

TYPOLOGICAL STUDY

THE STATE FINANCIAL MONITORING SERVICE OF UKRAINE

2018



State Financial
Monitoring Service
of Ukraine

State Financial Monitoring Service of Ukraine

RISKS OF USING OPAQUE OWNERSHIP STRUCTURES IN MONEY LAUNDERING

Kyiv 2019

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Typological Study of the State Financial Monitoring Service of Ukraine for 2018. – K., 2019

The publication considers the most common trends and schemes of money laundering and terrorism financing in 2018 related to the use of an opaque ownership structure.

Typological study include information on the results of the work of state authorities – participants of the national financial monitoring system.

The publication is designed for employees of reporting entities and state financial monitoring entities, law enforcement, intelligence and judicial authorities, as well as scientists and practitioners in the sphere of financial monitoring.

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LIST OF ABBREVIATIONS AND CONTRACTIONS

AML/CFT	anti-money laundering and counteraction terrorism financing
AML/FT/WMD	counteraction to money laundering, terrorism financing and the financing of the proliferation of weapons of mass destruction
CC Ukraine	Criminal Code of Ukraine
DNBP	designated non-financial businesses and professions
FATF	Financial Action Task Force on Money Laundering
FBO	final beneficial owners (controllers)
FT	financing of terrorism
IE	individual entrepreneur
Law "On prevention and counteraction"	the Law of Ukraine "Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime, Terrorism Financing and the Financing of the Proliferation of Weapons of Mass Destruction"
Law "On registration of individuals/entities"	the Law of Ukraine "On the state registration of legal entities, individual entrepreneurs and public associations"
LEA	law enforcement agencies
ML	money laundering
MONEYVAL	An Expert Committee at the Council of Europe involved in assessment of preventive actions to counter money laundering and financing of terrorism
NPO and Institution Registry	Register of non-profit organizations and institutions
SFMS	State Financial Monitoring Service of Ukraine
STR	suspicious transaction report
USR	Unified State Register of Legal Entities, Individual Entrepreneurs and Public Associations



FOREWORD

Head of the State Financial Monitoring Service of Ukraine, Mr. Igor Cherkaskyi

Dear colleagues!

We are pleased to pay your attention to Typological studies of the State Financial Monitoring Service of Ukraine for 2018 “Risks of using opaque ownership structures in money laundering”. The schemes and methods used by criminals to legalize (launder) criminal proceeds and the terrorism financing are summarized in this study. Current study is the result of the work of the Financial Intelligence Unit of Ukraine, the National Bank of Ukraine, the subjects of state financial monitoring, law enforcement, intelligence and judicial authorities.

According to the results of the Ukraine’s 5th round of Mutual evaluation of the national prevention and counteraction system, held by the MONEYVAL Committee, one of the important aspects that need to be improved is ensuring the transparency of the beneficial ownership of companies and creation of a mechanism for verifying data on the final beneficial owners (controllers).

Also, according to the results of the first National Risk Assessment that was conducted in 2016, similar risks were identified, the consequences of which could be the development of corruption, money laundering and support for the financial flows of international crime and terrorism.

The purpose of identifying the ultimate beneficial owners is to establish a circle of persons involved in illegal activities. Given that a large number of Ukrainian companies have a rather complex ownership structure with the use of non-resident companies as founders using nominal owners and directors, determining the actual ultimate beneficial owners is a rather difficult process. Such a problem is inherent not only for Ukraine, but also for many countries of the world.

In addition to schemes and mechanisms for concealment of beneficial ownership, the indicators for concealment of beneficial ownership are provided, measures that shall be implemented during the verification of ultimate beneficial owners are considered, as well as the best world practices are generalized in the study.

I am convinced that the publication will be of practical use for representatives of the public and private sectors involved in building an effective financial system that is protected from the risks of criminal interference.



Igor Cherkaskyi

INTRODUCTION

Special attention under counteraction to money laundering is given to in-depth study of the actual beneficial ownership by participants of the national financial monitoring system.

A significant number of Ukrainian companies have an extended ownership structure with the use of various foreign jurisdictions. As a rule, non-resident company settlers have nominee owners and directors. In such a situation, it's quite hard to define and detect a final beneficial owner.

In a context like this, the exposure of entities with opaque ownership is one of the major tools to fight crime and corruption.

It's worth mentioning that Ukraine has set technical standards of data on beneficial ownership, which specifically relates to disclosure of data within USR.

The **National Risk Assessment 2016** identified a set of ML/FT risks in Ukraine.

The risk of "Inefficient measures to establish and control final beneficial owners (controllers)" is one of the identified ML/FT risks ranked as "significant" within the above assessment. This risk takes the 12th place out of 37 identified risks.

In accordance with the acquired study results, inefficient exposure measures regarding final beneficial owners may result in development of corruption, terrorism, money laundering and tax evasion.

This risk stimulates support to financial flows of international crime and terrorism hidden behind "the corporate curtain".

At the same time, verification of data on final beneficial owners and an efficient mechanism to apply sanctions for false inputs into USR are of high relevance.

In 2017, the Cabinet of Ministers of Ukraine defined the measures to implement the Development Strategy for the system of counteraction to money laundering, terrorism financing and the financing of the proliferation of weapons of mass destruction till 2020¹, specifically, in terms of improving performance for detection and control over final beneficial owners.

The above governmental measures and activities consider:

- introduction of verification tools for validity of information on final beneficial owners provided by legal entities;

¹ Decree #601 -p of the Cabinet of Ministers of Ukraine "On implementation of the Development Strategy for the system of counteraction to money laundering, terrorism financing and the financing of the proliferation of weapons of mass destruction till 2020" as of 30.08.2017.

Access mode:<http://zakon.rada.gov.ua/laws/show/601-2017-%D1%80>

- drafting proposals on the stricter liability for a failure to provide, undue provision and provision of implausible information on final beneficial owners during registration procedures.

The establishment of entities with a transparent ownership structure, mitigation of corruption rates and public disclosure of actual owners of specific companies, prevention and counteraction to illicit proceeds acquired by all levels of public officials remain the priorities in Ukraine.

Concealment of beneficial ownership is one of the key AML/FT vulnerabilities in Ukraine. This poses a serious challenge for those fighting against criminal phenomena as such.

The **general purpose** of this study is the analysis and generalization of risks, detected standard schemes and mechanisms of laundering proceeds of crime through the use of entities with opaque ownership structures.

This typological study uses international experience and practice used by SFMS and other actors of the national financial monitoring system.

**SECTION I.
REVIEW OF LEGISLATION
ON REGISTRATION OF
LEGAL ENTITIES AND OTHER
LEGAL ARRANGEMENTS**

The relations emerging in the field of state registration of legal entities, their branding (in accordance with the current legislation), public associations and individual entrepreneurs are regulated by the Law of Ukraine “On the state registration of legal entities, individual entrepreneurs and public associations”.

The state registration of legal entities, individual entrepreneurs and public associations is also regulated by the following regulatory-legal acts:

- Decree #1133 of the Cabinet of Ministers of Ukraine “On service provision in the field of state registration of legal entities, individual entrepreneurs and public associations under a simplified procedure” as of 25.12.2015;
- Order #359/5 of the Ministry of Justice of Ukraine “On the approval of the State Registration Procedure for legal entities, individual entrepreneurs and public associations with no status of a legal entity” as of 09.02.2016;
- Order #784/5 of the Ministry of Justice of Ukraine “On approval of the Operation Procedure of the electronic service portal for legal entities, individual entrepreneurs and public associations with no status of a legal entity” as of 23.03.2016;
- Order #3268/5 of the Ministry of Justice of Ukraine “On approval of application forms in the field of state registration of legal entities, individual entrepreneurs and public associations” as of 18.11.2016.

The following entities are considered state registration service providers in accordance with the Law “On registration of individuals/entities”:

- the Ministry of Justice of Ukraine – in case of registration of political parties, national labour unions and associations thereof, national employers’ organizations, separate units of foreign non-governmental organizations, offices of foreign charitable organizations, arbitration tribunals acting on a permanent basis and established by national civic society organizations, national creative associations and branding of public associations;
- territorial offices of the Ministry of Justice of Ukraine in the Autonomous Republic of Crimea, oblasts, cities of Kyiv and Sevastopol – in case of registration of primary, local, regional and republican labour unions, their organizations and associations, structural establishments of political parties, regional (local) creative associations, territorial centres of national creative associations, local, oblast, AR Crimean, Kyiv and Sevastopol city employers’ organizations and their associations, arbitration tribunals acting on a permanent basis, public associations, their separate units, public associations with no legal entity status or confirmation of the national status for a public association;
- executive bodies of village, town and city councils, Kyiv and Sevastopol cities, rayon and city rayon state administrations, notaries and accredited entities – in case of state registration of other legal entities and individual entrepreneurs.

The Law “On registration of individuals/entities” considers the mandatory nature of USR data inputs on final beneficial owners (controllers) of a legal entity.

In accordance with Article 34¹ of the Law “On registration of individuals/entities”, state registration is controlled by the Ministry of Justice of Ukraine, which includes monitoring of USR registration activities in order to detect any possible violations of the state registration procedure committed by state registrars and authorized representatives of state registration entities.

In case of any violation of the state registration procedure by state registrars and authorized representatives of state registration entities detected under results of the USR registration monitoring, the Ministry of Justice of Ukraine shall implement desk audits of related state registration entities.

In case a desk audit reveals the facts of an illicit decision made by a state registrar, which results in violation of rights and legal interests of individuals and/or legal entities, the Ministry of Justice of Ukraine shall notify related interested parties and law enforcement agencies thereof immediately in order to take required measures.

The Ministry of Justice of Ukraine is also entitled to USR access control for state registrars, authorized persons of subjects of state registration and other subjects in the field of state registration as well as make decisions on temporary blocking or annulment of the above access.

In accordance with the duties taken, Ukraine ensured publication of data on final beneficial owners within USR.

Moreover, Ukraine has introduced administrative and criminal liability for non-disclosure of beneficiaries.

SECTION II.

GENERAL TRENDS

2.1. Number of legal entities by organizational forms

In accordance with the information received from the Ministry of Justice of Ukraine, **310,339** legal entities out of **1,338,823** legal entities registered within USR provided inputs on their final beneficial owners as of 16.08.2018, which is **23.2%** of the total number of registered entities.

The table below provides distribution of legal entities that provided inputs on their final beneficial owners by organizational and legal form, as per USR.

Table 2.1.1. Distribution of legal entities that provided inputs on their final beneficial owners by organizational and legal form, as per USR (as of 16.08.2018)

#	Organizational and legal form	Number of registered legal entities (K, units)	% of the total number of registered legal entities	Number of legal entities that provided inputs on their final beneficial owners (K, units)	% of registered legal entities that provided inputs on their final beneficial owners
	Total	1,339	100.0%	310	100.0%
1	Limited liability company	633	47.3%	192	61.7%
2	Private company	214	16.0%	41	13.2%
3	Civic society organization	87	6.5%	8	2.6%
4	Communal organization (institution, facility)	64	4.8%	9	2.8%
5	Farm	44	3.3%	15	4.8%
6	Condominium association	30	2.2%	4	1.3%
7	Labour union	29	2.2%	11	3.4%
8	Religious organization	27	2.0%	0.8	0.3%
9	Service cooperative	22	1.6%	2	0.8%
10	Charitable organization	19	1.4%	3	0.9%
11	Political party	16	1.2%	0.04	0.0%
12	Other types of legal entities	85	6.4%	18	5.9%

A related poll on the plausibility rates of data on final beneficial owners contained within USR which was implemented among 38 respondents (Ukrainian banks) provided results specified within the Table 2.1.2 below.

Table 2.1.2. Plausibility of USR information regarding specific types of legal entities by their organizational and legal form

Type of a legal entity by organizational and legal form	Information plausibility level, % (number of responding banks)											
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%	No data
private enterprise	11	11	6	3	1	2	-	-	-	-	-	4
limited liability company	6	10	8	3	2	6	-	-	2	1	-	0

At the same time, non-resident entities registered under organizational and legal forms which are not provided in the current Ukrainian legislation are more often to become Ukrainian bank clients now (e.g., investment foundations, trusts and other forms of property management).

The above non-resident clients are different by their organizational and legal aspects, which subsequently results in complicated procedures to define their actual final beneficial owners as well as persons entitled to manage accounts and/or property and authorized representatives of clients as such to define identification data for such entities/individuals in accordance with the current legislation of Ukraine.

With the above in mind, it's worth mentioning that any of the above subjects might be involved in laundering schemes for illicit proceeds. However, a preferred final beneficial ownership form includes additional information for further analysis.

Identification of a beneficial owner is aimed at defining a circle of individuals/entities associated with illicit activities, their further prosecution and coverage of inflicted damage as well as the use of transfer pricing.

2.2. Information on risky registration jurisdictions (locations) for beneficial owners

Offshore areas remain the most attractive jurisdictions for the establishment of companies managed by nominees.

However, the above areas are now complemented by those states that practice simplified business registration procedures and significantly lower income taxes. As a rule, the above include small and island-based states as well as former colonies.

The above also includes jurisdictions that combine both high taxation load rates and strict auditing rules while having a system of tax benefits primarily related to operations of holding, financial and trade companies.

The taxes paid for dividend extraction and repatriation, bank interests, royalties and other income are significantly reduced.

The above states are known for their liberal payment procedures and an opportunity to establish operative holdings, financial companies and beneficial trade firms. Not so much that they implement their economic activities but rather bear liability for transit of goods, capitals and related proceeds.

The above firms service the activities implemented by other foreign companies under a related parent firm's umbrella. Such countries with moderate taxation systems are represented by the Netherlands, Switzerland, Ireland and Luxemburg.

The United Arab Emirates (UAE) is yet another country considered attractive for nominee business activities.

Despite the fact that the company registration process in UAE is only allowed under involvement of a local sponsor owning a share of at least 51%, there are companies providing nominee sponsor services.

Opaque legal entities are also known for registering their beneficiaries in the following states:

- Cyprus – 40%;
- British Virgin Islands – 20%;
- Latvia – 5%;
- Estonia – 5%.

Isles of Guernsey, Jersey, Men, Alderney as well as Bahrain, Belize, Andorra, Gibraltar, Monaco, Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, the Bermudas, British Virgin Islands, Virgin Islands (US), Grenada, the Cayman Islands, Montserrat, the Netherlands Antilles, Puerto-Rico, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Saint Lucia, the Commonwealth of Dominica, Turks and Caicos Islands, Liberia, the Seychelles, Vanuatu, the Marshall Islands, Nauru, Niue, the Cook Islands, Samoa and the Maldives are worth mentioning among other nations and territories.

According to media (publications as of 29.08.2018), Ukrainian officials and their family members were detected as owners of **18,547** companies in total, with **270** of those registered in offshore jurisdictions.

