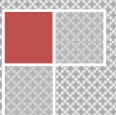


2014

Current techniques, methods and financial instruments of terrorism and separatism financing

Department of Financial Investigation
State Financial Monitoring Service of Ukraine



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INTRODUCTION

Up to the date, the problem of peace and international safety ensuring is vital for each country in the world. International terrorism violates the harmonious global development, as well as international peace and safety. Under such conditions, countering against terrorism is the matter of highest priority of the UN and other international organizations activity.

Expansion of terrorism and separatism in Ukraine formats the task of countering against financing and requires for strict measures to control over financial flows. Thus, activity on determination and efficient blocking of financial chains support of terrorist and separatist organizations should be one of the key focuses of long-term strategy of state authorities. As the financing provides an opportunity for making terrorist acts, provides relevant training of terrorists, their technical equipment and other required costs, and its suspension could be the best weapon in counterterrorism.

Expansion of financial control under conditions of counterterrorism and separatism defines the location of Ukraine and characteristics of activities of certain state authorities to address these problems. Methodologies for identifying the financing of terrorism and separatism, according to the national legislation, the development of international cooperation and information exchange are the essential conditions for detection and neutralization of the financial infrastructure that fuels activity of terrorist and separatist organizations.

Countering the financing of terrorism and separatism should include a set of measures of organizational, legal, economic and political nature in the international and domestic space to be made by all participants of this process in order to prevent terrorist acts and attacks on the territorial integrity of the state.

Rationale

Rationale is conditioned by sharp increase in the financing of terrorist and separatism in Ukraine and the number of crimes under the International Convention for the Suppression of the Financing of Terrorism, 2000, the majority of which are to be committed by the citizens of Ukraine, Russian Federation and entities that are registered and/or staying on its territory. From March 2014, on the territory of Ukraine there are illegal terrorist organizations “Donetsk People's Republic” and “Luhansk People's Republic”.

New challenges caused by the threat of the financing of terrorist and separatism in Ukraine require for the implementation of qualitatively new methods of detecting, preventing and countering such activities. Typological synthesis of schemes of the financing of terrorism and separatism will help the participants in the national AML/CFT system to reallocate the existing resources to effectively counter the identified threats and leveling the existing vulnerabilities.

Conducting this study will be the basis for implementation by Ukraine of the first FATF Recommendation concerning risks assessment and implementation of measures underlying its urgent character.

Goal of study

At the time of this study, the threat of terrorism and separatism in Ukraine grew into a direct military confrontation beyond this study.

Development of the events in regions have being suffered from the actions of terrorist groups showed the similarity of their scenarios. Previous dismantlement of situation often involves local population that through deception, threats and imposing fictive patriotic ideals were used in carrying out acts of civil disobedience and other actions aimed at violent change or overthrow of the constitutional order, seizure of state power, commitment of terrorist attacks, membership in illegal armed formations.

The organization of these actions, in particular, requires for financial support at places. These are the activities of foreign sabotage groups, local pro-Russian activists and movements, as well as measures to finance their activities.

If detection and prevention of activity of such persons and their communities are under the responsibility of the intelligence agencies, the task of identification and freezing the system of the financing of such activities is imposed on the system of financial monitoring.

The study is focused on establishment and generalization of typical methods, ways, financial instruments and schemes of the financing of terrorism and separatism at the existing risk level, determination of any possible ways for improving the system of countering the financing of terrorism to prevent implementation of these threats.

Object and subject of study

Current terrorist and separatist activity may be made by the following main methods:

Through direct material and financial security, including by cash;

Through financial support with involvement of intermediaries, including participants in the financial system.

The object of study – schemes of financial support of terrorist and separatist activities with the methods and participants in the financial system.

The subject of study - main threats and weaknesses spreading such crimes.

Main tasks of study

Such typological study is the element of the National risk assessment, mainly focused on determining threats and weaknesses, risk assessment and its neutralizing.

The main tasks to be achieved within this typological study are as follows:

- determination of weaknesses of the financial system that may be used for the financing of terrorism and separatism;
- assessment of probabilities of the threats of the financing of terrorist and separatist activities based on the existing weaknesses of the financial system;
- determination of any possible measures to minimize or eliminate the negative affect of the defined threats, to eliminate or reduce the weakness.

These issues are interdependent and could not be viewed separately. The answers to these questions combined in a single analytical conclusion will provide an

opportunity to highlight the weaknesses, such as how and where the financial sector is subject to the risk of being used for the financing of terrorism and separatism both in separate organizations and at the sector level. It also will provide an opportunity to bring typological examples, identify the existing trends and identifying indicators (“red flags”).

Also, the goal of this typological study is focused on creation of the analytical framework for making further decisions about appropriate countermeasures at the national level and proposals for their support by the international community.

It also should be noted that this typological study shall not task concerning determination of reasons and conditions under which terrorist organizations and separatist movements perform their activities within the territory of Ukraine and, accordingly, use its financial system.

Background

The Financial Action Task Force on Money-laundering (FATF), as an intergovernmental authority established in 1989, also explores the issue of the financing of terrorism. FATF sets standards and promotes effective implementation of legal, regulatory and operational measures for anti-money laundering, countering the financing of terrorism and other threats to the integrity of the international financial system. In cooperation with other international partners, FATF identifies weaknesses at the national level to protect the international financial system from abuse.

Study of the question of the financing of terrorism was highlighted in the following international typological reports of FATF and its regional units:

- the risk of the financing of terrorism through non-profit organizations (2014);
- the financing of terrorism in West Africa (2013);
- typological studies of FATF on the financing of terrorism (2008).

On the side of the State Financial Monitoring Service, typological study will be based on information transferred as a part of general and additional general materials with possible signs of the financing of terrorism and separatism.

Also during this study, it was used for common national information from the Unified report on criminal offences and information of the law enforcement authorities concerning actual proceedings to be conducted by the law enforcement authorities within the current period. In addition, information received from the financial sector may also serve as one of the data sources that could provide the possibility to define the main types of financial instruments to be used in the schemes of the financing of terrorism and separatism.

