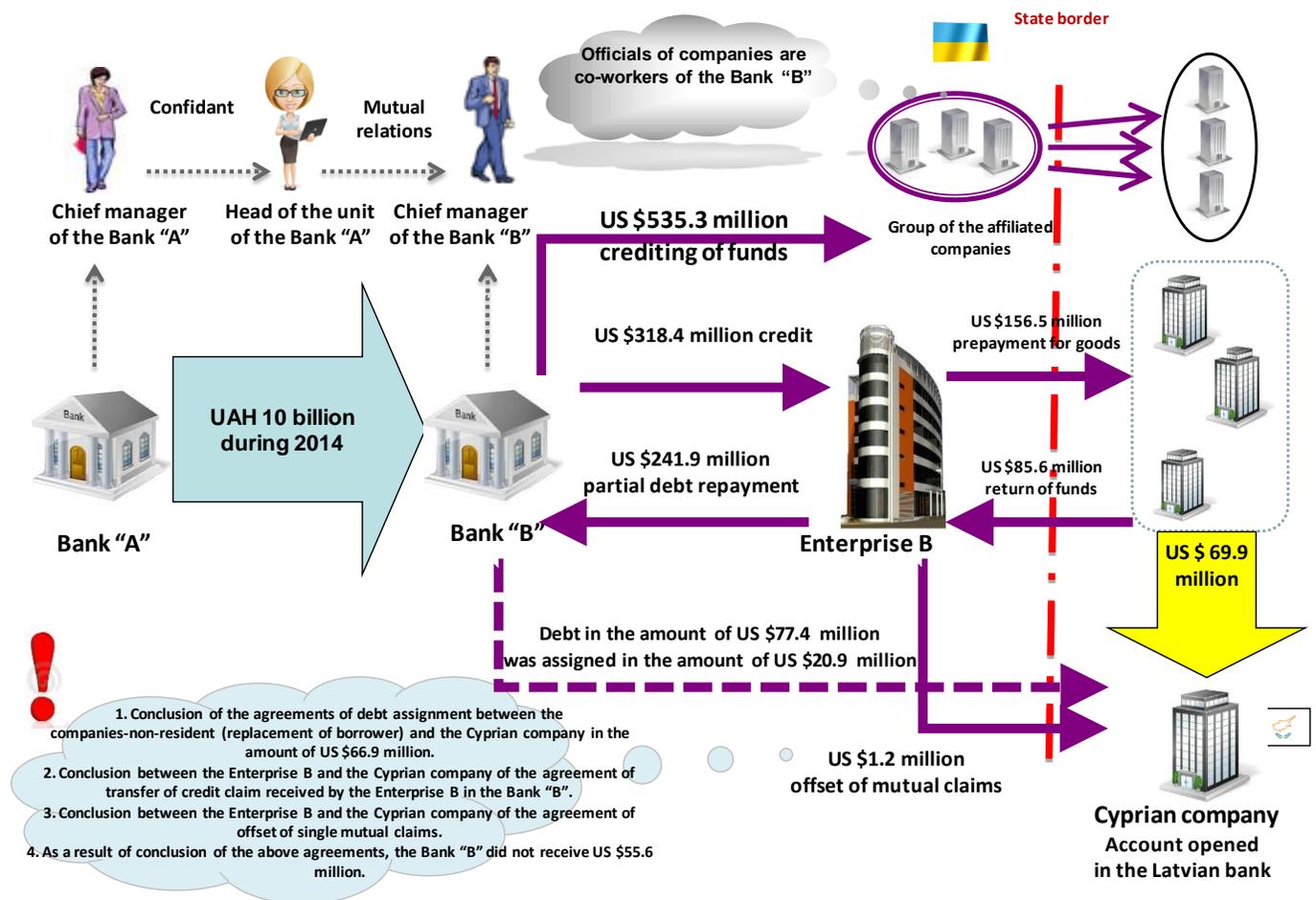
At the date, **the Bank “B”** forfeited the bank license and is in the process of liquidation.

Based on these facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of embezzlement of banking funds and further laundering through credit and foreign economic transactions with the involvement of the officials of commercial bank resulted in the preconditions for bank bankruptcy (the bank is under temporary management).

It has been found that during 2014 **the Bank “B”** received from **the Bank “A”** funds in the amount of **UAH 10 billion**. The head of **the Bank “B”** had relations with the head of the unit of **the Bank “A”**, being, in turn, the attorney of the chief manager of **the Bank “A”**.



Further, **the Bank “B”** converted **UAH 4.1 billion** out of the given amount into **US \$535.3 million** and transferred the funds abroad in favor of 12 affiliated Ukrainian entities, partnerships which officials are employees of **the Bank “B”**.

Moreover, **the Bank “B”** granted the credit to **the Enterprise “B”** in the amount of **US \$318.4 million**, among them the amount of **US \$241.9 million** was returned as repayment of credit in this bank. Credit funds received were also partially transferred by

the Enterprise “B” abroad in favor of three companies-non-residents as prepayment for goods in the total amount of **US \$156.5 million**. Further, the mentioned non-residents returned to **the Enterprise “B”** a portion of funds in the amount of **US \$85.6 million**, due to inability to perform the conditions of the agreement on goods supply, and the remaining amount of debt **US \$69.9 million** was transferred by the non-residents in favor of other non-resident – **the Cyprian company**, according to the concluded agreements of debt assignment (replacement of borrower responsible).

The remaining outstanding debt under credit obligations of **the Enterprise “B”** to **the Bank “B”** in the amount of **US \$77.4 million** was assigned by **the Bank “B”** in favor of **the Cyprian company** for the amount of **US \$20.9 million**.

The Enterprise “B” and **the Cyprian company** concluded the agreement on offset of single counterclaims, as a result the amount of debt of **the Enterprise “B”** to **the Cyprian company** constituted **US \$7.9 million**, among them the amount of **US \$1.2 million** was actually paid.

Thus, upon conclusion by the officials of **the Bank “B”** of the unprofitable agreements on credit claim transfer to **the Cyprian company**, **the Bank “B”** did not receive the amount of **US \$55.6 million**, i.e. it made a loss.

Based on these facts, the law enforcement authority carries out an investigation.

4. Money laundering in the insurance market

Possibilities of the insurance market are actively used for round transactions aimed at minimizing the taxation of entities, exaction of funds from turnover and transfer abroad or obtaining other economic benefits both by the insurers and third parties.

The priority functions of the country in the insurance market is to create optimal conditions for the insurance companies while minimizing the risks of the involvement of the insurance companies into money laundering and the financing of terrorism. The need for an effective anti-money laundering mechanism in the insurance market is determined by the fact that in recent years more than 70% of the reports on suspicious financial transactions from non-banking institutions were recorded by the insurance companies.

The main instruments in the insurance market in money laundering schemes are following:

- conclusion of insurance agreements with unlikely risks;
- fictive documents on insurance event;
- conclusion of agent agreements with increased fees;
- reinsurance in the company with insufficient financial status;
- “dirt” securities (shares, notes, investment certificates);
- conversion of funds into cash.

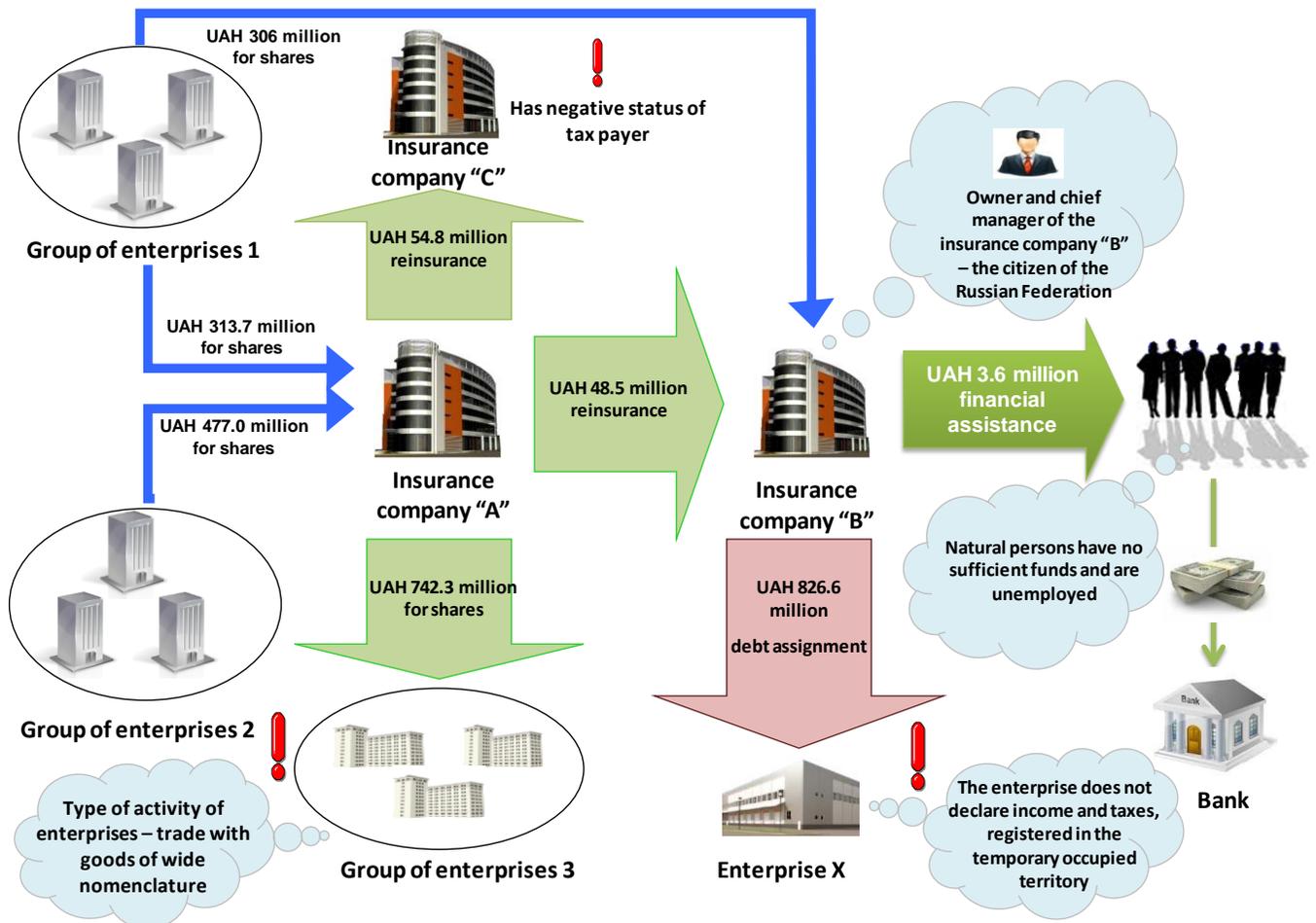
The most popular ways of money laundering through the insurance market:

- receipt by the insurance company of funds under unlikely insurance risks with further transfer in favor of shell companies;
- settlement of a large number of financial transactions with reinsurance by insurance companies having insufficient financial status;
- crediting by the insurance company of a large amount of funds in favor of natural persons as payment under agent agreements;
- payment by the insurance company to a large number of natural persons of insurance premium during a short period of time.