At the same time, the TOP-10 individuals turned out to be owners of **4%** of companies (719 companies), **54%** of which (147 companies) are registered in offshore jurisdictions².

Those jurisdictions with national economic specifics (cash-oriented, tax havens (low tax rates), etc.) are also considered vulnerable.

2.3. Crime statistics

The current legislation provides criminal liability for fictitious entrepreneurship in accordance with Article 205 "Fictitious entrepreneurship", CC Ukraine.

The above article provides that fictitious entrepreneurship is the establishment or procurement of a subject of entrepreneurship activity (legal entities) in order to conceal illicit operations or implement legally banned operations.

The current legislation provides criminal liability for forgery of documents filed for state registration of a legal entity or individual entrepreneur under Article 205¹ "Forgery of documents filed for state registration of a legal entity or individual entrepreneur", CC Ukraine.

The above article provides that intentional input of information known to be false into the documents filed for state registration of a legal entity or individual entrepreneur in accordance with the current legislation as well as intentional submission of documents containing inputs known to be false for state registration shall be deemed a punishable act of crime.

Hence, prosecution agencies recorded **3,546** criminal offences under Articles 205 and 205¹, CC Ukraine, during the period since 2015 and till first 6 months of 2018. **853** cases were referred to the court.

A detailed case distribution is presented in the tables below.

² Access mode: <https://www.pravda.com.ua/news/2018/08/29/7190540/>

Table 2.3.1 Inputs on recorded and referred criminal offences under Article 205, CC Ukraine, 2015 – 6 months of 2018.

Indicator	Period, year				Total
	2015	2016	2017	6 months 2018	
Criminal offences recorded under Article 205, CC Ukraine	885	681	784	455	2,805
Referred to the court under Article 205, CC Ukraine	176	233	203	129	741

Table 2.3.2 Inputs on recorded and referred criminal offences under Article 205¹, CC Ukraine, 2015 – 6 months of 2018.

Indicator	Period, year				Total
	2015	2016	2017	6 months 2018	
Criminal offences recorded under Article 205 ¹ , CC Ukraine	140	228	292	181	841
Referred to the court under Article 205 ¹ , CC Ukraine	-	-	-	112	112

Case review status at judicial bodies

In 2015 – 2017, judicial bodies³ delivered judgments (decrees) for the crimes committed under Articles 205 and 205¹, CC Ukraine, regarding **969** individuals, of whom **643** (66.3%) individuals were sentenced.

Detailed distribution of the number of sentenced individuals under the mentioned articles of the Criminal Code of Ukraine is provided in the tables below.

Table 2.3.3 Inputs on the individuals sentenced under Article 205, CC Ukraine, 2015-2017.

Period (year)	Article and part, CC Ukraine	Types of crimes	Total, individuals whose sentences (decrees) have come into legal force	Number of sentenced individuals, including:				
				total, individuals	citizens of Ukraine	citizens of other states	those who committed a crime in	
							a group	an organized group
2017	205, Part 1	Fictitious entrepreneurship	171	99	98	1	19	-
	205, Part 2	Fictitious entrepreneurship	45	29	29	-	12	-
2016	205, Part 1	Fictitious entrepreneurship	252	145	145	-	14	4
	205, Part 2	Fictitious entrepreneurship	45	35	34	1	15	8
2015	205, Part 1	Fictitious entrepreneurship	190	111	110	1	19	1
	205, Part 2	Fictitious entrepreneurship	40	25	25		8	4

3 Information provided in reports of the State Judicial Administration of Ukraine

Table 2.3.4. Inputs on the individuals sentenced under Article 205¹, CC Ukraine, 2015-2017.

Period (year)	Article and part, CC Ukraine	Types of crimes	Total, individuals whose sentences (decrees) have come into legal force	Number of sentenced individuals, including:				
				total, individuals	citizens of Ukraine	citizens of other states	those who committed a crime in	
							a group	a group
2017	205 ¹ , Part 1	Forgery of documents filed for state registration of a legal entity or individual entrepreneur	22	19	19	-	3	-
	205 ¹ , Part 2	Forgery of documents filed for state registration of a legal entity or individual entrepreneur	8	8	8	-	-	-
2016	205 ¹ , Part 1	Forgery of documents filed for state registration of a legal entity or individual entrepreneur	49	45	45	-	3	-
	205 ¹ , Part 2	Forgery of documents filed for state registration of a legal entity or individual entrepreneur	31	30	30	-	10	2
2015	205 ¹ , Part 1	Forgery of documents filed for state registration of a legal entity or individual entrepreneur	75	60	60	-	3	-
	205 ¹ , Part 2	Forgery of documents filed for state registration of a legal entity or individual entrepreneur	41	37	36	-	17	-

SECTION III.
INTERNATIONAL
DOCUMENTATION
AND RESEARCH

3.1. FATF recommendations. Results of MONEYVAL's evaluation of the national system to counter money laundering and terrorism financing

The following FATF recommendations are deemed active in terms of improvement of transparency and beneficial ownership of legal entities and organizations (Sector E):

FATF Recommendation 24 – Transparency and beneficial ownership of legal persons

Countries should take measures to prevent the misuse of legal persons for money laundering or terrorist financing.

Countries should ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed in a timely fashion by competent authorities.

In particular, countries that have legal persons that are able to issue bearer shares or bearer share warrants, or which allow nominee shareholders or nominee directors, should take effective measures to ensure that they are not misused for money laundering or terrorist financing.

FATF Recommendation 25 – Transparency and beneficial ownership of legal arrangements

Countries should take measures to prevent the misuse of legal arrangements for money laundering or terrorist financing.

In particular, countries should ensure that there is adequate, accurate and timely information on express trusts, including information on the settlor, trustee and beneficiaries that can be obtained or accessed in a timely fashion by competent authorities.

Under the implementation of FATF Recommendations 24 and 25, the countries should consider measures to simplify access to information on beneficial ownership and control over financial institutions and designated non-financial businesses and professions with assigned obligations that are defined by the Recommendation 10 – Customer due diligence and Recommendation 22 – DNFBPs: customer due diligence.

In accordance with the Fifth Round of Evaluation of the National AML/CFT System implemented in 2017, the **MONEYVAL Committee** evaluated the progress of FATF Recommendations for Ukraine and defined a number of aspects in need of improvement.

The MONEYVAL Committee mentioned the need in the efforts on behalf of state financial monitoring agencies in order to ensure transparency of beneficial owners of reporting entities and remove criminals from control over the above entities.



Transparency and beneficial ownership of legal entities and legal arrangements	Ukrainian Compliance Rating
FATF Recommendation 24 "Transparency and beneficial ownership of legal entities"	LC (Largely compliant)
FATF Recommendation 25 "Transparency and beneficial ownership of legal arrangements"	PC (Partially compliant)

The Ukrainian Compliance Rating reached under the provided Recommendations is defined as such that is in need of improvement.

The MONEYVAL Committee provides that the information on final beneficial owners input into USR is not verified in terms of relevance and accuracy thereof.

3.2. Other key international documents

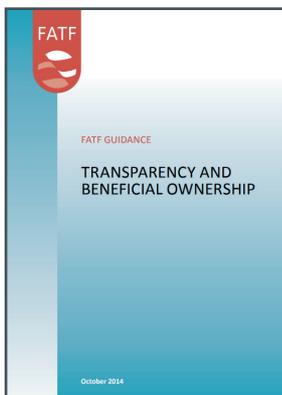
The Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EU. The Fourth Directive was presented after a series of terrorist attacks and the scandal known as "the Panama Papers". The document is a part of the European Commission's plan focused on strengthening counteraction to terrorism financing and ensuring improved transparency of financial transactions.



The Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. The Directive is focused on prevention of the use of the EU financial system for money laundering and terrorism financing.

The Fifth EU Directive provides that EU member states should introduce its provisions in their respective national legislations till the end of 2020, which specifically relates to free access to information on company beneficial owners; requirements to trust's transparency; building links between registries of beneficial owners on the pan-EU level.

A number of studies related to beneficial ownership have been implemented by international organizations for the last few years:



Transparency and Beneficial Ownership (FATF, October 2014)⁴

This FATF document discloses information on the use of corporate entities, which specifically relates to companies, trusts and other legal entities and arrangements, for money laundering, terrorism financing and other illicit goals.



FATF Report to the G20 Finance Ministers and Central Bank Governors (FATF, October 2014)⁵

The Report delivers the work implemented by FATF in terms of counteraction to money laundering and terrorism financing while focusing on the improvement of transparency and access to information on beneficial ownership.



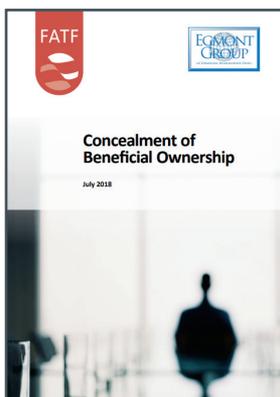
G20 Leaders or Laggards (Transparency International, April 2018)⁶

The review of changes in the legislation adopted by G20 member states to disclose beneficial owners in comparison with the year 2015 when a similar research detected available legal gaps in 15 of 20 member states.

4 Access mode: <http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-transparency-beneficial-ownership.pdf>

5 Access mode: <https://www.fatf-gafi.org/media/fatf/documents/reports/FAFT-Report-G20-FM-CBG-July-2018.pdf>

6 Access mode: http://files.transparency.org/content/download/2231/13941/file/2018_G20%20Leaders%20or%20Laggards_EN.pdf



Concealment of Beneficial Ownership (FATF jointly with Egmont Group, July 2018)⁷

A joint FATF/Egmont Group report evaluates vulnerabilities related to concealment of beneficial ownership in order to ensure further risk analysis implemented by governments, financial institutions and other professional service providers.

The Report uses more than 100 cases provided by 34 different jurisdictions of the FATF Global Network, experience learned by law enforcement agencies and other experts, data provided by the private sector as well as a study of open sources and investigative reports to define the methods currently used by criminals to conceal beneficial

ownership with a special focus on the involvement of professional mediators.

The authors of the Report underline the importance of efficient implementation of the FATF recommendations on beneficial ownership and in order to ensure access to relevant, accurate and due information on beneficial ownership for competent agencies and bodies as well as control over legal entities and arrangements, including express trusts.



The Global Forum on Asset Recovery (December 2017), Working Group on Corruption Prevention (October 20, 2016) and Third Arab Forum on Asset Recovery (November 2014) drafted reference materials⁸ assisting in detection of a final beneficial owner.

The manuals drafted under specific nations to be used by public administrations and other stakeholders interested in information on entities registered in a specific country.



OpenOwnership also deals with the drafting of global standards on disclosure of data on final beneficial owners.

This platform ensures corporate transparency all over the world, which results in easy publication and access to high-quality data on company owners.

OpenOwnership was established by leading public society organizations in the field of transparency assurance, which include Transparency International, Global Witness, ONE, Web Foundation, Open Partnership, B Team and OpenCorporates.

⁷ Access mode: <https://www.fatf-gafi.org/media/fatf/documents/reports/FAFT-Egmont-Concealment-beneficial-ownership.pdf>

⁸ Resource access mode: <https://star.worldbank.org/content/beneficial-ownership-guides>

3.3. Use of professional mediators as the key element to conceal beneficial ownership

FATF standards define “service providers on the establishment of legal entities” as any service providers implementing specific transactions on behalf of their clients in the following fields of activity:

- acting as an agent on the establishment of legal entities;
- acting as (or assisting other person in acting as) a company director or secretary, partner in a group or any other similar position at a legal entity;
- provide a registered office, legal address, premises or P.O. Box for a company, group or any other legal entity or arrangement;
- acting as (or assisting other person in acting as) a trustee of express trusts or implementing equivalent functions for any other form of a legal arrangement;
- acting as (or assisting other person in acting as) a nominee shareholder for another person.

Ukrainian lawyers (advocates), advocacy bureaus and associations, notaries and individuals providing legal services, auditors and auditing companies as well as accounting service providers shall comply with the current duties of reporting entities in case they are involved in financial transactions on the establishment of legal entities, ensure their operations or management, trade in legal entities (corporate rights) as well as fund-raising for the establishment of legal entities, ensuring their operations and control.

7,319 specially defined reporting entities are on the SFMS roster as of 26.12.2018 (Table 3.3.1).

Table 3.3.1. Number of specially defined and registered reporting entities

#	Reporting Entity Type	Number of registered reporting entities
1	Auditors	12
2	Auditing companies	103
3	Individual entrepreneurs acting as accounting service providers	14
4	Lawyers (advocates)	71
5	Notaries	7,047
6	Business entities acting as legal service providers	72
Total		7,319

SECTION IV.
VERIFICATION OF DATA
ON BENEFICIAL OWNERS

4.1. General provisions

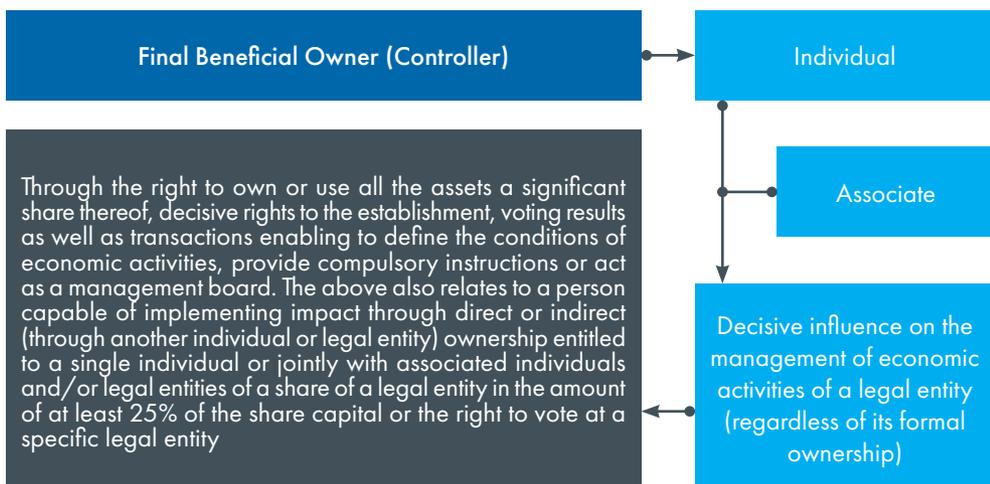
Ukraine introduced FATF requirements to beneficial owners back in October 2014, and the Parliament of Ukraine adopted the Law "On prevention and counteraction" (#1702-VII) containing the term "final beneficial owner (controller)" and other terms related thereto.