SECTION 1. Risk of the financing of terrorism and separatism

General description

The risk of the financing of terrorism and separatism should be defined as the derivative of the *threat* of terrorist activity or separatism and *weakness* of the financial system to be used for the financing of such activity.

According to the FATF Manual “National Money Laundering and Terrorist Financing Risk Assessment”, the threat is a person or a group of persons, object or activity that could potentially cause harm, such as to state, society, economy, etc. In the context of the financing of terrorism or separatism, this term includes criminals, terrorist groups and persons supporting them, their resources, and past, present and future activities of the financing of terrorism or separatism.

In that sense in which it is used under risk assessment the term “weakness” includes those areas where threat could be implemented, or anything that may support or contribute to its implementation.

The threat of terrorism or separatism, depending on the conditions of its origin, could be both internal and external. As already noted, Ukraine has not been suffered from such activities before; there has been found no presence of active forces of international terrorist groups in its territory. Furthermore, in the absence of radical sentiment in the society, the onset of the high risk of terrorism or separatism was hardly probable.

On the other side, the weakness of the financial system, including the possibility to be used for the financing of terrorism or separatism, exists regardless of the level of threat of such activity. It may include peculiarities of a certain region, sector, financial product or type of services that make them attractive for the financing of illegal activity.

Backgrounds

According to the recent assessment of the mode of anti-money laundering and countering the financing of terrorism to be made by the experts of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), Ukraine has not been suffered from internal terrorist accidents, although the law enforcement authorities sometimes defined some crimes as terrorist-related crimes.

Analysis of criminal cases to be conducted showed that there were not attributable to terrorist activity and there was not found for any sign of participation of any natural person or legal entity in Ukraine or abroad for the financing of terrorism.

Thus, in particular, analysis of criminal cases to be conducted by the investigative authorities of the State Security Service of Ukraine connected with the commitment of any terrorist act gave the basis to note that the given crimes were committed mainly from molester motives or in order to redistribute property and were not connected with the organized terrorist activity. Besides, the units of the State Security Service of Ukraine have not found any fact of participation of natural

persons and legal entities of Ukraine within and without its territory for performing activity connected with the financing of terrorism.

Based on information received by the State Security Service of Ukraine, there were no structural units of international terrorist and religious extremist organizations within the territory of Ukraine, there were no members of such organizations. Ukraine has not been suffered from any terrorist attacks from their side and up to the date there were no backgrounds for terrorist attacks.

However, the situation has dramatically changed in early 2014.

The nature of events, in particularly, at the first stages of escalation of terrorist threat and the threat of separatism in Ukraine, reflects the use of the financial system for integration and readdress of financial flows to be addressed for support of such criminal activity.

While high level of threat of terrorist and separatist activity in Ukraine is the actual factor, the general level of CFT system weakness should be defined for further development and implementation of countermeasures.

Threat level

As mentioned, up to the date, the high level of threat of terrorist and separatist activity (and also the financing of such activity) in Ukraine is the actual factor that has been transformed into the threat of direct military invasion. It is hardly to understand as Ukraine has not been suffered from internal terrorist accidents and analysis of criminal cases to be conducted by the law enforcement authorities showed that they were not connected with terrorist activity and there were no signs of participation of natural persons or legal entities in Ukraine or abroad for the financing of terrorism.

Also it was proved by the statistics based on the received general materials concerning the doubts on the financing of terrorism. Thus, in 2013 the State Financial Monitoring Service prepared and addressed for consideration to the law enforcement authorities 4 general case files of the above category.

The materials, being transferred to the law enforcement authorities, included information concerning notice on financial transactions connected with crediting of cash, cash transfer, granting of credit, payment of contribution to the funds of construction financing and payment for dual-use goods.

During 9 months in 2014 the State Financial Monitoring Service prepared and addressed for consideration to the law enforcement authorities 61 general and additional case files connected with the financing of terrorism and separatism. It is in 17 times more than for 2013. It also proves the growth of such threat level.

The transferred general materials were as follows:

- activity of charitable organizations for the financing of organizations connected with terrorism and separatism;
- public organizations and public Russian-minded persons;
- the financing of sports bases to be used for preparation of soldiers for their participation in riots by means of cash transfers through the Ukrainian international monetary system.

Growth of threat level of the financing of terrorism and separatism is also proved by the indicators from the unified report on criminal offences. Thus, during 2013 no offence on violation of foreign territorial supremacy and sanctity of Ukraine was recorded (Article 110 of the Criminal Code of Ukraine and only one accident of the financing of terrorism (Article 258-5 of the Criminal Code of Ukraine). At the same time, during 9 months in 2014 it was recorded for 258 offences on violation of foreign territorial supremacy and sanctity of Ukraine and 36 facts of the financing of terrorism.

Threat sources

The sources of terrorist threat and threat of separatism are based on economic, social and political, national and ethnic, religious and some other processes in Ukraine. Geopolitical factor is special, being the main catalytic element of the external threat.

In the current situation, the factor of external interference is significant. All internal stress points in the society were successfully used for escalation in the conflict.

However, analysis of the terrorist threat and the threat of separatism is not the objective of this study. Intending to highlight the matters of threat of the financing of terrorism and separatism, this study will consider the matters of sensitivity of the financial system that may be used by any terrorist and separatist organizations.

The greatest challenge of defining the source of the financing of terrorist and separatist activity and, accordingly, its prevention is focused on the fact that such financing may be made from legal sources, transfer amounts may be minor and financial transactions may not be different from other.

Investigation of terrorist attacks took place in the USA in September of 2001 showed that the CFT system was not appropriately developed rather than broken so that to define such “common” transactions.

The threat source includes regularity of financial transactions, lack of peculiarities of definition, branching of financial institutions, transfer mobility and deep level of penetration of financial services for all social groups (easiness of the financial service application).