Example

There has been the illegal scheme of financing by the representatives of so-called “Donetsk People’s Republic” involving insurance companies.

It has been found that funds from a number of entities were credited to the accounts of two insurance companies: to the account of **the Insurance Company “A”** it was credited **UAH 477 million** as insurance payment and **UAH 313.7 million** as payment for shares. The amount of **UAH 306 million** was credited to the account of **the Insurance company “B”**– for shares, notes, payment as debt assignment, replenishment of own account, reinsurance of payments.



Further, funds accumulated by **the Insurance Company “A”** were transferred to the accounts of the group of enterprises, the main type of activity of which is retail and mediator trading activity, in the amount of **UAH 742.3 million** as payment for shares to the account of **the Insurance company “C”** (has negative status of tax payer) in the amount of **UAH 54.8 million** as reinsurance and to the account of **the Insurance company “B”** in the amount of **UAH 48.5 million** as insurance premium.

Moreover, **the Insurance Company “B”** owned and managed by the citizen of the Russian Federation transferred funds under the agreement on debt assignment to the account of **the Enterprise “X”** in the amount of **UAH 826.6 million**. **The Enterprise “X”** does not declare income and taxes and is registered in the temporary occupied territory.

Further, a portion of funds in the amount of **UAH 3.6 million** was transferred from the account of **the Insurance company “B”** to the account of three natural persons as financial assistance. Natural persons withdrew funds in cash in the cash department of one banking institution.

The mentioned natural persons are registered in the temporary occupied territory, have no sufficient funds and are temporary unemployed. Accounts of two natural persons were closed just upon settlement of financial transactions.

Based on these facts, the law enforcement authority carries out an investigation.

5. Money laundering in foreign economic activities

The sources of illegal capitals laundering through foreign economic activities may be revenues received from traditional forms of criminal activity (for example, drug traffic, human beings traffic), as well as revenues from financial crimes (embezzlement of funds and property).

Thus, the vast majority of transfers abroad is made in favor of non-residents registered in the countries with kindly taxation environment or simplified registration system, among them are following: Panama, Seychelles, Marshall and British Virgin Islands, Great Britain.

A portion of removed capital is further returned to the country in form of foreign investments, corporate rights, granted credits and loans to be addressed for business support and development and bring legal income. A portion of such transactions is settled with the assistance of shell companies.

The members of the schemes of withdrawing funds abroad are both national legal entities and companies-non-residents controlled by the citizens of Ukraine and foreign shell companies registered for fictive performance of operational activity.

At the same time, bank accounts of non-residents are opened in the following countries: Cyprus, Latvia, Lithuania, Austria and Switzerland.

The main instruments to be used in the schemes involving foreign economic transactions are as follows:

- fictive import agreements;
- “dirt” securities;
- shell companies - residents and non-residents;
- agreements on offset of single counterclaims;
- forgery of documents on performance of foreign economic activity;
- loans from non-residents, fictive investment, conversion into cash;
- involvement of nominees.

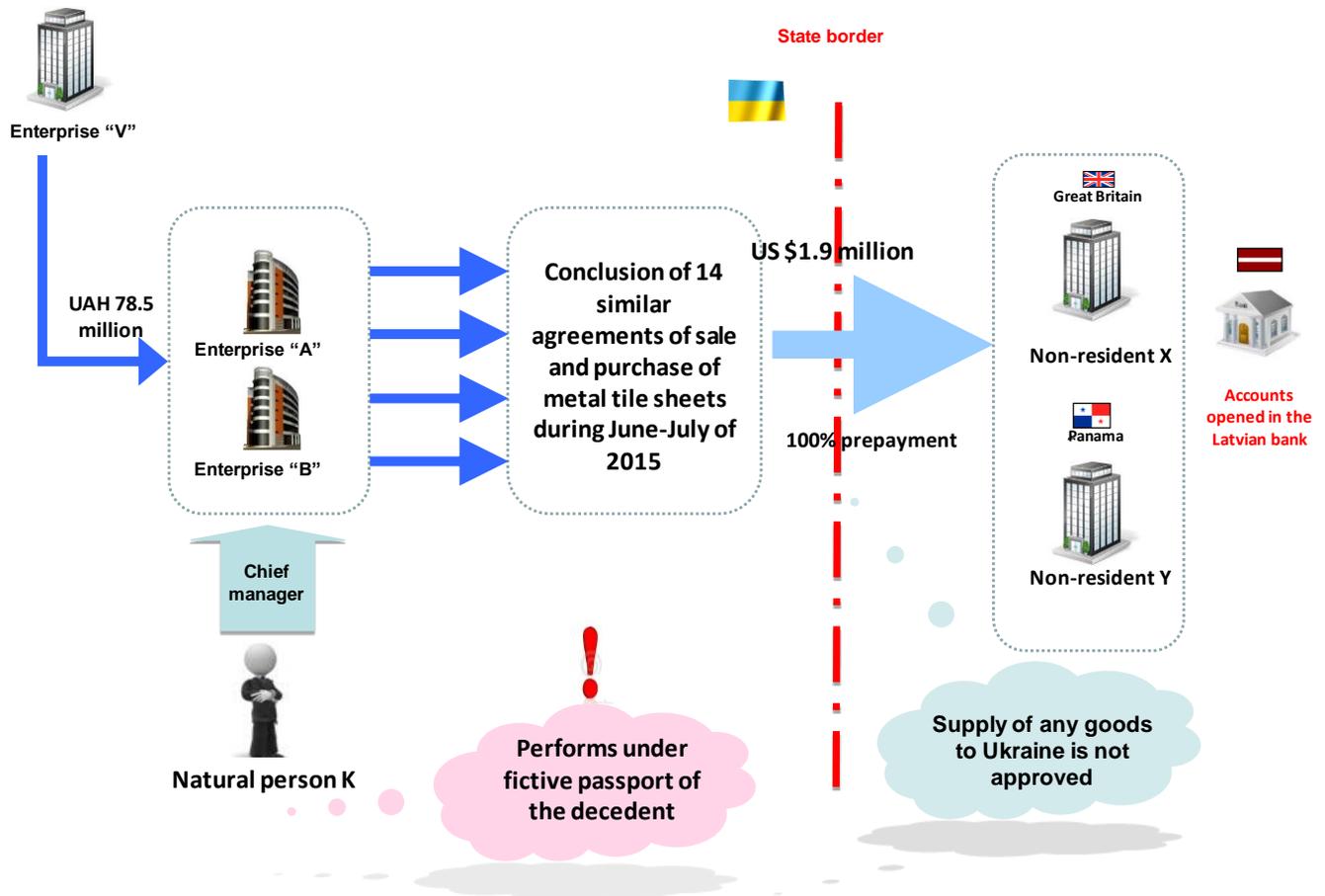
The most popular ways of money laundering using foreign economic financial transactions are as follows:

- funds from a large number of counteragents are accumulated at the account of the Ukrainian enterprise and further transferred abroad in favor of non-residents controlled by the citizens of Ukraine;
- settlement of transactions on fictive investment under which the company-non-resident purchases suspicious or fictive securities which it further sells to the affiliated companies at the price ten times higher than the purchase price with further withdrawal abroad in form of return of foreign investments and revenues from investment activity;
- settlement of financial transactions under fictive import agreements, transit funds transfer between non-residents without the territory of Ukraine and return of funds to the territory of Ukraine to the accounts of natural persons for conversion into cash.

Example

There has been the scheme of withdrawing funds abroad under the fictive agreements concluded between the Ukrainian fictive enterprises and the companies-non-residents.

Thus, **the Enterprise “A” and the Enterprise “B”** concluded **14** similar agreements of sale and purchase of metal tile sheets with **the companies-non-residents “X”** (Great Britain) and **“Y”** (Panama). In all cases the goods were 100% prepaid to the accounts of **the companies-non-residents “X” and “Y”** opened in the Latvian bank in the total amount of **US \$1.9 million**.



The source of funds at the accounts of **the Enterprise "A"** and **the Enterprise "B"** at cost of which currency was purchased was contributions from **the Enterprise "V"** in the total amount of **UAH 78.5 million**.

According to information received from the law enforcement authorities, the passport submitted to the banking institution by the chief manager of **the Enterprise "A"** and **the Enterprise "B"** is fictive as it is holding by the decedent. Besides, **the Enterprises "A", "B" and "V"** are "fictive", in particular: sole manager and founder, low level of equity capitals, lack of any declared gross revenue and payment of taxes.

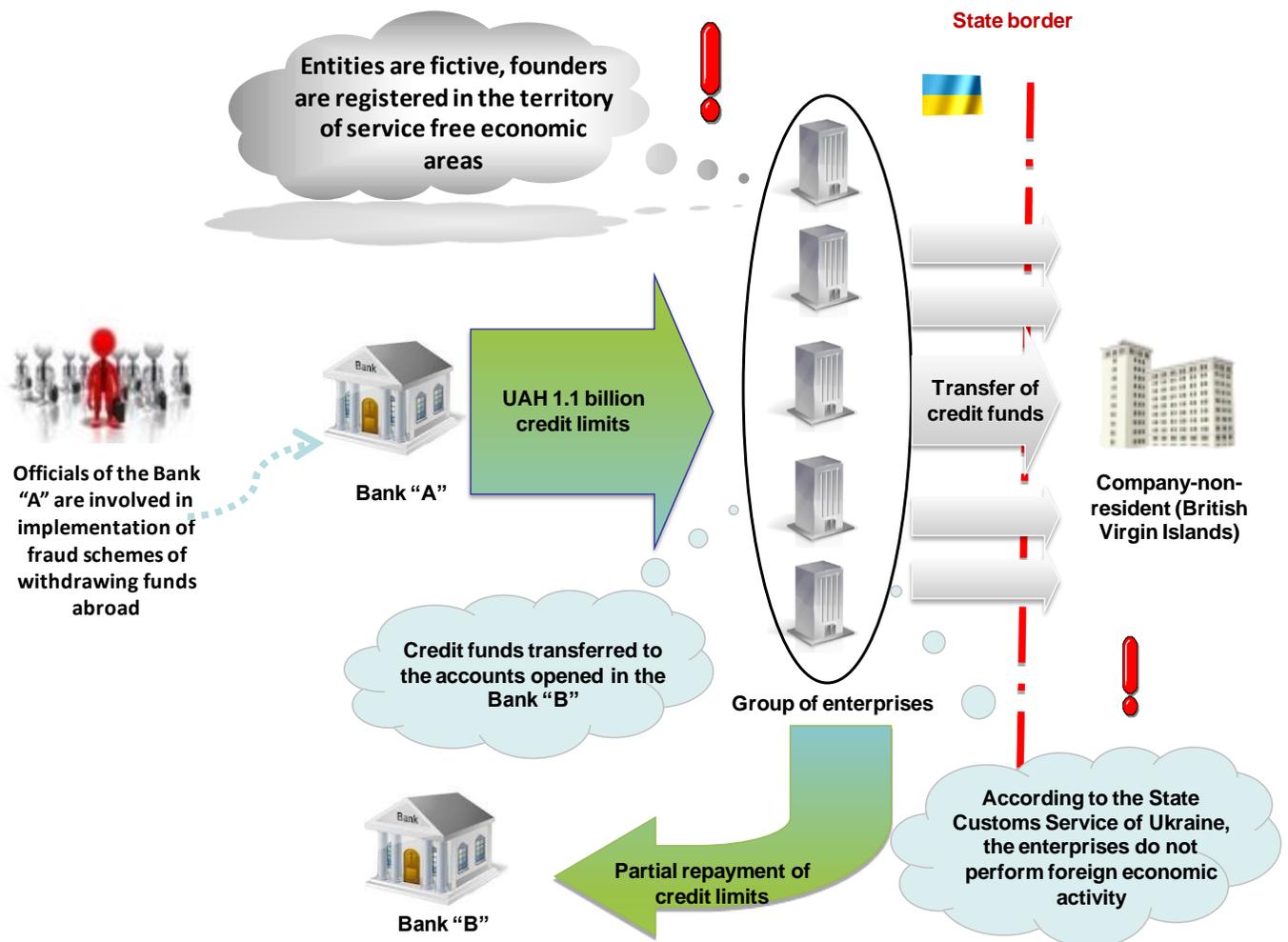
Supply of any goods to the customs territory of Ukraine in favor of **the Enterprise "A"** and **the Enterprise "B"** was not performed.