Final beneficial owner (controller) is an individual capable of implementing decisive influence on the management or economic operations of a legal entity regardless of formal ownership thereof directly or through other individuals. The above is specifically done through the right to own or use all the assets a significant share thereof, decisive rights to the establishment, voting results as well as transactions enabling to define the conditions of economic activities, provide compulsory instructions or act as a management board. The above also relates to a person capable of implementing impact through direct or indirect (through another individual or legal entity) ownership entitled to a single individual or jointly with associated individuals and/or legal entities of a share of a legal entity in the amount of at least 25% of the authorized capital or the right to vote at a specific legal entity.

At the same time, a final beneficial owner (controller) may not be an individual with the formal right to at least 25% of the authorized capital or the right to vote at a specific legal entity while being an agent, nominee holder (nominee owner) or a mediator on the above right.

Data to determine a final beneficial owner (controller) are inputs on an individual including the name, surname and father's name (if any) of an individual (individuals), country of his/her (their) permanent residence and date of birth.

Ownership structure is a documented system of relations between individuals and legal entities enabling to define available final beneficial owners (controllers), including control relations between them regarding a specific legal entity or the lack of final beneficial owners (controllers).



The Law “On prevention and counteraction” assigns a duty to define a final beneficial owner for reporting entities when identifying a client.

<p>Under the definition of a final beneficial owner, a reporting entity:</p> <p>shall identify a client by specifically identifying information on its final beneficial owner.</p> <p><i>Clause 3, Part Nine, Article 9 “Identification, verification and study of a client” of the Law</i></p> <p>shall have the right to demand and obtain, and a client or his/her representative shall provide the information (official documents) required (needed) for a client’s identification, verification and study, clarification of information on a client as well as to meet other requirements in the AML/CFT by such a reporting entity.</p> <p>In order to define a final beneficial owner (controller), a reporting entity demands and obtains information and/or documents certifying an available ownership structure from a client legal entity.</p> <p><i>Part Seven, Article 9 “Identification, verification and study of a client” of the Law</i></p> <p>shall take measures to detect the facts associating a client or individual acting on his/her behalf with the “public person” client category during identification, verification and servicing thereof as well as the fact whether a client is a final beneficial owner (controller) or manager of a legal entity. The above relates to all clients.</p> <p><i>Subclause “a”, Clause 2, Part Five, Article 6 “Tasks, duties and rights of a reporting entity” of the Law</i></p> <p>shall refuse to build (maintain) business relations in case it is impossible to detect final beneficial owners (controllers) of a client.</p> <p><i>Article 10 “Refrain of a reporting entity from proceeding with a financial transaction” of the Law</i></p>
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In accordance with the measures taken regarding a specific client, a reporting entity defines a related final beneficial owner.

<p>In order to define a final beneficial owner, a reporting entity may:</p> <ul style="list-style-type: none"> • obtain an ownership structure from a client; • implement analysis and define individuals owning the 25% share of the authorized capital (directly or through associates); • define individuals not owning the 25% share but implementing decisive influence on operations of a specific legal entity.

The Law of Ukraine “On amendments to specific legal acts of Ukraine in terms of defining final beneficiaries of legal entities and public persons” (#1701-VII as of 14.10.2014) regulates specific issues to define a final beneficial owner.

Information on final beneficial owners was published at the Open Data Portal⁹ in 2017.

⁹ Access mode: <https://data.gov.ua/dataset/1c7f3815-3259-45e0-bdf1-64dca07ddc10>

4.2. Measures taken by reporting entities to verify final beneficial owners and sources of origin of funds

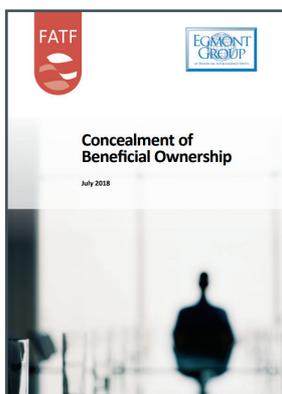
The major measure is the proper study of a client to build business relations in such a way for a reporting entity to have a clear understanding whom the relations are built with and adequately assess potential risks.

It is useful to compare the information on the ownership structure obtained from a client with data from other sources, including the Internet (e.g., from an official website of a client, client's parent company as well as websites containing information on the register of legal entities/companies of a specific company), stock exchange data (in case a client's parent company's securities are placed on the stock exchange), auditing reports, commercial databases, independent resources like Bloomberg, Forbes, Reuters, etc., in order to make sure that a reporting entity managed to define actual final beneficial owners and not agents, nominee owners or ownership right mediators.

At the same time, when verifying a final beneficial owner, it is useful to:

- verify a company, its owners and managers for available/unavailable criminal cases and fraud proceedings;
- verify individuals specified as final beneficial owners in terms of their reputation, other owned companies, available relations with public persons, etc.;
- demand and obtain trust agreements/declarations from the clients registered (or whose members/shareholders are registered) under jurisdictions of offshore status or those known to practice agreements like that;
- continuous analysis of information on activities of a client and his/her financial status;
- continuous analysis of conformity of a client's financial transactions to available information on his/her activities and financial status;
- increased frequency of clarification practice regarding the information on a client in order to manage risks and detect transactions that require additional attention to make sure that a client's risk remains stable and controllable;
- refrain from building/resuming business relations with legal entities that have opaque ownership structure.

4.3. Concealment indicators for beneficial ownership



The “Concealment of Beneficial Ownership” Report was jointly published by ATF and Egmont Group¹⁰.

When drafting a report on vulnerabilities related to the concealment of beneficial ownership, FATF and Egmont Group members presented 106 case studies.

The analysis of the above case studies detected a set of beneficial ownership concealment indicators.

Client-related indicators:

1. A client is reluctant to provide personal information.
2. A client is reluctant or unable to explain:
 - his/her business activities and corporate history;
 - identity of a beneficial owner;
 - his/her source of income/funds;
 - the methods of his/her business operations;
 - his/her partners;
 - the nature of his/her business in relations with third parties (specifically, third parties under foreign jurisdictions).
3. Individuals or associates:
 - insist on the use of a mediator (both professional and informal ones) in all relations without proper grounds thereto;
 - actively avoid personal contacts without proper grounds thereto;
 - are foreign citizens with no essential business in a country they are provided with professional or financial services in;
 - refuse to cooperate or provide information, data and documents that are commonly required to simplify a transaction;
 - are political actors or have family or professional relations with a political actor;
 - implement dubious transactions in terms of the age of a person (this is of high relevance for juvenile clients);
 - were previously convicted for fraud, tax evasion or serious crimes;
 - are under investigation or assumed related to criminals;
 - individuals previously prohibited to occupy managerial positions at a company or manage a trust/company considered a service provider (TCSP);
 - sign company’s invoices without proper grounds thereto;
 - implement financial activities and transactions incompatible with the profile of their clients;

¹⁰ Access mode: <http://www.fatf-gafi.org/publications/methodsandtrends/documents/concealment-beneficial-ownership.html>

- declare income which is not compliant with their assets, transactions or lifestyle.
4. Legal entities or arrangements:
- demonstrate a long inactivity period after the registration thereof, and then they suddenly show growth in financial activities without a proper explanation;
 - position themselves as commercial businesses but can't be found on web platforms or social media (e.g., LinkedIn, XING, etc.);
 - are registered under the title providing no indications of their activities;
 - are registered under the title indicating that they implement specific activities or provide specific services they in fact don't;
 - are registered under the title allegedly imitating the titles of other companies, specifically, well-known transnational corporations;
 - use email address with an uncommon domain (such as Hotmail, Gmail, Yahoo, etc.);
 - are registered under the address not related to their profile;
 - are registered under the address unavailable in imaging services (such as Google maps);
 - are registered under the address hosting numerous other companies;
 - have a manager or controlled shareholder(s) that cannot be found or contacted;
 - have a manager or controlled shareholder(s) that apparently take no active part in their operations;
 - have a manager, controlled shareholder(s) and/or beneficial owner(s) transfer funds to accounts held by other legal entities or organizations, which indicates the use of figureheads;
 - declare a significant number of beneficiaries and other controlled share packages;
 -
 - authorize a great number of individuals with the right to sign documents without a proper ground or commercial reasons thereto;
 - are registered/established under a jurisdiction considered as the one under high risk of money laundering or terrorism financing;
 - are registered/established under a jurisdiction with low taxation rates or international trade and financial system;
 - transfer money to jurisdictions with low taxation rates or international trade and financial system on the regular basis.

SECTION V.
BEST PRACTICE TO IDENTIFY
BENEFICAL OWNERSHIP

Responding banking institutions shared their best practice to define beneficial ownership.

Scenario 5.1

When clarifying information on a **Client** legal entity (a Ukrainian resident), which specifically relates to inputs on a final beneficial owner, the **Bank** detected discrepancies between the information contained in USR and open sources.

The **Client** provided the **Bank** with its ownership structure reflecting the final company – a resident of the Republic of Cyprus (hereinafter referred to as “Cyprus”) involving **Citizens of Cyprus** (the Individual 1 and Individual 2).

It was also determined that the **Individual 1** and **Individual 2** are also directors of a number of other companies at the same time.

In accordance with the in-depth inspection, the **Bank** acquired information certifying that a Cyprus-resident legal entity was a consulting service provider specialized in registration activities, including asset management services.

The **Bank** approached the **Client** for additional clarifications on refutation of suspicions regarding the use of allegedly shell companies.

The **Client** explained that the Cyprus-resident legal entity was used to simplify the registration procedures on Cyprus and is in fact a mere manager of property transferred into trust ownership by other individuals.

On the **Bank’s** request, the **Client** provided trust declarations certifying the establishment of a trust. The latter was established to transfer property into management by citizens of Ukraine.

Such an opaque structure provoked suspicions regarding the **Client** and was used as the ground to revise the **Client’s** risk rates and introduce additional financial monitoring measures, which specifically included in-depth transaction analysis.

Scenario 5.2

A **Legal Entity** approached the **Bank’s** office with a request to open a current account. The **Legal Entity** provided its ownership structure which included several ownership levels leading to a **Non-Resident Individual** in the end.

The analysis of web-based information allowed the **Bank** establishing the links of the **Non-Resident Individual** with other non-resident companies.

In accordance with the analysis of powers of attorney, general assembly minutes and individual signatures on the Charter provided by the **Client**, the **Bank** established that actual control over activities of the potential **Client** was implemented by a Ukrainian resident individual. The **Client** was subsequently requested to provide a trust declaration.

The **Client** provided the trust declaration, and its data were equivalent to the previous conclusion regarding the beneficiary drawn by the **Bank**.

Scenario 5.3

A company approached the **Bank** with a request to open a number of current accounts and provided its ownership structure of several ownership levels.

The above structure was going down to the **Holding Company** (the Netherlands), and the potential **Client** provided that the local company has no information on its final beneficial owner in a related questionnaire. USR data proved that the company had no information on its final beneficial owner.

In order to detect the local company's final beneficial owner, the **Bank** approached the **Holding Company** with a request to disclose its full ownership structure.

The **Holding Company** disclosed another three ownership levels with a parent company based in Austria.

The **Bank** was recommended to approach the legal company in Austria providing services for the parent company for additional information since the above legal company was authorized to disclose the parent company's ownership structure.

The **Bank** approached the legal company and acquired information that the local company had no individuals considered sole direct or indirect owners of 25% of the local company's shares.

In accordance with the commercial database used by the **Bank**, the local company was indirectly owned (95%) by five members of the same family. The same individuals were mentioned as the final beneficial owners of the parent company in Bloomberg and Forbes. They (as children) inherited shares of the company's capital after death of its settlor.

Scenario 5.4

A company approached the **Bank** with a request to open a number of current accounts and provided its ownership structure of several ownership levels leading all the way down to a holding company in the end.

In accordance with the ownership structure provided by the potential **Client**, 60% shares of the holding company are placed on the Warsaw Stock Exchange (owners of 10%+ shares are unavailable). The rest 40% shares of the holding company are owned by a Canadian company with 100% shares placed on the Toronto Stock Exchange.

When filling the questionnaire, the potential **Client** provided that individuals who were considered sole direct or indirect owners of the 25%+ of the authorized capital of the holding company were unavailable – hence, there is no final beneficial owner of the company as such.

USR also confirmed the information on the unavailable final beneficial owner of the potential **Client**.

However, in accordance with the public data analysis implemented by the **Bank**, it was established that the above Canadian company was owned by a Canadian businessman.

Bloomberg, Forbes, Reuters and commercial databases used by the **Bank** also proved the above information. The annual report of the Canadian company for 2016 provided that the Canadian businessman owns the 46% voting right in the company.

The above information was shared with the potential **Client** and reflected in the ownership structure.

Since the local company didn't have any information on identification data of the Canadian businessman (the final beneficial owner) and considering the fact that the above data were available in public sources, the potential **Client** provided those data in its ownership structure with a note that they were based on public data.

Scenario 5.5

In accordance with the planned clarification of information on identification and analysis of a **Client** the **Bank** had business relations with in 2019, it was discovered that the **Client** incorporates 12 legal entities, 2 of which are resident legal entities (authorized capital ownership of 9.9999%) and 10 are non-resident legal entities with the ownership share of 9% per each or 90.0001% together.

It was established that in order to update relevant data, the **Client** was referred letters with a request of documents/inputs on the ownership structure and final beneficial owner.

The **Client** provided no documents certifying the registration of non-resident legal entities under jurisdictions of Cyprus and Belize to disclose information on their settlors/shareholders but a schematic illustration of the ownership structure.

In accordance with USR, the **Client** had no data on the final beneficial owner while specifying the grounds thereto (its activities are indirectly influenced by the State Bank).

At the same time, the **Client** provided no documents to confirm the ownership structure for 90.0001% of its authorized capital; neither did it disclose information on the shareholders/settlors of 10 non-resident legal entities which renders the identification of the final beneficial owner impossible by the **Bank**.

In accordance with the in-depth study of the **Client's** ownership structure as well as comparison of **Client**-related information available at the **Bank** with other information sources (including open and public sources), the **Bank** concluded on the lack of the grounds to declaring the **Client's** ownership structure as transparent and made a decision on termination of business relations with the **Client**.

Scenario 5.6

The **Bank** was approached by a business entity registered in another field with a request to open an account.

The entity had a multi-layered structure. Two of its settlors were companies registered at the Seychelles and owning 50% of the authorized capital. The above two companies, in their own turn, were owned by another legal entity registered in Great Britain.

According to USR, the **Client** had no information on the final beneficial owner.

In order to determine the final beneficial owner, the **Bank** approached the **Client** with a request to provide information on the legal entity registered in Great Britain.

On the **Bank's** request, the **Client** provided trust declarations certifying the establishment of the trust.

The trust was established to transfer related property into management of a citizen of Ukraine declared as the final beneficial owner.

SECTION VI.
STANDARD SCHEMES AND
MECHANISMS TO CONCEAL
BENEFICIAL OWNERSHIP

In accordance with a poll among respondents from both the state and private sectors, it was established that ML/FT schemes commonly involve entities with opaque ownership structures or shell (informal) beneficial owners.