Concerning the sources of the financing of terrorism and separatism, it should be noted that up to the date there is a lack of statistical data on the basis of which it may be concluded about all sources of their financing.

Also, as informed by banks, the large number of facts connected with the financing of terrorism and separatism appeared to be in south-eastern Ukraine. The detailed allocation of facts defined is given in Figure 1.

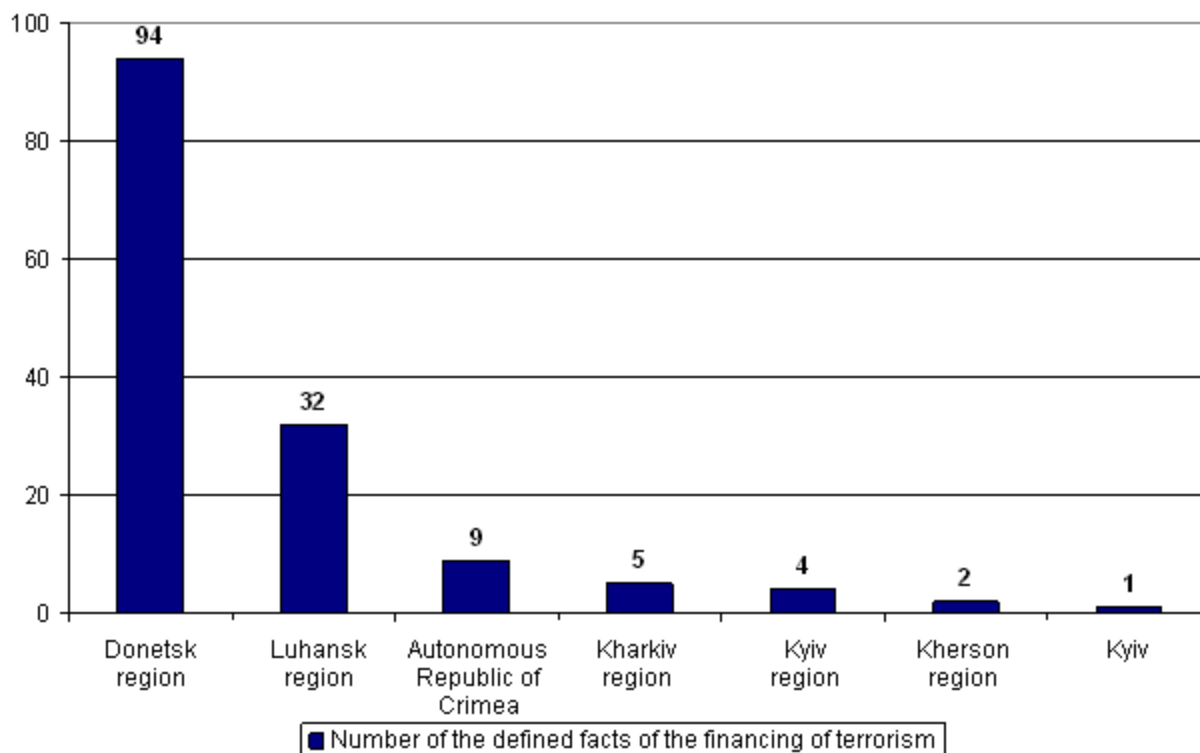


Figure 1. Number of facts defined by the banking institutions that may be connected with the financing of terrorism and separatism

Weakness of the financial sector

The system of countering the financing of the terrorist and separatist activity in Ukraine is according to the international standards in this sphere (FATF) approved by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

Nevertheless, there is no financial system that may be protected from any potential use for the financing of the terrorist and separatist activity.

Among millions of financial transactions and thousands of financial instruments, those to be settled and used for the financing of the terrorist and separatist activity have corrupted nature and remain unchanged in form, peculiarities and features.

The point at issue is that, starting from any period of time, common, financial transactions may have disguised purpose, at this, any existing features remain unchanged, and thus, all mechanisms appear to be applicable.

It should be noted that it does not mean non-ideality of the countering mechanisms. There is a certain *objective level of sensitivity of any financial system*, firstly, due to the social factor.

Considering the financial system as a block of members and mutual relations between them, the system of countering the financing of terrorism and separatism, firstly, such mechanisms of countering as identification by the financial mediator of persons (customers) applied for financial services and search of financial transactions to be settled by such persons for identification of those that may be affiliated to the financing of terrorism and separatism.

Financial transactions, being not subject to the requirement of identification of their initiator according to the legislation, may be used for the financing of terrorism and separatism. In Ukraine those financial transactions to be settled through payment systems, including with e-cash in the amount not exceeding UAH 10,000 or the amount in foreign currency that in the equivalent not exceeds UAH 10,000 are subject to the mentioned risk zone.

The up-to-date information technologies allow rapid settlement of the above mentioned financial transactions without direct contact of the initiator and the subject of financial monitoring. In principle, the cyber domain has no restrictions, thus, there is a possibility of formation of a great number of virtual members by criminals (e-wallets, virtual payment ways, etc.) for cash transfer. As a matter of fact, legislative restrictions do not permit to use this channel of cash transfer for large amounts of funds; however it may be successfully used for the targeted aid.

Thus, law enforcement authorities have found a lack of control over e-transfers through national and foreign payment systems as main sensitivity of the financial system that may be used for the financing of terrorism and separatism.

Example 1

In the process of conducting the monitoring of financial transactions of customers that made single cash transfers to the accounts of natural persons involved in the financing of separatism, one of the banks has found information included the fact that payment cards of this bank should not be used for assistance of “Donetsk People’s Republic” and “Luhansk People’s Republic”, it was recommended to use such payment systems as Webmoney, Yandex money, Qiwi.

Moreover, even those financial transactions, including preventive measures from the side of financial mediators, as previously defined, may appear to be the disguised financing of terrorism and separatism, though being not characterized with the identifying features of detection.