Based on these facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of settlement of credit and foreign economic transactions having no economic sense and legal goal and aimed at embezzlement of the banking institution assets.

The “Bank “A” concluded with the fictive entities controlled by the chief management of the Bank “A” the credit contracts on granting of non-returnable credit limits with maximum credit risk. Further, credit funds received were partially transferred to the accounts of the mentioned enterprises opened in other banking institution and those credits previously granted were repaid.



A portion of credit funds received is addressed without the territory of Ukraine under fictive foreign economic contracts in favor of **the Company-non-resident** and over a period of time returned to the accounts of the mentioned Ukrainian enterprises.

At that, repayment of the principal amount received in **the Bank “A”** was mainly not performed. At the moment, the above mentioned entities have debt to **the Bank “A”** under the concluded credit agreements in the amount of **UAH 1.1 billion**. Thus, according to the State Customs Service of Ukraine, the mentioned enterprises do not perform foreign economic activity at all.

The Bank “A” had problems with liquidity and failed to perform its obligations to its depositors.

Based on these facts, the law enforcement authority carries out an investigation.

6. Money laundering in the securities market

Attractiveness of the securities market in the schemes of money laundering is due to a large number of professional players of stock exchange, among them there are those “technical” formed by a certain group of persons for certain financial transactions. Upon settlement of such transactions, newly established professional market players cancel their licenses or even disappear that is defined by the state regulator only upon conducting audit or receiving any claim from the investors on absence of the licensee at place of location.

Moreover, absence of the unified state register of notes adds complexity to proper control over their issuance and turnover and, accordingly, allows the note to take the first place among financial instruments to be used in the schemes of money laundering.

Typical example is the situation when the buyer makes a note with endorsement as payment for receipt of any goods or services from the seller. Upon settlement of any special transactions (including book-cooking and forgery of payment documents), such note is addressed to the natural person that submits it to the holder for payment, receives the funds and withdraws them from the account in cash.

Thus, the popular instrument for money laundering is saving (deposit) certificates that any natural person may buy from the legal entity deposited in the banking institution and, further, may receive the funds upon submission of such certificates to the banking institution.

Moreover, state securities are often used as a financial instrument – bonds of national credit. Thus, all securities purchased at the bargain price should be further sold at the market prices. Consequently, some players make a loss, while other players gain investment income.

Upon money laundering through the securities market, the following instruments are used:

- securities issued by fictive enterprises;
- off-market securities;
- notes with turnover more than 3 years or issued by the newly established enterprises;

- saving bearer certificates;
- bonds of national state loan purchased not at the market price;
- conversion of funds into cash.

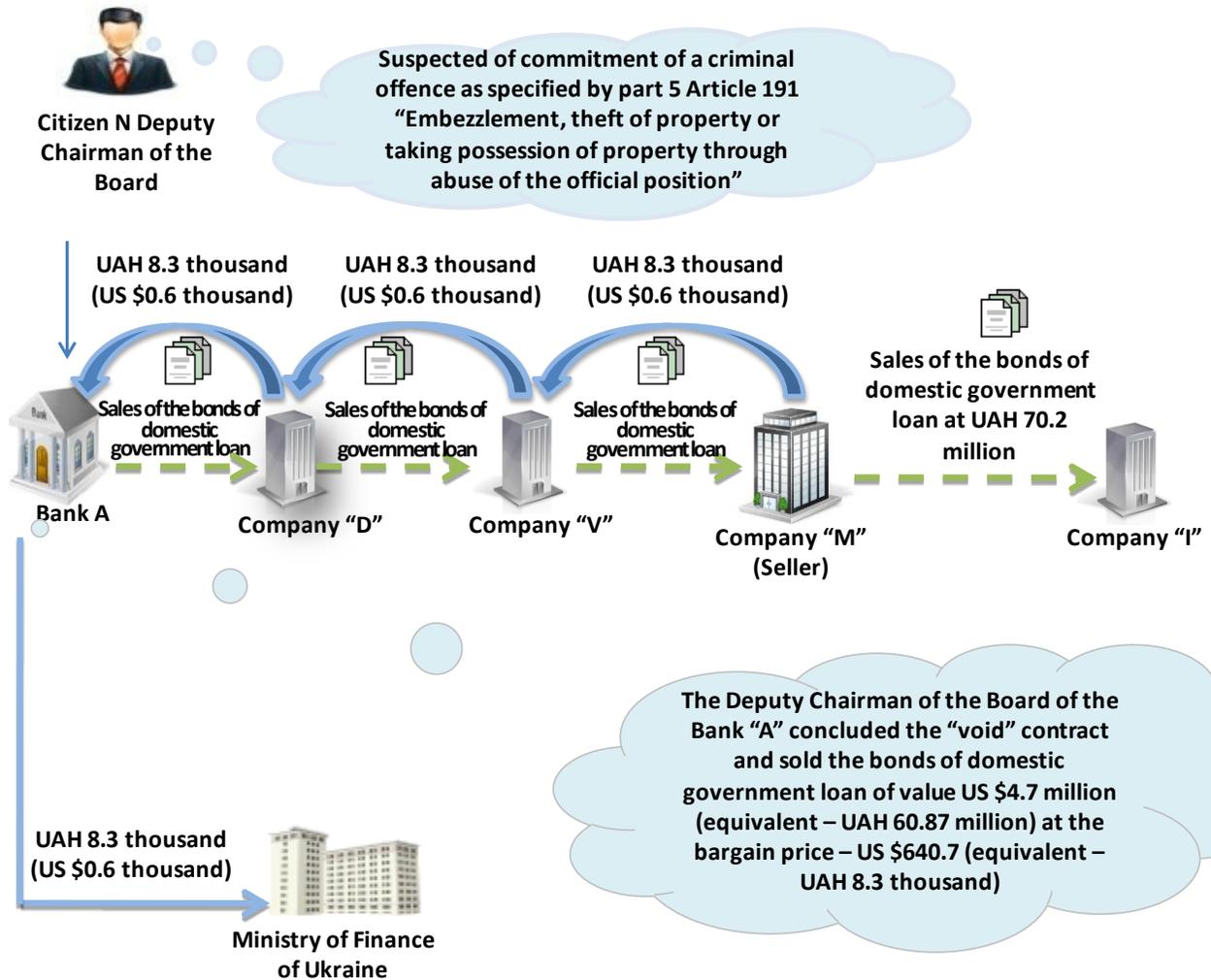
The most popular ways for money laundering using securities are as follows:

- funds from the unknown sources are transferred as payment for “dirt” securities in favor of fictive enterprises;
- any note received upon sales of any goods or services is further received by the natural person through forgery of documents that presents it for payment to the holder and converts the funds received into cash;
- acquisition by the natural person of saving (deposit) certificates from the legal entity deposited the funds, for presentation of such certificates to the banking institution for receipt of interests with further sales of certificates;
- acquisition of bonds of national state loan credit at the bargain price and further sales at the market prices;
- involvement of the newly established professional securities market players for settling financial transactions;
- involvement of nominees and fictive enterprises.

Example

There has been the scheme aimed at embezzlement of property through abuse of the official position.

Thus, **the Bank “A”** with the assistance of **the Citizen N** (Deputy Chairman of the Board of **the banking institution “A”**) concluded with the **Company “D”** the agreement and sold bonds of national state loan with the total nominal value of **US \$4.7 million** (equal to **UAH 60.8 million**) for **UAH 8.3 thousand**.



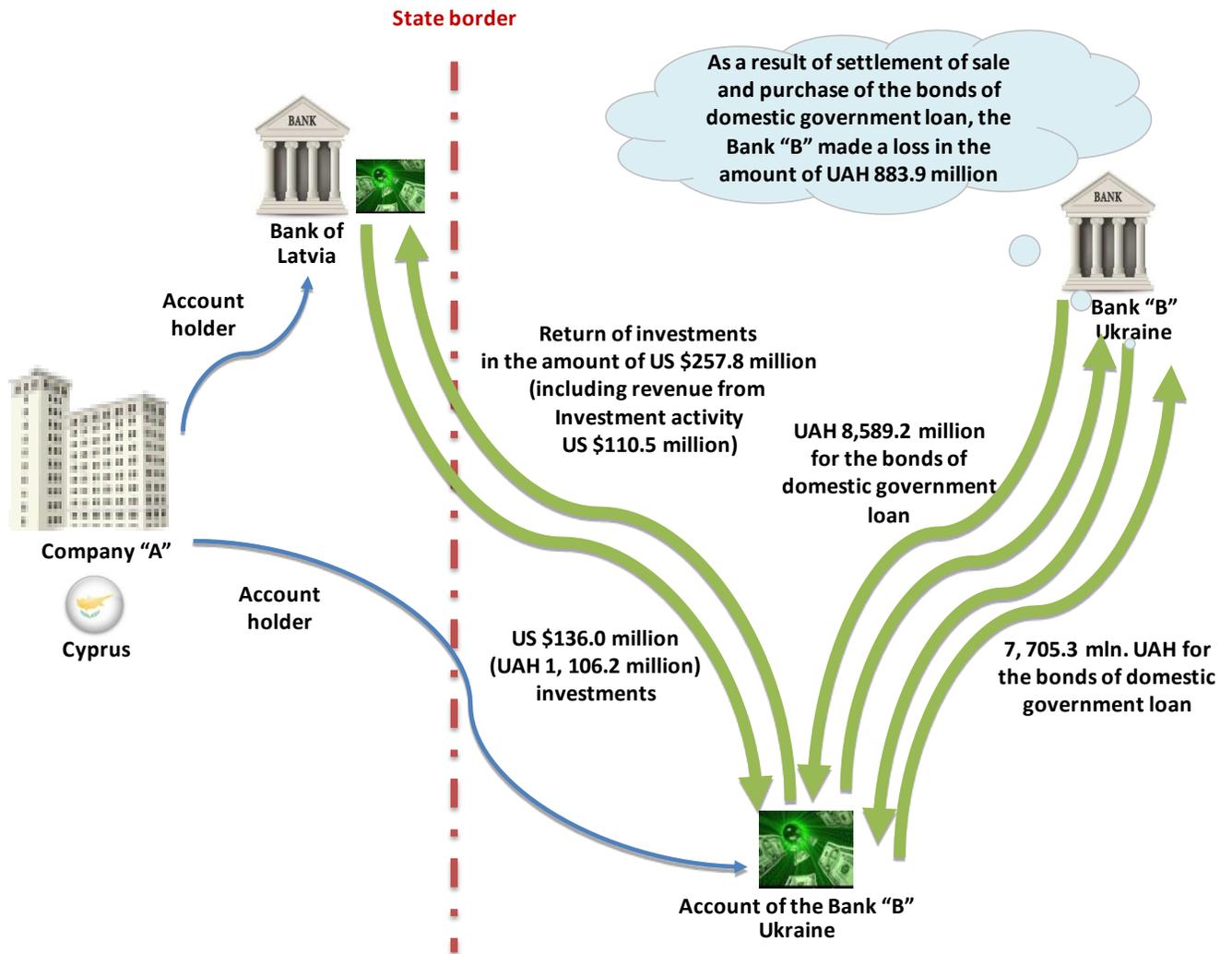
Further, the Company "D" sold the bonds of domestic government loan to other enterprise the Company "V" for UAH 8.3 thousand and then they were purchased by the seller of securities of the Company "M" from the Company "V" for UAH 8.3 thousand sold at the stock exchange at the market price of UAH 70.2 thousand in favor of the Company "I".