The above are most often used for:

- concealment of an actual final beneficial owner/final beneficiary, including a public person;
- evading international sanctions (e.g., those imposed by the UN Defence Council) and national sanctions (e.g., those imposed by the National Security and Defence Council of Ukraine) imposed on actual business owners;
- tax and compulsory fee evasion;
- direct and indirect fiscal fraud committed by legal entities;
- concealment of corruption schemes during public procurements when legal entities (tenderers) are established by public officials (who have impact on the decision-making process regarding the above procurements) or their associated (close) persons;
- using non-residents considered nominee beneficiaries within the ownership structure in order to withdraw assets abroad, which specifically relates to dividend payments;
- concealment of documented confirmation of capital sources of the final beneficial owner, including those considered public persons;
- liability evasion, including criminal liability, practiced by actual company owners when implementing illicit activities;
- reputational risk prevention by actual company owners when implementing illicit activities;
- concealment of control over a tenderer by a national public person in order to ensure the latter's enrichment through withdrawal of budget funds;
- concealment of sources of income, including corruption-related proceeds;
- concealment of persons affiliated with illicit activities.

The most vivid scenarios of concealment of beneficial ownership under laundering schemes for illicit proceeds are provided below.

6.1. Use of figureheads for registration/re-registration, acquisition of corporate rights under schemes to minimize tax liabilities and convert cashless assets to cash

Scenario 6.1.1

The **Individual A** founded 2 companies used to provide tax mitigation services as well as cashless-to-cash conversions, etc.

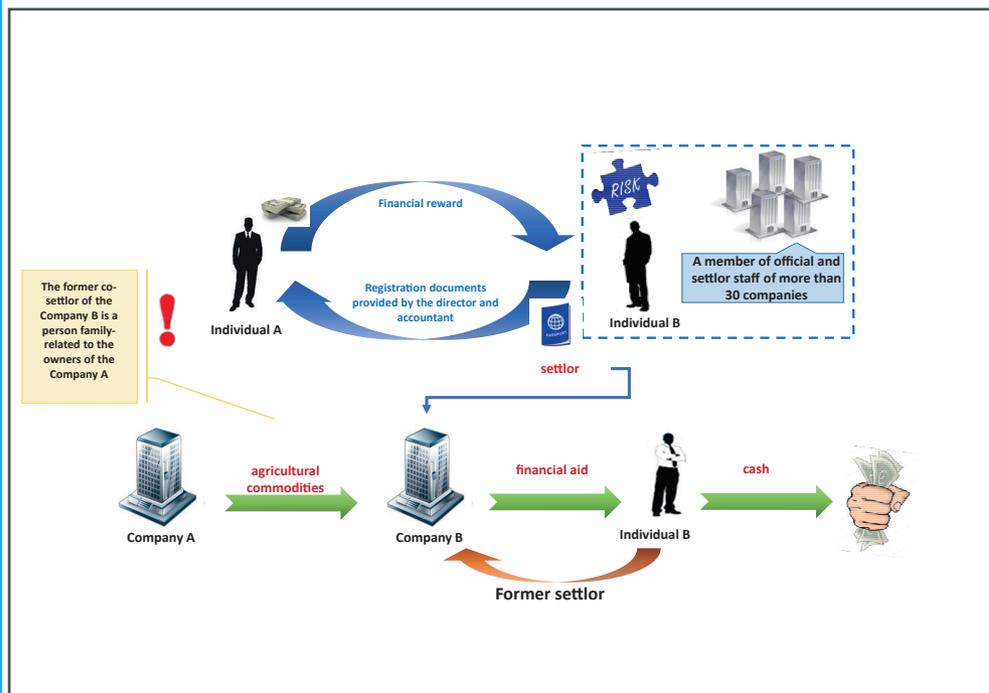
In order to ensure further extension of the network of the mentioned illicit service providers, the **Individual A** involved a **Group of Individuals** (socially vulnerable layers of population in a poor financial condition) who provided their IDs to register more than 50 legal entities in exchange for a small fee.

All 50 legal entities were members of an extended ML network.

The **Individual A** implemented control over operations of 50 legal entities.

A decision was made by a judicial agency to initiate a criminal proceeding against the above defendants in accordance with Articles 205, 209 and 212, CC Ukraine.

Scenario 6.1.2



A law enforcement agency is in the middle of a related investigation of the facts of re-registration of companies for figureheads for a fee and concealment of an actual final beneficial owner.

Under a pre-trial investigation, it was established that the **Individual A** proposed a financial reward to the **Individual B** for provision of ID data to register the **Company B** and another 30 companies by a settlor.

The **Company A** further transferred financial assets as a payment for agricultural commodities for the benefit of the **Company B** and provided false inputs into tax documents. The above resulted in tax mitigation for the **Company A**. A part of the funds received by the **Company B** was transferred for the benefit of the former owner – the **Individual B** who further cashed the above amount in full.

One of the former co-settlers of the **Company B** was family-related to the owners of the **Company A**.

Hence, the re-registration of the **Company B** for a figurehead was implemented in order to falsify accounting and tax documents for the benefit of the **Company A** and further tax evasion.

A law enforcement agency is currently in the middle of the investigation under Articles 191 and 205, CC Ukraine.

Scenario 6.1.3

A **Group of Individuals** involved figureheads to establish a network of fiscal service providers (legal entities) for illicit enrichment.

The above companies were used to mitigate taxes and transfer cashless assets to cash.

The users of the network were represented by “service consumers” or legal entities from real business transferring cashless assets to accounts held by the “network” legal entities as payments for fictitious sale operations. The accumulated funds were transferred under the network for the benefit of other groups of “networked” legal entities.

The cash (with interest deducted) was returned to “the consumers” of such transactions. The involved legal entities received documents required to mitigate the VAT value payable to the budget.

In accordance with a related court decision, the **Group of Individuals** was found guilty of crimes under Part 3, Article 27, Part 3, Article 28 and Part 2, Article 205, CC Ukraine.

Scenario 6.1.4

The **Individual A** in a financially difficult position provided consent to use personal data to establish the **Company B** for a fee.

The **Company B** was further used to conceal illicit activities of other legal entities through VAT credits and company income expenses as well as legalization of counterfeited commodities imported into Ukraine beyond customs control.

In accordance with a court decision, the **Individual A** was found guilty of a crime under Part 2, Article 205, CC Ukraine.

Scenario 6.1.5

In order to conceal illicit activities, the **Individual A** procured corporate rights of a legal entity in collusion with a **Group of Individuals**.

During the procurement, the **Individual A** intentionally input false data into documents filed to a state registrar for state registration of a legal entity.

In the company of other individuals, the **Individual A** arrived at a private notary to file copies of a passport of a citizen of Ukraine and Tax ID for further formatting of related documents.

Other documents required for registration activities were preliminarily designed and provided for the **Individual A** by the above individuals.

The **Individual A** validated the documents with a personal signature, thus declaring them “official”. The documents were further transferred to an unknown individual.

In accordance with a court decision, the **Individual A** was found guilty of criminal offences under Part 1, Article 205 and Part 2, Article 205¹ (the version as of 10.10.2013), CC Ukraine.

Scenario 6.1.6

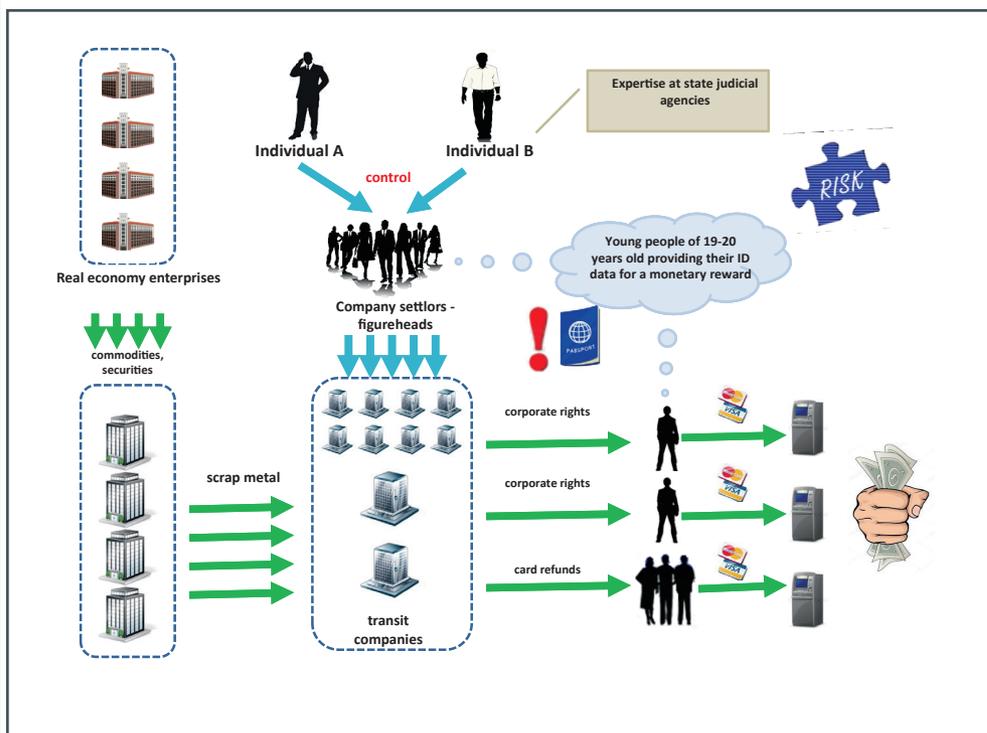
Two **Individuals (A and B)** registered a **company network** (approximately 50 members) in a brief period of time. The above companies were founded by figureheads (mainly young people of 19-20 years old) who provided their identification data for a fee.

At the same time, the **Individuals (A and B)** acted as trustees of the settlors. The **Individual B** had an expertise at state judicial agencies.

Two companies of the network further received transfers to their accounts as payments for scrap metal from common counteragents, the most of which were newly established companies.

In their own turn, the counteragents received the above funds from real economy enterprises as payments for goods and securities. The two companies further transferred the funds for the benefit of individuals as refunds for their card-based accounts and payments for corporate rights. At the same time, the above individuals are not considered settlors of any company.

Hence, there was detected a scheme to establish companies under figureheads in order to provide services on withdrawals of funds from real economy enterprises for further cash transfer as payments for corporate rights.



A law enforcement agency is in the middle of a related investigation.

6.2. Use of figureheads for legalization

Scenario 6.2.1

In accordance with an implemented investigation, SFMS detected a scheme of using the funds of a concealed beneficial owner.

In accordance with the register of creditors of the Bank B, the Individual A acquired UAH 90 million from the Individual Deposits Assurance Fund.

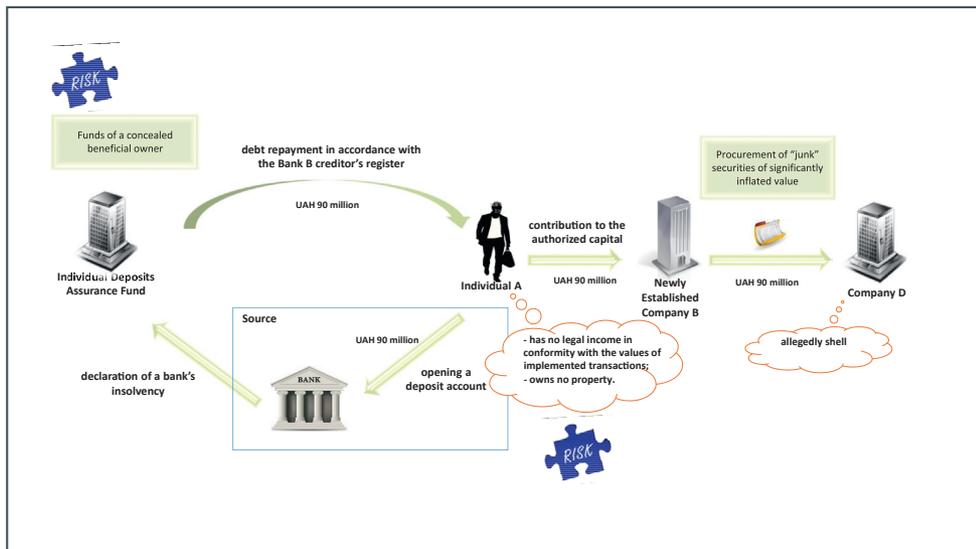
It was established that the total income declared by the Individual A is not in conformity with the previously deposited funds. Moreover, the above individual owns no property.

At the same time, the Individual A registered the Company B.

The Individual A transferred the above funds for the benefit of the controlled Newly Established Company C in full as the authorized capital refund.

The Newly Established Company C further transferred the funds in the amount UAH 90 million for "junk" securities for the benefit of a sole counteragent – the allegedly shell Company D. At the same time, the value of the "junk" securities was significantly inflated.

That means that this scheme was related to monetary deposits, and the sources of such assets were not officially confirmed by declared income. The assets were further transferred through an extended network of legal entities.



A law enforcement agency is in the middle of a related investigation under Articles 191 and 209, CC Ukraine.

6.3. Concealment of beneficial ownership with the use of associates

Scenario 6.3.1

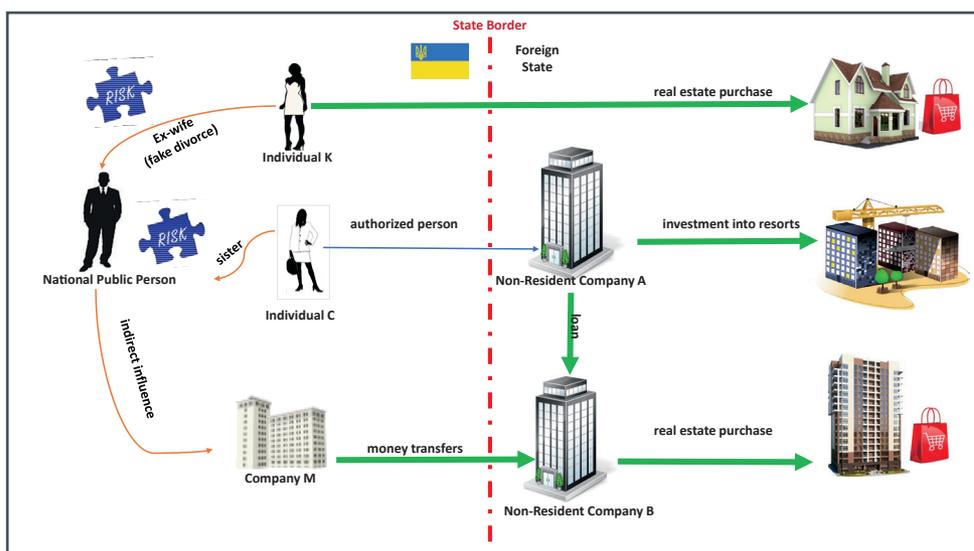
SFMS, together with foreign financial intelligence units, detected financial transactions related to investments of a non-resident company with an opaque ownership structure.