Example 1

According to the monitoring of customer transactions of one of the banks, there have been found funds transfers from the current accounts using special payment methods (accounts were opened in Donetsk region) to the account of the counteragent – natural person in other bank. The amounts of payments were various (from 20 up to 250 UAH) and irregular (source of funds at the accounts of bank customers that initiated funds transfers – in general, targeted use: salary, pension benefits). Basic transfers were made with the purpose of “private transfer”, but there have been found transactions on funds transfer with the purpose of “assistance”, “for purchase of drug products”. According to further analysis conducted, the person having received funds to its account appeared to be the member of “Donetsk People’s Republic”.

The schemes of the financing of terrorism and separatism may also be implemented through settlement of financial transactions through various banking institutions that makes it difficult to define.

Thus, the existing objective weaknesses of the financial system multiplied by the scope of use may present high risk of the financing of terrorism and separatism, but only under conditions when the threat from the side of terrorist and separatist organizations becomes accidental.

Difference of the financing of terrorism from money laundering

As previously noted, terrorists need funds to buy weapons, equipment, inventory and services. Funds may be transferred to them from the country (terrorism financing by the country) or from any private sources (from certain persons, companies, charitable and other non-government organizations) – often in form of minor, but numerous donations.

Funds to be transferred to terrorists may have legal or criminal source. According to the research organization **Council on Foreign Relations**, the main problem of defining the financing of terrorism is that 70% of all funds are to be received by terrorists from legal sources (though they use even illegal sources: illegal traffic, extortion racket, drugs traffic, arms traffic, etc.). Terrorists receive most of funds from business, charitable foundations and private sponsors that are often not aware of the purpose of funds use.

While laundering means funds management as a result of a predicative crime, the financing of terrorism, being a crime on its own, supports further commitment of a serious crime.

The objective of any investigation also differs, upon laundering it is focused on the open verdict and, accordingly, to be conducted by the law enforcement authorities against the cases of the financing of terrorism when the investigation is focused on prevention of a serious crime and to be conducted by the intelligence agencies.

Ways of criminal proceeding concerning money laundering and the financing of terrorism are similar under the fact that in both cases information on financial transactions should be collected. Such information may be included in financial reports from internal or international sources, as well as from witnesses.

However, there are differences. Upon investigation of any offences connected with money laundering, the law enforcement investigation considers that funds move from the offence to the lawbreaker and then, as a rule, to purchase of property (cars, jewelry, real estate, etc.). Upon the financing of terrorism, it should be tracked for cash flow from their source (income from criminal activity, donations) to terrorist organization and then to the certain terrorists or terrorist organizations that use them, act based on them, spend them for organization of terrorist attacks.

Differences between the financing of terrorism and money laundering also raise the problems to those financial mediators obliged to define these facts. The fact is that legally gained cash, minor transfer amounts and lack of visible symbols of suspicion (“red flags”) makes the financing of terrorism quite non-visual.

In the final count, the chief object of the countering the financing of terrorism is prevention of any terrorist threat of using the sensitivity of the financial system, i.e. risk control.

Direct support and use of the financial system

As previously noted, terrorist and separatist activity means the necessity of financial assistance. It is referred to the organization of actions and support of organizational form, the expenses on information campaigns, the involvement of new members.

Depending on the scope of activity, geographical location, desired goals and number of members involved, on the one hand, and available resources, their types, possibility of transfer and branching of representatives, on the other hand, the methods of financial assistance of terrorist and separatist activity vary.

It should be noted that the practice of countering the financing of terrorism by the world community proves the fact that terrorist organizations intend to use the simplest, the most available and understood methods of funds transfer.

Financial assistance of terrorist and separatist activity may be made both through the direct transfer of assets, funds and weapon and through remote control, i.e. use of the financial system services.

Those examples describing the cases of direct assistance subject to investigation are given below.

Example 2

Early June 2014, the exact date and time are not given, staying in the territory of the town Yenakiyevo, Donetsk region, the Citizen X, date of birth 1951, willfully transferred to the representative of the terrorist organization “Donetsk People’s Republic”, nicknamed “Y”, funds in the amount of UAH 200 and material valuables in the amount of UAH 20,000, i.e. committed an action of financial and material security in favor of the terrorist organization “Donetsk People’s Republic”.

Example 3

The Citizen X, date of birth 1959, on 05.05.2014 in the town Druzhkivtzi, Donetsk region, for financial assistance of the terrorist organization, willfully transferred to the member of the terrorist organization “Donetsk People’s Republic” funds in the amount of around UAH 17,000, thus, committed in its any the financing of terrorism.

Example 4

The Citizen X, date of birth 1960, on 03.06.2014, transferred funds in the amount of UAH 3,000 in the name of the Citizen W. At this, the Citizen X understood that funds would be spent for financial security in order to promote the commitment of terrorist attack using the mentioned funds. Thus, intending to provide the involvement of the group of persons in the commitment of terrorist attacks against the members of anti-terrorist operations in the territory of Luhansk region, the Citizen X willfully transferred the mentioned amount of funds to the Citizen W for organization by the latter of the involvement of persons in armed conflicts on the side of “Luhansk People’s Republic” against the members of anti-terrorist operations in the territory of Luhansk region, funds mentioned were used by the latter for transportation of persons to Luhansk and provision of their staying in the territory of the given town.

Example 5

In May-July 2014, in Moscow, Russian Federation, being in collusion with the group of persons, the Citizen X and the Citizen W charged and accrued funds, ammunition, office automation equipment, drug products, food and further transfer and delivery to the member of terrorist organizations “Donetsk People’s Republic” and “Luhansk People’s Republic” in the territory of Luhansk and Donetsk regions of Ukraine. Thus, the Citizen X and the Citizen W committed the financing of terrorism, i.e. those actions taken for financial and material security of terrorist organizations, organization and commitment of terrorist attacks, promote of the commitment of terrorist attacks.

It should be separately considered for the activity of cash couriers. On the one hand, cash couriers are involved for the provision of direct financial assistance and, accordingly, for avoiding financial monitoring in the financial system. On the other hand, FATF Recommendation 32 directly highlights the necessity of the implementation of countermeasures against such activity from the side of the AML/CFT system.