Thus, based on the order issued by the Deputy Chairman of the Board of the Bank "A", the bonds of domestic government loan were sold at the bargain price lower than the nominal value resulted in loss in the amount of UAH 60 million.

Based on these facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of embezzlement by the company-non-resident affiliated with the bank management of the funds of the banking institution resulted from settlement by the banking institution of unprofitable transactions on sale and purchase of the bonds of domestic government loan.



The Company "A" (Cyprus) transferred from the account opened in the Latvian bank the funds to the own account **in the Bank "B"** in the amount of **US \$136 million** as investment activity and, after conversion into national currency, the funds were credited to the own account in the same bank in the amount of **UAH 1, 106.2 million**.

Using the "round" scheme of sale and purchase and purchase and sale of the same bonds of domestic government loan, **the Company "A" (Cyprus)** transferred the above mentioned funds in favor of **the Bank "B"** as payment for the bonds of domestic government loan according to the agreements on sale and purchase of the bonds of

domestic government loan. At the date of receipt of the funds from **the Bank “B”** and execution of the transfer and delivery certificates of the bonds of domestic government loan, non-resident sold (returned) to the mentioned bank under other agreements of sale and purchase of the bonds of domestic government loan. The funds received from **the Bank “B”** from sales of the bonds of domestic government loan together with the remaining unused funds upon the first transfer were used by **the Company “A”** for purchase other stocks of the bonds of domestic government loan from **the Bank “B”**.

The funds were moved from **the Company “A”** to **the Bank “B”** and returned with revenue from investment activity.

As a result of round transactions, **the Company “A”** totally transferred the funds in favor of the **Bank “B”** as payment for the bonds of domestic government loan in the amount of **UAH 7, 705.3 million**, while it was received for the funds from **the Bank “B”** from sales of the same bonds of domestic government loan in favor of this banking institution in the amount of **UAH 8, 589.2 million**.

The amount of investment income of **the Company “A”** (Cyprus) and, accordingly, the amount of loss of **the Bank “B”** constituted **UAH 883. 9 million**.

The mentioned “investment” income in the amount of **UAH 883.9 million** as a part of the amount of **UAH 2, 298.0 million** was transferred for purchase of currency and, further, credited to the account in foreign currency in the amount of **US \$257.8 million** (together with revenue in the amount of **US \$110.5 million** from investment activity in Ukraine).

At the last stage, the mentioned funds were transferred abroad to the own account of **the Company “A”** in Latvian bank as income received from sale and purchase of the bonds of domestic government loan and return of the funds due to the suspension of investment activity.

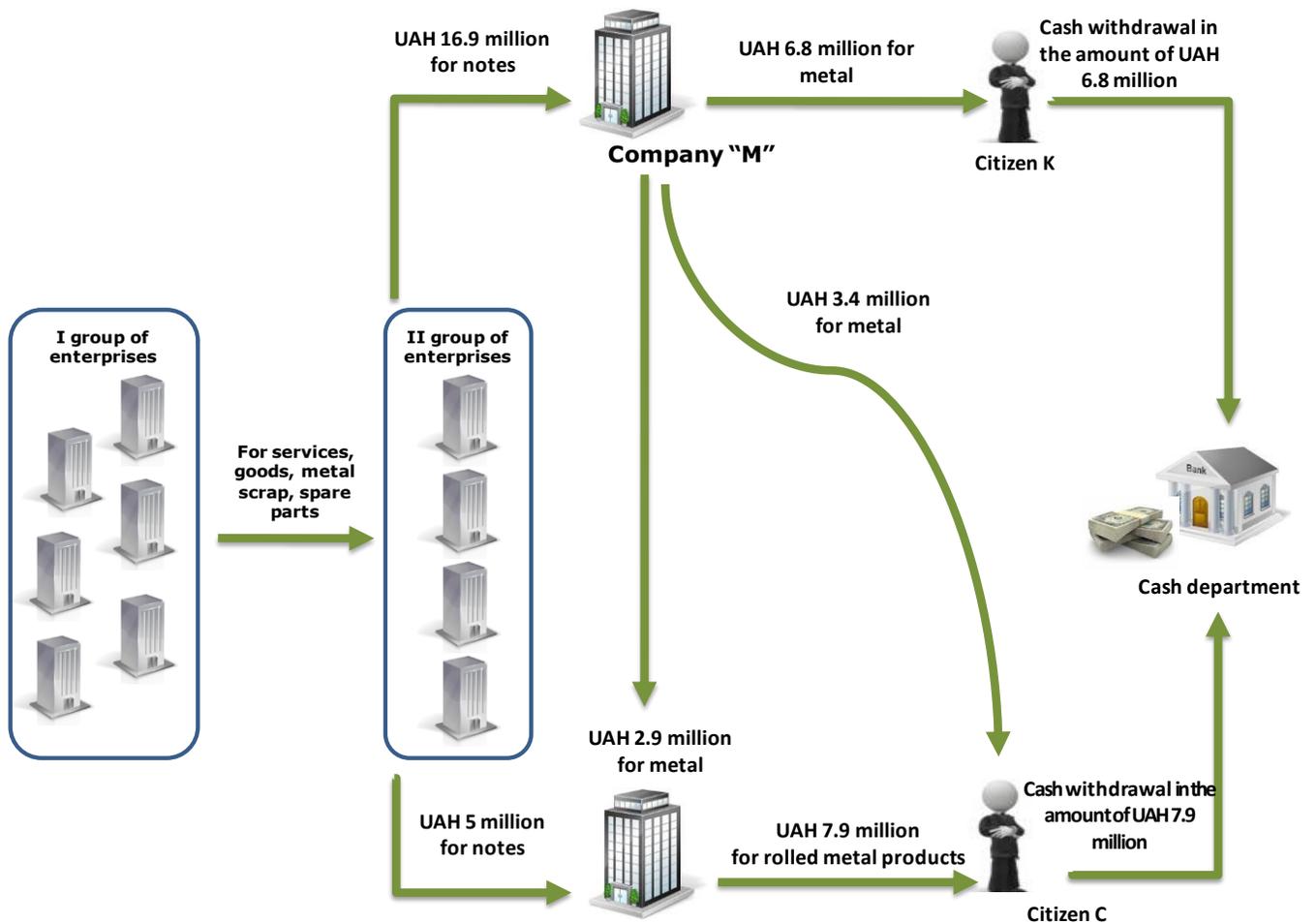
Based on these facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of movement of non-cash money with further “conversion” into cash.

Those funds received from the **I group** of enterprises in favor of the **II group** of enterprises as payment for services, goods, and metal scrap, spare parts were further transferred in favor of **the Company “M”** in the amount of **UAH 16.9 million** and **the Company “A”** in the amount of **UAH 5 million** for notes. In turn, **the Company “M”** transferred funds received in favor of **the Company “A”** in the amount of **UAH 2.9 million** with the purpose of payment - for metal.

Further, mentioned funds were transferred from the accounts of **the Company “M”** and **the Company “A”** to **the Citizen K** and **the Citizen C** as payment for metal and withdrawn in cash. The total amount of funds converted by **the Citizen K** and **the Citizen C** in cash constituted **UAH 18.1 million**.



Based on these facts, the law enforcement authority carries out an investigation.