In accordance with a related investigation, the **Non-Resident Company A** invested into foreign resort sites. The **Individual C**, a sister of the **National Public Person**, is among the authorized persons of the **Non-Resident Company A**.

Moreover, the **Non-Resident Company A** provided a loan for the **Non-Resident Company B** further used for procurement of foreign real estate. It was also established that the **Company M** (indirectly influenced by the **National Public Person**) implemented previous money transfers for the benefit of the **Non-Resident Company B**.

It was also established that the **Individual K** (the ex-wife of the **National Public Person**) purchased a high-value apartment beyond Ukraine. The funds owned by the **National Public Person** were allegedly used for the above purchase.

The **National Public Person** allegedly had a fake divorce in order to evade declaration of high-valued assets.



A law enforcement agency is in the middle of a related investigation under Article 364, CC Ukraine.

6.4. Use of money laundering networks under embezzlement schemes at state enterprises

Scenario 6.4.1

The **Individual A** purchased corporate rights of the **Company P** in order to conceal illicit activities of the **Company M** and **Company C**.

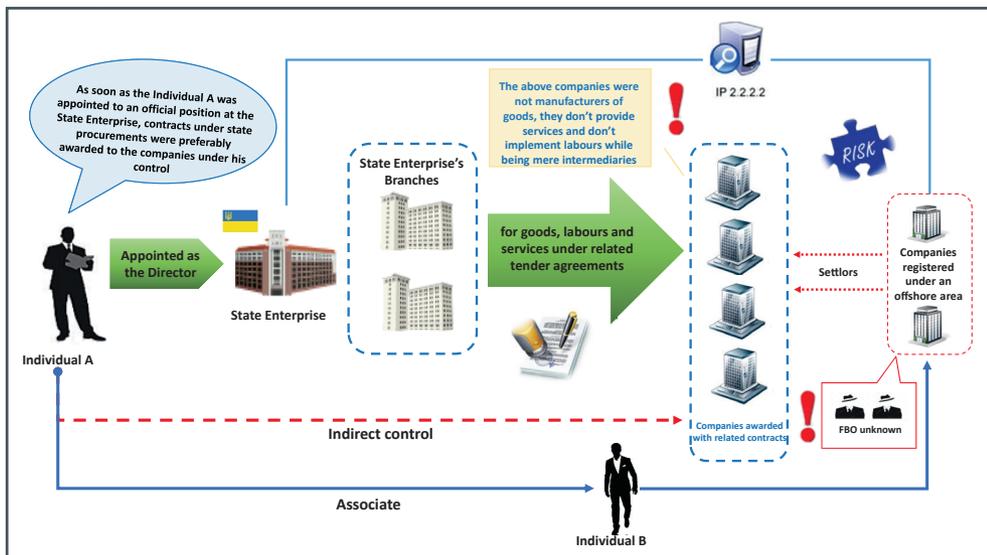
Both the **Company M** and **Company C** are members of a ML network controlled by the **Individual B**. The latter also owned other legal entities providing services related to cashless-to-cash transfers.

Both the **Individual A** and **Individual B** involved service officials of the leadership and members of a tender committee from a number of state enterprises into their criminal association to sign a number of fictitious agreements for the supply of goods. Budgetary funds accumulated at accounts of the networked individuals were further converted into cash, and the resulting ML proceeds were distributed between the members of the illicit scheme.

In accordance with a related court decision, the **Individual B** was found guilty of commission of crimes under Part 2, Article 205, CC Ukraine.

Scenario 6.4.2

A law enforcement agency is in the middle of an investigation into a scheme used for misappropriation of state funds under support from the leadership of the **State Enterprise** through the procurement of goods, labours and services from controlled companies with opaque ownership structures.



In accordance with a related pre-trial investigation, as soon as the **Individual A** was appointed to an official position at the **State Enterprise**, contracts under state procurements were preferably awarded to the same companies.

The above companies were not manufacturers of goods, neither did they have production

capacities and resources to implement labours and provide services under related procurements. The **companies** were intermediaries while the bids they filed regarding the goods, labours and services were significantly higher than those present at the market.

The above contract winning **companies** were non-resident companies registered under an offshore jurisdiction that doesn't disclose any actual final beneficial owners.

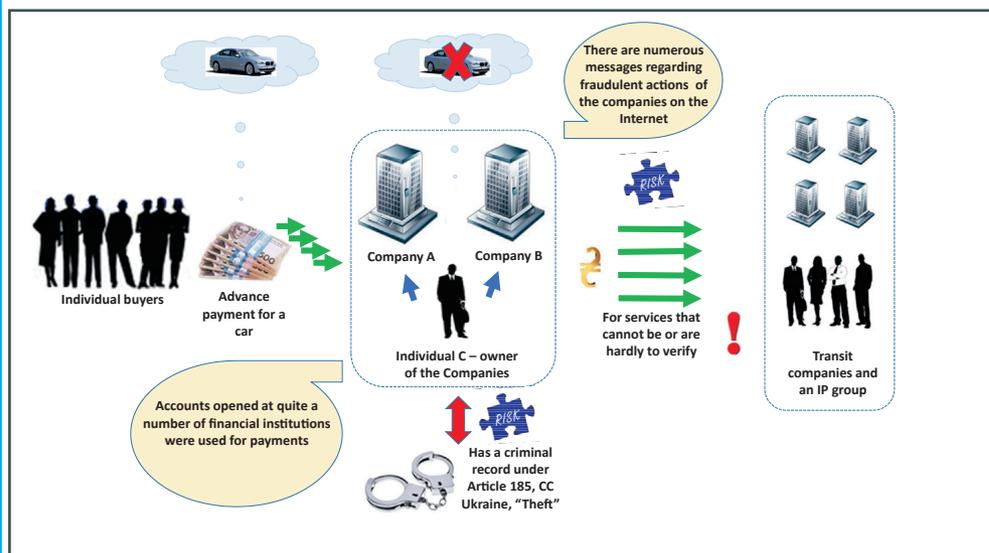
Authorized persons managing accounts are individuals closely associated with the **Individual A**. Moreover, the IP address used for payments of the non-resident company was identical to the location of the **State Enterprise's** office.

It was established that the above **companies** were controlled by the **Individual A** – the director of the **State Enterprise**.

A law enforcement agency is in the middle of a related investigation under Article 364, CC Ukraine.

6.5. False activities of legal entities with nominees represented by figureheads

Scenario 6.5.1



In accordance with a related investigation, SFMS detected a scheme related to fraud.

Quite a number of accounts held by the **Company A** and **Company B** at various banks received funds from individuals as payments under previously signed agreements on the purchase/sale of transport vehicles.

As soon as they received advance payments, the **Company A** and **Company B** never kept their parts of agreements and never contacted their buyers.

The funds illicitly obtained by the **Company A** and **Company B** were further transferred to other companies and a group of individuals for various non-material services such as market analysis,

legal and informational services. It is almost impossible to define the fact of actual provision for the above services.

The director (an official) of both the **Company A** and **Company B** is the **Individual C** previously brought to criminal liability under Article 185, CC Ukraine, "Theft". The **Individual C** is merely a nominee director of the **Company A** and **Company B** while other persons are the organizers and beneficiaries of the above fraud scheme.

There are numerous messages regarding fraudulent actions of the **Company A** and **Company B** on the Internet.

A law enforcement agency is in the middle of a related investigation under Article 190, CC Ukraine.

Scenario 6.5.2

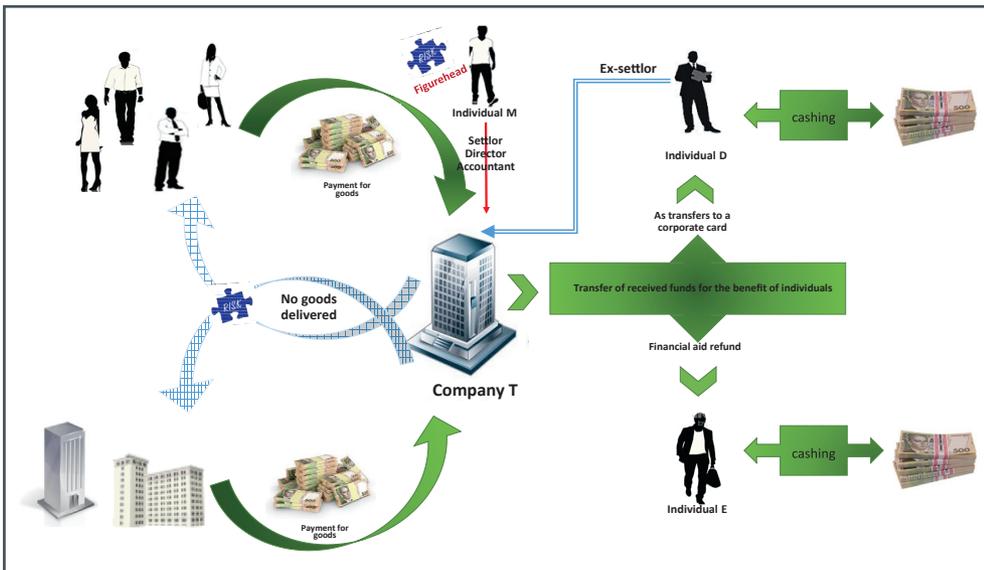
In accordance with a related investigation, SFMS detected a scheme related to fraud.

The **Company T** received approximately UAH 1 million transferred to its account from a number of individuals and legal entities as prepayments for goods. The goods were not delivered to customers after the funds had been received, and the **Company T** never contacted its customers.

The **Individual M** was the settlor, director and accountant of the **Company T** while acting as a figurehead.

A part of received funds was transferred to a corporate card of the **Company T** and later cashed by an ex-settlor of the legal entity (the **Individual D**). Another part of funds was transferred to the **Individual E's** personal account and subsequently cashed.

Hence, the **Individual D** and **Individual E** were the beneficiaries from the above financial transactions.



A law enforcement agency is in the middle of a related investigation.

Scenario 6.5.3

In accordance with a related investigation, SFMS detected a scheme related to fraud.

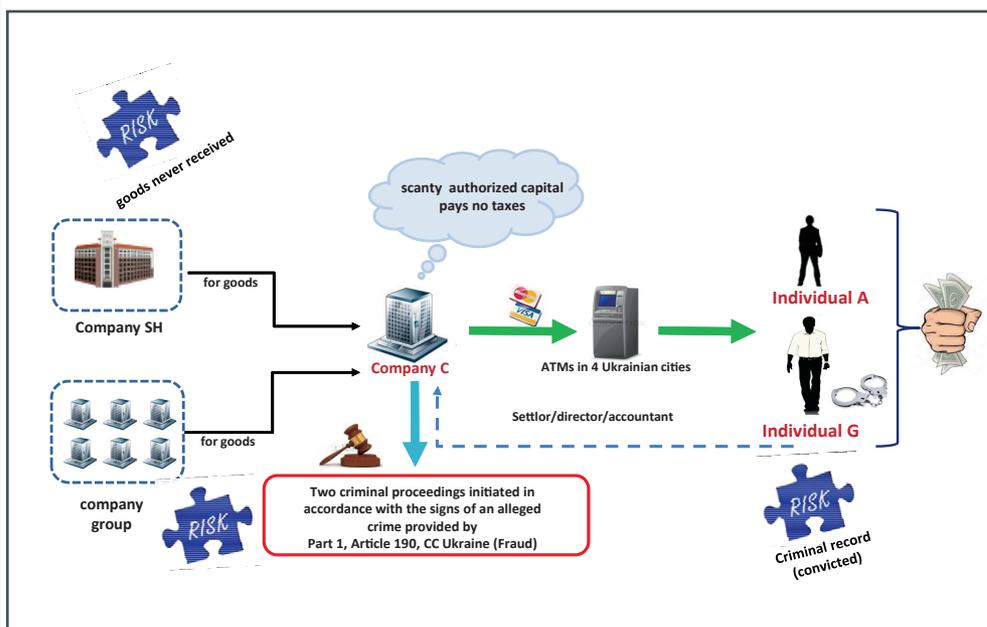
The **Company C** received funds as payments for goods from a group of companies. Specifically, the **Company SH** transferred money to the **Company C**'s account as a payment for goods.

The funds from the **Company C**'s account were further cashed by the **Individual G** and **Individual A** through ATMs in 4 Ukrainian cities.

The **Company C** paid no taxes and has a scanty authorized capital while having the **Individual G** as a sole owner and director.

The **Company C** previously faced charges, and 2 criminal proceedings were initiated under signs of a crime provided by Part 1, Article 190, "Fraud", CC Ukraine. The **Individual G** has a rich criminal past.

Hence, the **Individual G** and **Individual A** seized funds of economic entities through an act of fraud, which doesn't exclude an opportunity of illicit enrichment for third parties, though.



A law enforcement agency is in the middle of a related investigation under Article 190, CC Ukraine.

Scenario 6.5.4

In accordance with a related investigation, SFMS detected a scheme aimed at criminal seizure of funds owned by citizens of Ukraine.

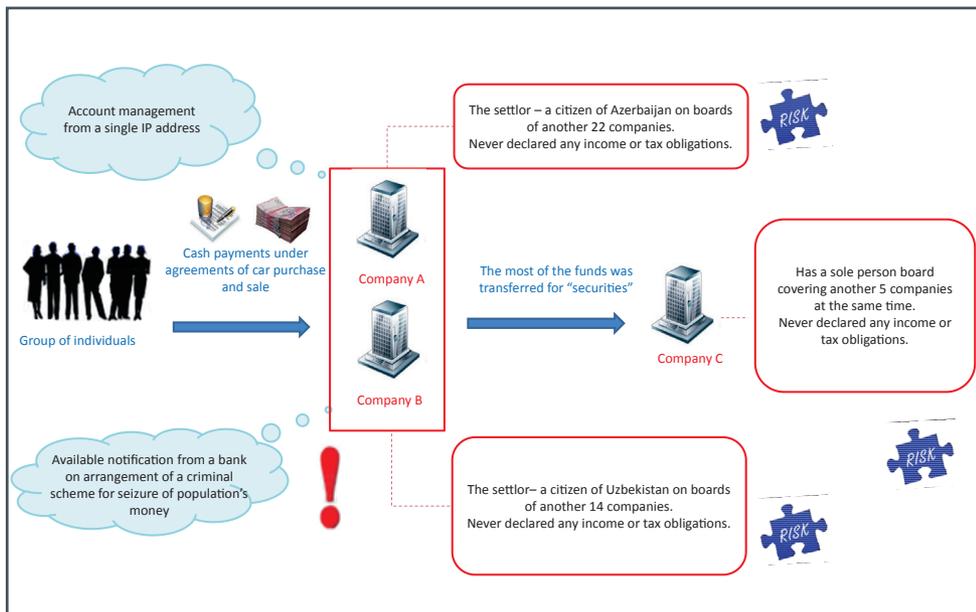
Similar type financial transactions related to receipt of cash from a number of individuals as payments for cars were detected under accounts held by the **Company A** and **Company B**. The above funds were later transferred for the benefit of the **Company C** as payments for securities.