However, it is referred to cross-border funds and jewelry transfer through the organized checkpoints at the state border. Under conditions when Ukraine is unable to control over a part of its border due to the military acts, the countermeasures against transfer on these zones are impossible¹.

According to the example above, cash couriers are involved between the territories of those regions of Ukraine suffered from terrorist attacks and separatist movements.

¹ It is referred to the countermeasures specified in FATF Recommendation 32.

Example 6

In July of the current year, the citizens of Zaporizhzhya, being on duty at the checkpoints (route section Zaporizhzhya – Donetsk towards Donetsk), upon vehicle inspection driving towards Donetsk, found a large amount of funds. When the law enforcement officers found the conditions of funds transfer, they also found that such funds were intended to be transferred from the Autonomous Republic of Crimea to Donetsk through Zaporizhzhya region for further potential financial assistance of the members of “Donetsk People’s Republic” in eastern Ukraine, mainly, salary to the members of the terrorist organization “Donetsk People’s Republic”.

It should be noted that terrorist organizations and separatist movements may independently provide their life being at places of active performance at cost of the involvement of local population, building, processing and production funds in the region of performance.

The example of the mentioned self-support may be “The Islamic State of Iraq and the Levant” (ISIL) concerning to which the President of the USA announced on the intent to apply to the Congress of the USA for receiving the permit for taking military actions against it.

The ISIL established a control over the part of territory of its performance located within the territory of modern Iraq, Syria, Jordan and Levant. Due to control over the oil zone in southern Syria, the ISIL can earn from **1 up to 2 million USD per day.**

We can draw a parallel between Ukraine when enterprises are captured and operated, mainly, those coal mining enterprises, in the temporary occupied territories. Other enterprises and population are forced to pay for so-called “taxes” to be charged by the representatives of occupiers, terrorist organizations and separatist movements.

Example 7

Within the period from April of the current year, the officials of the Company “X” support illegal activity of terrorist organization (as defined in Article 1 paragraph 16 of the Law of Ukraine “On the Fight against Terrorism”) “Donetsk People’s Republic” through funds transfer at the address of the latter received by the Company “X” from sales of coal mining products to be recovered without any permits by the third parties without reporting on any financial transactions on financial accounting and reporting.

Example 8

The former head of the structural unit private of the Company “S” in the Autonomous Republic of Crimea, the Citizen X, date of birth 1971, and the former deputy head of the same structural unit, the Citizen W, date of birth 1959, acting in the collusion with other unidentified persons and performing control over the activity of the mentioned structural unit, within April-May 2014 in the territory of the Autonomous Republic of Crimea, effected the financing of terrorism, in particular: used property of the Private Company “S” transferred for their possession (corporate rights are state-owned) for the financing of the activity of illegally established armed organizations involved in terrorist activity in the territory of the Autonomous Republic of Crimea and continued to effect the financing of terrorist activity of such illegally established armed organizations in the territory of eastern Ukraine in order to destabilize the social and political situation.

Example 9

From June of the current year up to the date, the Citizen X, for effecting financial and material support of the terrorist organization “Luhansk People’s Republic”, regularly charges and receives from the enterprise heads located in the territory of the town Alchevsk, Luhansk region, funds in form of tax levies. The latter transfers the mentioned funds to the town Luhansk to the representatives of “Luhansk People’s Republic» for the financing of its terrorist activity.

Example 10

In June of the current year, the Local Department of the Ministry of Internal Affairs of Ukraine in Luhansk region initiated an investigation on the fact that the director of market “S” located in the town X of Luhansk region, the Citizen X claimed funds for the financing of “Luhansk People’s Republic”.

International studies

Meeting the up-to-date challenges, the world community gives full attention to the studies focused on the peculiarities of the activity of terrorist groups, including those fighting for recognition and receipt of independent status of separate territories, in the world and search of the countering measures.

Tragic events in 2000 in the United States of America (Terrorist attacks 9/11), Great Britain (2005) and other signaled on the fact that the external terrorist threat became internal. Globalization of international relations, reduction of the mechanisms of capital transfer and migration policy allowed terrorist movements to adapt to the modern conditions and deep penetrating into area of the world community.

Investigation of the high-profile terrorist attacks, in particular, described in “*Monograph on countering the financing of terrorism (9/11)*” (USA) and “*Official conclusions of the Committee concerning explosions in London in July 2005*” highlights the undisputed fact of using the international financial system by terrorist community for supporting activity of own representatives in the world.

Thus, for example, those persons involved in terrorist attacks 9/11 (USA) and in London on July 07, 2005, did not use any fictive documents, had opened bank accounts and made international transfers on their behalf.

Moreover, commitment of terrorist attacks does not require for large financial expenses. The cost of any terrorist attack committed by the organization “al-Qaeda” in 1998 (explosions of the Embassy of the USA in East Africa) is estimated in the amount of US \$10,000, in 2002 (explosions on the Bali Island) – US \$20,000, and the most scaling terrorist attack in the USA in 2001 is estimated in the amount of US \$400-500 thousand. It seems that great expenses in the financing of terrorist organizations include cost of living of such organization.

In response to new challenges and for countering the financing of terrorism at the beginning of the early two thousand years, the FATF reviewed the FATF Recommendations.

In 2008, for inspection of the efficiency of the measures to counter and summarize the common practices of determination, the FATF conducted the typological study “Terrorist Financing”. According to its results, there have been found the world trends of the financing of terrorism, in particular:

- terrorist organizations differ by size, level of centralization and ideological orientation;

- demands in the financing of terrorist organizations are different;

- commitment of a certain terrorist attack by one person or by a group of persons does not require for any large financial expenses;

- on the other hand, support of the network of representatives all over the world requires for a large amount of organizational expenses;

- the financing of terrorist activity may be made both at cost of funds received from legal sources and at cost of illegal business that terrorist organizations may perform;

- terrorist organizations use a wide range of methods and schemes of the financial resources transfer in the financial system, in particular – trade payments, cash couriers, charitable organizations, alternative payment systems, etc.