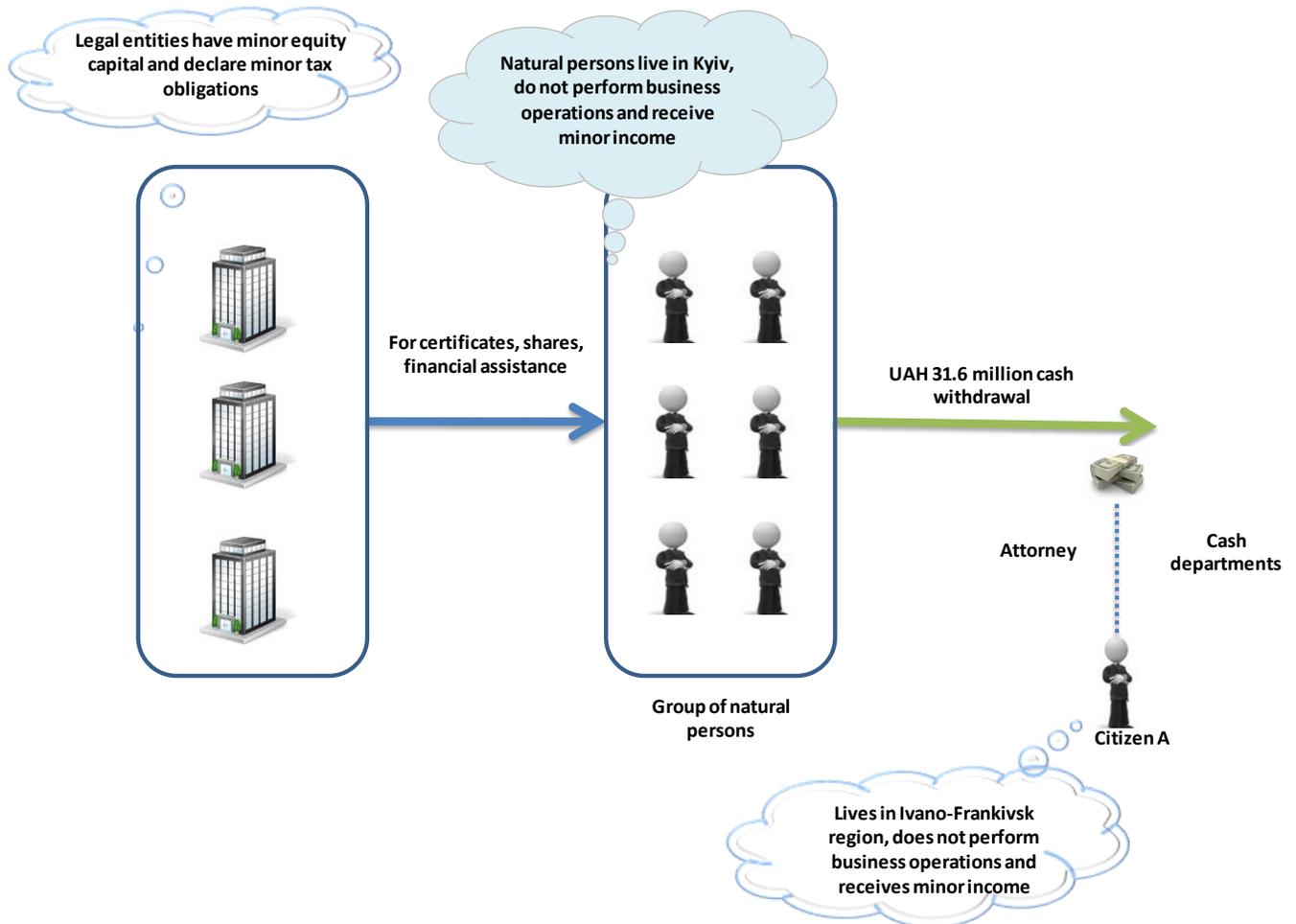
Example

There has been the scheme of cash movement that allowed converting of non-cash funds into cash using the securities market.

Non-cash funds were transferred by **the group of enterprises** in favor of a **number of natural persons** as payment for certificates, shares, financial assistance.

Further, funds were withdrawn from the accounts of the group of natural persons by the same attorney-**citizen A** in cash departments of two banking institutions.

Those enterprises that transferred funds in favor of the group of natural persons are fictive: minor equity capital, minor tax obligations declared, sole manager and founder, accounts are opened prior to settlement of financial transactions, change in founders.



The group of natural persons, taking into consideration lack of income, has negative financial status, lives in Kyiv, while the **citizen A** lives in other region (Ivano-Frankivsk region).

The total amount of funds received by **the citizen A** in cash constituted **UAH 31.6 million**.

Based on these facts, the law enforcement authority carries out an investigation.

7. Money laundering through “convert” centers and fictive enterprises

Cash is one of the popular instruments in Ukraine to be used in the schemes of money laundering.

It should be noted that during 2014-2015 the National Bank of Ukraine adopted a range of statutory acts aimed at limitation of cash turnover in Ukraine.

Thus, from June 01 till September 01, 2014 according to the Decree of the National Bank of Ukraine dated 30.05.2014 No.328 “On Regulation of the Activity of Financial Institutions and Settlement of Currency Transactions”, there have been established restrictions concerning issue of funds in national and foreign currency.

According to the Decrees of the Board of the National Bank of Ukraine dated 29.08.2014 No.540, dated 01.12.2014 No.758, dated 03.03.2015 No.160, dated 03.06.2015 No.354, dated 03.09.2015 No.581 and dated 04.12.2015 No.863, the term of restrictions was expended till December 02, 2014, March 03, 2015, June 03, 2015, September 03, 2015, December 04 and March 04, 2016.

Based on the above mentioned Decrees, the banks should restrict issuance of funds in national currency through cash departments and ATMs in the amount of up to UAH 150 thousand per day per one customer. From June 03, 2015 the daily limit per one customer was increased up to UAH 300 thousand.

In addition, according to the requirements of the Decree of the Board of the National Bank of Ukraine dated 04.12.2015 No.863, the authorized banks are obliged to restrict issuance (receipt) of funds in foreign currency or bank metals from customs current and deposit accounts through cash departments and ATMs up to UAH 20 thousand per day per one customer in the equivalent at the official rate of the National Bank of Ukraine.

The mentioned requirement applies to issuance (receipt) of funds both within and without the territory of Ukraine regardless of the number of accounts in one bank.

The above restrictions significantly influenced on the mechanisms of operation of the “convert” centers. Recently, prior to application of the restrictions for issuance of funds, at the final stage of conversion of non-cash funds into cash, a few number of parties was involved (persons or entities).

Up to the date, taking into consideration the existing restrictions, the following mechanisms and methods are used for withdrawal of a large amount of funds:

- involvement of a large number of persons and entities (including those with fictive signs);
- opening of a large number of accounts by one entity or person in various banking institutions;
- involvement of socially disadvantaged population, persons with criminal history and persons using lost passports for settlement of financial transactions;
- combination of various forms connected with cash withdrawal abroad and trade with import goods for cash.

At this, funds are often withdrawn from the accounts of all scheme players by one attorney or the group of persons.

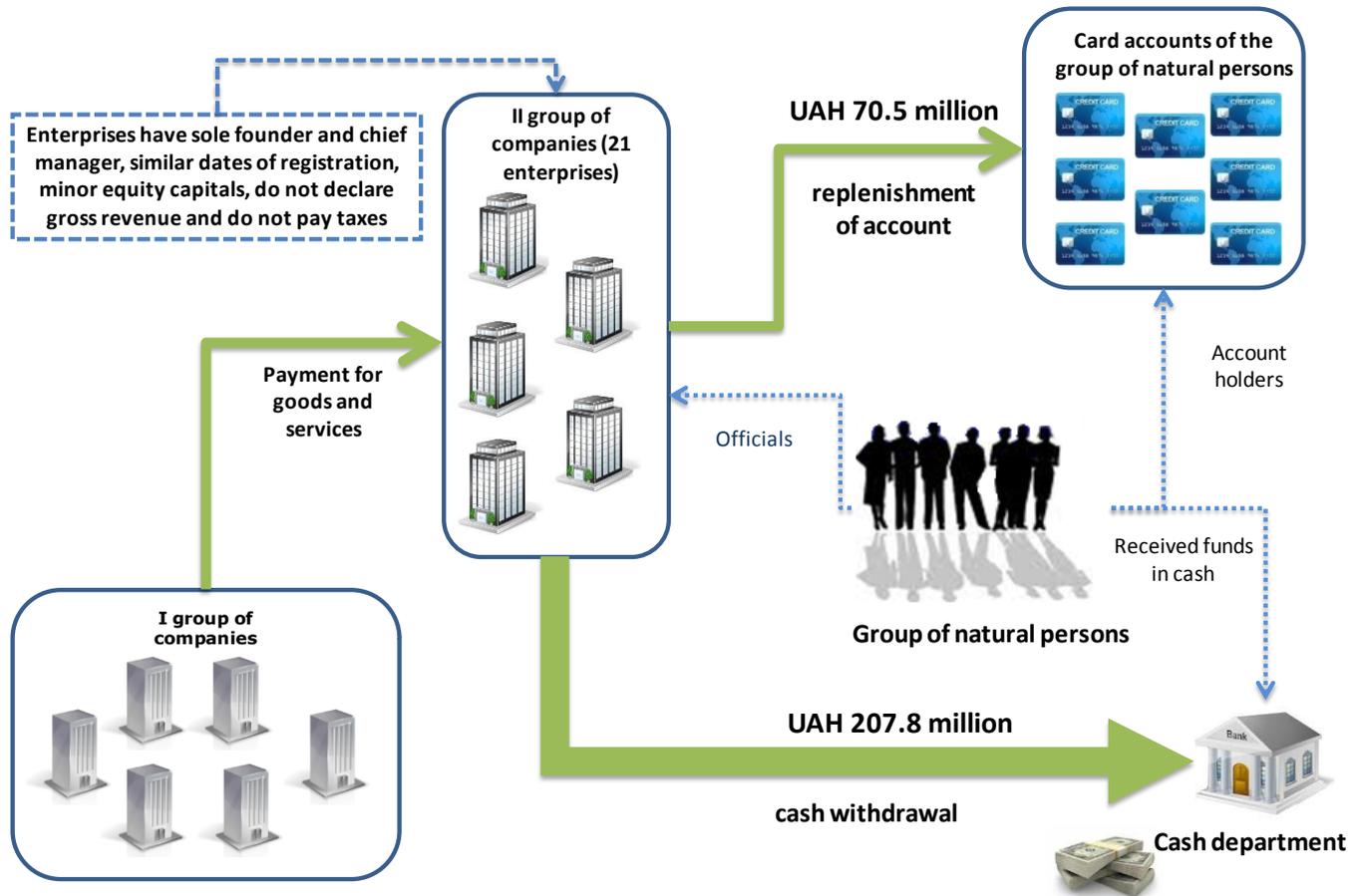
The most popular instruments to be used in the activity of “convert” centers are as follows:

- agreements on claims assignment;
- “fictive” securities (notes, shares, investment certificates);
- financial and charitable assistance, other types of loans.

Example

There has been the scheme of funds movement on conversion of non-cash funds into cash.

Thus, funds credited from **the first group** of companies to the accounts of **the second group** of companies (**21 enterprises**) were further transferred to the card accounts of **20 natural persons** and withdrawn in cash.



The total amount of funds converted into cash and transferred to the card account constitutes **UAH 278.3 million**.

The vast majority of enterprises from which accounts funds were withdrawn are registered at the same period, have minor equity capitals (from 100 up to 3,000 UAH) and sole founder and chief manager. Information on the declared gross revenues and paid taxes is missed.

Natural persons-holders of card accounts are the founders of the mentioned enterprises. The mentioned persons do not have any appropriate income, taking into consideration lack of any revenues received and right of ownership on property.