Banking institutions servicing accounts of the **Company A** and **Company B** received complaints from a significant number of individuals claiming on acts of fraud committed by the above legal entities.

The **Company A** and the **Company B** were founded by citizens of Uzbekistan and Azerbaijan.

The **Companies A, B** and **C** never declared their income or tax obligations. Their settlors are members of the boards of numerous other companies.

It was also established that account management was implemented from a single IP address, which proves “centralized management” of a criminal scheme. The settlors and directors are figureheads.



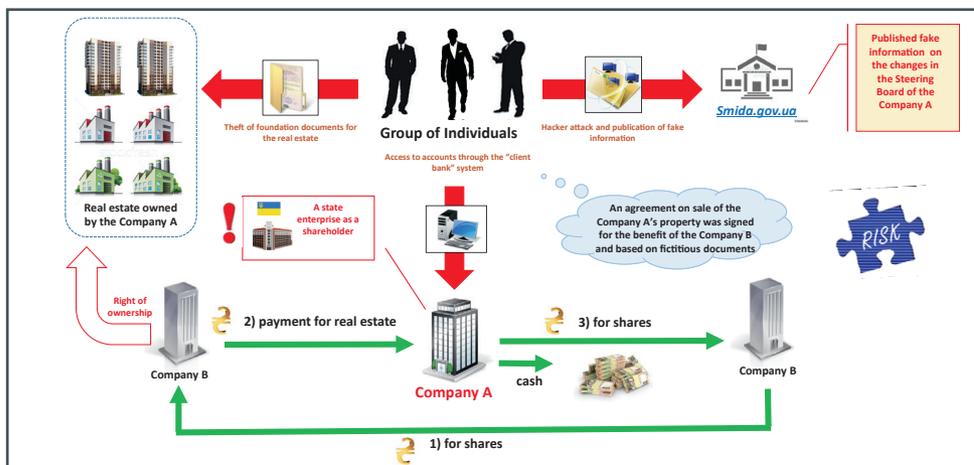
A law enforcement agency is in the middle of a related investigation.

6.6. Registration document forgery to implement an illicit change in beneficial ownership (raiding)

Scenario 6.6.1

A law enforcement agency is in the middle of an investigation into an alleged scheme of illicit property seizure based on forgery of foundation documents and implementation of hacker attacks. It was established that a **Group of Individuals** stole foundation documents for real estate owned by the **Company A** with a state enterprise among its shareholders. The same people later committed a hacker attack against the official website (smida.gov.ua) and published false information on the change in the members of the Steering Board of the **Company A**. The same **Group of Individuals** acquired access to accounts held by the **Company A** through the “client bank” system.

The **Group of Individuals** further entered an agreement on sale of real estate on behalf of the **Company A** and for the benefit of the controlled **Company B**. In order to make the above agreement look legit, the **Company B** transferred funds for the benefit of the **Company A** as a payment for real estate. The above funds were preliminarily received by the **Company B** from the affiliated **Company C** as a payment for shares.



The provided transactions were implemented after the physical seizure of the real estate complex owned by the **Company A** and granted access to the “client bank” system for servicing of the **Company A**’s account.

Monetary assets that were transferred in a way to look like a payment for real estate were further partially cashed from the **Company A**’s account, and the rest was transferred for the benefit of the **Company C**.

Hence, the document forgery committed by the **Group of Individuals** in fact resulted in a change of a beneficial owner and free-of-charge transfer of the real estate owned by the **Company A** for the benefit of the **Company B**, and the money supposed to be used as a payment for the real estate was returned to its initial owner – **The Company C**.

A law enforcement agency is in the middle of a related investigation under Articles 190, 205 and 356, CC Ukraine.

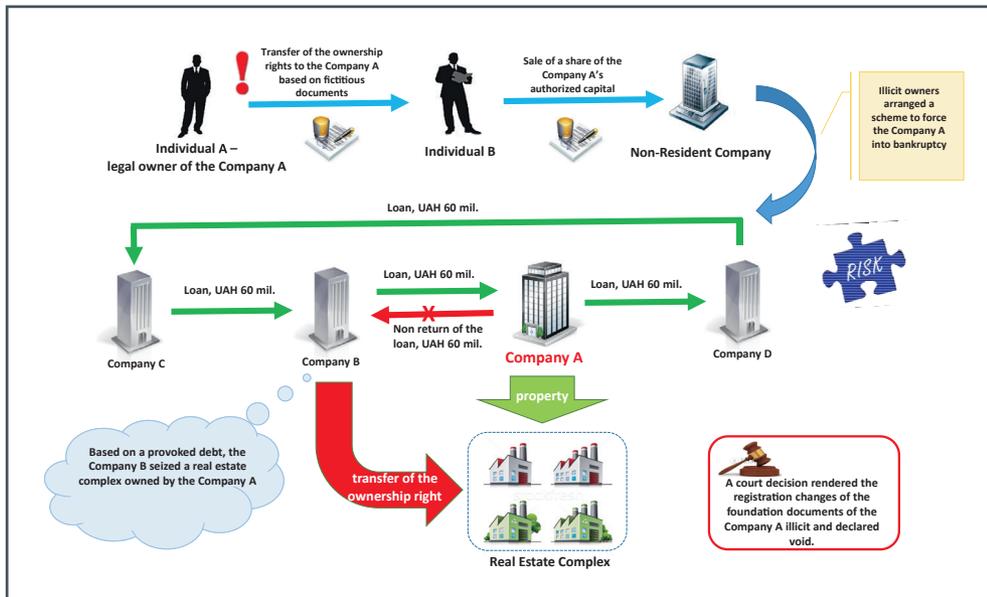
Scenario 6.6.2

A law enforcement agency is in the middle of an investigation into the fact of a company's registration document forgery aimed at seizure of real estate.

Based on falsified documents, the corporate rights to the **Company A** were transferred to the **Individual B** from a legal owner (the **Individual A**) and sold to a **Non-Resident Company** on the next day. At the same time, the **Individual B** received a monetary reward for provided identification data in order to re-register the **Company B** to his name and later replace its settlors and leadership.

Afterwards, illicit owners arranged a scheme to force the **Company A** into bankruptcy through controlled companies in order to seize the owned real estate complex. In accordance with a fictitious agreement, the **Company B** provided the **Company A** with a loan in the amount of **UAH 60.0 million** that was never planned for return. Related funds were further transferred to the **Company B** through the **Companies C and D**. At the same time, the **Company A** became indebted to the **Company B** due to a failure to repay the loan. Basing on the above, the **Company B** took control over the real estate complex owned by the **Company A**.

A related court decision rendered the registration changes of the foundation documents of the **Company A** illicit and declared void.



A law enforcement agency is in the middle of a related investigation under Articles 190, 357, 358, 364 and 365, CC Ukraine.

6.7. Document forgery to acquire beneficial ownership

Scenario 6.7.1

A law enforcement agency is in the middle of an investigation into the fact of withdrawal of assets (property) from a banking institution under liquidation.

It was established that the **Bank A** under liquidation owned non-residential premises with the total value of approximately **UAH 15 million**.

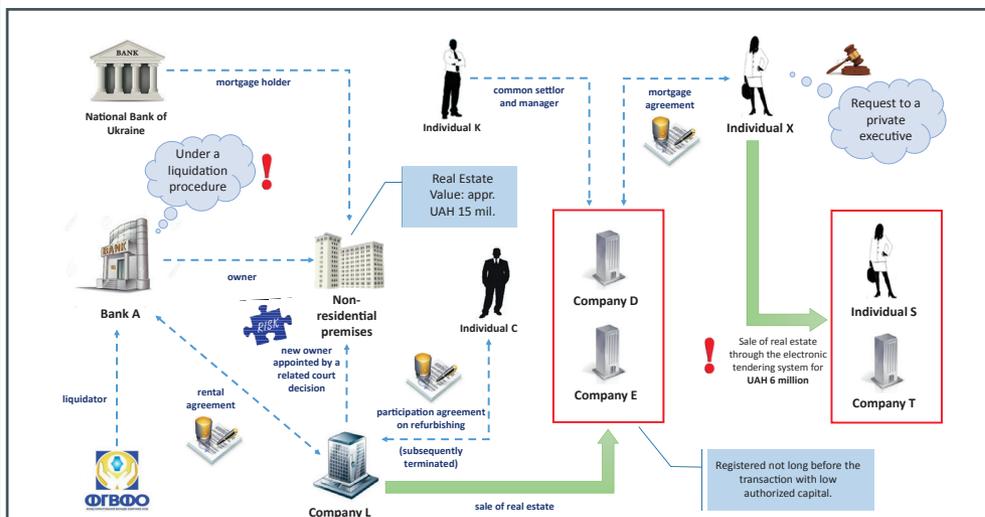
In accordance with a related mortgage agreement, the above premises were transferred into mortgage of the National Bank of Ukraine by the **Bank A**.

The **Bank A** further transferred the above non-residential premises for rent to the **Company L** which, in its own turn, entered a participation agreement with the **Individual C** without the knowledge and consent of the real estate owner and mortgage holder. The scope of the agreement involved the refurbishing of the premises with the further transfer of the refurbished location into ownership of the mentioned parties.

The participation agreement was subsequently terminated, and the **Company L** was declared the owner of the above premises in accordance with a related court decision. The **Company L** re-registers the premises as two different locations and alienated for the benefit of the **Companies D** and **E**. The latter had been registered less than a half year before the transaction by a sole person (the **Individual K**) and have insignificant authorized capital.

On the day of purchase of the real estate, the **Companies D** and **E** signed mortgage agreements with the **Individual X**. In two months, the **Individual X** filed a request to sell the above real estate for **UAH 6 million** under an executive proceeding through the electronic tendering system for the benefit of the **Individual C** and **Company T**.

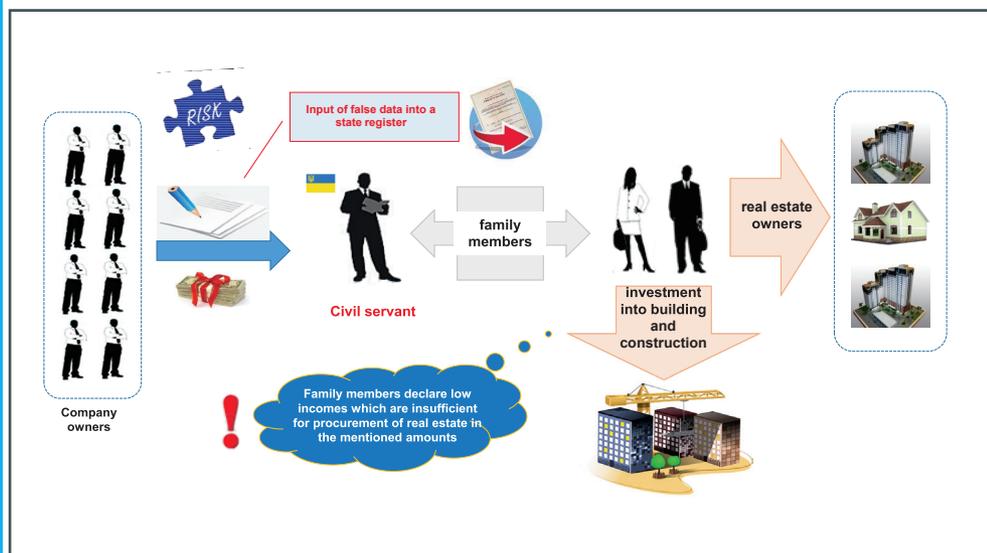
Hence, the above criminal actions resulted in financial damage to the state represented by the Deposit Guarantee Fund (the liquidator of the **Bank A**) and National Bank of Ukraine (the mortgage holder) on a major scale.



A law enforcement agency is in the middle of a related investigation under Articles 358 and 364, CC Ukraine.

6.8. Input of false data into the Unified State Register of beneficial ownership

Scenario 6.8.1



In accordance with a completed investigation, a law enforcement agency detected a scheme for laundering illicit proceeds acquired by a **civil servant** authorized with USR access.

The law enforcement agency notified of the fact of illicit gains obtained by an Individual working as a **civil servant** for false data inputs into USR.

The analysis of financial transactions and inputs from the Register of Proprietary Rights to Real Estate resulted in the following. As of the moment the individual was appointed as a **civil servant**, his family members became owners of several apartments in newly constructed houses in Kyiv and Kyiv Oblast with low personal income declared. Moreover, they additionally invested approximately **UAH 6 million** into building and construction activities in 2017-2018.

The **civil servant** obtained illicit gains from false USR data inputs which were laundered through the procurement and investments into building and construction activities by his family members.

A law enforcement agency is in the middle of a related investigation under Article 368, CC Ukraine.

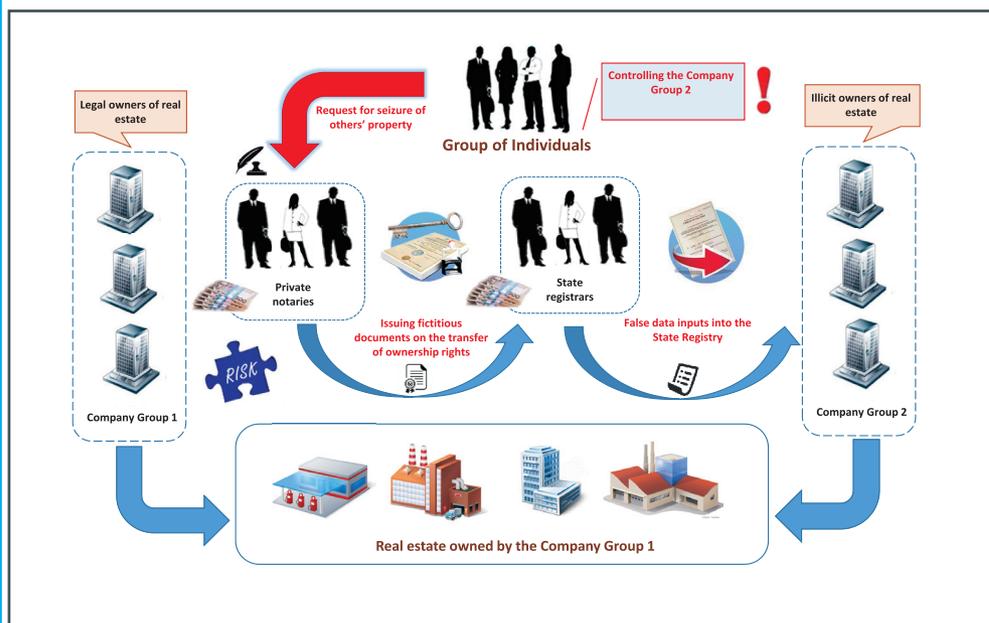
Scenario 6.8.2

A law enforcement agency is in the middle of an investigation into the fact of the organization of a criminal group involving private notaries and state registrars in order to seize other people's property with the use of forged documents.