It is interesting that those methods and schemes of money transfer by terrorist groups as identified upon the above mentioned study were approved in 2013 in the article of the professor Michael Freeman and Moyara Ruehsen “Overwiev of terrorism financing methods” (journal “Perspective on Terrorism” 2013, revision 4).

Thus, among the widespread schemes of money transfer by terrorist groups there are following: cash couriers, informal transfer systems (Hawala and other), services of cash transfer, use of banking system, fictive trading payments and trade with luxury goods.

Terrorist organizations are forced to use the schemes of cash transfer as the sources of funds and funds purpose may be located in various countries or even in the various continents.

Choosing the scheme of cash transfer, terrorist organizations take into consideration geographical location, primary type of assets, its amount, necessary transfer speed, transfer cost and potential risk level (theft, exposure by the law enforcement authorities, etc.).

In case of rapid transfer of a minor amount of funds, it is usually used for informal transfer systems (Hawala and other) and services of funds transfer (Western Union, MoneyGram, etc). For more detailed analysis of this type of transfers, it is recommended to overview the FATF study “Role of Hawala and Other Similar Service Providers in ML/TF” (2013).

Hawala (Hundi) in South Asia, Fei-Chien in China, Padala in the Philippines or Fei-Kwan in Thailand are the remittance systems established on the basis of clearing between their participants. Historically, these systems appeared prior to the establishment of banking institutions and, up to the date, they provide demands in offsets and transfers in trade and social spheres of life.

Existence of the mentioned remittance systems is due to the historical backgrounds, cultural peculiarities in the regions of activity, as well as insufficient level of penetration of services into the financial system among socially disadvantages persons and its costs. Lack of controlling procedures and KYC (know your customer) is also important.

In the classic sense, any informal transfer system looks as follows. Owners of services apply to the participants in the remittance system and give all funds necessary in cash. The participant in the system communicates with his colleague at the point of funds transfer and informs the transfer term. In turn, the owner receives password that the recipient of funds should use at the point of transfer purpose. In fact, funds transfer is not made, further, the founders in the system should make setoff or negotiate on transfer of claim difference.

It should be noted that, upon development of international economic relations, informal transfer systems gave the possibility of deep integration into global financial system. Thus, in order to make mutual setoff of the founders of payment systems, bank accounts of legal business (trade, production, services), prepaid (debit) cards, legal payment systems, cash couriers, private transfers of natural persons through banking institutions should be used.

It is impossible to define the amount of payments through informal transfer systems. In the above mentioned study it is noted that from 10 to 50% of all funds transfers are subject to such uncontrolled systems.

Thus, informal transfer systems carry serious threat of the financing of terrorism. In turn, the financial system has weaknesses that allow using of transfers in different ways.

In order to define any financial transactions that may be connected with the operation of informal transfer systems, it should be focused on the defined risk criteria:

- crediting to the bank accounts of natural persons of minor amounts or regular crediting of large amounts of cash to be further transferred to foreign accounts;
- regular transfers of funds to such international centers as Dubai (a majority of transactions of informal transfer systems is made through a certain international point, for example, Dubai);
- account to be used as a temporary repository;
- replenishment of the same bank account by different natural persons with further e-transfer abroad or cash withdrawal through ATMs;

regular international e-transfers through bank accounts of the organizations not connected with the declared types of activity.

Moreover, in spite of the level of modern global and informational support that significantly facilitates the organization of informal transfer systems, standard cash transportation by cash couriers remains as simple and clear way of exchange (jewelry).

It should be noted that physical exchange has a range of weaknesses. The term of such transfers is longer and transfer is at risk of theft and exposure by the law enforcement authorities.

Moreover, transfer of large amounts is restricted by size and weight of cash. Thus, the amount of US \$1 million in US \$100 bills weighs 9 kg, and US \$20 bills – over 45 kg. At the same time, services of physical transportation remain popular.

As previously noted, choice of the scheme of funds transfer depends on a range of conditions. Choice of cash couriers may be based on the type of asset (gold, diamonds), geographical location (transfers of drug traffickers in Afghanistan, Pakistan) and other.

Thus, in the FATF study “Financial flows linked to the production and trafficking of Afghan opiates” (2014) it is specified that cash couriers are involved in activity in order to provide mutual payments for drugs within the territory of Afghanistan, Pakistan, Iran and Tadjikistan. The organized criminal groups of Turkey pay for deliveries from Iran in cash and gold involving cash couriers. According to the UN Sanctions Committee concerning al-Qaeda and Taliban, one third of budget of Taliban is granted through opiate traffic. Thus, the cash courier services remain those to be in demand from the side of terrorist movements.

Depending on geography of use, there have been found differences of activity of cash couriers. Thus, the FATF study “The financing of terrorism in east Africa” (2013), without limitation, describes “know-how” of terrorist organizations as involvement of women as cash couriers, as the majority of the customs service employees are men making a profession of faith in Islam which canons prohibit men to touch women if they are not married. Inability of state authorities to perform proper control of the customs territories caused that cash couriers also transport weapons and explosive devices, besides cash funds.

It should also be noted that the involvement of cash couriers for the direct financing of the trigger-man has own peculiarities. The amount of such transfer will be rather minor, even for official border crossing. That person obliged to transfer cash should enjoy confidence of terrorist organization. Unfortunately, as specified in the article of the professor Michael Freeman and Moyara Ruehsen “Overwiev of terrorism financing methods” (journal “Perspectives on Terrorism” 2013, revision 4), even nowadays such cash transportations may not raise suspicion.

In cases when there is a demand in funds transfers to the western countries, terrorist organizations should find any ways for assets integration into the financial system. One of such ways may be use of the banking system, namely – accounts of actually existing enterprises for funds transfer not connected with production or trading activity.