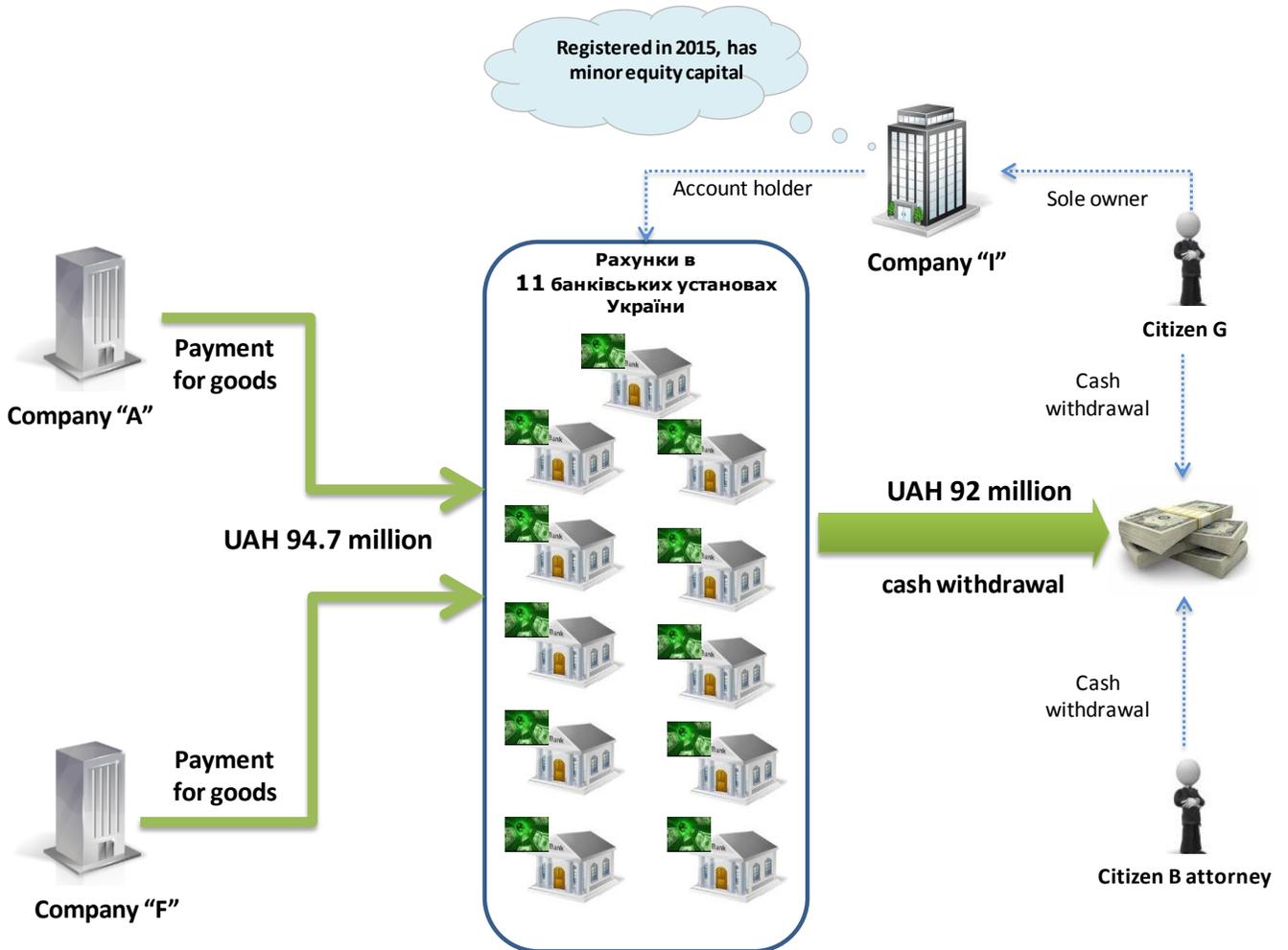
Based on the given facts, the law enforcement authority carries out an investigation.

Example

Upon analysis of financial transactions, there has been the scheme of funds movement that allowed converting of non-cash funds into cash.

Two companies transferred the amount of **UAH 94.7 million** to the accounts of the newly established enterprise **Company “I”** opened in 11 banking institution of Ukraine, as payment for goods.

Further, funds in the amount of **UAH 92.0 million** were withdrawn in cash from the above accounts by sole owner of the enterprise **the Citizen G** and by the attorney **the Citizen B**.



The enterprise, from the account of which funds were withdrawn, was registered in 2015, has minor equity capital (UAH 1,000) and sole founder and chief manager.

Based on the given facts, the law enforcement authority carries out an investigation.

Example

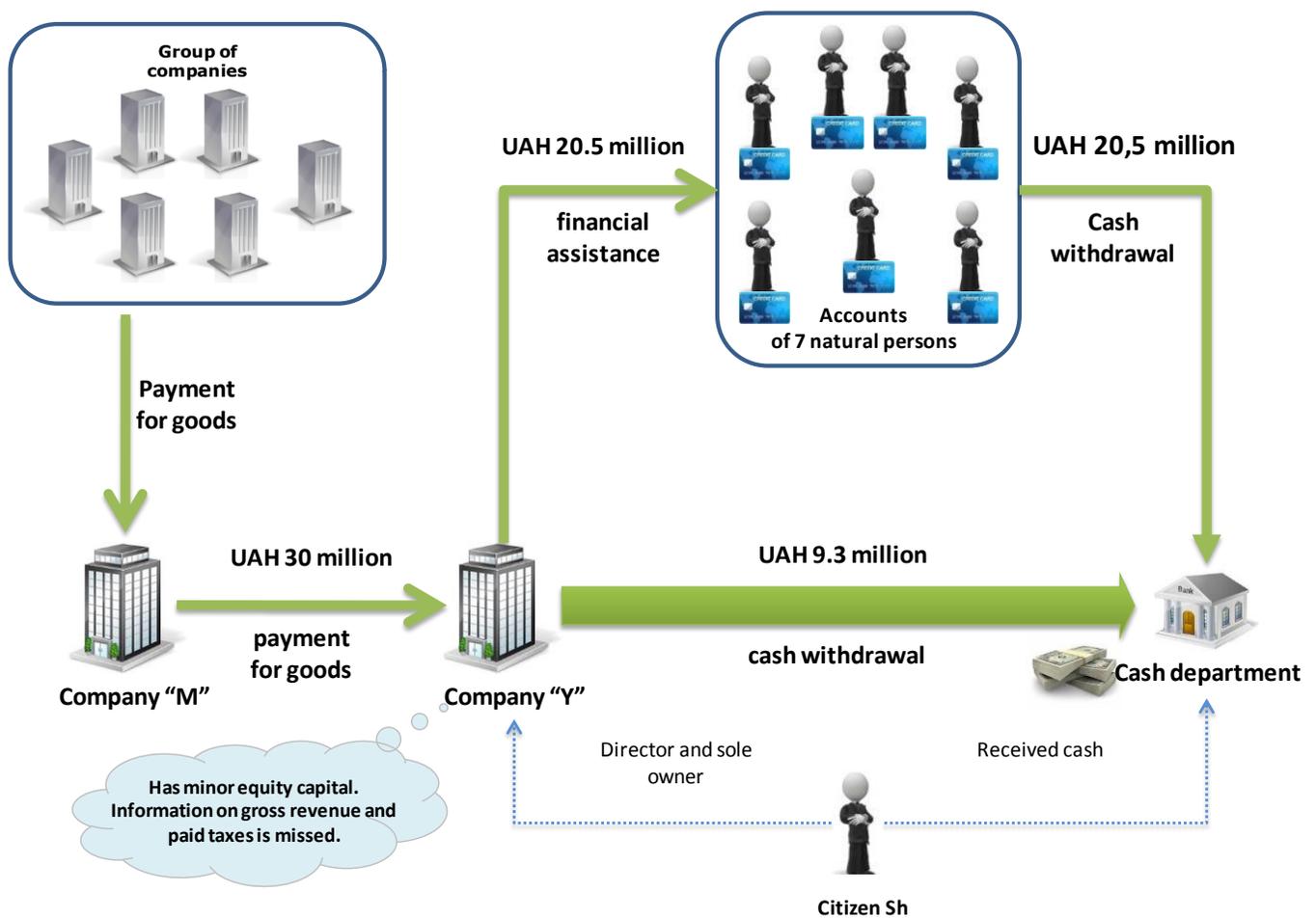
There has been the scheme of the activity of the “convert” center.

The group of companies transferred funds to be accumulated at the account of **the Company “M”** as payment for goods.

Further, non-cash funds in the total amount of **UAH 30 million** were transferred to the accounts of **the Company “Y”**.

Those funds received in the amount of **UAH 9.3 million** were partially withdrawn in cash by the director and the remaining amount of **UAH 20.5 million** was transferred as financial assistance to the accounts of **7 natural persons**.

The natural persons also withdrew mentioned funds in cash.



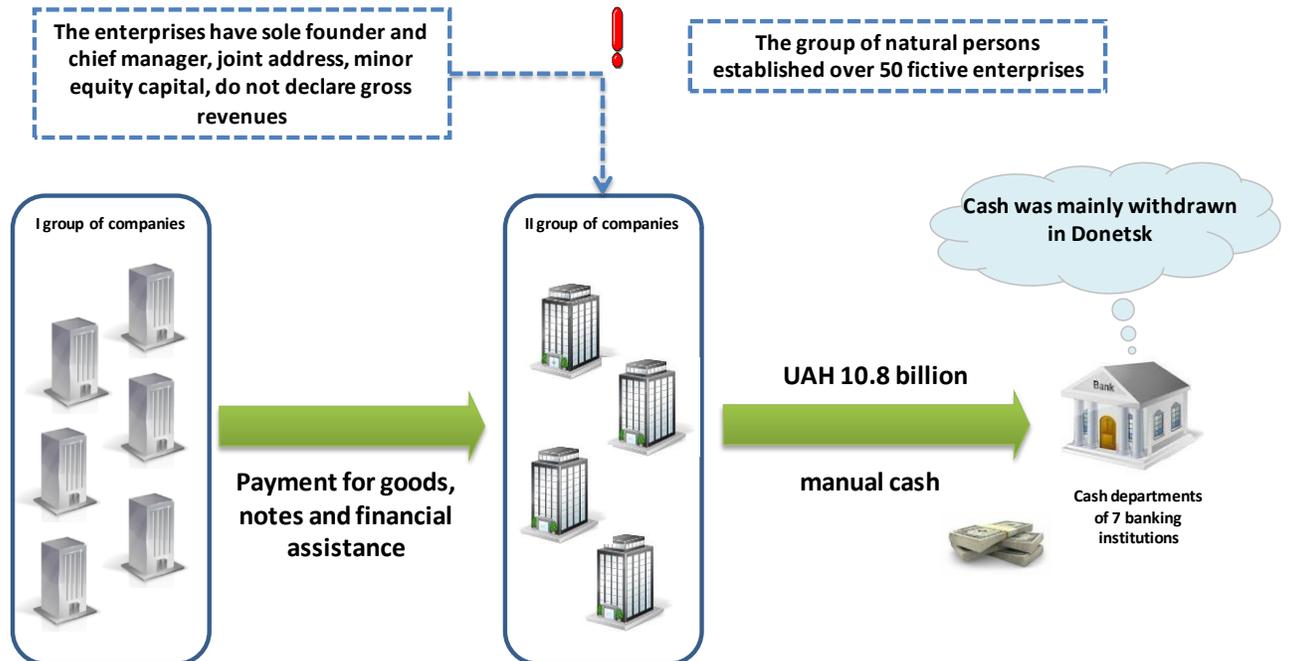
The Company “M” and **the Company “Y”** have minor equity capitals (UAH 1,000) and sole founder and chief manager, information on the declared gross revenues and paid taxes is missed. The accounts of **the Company “Y”** and natural persons are opened in the same banking institution.

Based on the given facts, the law enforcement authority carries out an investigation.

Example

There has been the scheme of operation of a large “convert” center in eastern Ukraine.

The group of natural persons established and purchased over **50 enterprises** used for accumulation of non-cash funds and further conversion into cash. Funds in the amount of **UAH 10.8 billion** were withdrawn in cash from the accounts of **7 enterprises**. Funds were withdrawn in cash departments of **7 banking institution** mainly located at the border of the temporary occupied territory. Previously non-cash funds were addressed from a large number of enterprises as payment for goods and notes, as well as financial assistance.