A pre-trial investigation resulted in the establishment of the fact that the **Group of Individuals** involved **private notaries** and **state registrars** with access to USR and the State Register of Proprietary Rights to Real Estate in criminal activities. The concerned individuals falsified

documents and inputs on request for a fee.

It was established that the **Company Group 2** controlled by the **Group of Individuals** used the falsified documents and illicit registration activities implemented by **private notaries** and **state registrars** to seize real estate owned by the **Company Group 1** in order to gain illicit proceeds and further launder them.



A law enforcement agency is in the middle of a related investigation under Articles 190 and 191, CC Ukraine.

6.9. Illicit acquisition of beneficial ownership through procurement of corporate rights

Scenario 6.9.1

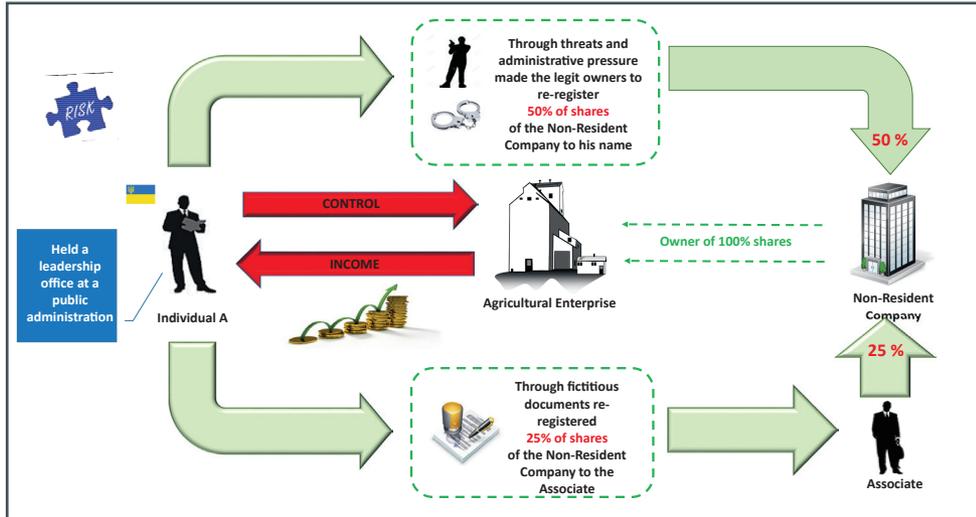
A law enforcement agency is in the middle of an investigation into the arrangement of illicit corporate right seizure scheme implemented by the **Individual A** who held a leadership office at a public administration.

In accordance with a related pre-trial investigation, it was established that the **Individual A** abused his position for illicit seizure of shares of a **Non-Resident Company** which is an owner of a profitable agricultural enterprise working in Ukraine.

In order to seize the mentioned company's corporate rights, the **Individual A** used threats and administrative pressure to make the legit owners re-register a part of the **Non-Resident Company's** shares to his name. Moreover, the legit owners were excluded from a foreign register through the use of fictitious documents, and another part of shares was re-registered to an **Associate**.

Hence, the **Individual A** used acts of fraud to gain control over a profitable enterprise and an

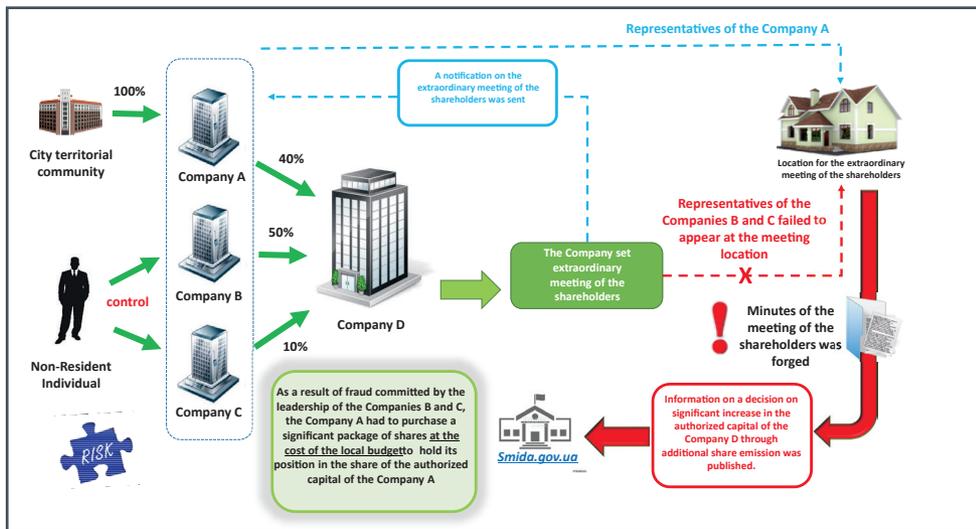
opportunity of sole management of its financial and economic activities.



A law enforcement agency is in the middle of a related investigation under Articles 189, 190, 205, 206, 209 and 358, CC Ukraine

Scenario 6.9.2

Law enforcement agencies are in the middle of an investigation into the fact of illicit acts focused on intentional decrease in the share of a company's authorized capital through fictitious meeting of its shareholders.



It was established that the Company D made a decision on the extraordinary meeting of the shareholders in order to consider an issue on the increase of its authorized capital. The owner of

the **Company A**, which owns 40% of the shares of the **Company D**, is a territorial community of the city. The other two co-owners of the **Company D** – the **Companies B** and **C** owning 60% of shares in total – are controlled by the **Non-Resident Individual**.

On the day of the extraordinary meeting, representatives of the **Company A** arrived at the assigned address, but representatives of the **Companies B** and **C** failed to appear, which was recorded by representatives of the National Securities and Stock Market Commission.

However, on the next day, there was published information on the official website (smida.gov.ua) providing that the extraordinary meeting of the shareholders of the **Company D** made a decision on significant increase in the authorized capital through the placement of shares.

As a result of the fictitious extraordinary meeting of the shareholders and document forgery for holding its positions within the authorized capital of the **Company D**, the **Company A** had to purchase a significant package of shares.

Due to the fact that the **Company A** was established by the city territorial community, the purchase of shares had to be done with the use of the local budget. Otherwise the **Company A's** shares would be less than 1%, which would provide the **Non-Resident Individual** with full control over activities of the **Company D** and an option for solely acquired proceeds.

A law enforcement agency is in the middle of a related investigation under Articles 191 and 366, CC Ukraine.

6.10. Use of enterprises with opaque ownership structures to implement illicit seizure of real estate under the state form of ownership

Scenario 6.10.1



A law enforcement agency is in the middle of an investigation into the arrangement of an illicit scheme to seize locations in community and state ownership for further laundering thereof through

companies with opaque ownership structures.

A pre-trial investigation proved that the **Officials** of the city state administration implemented a transfer of land lots and community/state real estate under deflated prices to **figureheads** and **shell companies** while referring to results of fictitious auctions.

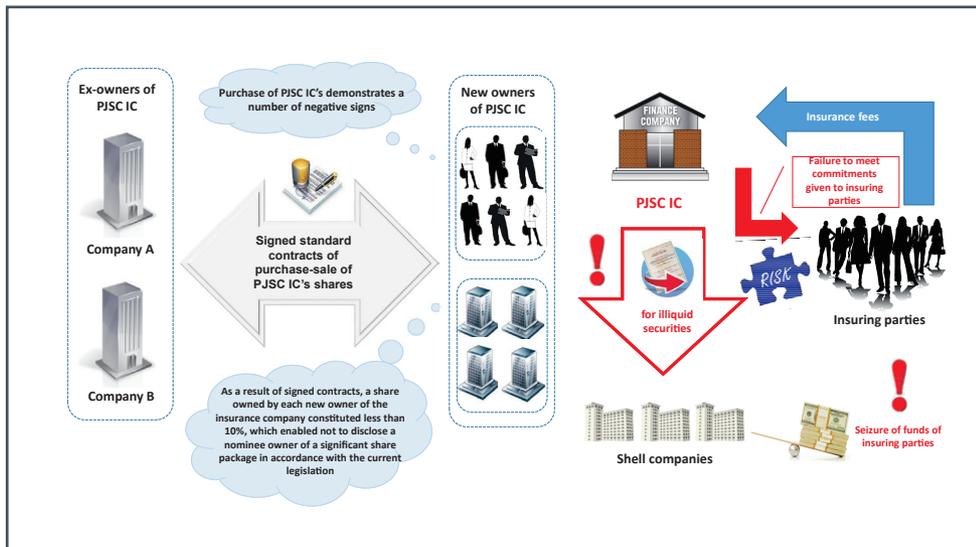
The above locations were further resold by shell buyers under actual market prices to actual buyers, and the proceeds represented by the balance between the procurement and sale prices were withdrawn to companies controlled by the **Officials**. The above companies were established by non-resident companies registered at offshore jurisdictions that don't disclose any information on actual beneficial owners.

A law enforcement agency is in the middle of a related investigation under Articles 190, 358 and 364, CC Ukraine.

6.11. Concealment of beneficial ownership through the change in actual beneficial owners

Scenario 6.11.1

In accordance with a related investigation, SFMS detected a scheme of change in nominee holders of corporate rights as a tool to evade liability for a failure to implement its commitments by a legal entity, arrangement of artificial bankruptcy and concealment of beneficial ownership.



It was established that the **Companies A and B**, owners of 92% shares of the PJSC IC insurance company, signed a number of standard trade contracts on sale-purchase of the latter's shares with 6 individuals and 4 legal entities within the period of two days. At the same time, the shares were sold under the price that was lower than the market value of the shares. As a result of the signed contracts, the share of each new owner of the insurance company constituted less than 10%, which enabled not to disclose information on the owner of a significant share package in accordance with the current legislation.

Buyers of the PJSC IC's shares had a number of negative signs: legal entities registered on the same day – merely 10 days before the purchase of shares; they have the same address, sole settlers (individuals who have no officially declared assets); and the funds to purchase the shares were input in cash as refunds of personal accounts and contributions to authorized capitals of legal entities.

In accordance with the information acquired from law enforcement agencies and public administrations, it was established that officials of the PJSC IC further signed sale-purchase contracts regarding illiquid securities with companies demonstrating the signs of their shell nature. The latter were used to withdraw a significant amount of funds.

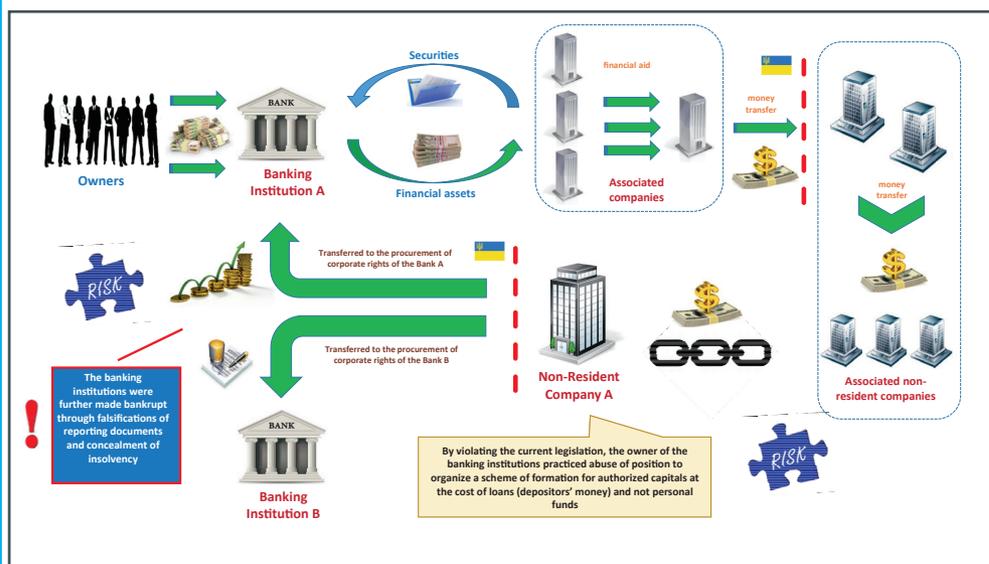
Therefore, concealment of actual beneficial owners through the transfer of PJSC IC's shares to figureheads and shell companies was used to evade liability for a failure to meet commitments due to artificial bankruptcy and seizure of insuring parties' funds paid to the mentioned insurance company as insurance fees.

A law enforcement agency is in the middle of a related investigation under Article 191, CC Ukraine.

6.12. Authorized capital formation at banking institutions and procurement of corporate rights as tools to acquire illicit beneficial ownership

Scenario 6.12.1

A law enforcement agency is in the middle of an investigation into the capital formation of banking institutions at the cost of bank depositors.



In accordance with a pre-trial investigation, it was established that the **Banking Institution A** financed **associated companies** through the purchase of "junk" securities at inflated prices. At the

same time, the above transactions were implemented without verification of liquidity and market value of the securities concerned.

The received funds were further transferred beyond Ukraine through a number of associated companies and credited to the accounts of the **Non-Resident Company A**, which is the settlor of the **Banking Institution A**.

The funds received by the **Non-Resident Company A** were transferred to Ukraine to personal accounts as investments and further used to increase the authorized capital of the **Banking Institution A** and procurement of corporate rights of the **Banking Institution B**.