The bright example of using legal business for disguise of activity of financial settlements center may be the example of the involvement of those companies performed honey export from the United States of America. Before terrorist attacks in 2001, founders of informal transfer systems, including those involved in terrorist organizations, used to engage companies performing export of hive products from the USA. As usual, the price of products was inflated and among the counteragents there were those staying in the countries calling for special attention from the side of the financial controlling (for example, Yemen). Thus, funds transfer required for the needs of payment system mediators was made due to transfer of the amounts exceeding the actual good value.

Among other examples of using legal business for the financing of terrorist organizations, it should be given for the example of import of the used cars from the USA to the countries of East Africa. According to the results of investigation conducted by the US competent authorities, the real goal of funds transfer was money laundering from the sales of drugs by the members of the terrorist group Hezbollah.

There are cases of organization of fictive payments between the natural persons, in most cases such transfers are to be declared as trading transactions, including with luxury goods or consumer goods.

In order to define those financial transactions potentially connected with legal business for the financing of terrorist organizations, the defined risk criteria should be taken into consideration:

- purchase, transfer and, finally, sales of material valuables for cash, especially in the regions of high level of activity of terrorist groups;

- transfer of large amounts to/from the accounts of natural persons or newly established enterprises that do not perform business activity;

- funds transfer from the countries with high level of activity of terrorist groups;

- transfers from the bank accounts of those organizations not performing the declared types of activity.

As previously noted, the ways of assets integration into the financial system by terrorist organizations differ depending on the type of primary assets, its volume, purpose and necessary transfer speed, on the one hand, and level of the financial system potential to stand against the threat to be used for the financing of terrorism.

However, in any financial system there are institutions that differ from other by nature of their activity. It is referred to non-profit organizations.

Not intending to gain profit, these organizations have branched representative offices in various countries providing the basis for international transactions. Their human or social profile, suddenness of transfers, potential address and complex assistance and great experience of using cash contributions make them a proper mechanism for funds transfer to terrorist organizations.

Thus, in 1996 in its Resolution A/RES/51/210, the United Nations General Assembly drew attention of the world community at the problem of the financing of terrorism through the involvement of those organizations “intending to perform charitable activity, achieve social or cultural goals”.

Trying to levelling the risk of the involvement of non-profit organizations for the financing of terrorism, the world community specified the methods of diligence to be used concerning their activity. Thus, in the FATF Recommendations, the eighth recommendation concerns the activity of non-profit organizations being especially “sensitive” in this sense.

Unfortunately, based on the results of the third FATF assessment of country compliance with 40 FATF Recommendations, 57% of the countries failed to comply or only partially complied with the eighth recommendation. Only 8% countries fully followed the requirements of the eighth recommendation.

Moreover, the recent study conducted by the Center of Global Counter-Terrorism Cooperation and the UN Counter-Terrorism Committee Executives “To Protect and Prevent” (2013) defined the global level of risk understanding in the sector of non-profit organizations as unequal. Up to the date, the world community understands the necessity of more detailed study of the threat to the sector of non-profit organizations from the terrorist groups for improving awareness and understanding of both threats and risks.

The most informative study on this topic is the FATF study “Risk of Terrorist Abuse in Non-Profit Organizations” (2014).

Technological advances allowed non-profit organizations to expand the borders of their activity, fundraising and promotional potentials. The process of globalization also drove up the demand in socially oriented services of non-profit organizations, especially in those regions suffered from natural or industrial cataclysms, but also in those regions suffered from poverty or being unstable due to political or military infighting. Terrorist organizations are interested in the same regions.

In spite of different goals set by non-profit and terrorist organizations, they perform in the similar global environment, often intending to involve the same population groups.

Legitimacy and scope of activity of non-profit organizations, together with the possibilities of operative decision making, may be attractive for those terrorists intending to promote advantages in the globalized world.

At the same time, when the threat of the involvement of non-profit organizations from the side of terrorist organizations is clear, weaknesses of the sector vary. Weaknesses of the sector are divided into organizational and sectoral.

Organizational weaknesses allow involving of legal non-profit organizations by certain persons (even by certain officials). Sectoral weaknesses mean potential performance at the market of fictive non-profit organizations.

It should be noted that prospects of the involvement of non-profit organizations by terrorist organizations are not restricted only by fundraising and accumulation, among them:

- mobility improving;
- interaction between independent structures;
- access to the regions of conflict or to the regions of low state control level;
- decentralizing of communications and control;
- advanced capabilities of public involvement.

Among basic methods of the involvement of non-profit organizations for the financing of terrorism, there are following:

Redeployment of funds – redeployment of the portions of funds by the non-profit organization or its official for the needs of terrorist organizations.

Program operation– misuse of funds for programs focused on achievement of legal human goals.

Fictive non-profit organizations– in the guise of charitable activity, an organization or private person performs fundraising for the financing of terrorism.

Thus, among the ways of assets integration into the financial system by terrorist organizations, non-profit organizations hold a specific place. Due to their all-purposeness and global activity, non-profit organizations appear to be the unique mechanism, it should be noted for the fact that, for example, the system of branching of non-profit organizations established by the terrorist organization “Tigers of rescue of Tamil-Eelam” (Sri Lanka) existed longer than warfare unit of this organization.

SECTION 2. Methods of the financing of terrorism and separatism

Standard schemes of the financing of terrorism and separatism

According to information recorded into the Unified state register of pretrial investigations, the following methods of the financing of terrorist and/or separatist activity should be divided as follows:

- freewill transfer of own funds by the natural persons to the representatives of terrorist and/or separatist organizations;
- cash transfer to the card accounts of the members of terrorist groups;
- unauthorized cash withdrawal from the accounts of natural persons;
- financial security of terrorist groups by those persons using their official position;
- requirement of financial assistance from the entities by those persons using their official position;
- use of fictive financial structures for funds obtaining;
- commitment of thefts, robberies, kidnapping for funds obtaining;
- fundraising in social networks in the guise of charitable assistance by the group of natural persons;
- transfer of funds through electronic payment systems to the address of nominees.