The enterprises have sole founder and chief manager, joint address, minor equity capital, do not declare gross revenues.

Based on the given facts, the law enforcement authority carries out an investigation.

8. Money laundering from cyberterrorism

Up to the date, cybercrimes are one of the most dynamic groups of socially-dangerous infringement. It is due to rapid growth of science and technologies in the sphere of computerization, as well as due to regular and rapid expansion of the sphere of computer techniques application.

The most sensitive for cybercrimes in the banking sector is online services or services of remove customer access to own accounts in banks, electronic wallets with the connected card accounts. Cases of thefts from the customer accounts of banking institutions are increasing.

The list of instruments to be used by cyber criminals for money laundering is quite wide, namely:

- use of the accounts opened under lost or fictive documents;
- opening of the account, including in the name of low-income citizens and fictive enterprises;
- use of international payment systems (e-payments);
- transfer of chain financial flows through several banking accounts with remote access;
- e-cash and cryptocurrency;
- involvement of nominees.

The most popular ways of money laundering to be used by cyber criminals are as follows:

- funds transfer to the card and corporate accounts of natural persons with further cash withdrawal, including through ATMs;
- funds transfer through the accounts of persons and entities with further purchase of goods and services through Internet;
- conversion of funds into e-cash and further conversion into cash or purchase of goods;
- exchange/allocation of funds in electronic wallets.

Example

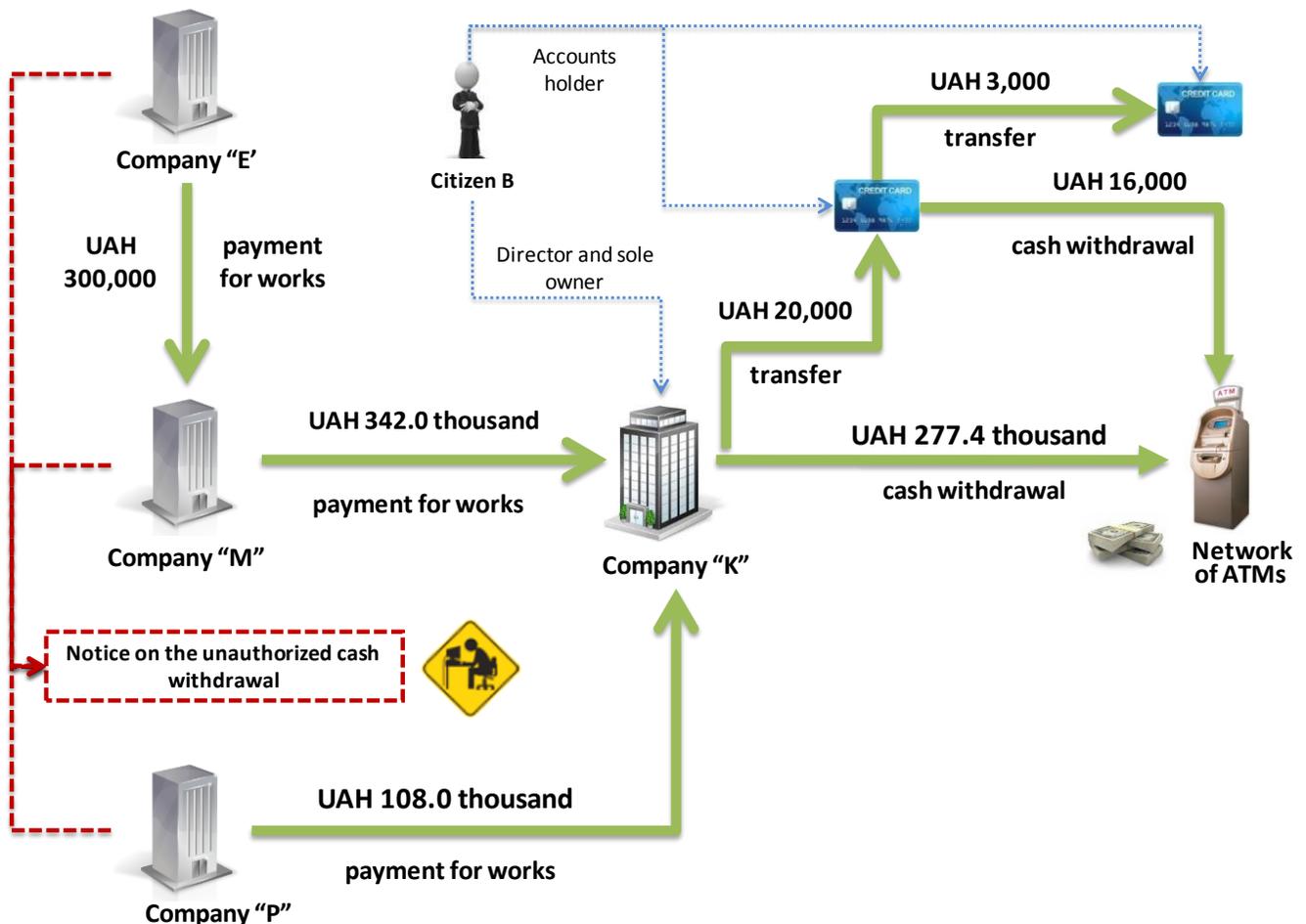
There have been found facts of unauthorized cash withdrawal from the accounts of a range of companies with their further conversion into cash.

During one day funds in the amount of **UAH 450,000** were withdrawn without authorization from the remote access accounts of three enterprises and credited to the account of **the Company “K”** with the purpose of payment “for works”.

Further, a large portion of funds received in the amount of **UAH 277.4 thousand** was withdrawn in cash in ATMs. Other portion of funds in the amount of **UAH 20,000** was transferred to the card account of sole founder and chief manager of **the Company “K”** and further converted into cash.

The Company “K” has negative tax payer status (in the Unified State Register it is recorded on absence at the place of location), fails to declare gross revenues and pay taxes, being sole manager and founder.

Based on the given facts, the law enforcement authority carries out an investigation.

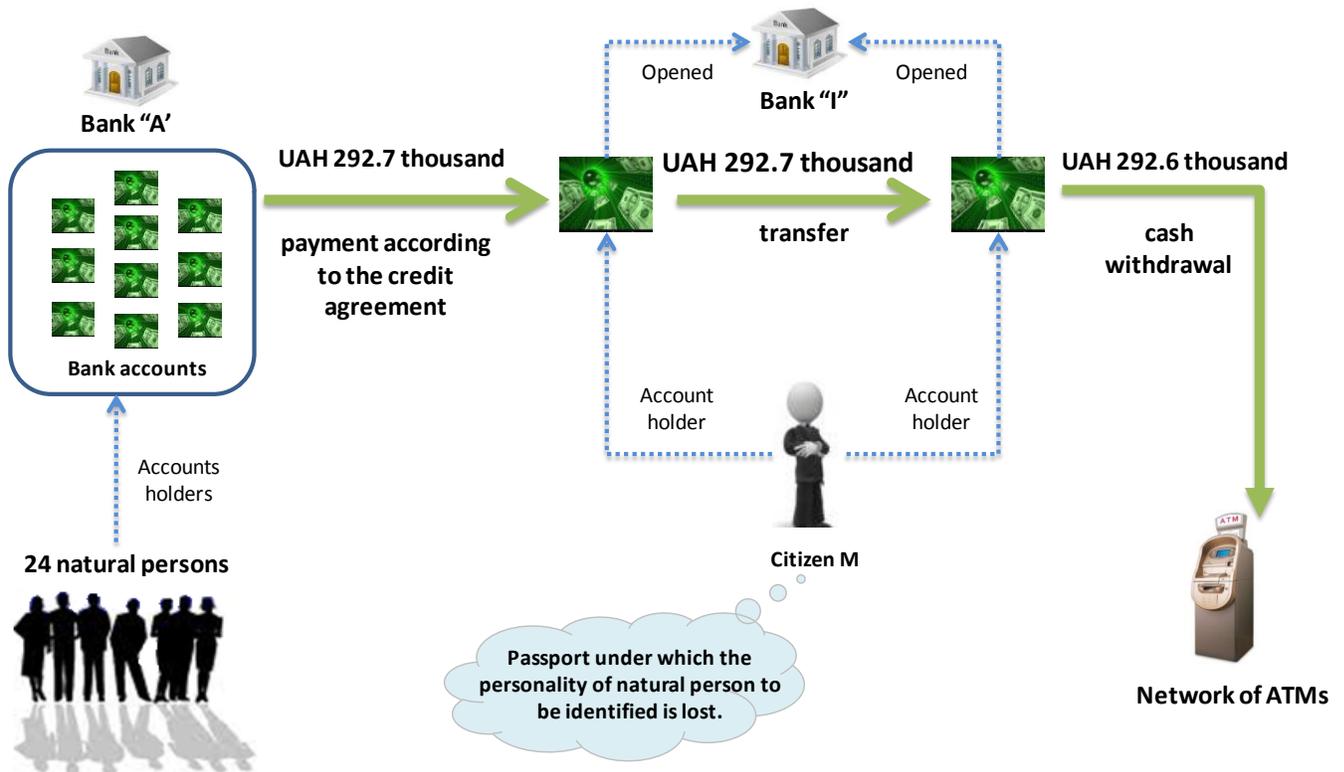


Example

There has been the scheme of the fraudulent actions concerning unauthorized cash withdrawal from the accounts with remote access of the group of natural persons in the amount of **c 292.7 thousand**.

During a short period of time, funds were withdrawn from the accounts of **24** natural persons with authorization with the purpose of payment “payment under the credit agreement” to the account of one natural person.

Further, funds from the natural person’s account were transferred to other account opened in the same bank and withdrawn in cash through ATMs.



The bank where the accounts of **24** natural persons were opened addressed to other bank-recipient with a notice concerning the fraudulent actions. The opened accounts have remote access.

Based on the given information, the passport of the citizen of Ukraine under which the personality of natural person to be identified is considered to be lost since 2011.

Cash withdrawal from the accounts of natural persons was made through the same IP-address.

Based on the given facts, the law enforcement authority carries out an investigation.

9. Legal investigations on terrorism (separatism) financing

Situation in the eastern regions of Ukraine requires for the strict measures to control over the financial flows. Determination and suspension of financial assistance for terrorist and separatist organizations should be one of the key trends of long-term strategy of the AML/CFT system. As the financing allows committing of terrorist attacks and appropriate training of terrorists (separatists).