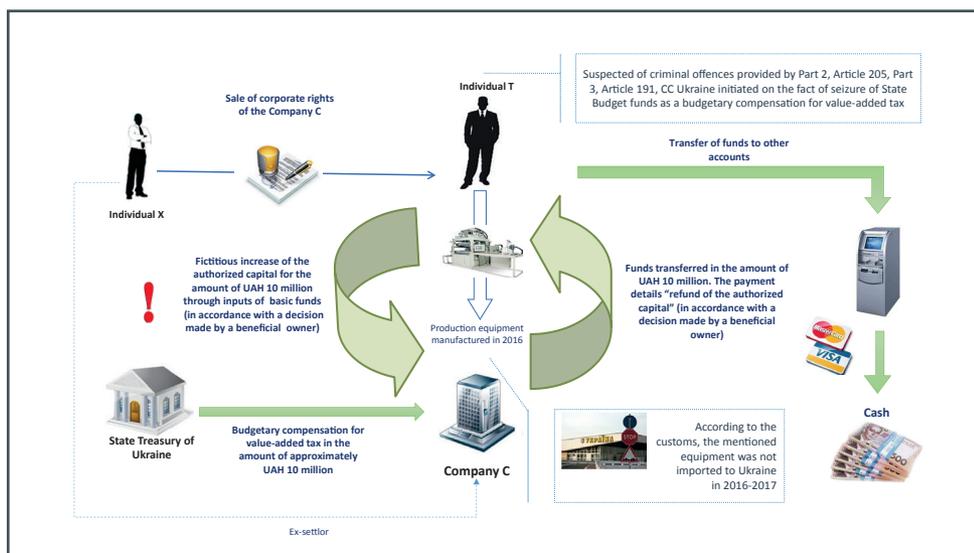
Hence, formation of authorized capitals of two banking institutions occurred not with the use of the settlor's assets but with the use of funds of related depositors.

Moreover, the above banking institutions were further made bankrupt through falsifications of reporting documents and concealment of insolvency on behalf of the owners and leadership.

A law enforcement agency is in the middle of a related investigation under Articles 191, 219, 220, 364 and 366, CC Ukraine.

6.13. Falsified beneficial ownership

Scenario 6.13.1



A law enforcement agency is in the middle of an investigation into the fact of seizure of the State Budget funds through illicit budgetary compensation for value-added tax.

In accordance with a related investigation, SFMS established that the **Individual T** procured the **Company C** from an ex-owner. The **Individual T** later made a decision on the increase of the authorized capital of the **Company C** for the amount of approximately **UAH 10 million** by inputting production equipment into the company's authorized capital. At the same time, according to information acquired from customs agencies, the above equipment was not imported to Ukraine

in 2016-2017. Moreover, judging by the amount of income declared by the **Individual T**, there are suspicions on the available equipment which is as expensive.

In a short time period, the **Company C** received a budgetary compensation for value-added tax in the amount of approximately **UAH 10 million**. The funds were further transferred to the account owned by the **Individual T** as a refund of the authorized capital, transferred to another bank's account and cashed in full.

A law enforcement agency is in the middle of a related investigation under Articles 191 and 205, CC Ukraine.

6.14. Use of trusts and other legal arrangements

According to a joint report prepared by FATF and Egmont Group ("Concealment of beneficial ownership"¹¹), specifications of agencies with opaque ownership structures are commonly disclosed by participants of the national financial monitoring system while trusts and other legal arrangements are usually more difficult to identify.

Trusts and other legal arrangements may be used to strengthen anonymity through an additional level of complexity by separating legal and beneficial rights to assets.

In trust management, ownership right and asset control are separated from the right to just interest in an asset.

The above means that different individuals or entities may own and use assets as well as manage a trust depending on the applicable law on trusts and provisions of the document used to form a trust (e.g., an act of establishment of trust ownership).

Specific states apply trust law allowing an owner and beneficiary (sometimes – even a trust owner) to be the same individual/entity.

Trust acts are varied and may include provisions influencing the site of final control over the trust assets, including provisions used by a settlor to keep specific authorities such as trust annulment and refund of trust assets.

Other vulnerabilities include focused trust arrangements, general or special authorities assigned by a settlor as well as credits to repay (by an institution or other individuals/entities) to a trust on respective demand.

Scenario 6.14.1 – Italy

The Milanese Police implemented a preventive seizure of funds in the total amount of **Euro 1.3 billion** related to a specific **family** and kept at the **Channel Islands**. The assets were concealed through a complicated trust network.

¹¹ Access mode: <https://www.fatf-gafi.org/media/fatf/documents/reports/FAFT-Egmont-Concealment-beneficial-ownership.pdf>

Several trust accounts concealed owners of assets including state debt securities and cash.

According to the investigation, the involved subjects placed their assets in **Dutch** and **Luxembourg companies** from 1996 to 2006 through complicated corporate transactions and referrals to various trusts located at the Channel Islands.

The funds were later legally returned as tax-free assets in December 2009.

The investigation detected accountants assisting in the concealment of funds in trusts to simplify their laundering and reinvestment during the whole time provided above.

Scenario 6.14.2 – Cayman Islands

The **Individual A** established a revocable trust as a settlor while using a local service provider for legal entities as a trustee.

The **Individual A** also took part in the establishment of the **Company C** at the Cayman Islands together with a local service provider for legal entities whose address was specified as a legal address for the company.

The **Service Provider** became aware of the charges filed against the **Individual A** and her involvement in a scam with oil and gas contracts involving members of foreign governments.

The **Service Provider** reported that both the trust and the company received several transfers of funds and property for the last two years from a source which now looks suspicious, which also raised suspicions and resulted in an STR (a suspicious transaction report).

Analysis of trust accounts revealed outgoing financial flows to individuals/entities mentioned as parties of a scandal related to proceeds earned from corruption that was covered in numerous media.

By responding to related requests, foreign jurisdictions confirmed that the **Individual A** was prosecuted for money laundering and corruption-related cases among public officials.

Scenario 6.14.3

A law enforcement agency is in the middle of an investigation into declaration of implausible information by a person authorized to implement the function of the state or local self-governance.

According to a related pre-trial investigation, it was established that the **Individual A**, a public official, provided the **Trust Company** with an assignment to establish a non-resident company for it, as a beneficiary.

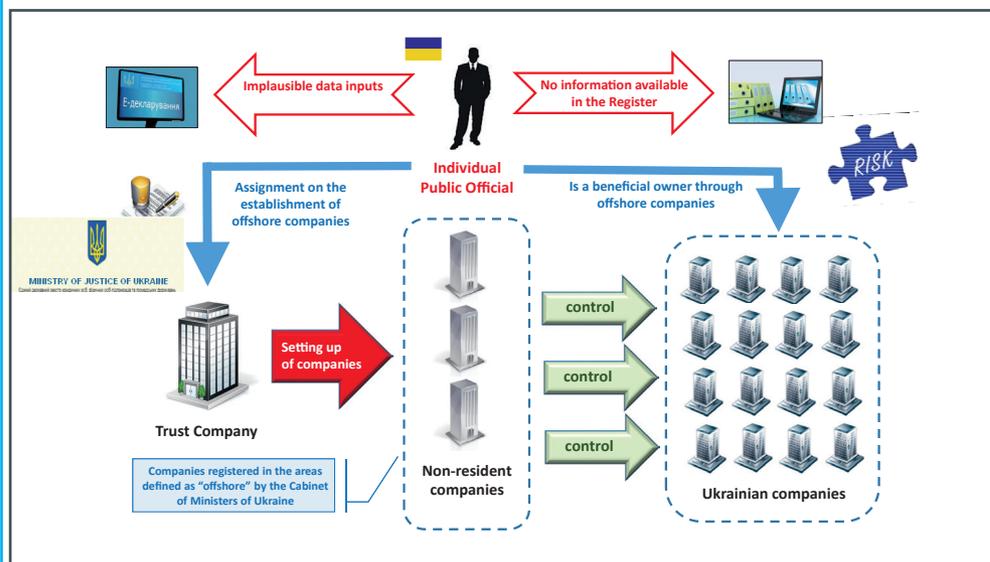
In compliance with the above assignment, the **Trust Company**, located in the area defined as an offshore area by the Cabinet of Ministers of Ukraine, registered articles of incorporation and the statute of a non-resident company with the **Individual A** defined as a beneficial owner thereof. The above non-resident company was later used to establish a number of other offshore companies.

In their own turn, the offshore companies procured shares of authorized capitals of a number of Ukrainian associations, which allowed implementing control over operations of those associations.

At the same time, the **Individual A** failed to provide that he was the final beneficial owner of the above associations when filling an annual declaration of a person authorized to implement the

function of the state.

Moreover, related information was not input into USR, which is a violation of the current legislation.



A law enforcement agency is in the middle of a pre-trial investigation.

6.15. Mechanisms used to conceal beneficial ownership

In accordance with the analysis of practice to detect beneficial ownership, the following mechanisms were detected:

- registration/re-registration of companies to figureheads (students, retired people, socially vulnerable layers of population, individuals registered on the territory beyond Ukrainian control) for a fee;
- nominee directors and shareholders who are considered associated persons, "fictitious" financial and economic transactions;
- complicated ownership structure;
- trusts and other legal arrangements allowing to separate the right of ownership and beneficial ownership of assets;
- replacement of actual corporate right holders with nominees;
- transfer of funds under fake transactions;
- falsified activities (a failure to comply with contractual provisions on supply of the goods after related fund transfers);
- registration document forgery;
- asset ownership document forgery;
- use of figureheads and associates as well as professional service providers to conceal relations between beneficial owners and assets;

- falsification of decisions made at a meeting of shareholders and owners;
- formation of the authorized capital of a banking institution while pretending the use of personal funds.

CONCLUSIONS

Determination of an organizational and legal form for legal entities depends on financial and economic activities planned by a related owner and selected means of protection for personal and raised assets.

Legal entities implement legal activities, but at the same time, they may pretend that illicit transactions are legit and facilitating the concealment of beneficial ownership and actual beneficiaries.

During the national risk assessment, there were defined risks related to the lack of verification of beneficial owners. The above points at the current gaps in USR regarding the information on beneficial owners for specific legal entities established for specific purposes. Moreover, this also proves the lack of verification of registration data within USR, which makes Ukrainian legal entities vulnerable to their use by “figureheads”.

The issue of abuse by legal entities is very common, and such legal entities are the key to efficient performance of professional ML networks, specifically, the so-called “conversion centres”. Legal entities in Ukraine pose a great threat of laundering illicit proceeds, and vulnerability of Ukrainian legal entities is more widely spread than deficiencies found when detecting a beneficial owner.

In accordance with this study, when interviewing respondents from the state and private sectors, SFMS established that limited liability companies, private enterprises and civic society organizations are the most popular organizational and legal forms of a legal entity used in Ukrainian ML/TF schemes.

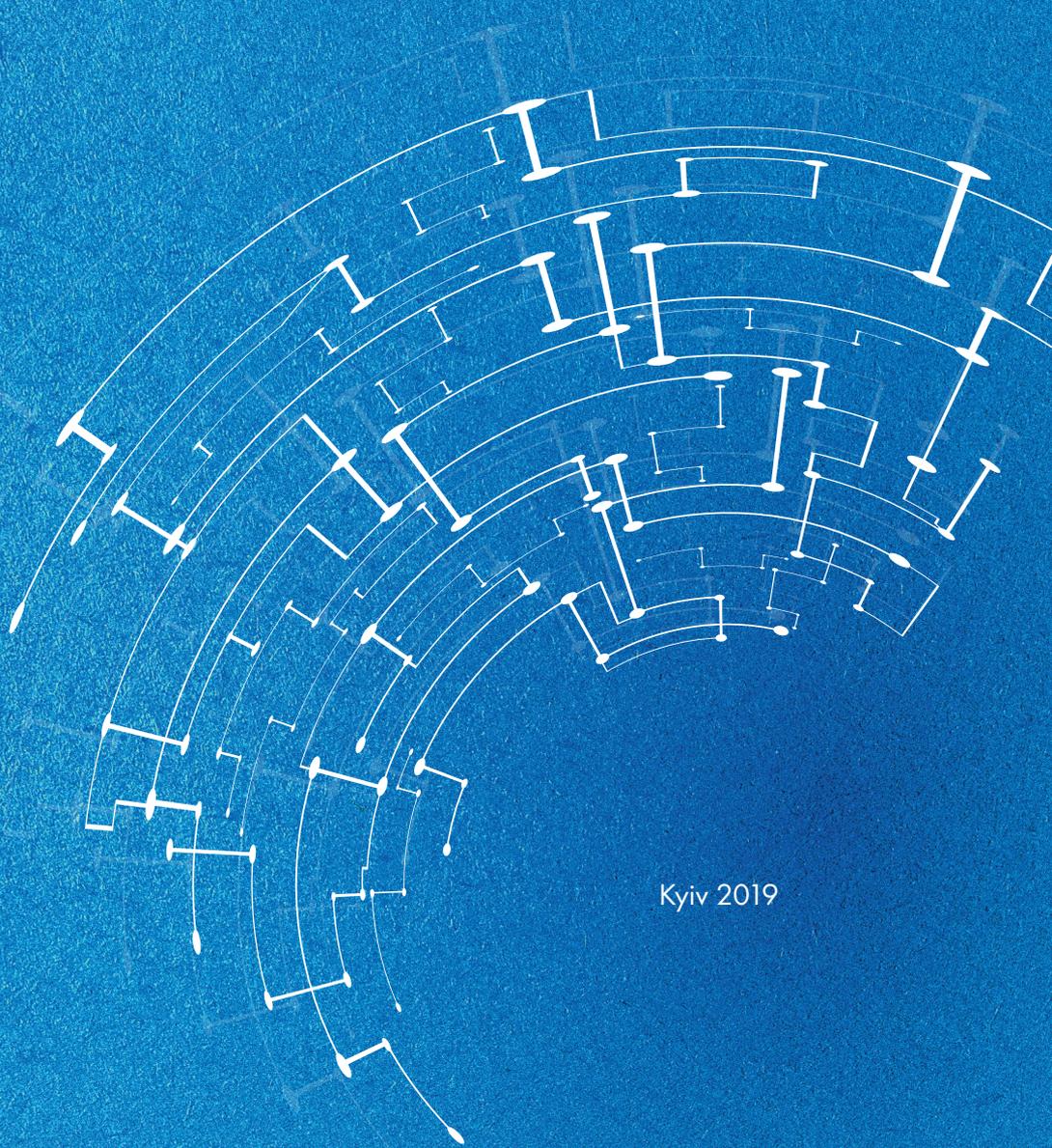
Nominee owner service provision is not an activity to be financially monitored. It was established that companies, as a rule, those providing legal and accounting services, that are located either in Ukraine or beyond propose management and support to registration of Ukrainian legal entities. As a rule, these services are provided to facilitate external investment into Ukraine. Moreover, some of those companies propose services related to further current support such as locations for an office registration, nominee owner and director services.

It's worth mentioning that the current Ukrainian legislation doesn't provide the establishment of legal arrangements, but at the same time, it doesn't forbid residents to manage such arrangements established under other jurisdictions. However, it doesn't happen often in practice.

A centralized register of legal entities was created in Ukraine, which was turned public in 2015. Ukraine was one of the first states that started publishing information on formal owners as well as beneficial owners of all legal entities registered in Ukraine if possible.

The register only provides a declared beneficial owner of a legal entity and has no requirements to verification of information stored in USR. Such an issue is a problem for both Ukraine and the whole world.

At the same time, Ukraine is currently trying to resolve the issue related to the introduction of a data verification mechanism regarding beneficial owners to mitigate possible ML/TF risks.



Kyiv 2019