The most spread instruments in the schemes of the financing of terrorism (separatism) are as follows:

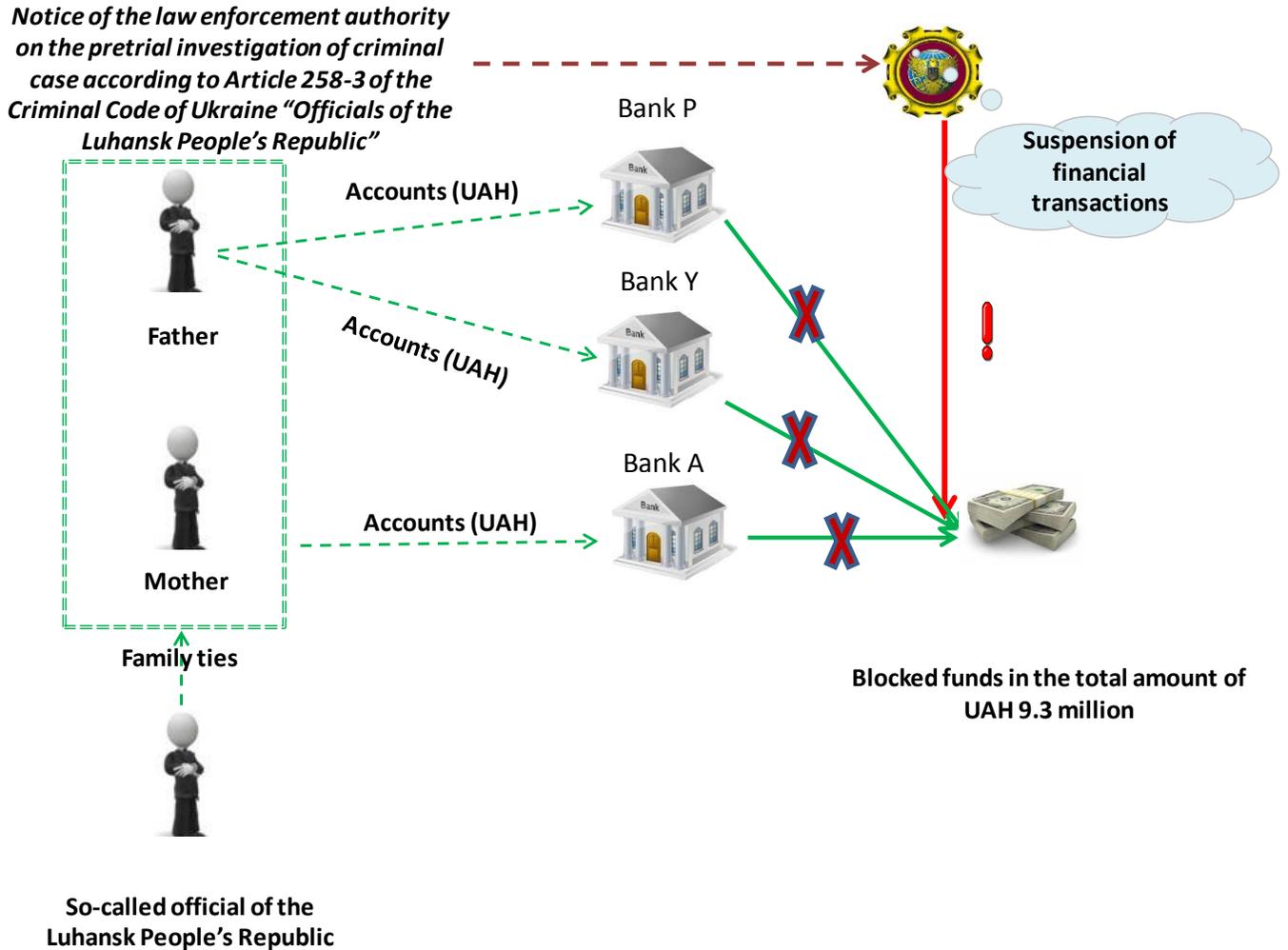
- financial assistance;
- agreements on claims assignment;
- purchase of goods in the temporary occupied territory;
- involvement of charitable organizations;
- nominees.

Upon analysis, there have been found the following ways of the financing of terrorism (separatism):

- use of funds of natural persons for the financing of terrorism (separatism);
- funds transfer to the card accounts of those natural persons performing terrorist (separatist) activity;
- requirement of financial assistance from the entities by so-called officials of the “Donetsk People’s Republic” and the “Luhansk People’s Republic”;
- involvement of “convert” centers;
- collection of funds in social networks as charity by the group of natural persons;
- funds transfer through electronic payment systems to the address of the nominees.

Example

According to the law enforcement authority, a number of natural persons settle financial transactions that may be connected with the financing of terrorist or separatist activity in the temporary occupied territories.



So-called official of the “Luhansk People’s Republic” transferred funds in large amounts to the accounts of close relatives (wife and father) in banking institutions. Funds were further withdrawn in cash and addressed for the financing of the “Luhansk People’s Republic”.

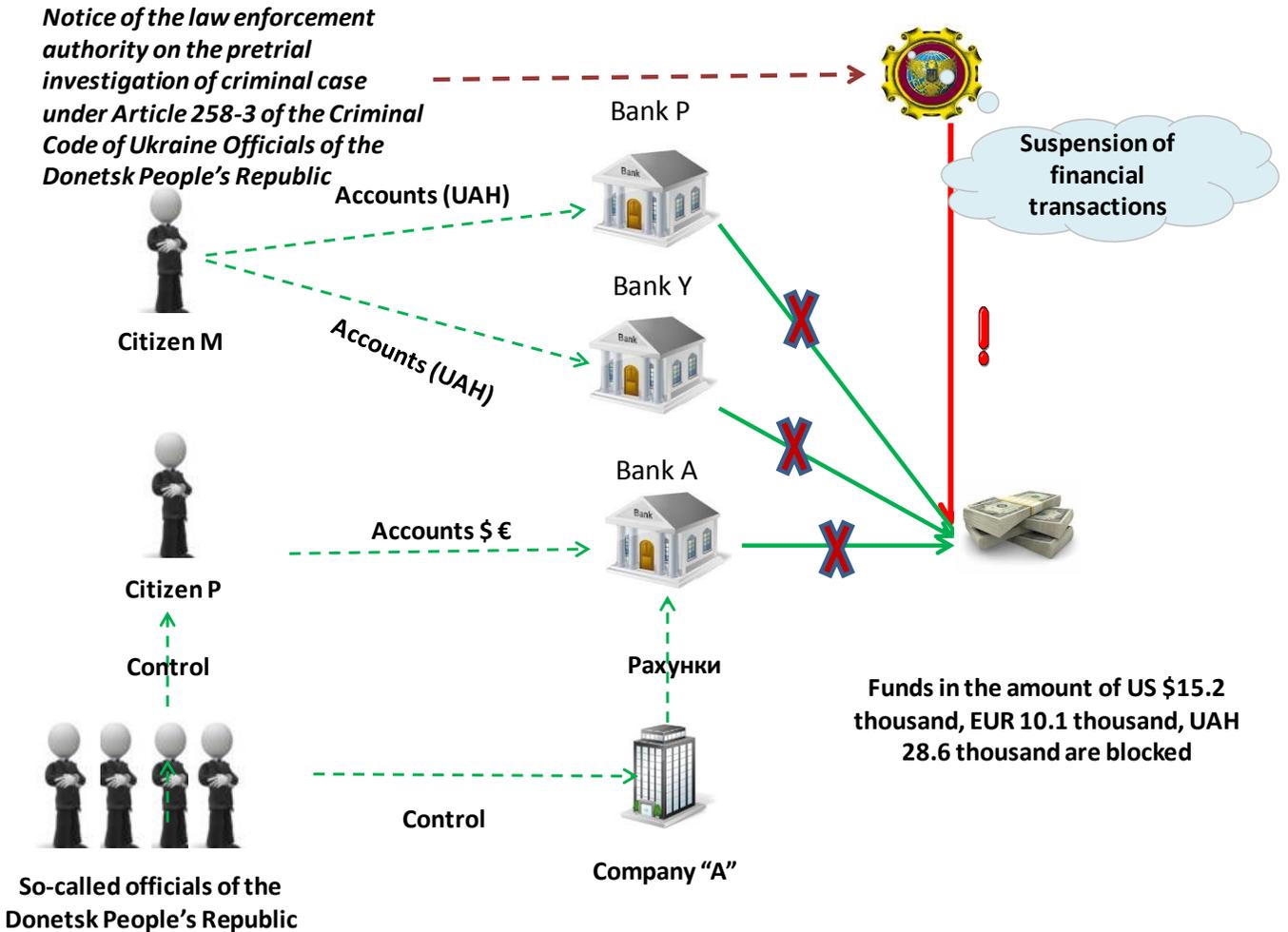
There have been found the financial flows under which the amount of settled financial transactions concerning so-called officials of the “Luhansk People’s Republic” significantly exceeded income received by him.

According to the analysis, there has been the balance at the accounts of the affiliated person; the amount of funds blocked constituted **UAH 9.3 million**.

Based on the given facts, the law enforcement authority carries out an investigation.

Example

According to the law enforcement authority, a number of persons affiliated with so-called officials of the “Donetsk People’s Republic” settled financial transactions on the financing of separatist and terrorist activity in the temporary occupied territories.



The group of natural persons, so-called officials of the Donetsk People’s Republic, transferred funds of the controlled enterprises to the own accounts in banking institutions or to the accounts of the affiliated natural persons. Funds were further withdrawn in cash and addressed for the financing of the Donetsk People’s Republic.

Based on the analysis results, it has been found that the natural persons affiliated with so-called officials of the Donetsk People’s Republic settled those financial transactions that failed to meet the declared income.

The remaining amount of funds constituted **UAH 28.6 thousand, US \$15.2 thousand and EUR 10.1 thousand.**

Based on these facts, the law enforcement authority carries out an investigation.

Conclusion

Money laundering and the financing of terrorism are the essential component of the criminal world. Despite of the fact that a part of illegal income is used for illegal actions, a large part of income is invested into legal business.

The State Financial Monitoring Service, in close cooperation with the participants in the system of anti-money laundering, countering the financing of terrorism and the financing of proliferation of weapons of mass destruction, defines and suspends the scheme of money laundering and the financing of terrorism.

Rapid development of financial and information technologies, improvement and branching of relations both at the national and international levels facilitates and allows the criminals, organized groups and criminal groups to communicate, both within and without the territory of Ukraine.

New financial technologies influenced on the rate of cash turnover both in banking system and outside it, as well as a variety of forms of settlements between the participators, including those connected with the commitment of the financial crimes, such as money laundering.

The financial flows of money laundering as in previous years are aimed at their withholding or obfuscation of their further use through legal forms of the commercial activity.

In the process of the typological studies, it has been found that each year the schemes of money laundering become more complex and branched. A large number of participators and financial institutions from different regions of the country are involved in the schemes. The widespread phenomenon is participation of non-residents, both companies and banking institutions located without the territory of Ukraine.

It is not uncommon when one scheme of money laundering uses several financial instruments different by economic content and nature, for example: fixed and unfixed securities, credit and deposit contracts, debt obligations, “fictive” contracts.

Thus, determination and suspension of the schemes of money laundering and the financing of terrorism are the main tasks for all participators of the system of anti-money

laundering, countering the financing of terrorism and the financing of proliferation of weapons of mass destruction.

Conducting of the typological study upon analysis of the financial flows allows defining of the entire situation and algorithm of money laundering or any other crime. To determine such schemes, it is required for an access to various information and definition of inconsistencies with the data known, as well as systematization of the analysis data.

As part of this study, instruments and ways of money laundering, the financing of terrorism (separatism) or other crime have been summarized.

In sum, it should be noted that the national AML system is operating, developing and improving.