Certainly, the above mentioned division is conditional as the schemes of the financing of terrorism and separatism may combine various elements above mentioned. However, for the typological description, elements in the spread schemes of the financing of terrorism and separatism would be separated.

Terrorist organizations and separatist movements use various sources of income and methods of cash transfers. Depending on the source of income, type and volume of assets, urgency of transfer and number of recipients, there are various schemes of the financing of terrorism and separatism. The goal of any scheme of the financing of terrorism and separatism is stable financial security of the recipient with minimum drawing of attention of the financial mediator to any financial transaction.

As a rule, in case of legal source of funds, the reversal scheme of the financing would be characterized with use of simple, ordinary, rapid and convenience methods of transfer, financial instruments. As a rule, such financial transactions should not differ from many similar transactions settled by financial mediators. With minor amounts of transfer, criminals may even avoid the identification procedure. In order to avoid the procedures of obligatory financial monitoring, the schemes of the financing include the involvement of mediators, financial transactions are to be settled through different financial institutions or the amounts of the financial transactions are to be reduced.

In case of illegal source of funds, the schemes of the financing of terrorism and separatism are more complicated due to the elements aimed at levelling of risk to exposure link between funds and their source. In these schemes criminals take the methods of placement and layering of illegally gained funds. It is made by change in the form of assets, use of various financial instruments, nominees, etc. Such schemes

have certain analogies with the schemes of money laundering, with the difference that it is to be implemented without the last phase – integration of funds into the financial system, but with further funds transfer to the final recipient. In this case, the scheme of the financing of terrorism and separatism has the high risk of use by the subjects of financial monitoring.

We shall consider the basic defined schemes of the financing of terrorism and separatism. Some of them have similar features, as they are to be implemented through services of the same financial mediators, in particular, bankers.

Phishing

As previously noted, the financing of terrorism may be conducted at cost of legally gained funds, although the facts prove the use by criminals of new information technologies as a direct instrument of a crime. The main attractiveness of this instrument is in absence of direct contact with a “victim”.

The second advantage of this type of crimes is its availability, i.e. preparation and commitment of such crimes are to be performed at the workplace, as computer hardware becomes cheaper, crimes could be committed from any country in the world, in any town with the developed infrastructure, and the objects of criminal offenses may be staying thousand kilometers away from the criminal.

The basic types, method and ways of commitment of such crimes were described in the typological study of 2013 “Cyberterrorism and money laundering”. However, the main objective of the unauthorized cash withdrawal for the financing of terrorism and separatism is funds obtaining, in particular, in cash to be further used for financial and material security of terrorist and separatist activity.

Example 11

In 2014 the unidentified persons, without any cause, without consent and knowledge of its holder, being in collusion with a group of persons, illegally transferred funds in the amount of UAH 1.6 million from the current bank account of the legal entity staying in the region bordering with the zone of anti-terrorist operations, which account was opened four months prior to settlement of these unauthorized transactions, to the settlement accounts of two legal entities directly staying in the zone of anti-terrorist operations; these funds were further used by the latter for financial and material security of terrorist activity of separatists.

Electronic payment systems and the financing of terrorism and separatism

State regulators and law enforcement authorities define electronic payment systems as one of the basic weaknesses of the financial system of Ukraine.

Within the territory of Ukraine there are 20 remittance systems established by residents, among them:

15 remittance systems established by banks;

5 – by banking institutions.

23 international remittance systems established by non-residents also perform their activity within the territory of Ukraine. Participants in this system are 150 banks

of Ukraine, Private Company “Ukrainian Financial Group” and the national postal service provider “UkrPost”.

In the first half of 2014, through internal national and international remittance systems established both by residents and non-residents, the following amounts were transferred:

	Amount of transfer	
	million UAH	million USD (in equivalent)
within the territory of Ukraine	23, 710.6	0.24
to Ukraine	-	2, 029.5
without the territory of Ukraine	-	323

The given data mean the high demand in services of the remittance system on funds transfer within the territory of Ukraine and to Ukraine from abroad.

It should be noted that funds transfer is obtained by the recipient in cash.

Example 12

There have been found signs of the financing of terrorism by the citizen of Ukraine that regularly transferred funds to several persons through the Ukrainian international remittance system “Avers”. At this, in order to avoid financial monitoring, the amounts of all financial transactions did not exceed UAH 150,000. Funds were withdrawn by the above mentioned persons for the financing of terrorist attacks in the territory of Donetsk and Luhansk regions.

Examples 13

In July of 2014, the citizen X, a native of Donetsk region, transferred funds through the payment system “Zolota Korona” to the unidentified persons in the total amount of over US \$1,700. Funds transfer was made by several installments in the bank branch in Donetsk region. At this, in order to disguise the real goal of funds transfer, the citizen X made the above payment in the name of the nominee. The citizen X took the mentioned actions for the financing of the groups of persons for commitment of terrorist attacks against the members of the anti-terrorist operation in the territory of Donetsk region, for which reason he intentionally transferred funds to the citizen Y for organization by the latter of the involvement of persons in armed conflicts on the side of “Donetsk People’s Republic”, as well as material security of their family members.

Moreover, as of October 2014, 69.8 millions of payment cards issued by the banks were registered in Ukraine (33.2 millions among them are active), the amount of transactions with payment cards issued by the Ukrainian banks constituted as follows:

Period	Amount of transactions (million UAH)					
	Non-cash payments	%	Cash obtaining	%	Total	%
2002	1 163	6	18 885	94	20 048	100
2003	1 356	5	26 744	95	28 100	100
2004	3 418	5	60 341	95	63 759	100
2005	3 196	3	96 542	97	99 738	100
2006	5 049	3	147 597	97	152 646	100
2007	8 118	4	217 003	96	225 121	100
2008	16 980	5	355 438	95	372 418	100
2009	18 375	5	334 791	95	353 166	100
2010	29 463	7	421 189	93	450 652	100
2011	46 346	8	529 633	92	575 979	100
2012	91 561	12	649 859	88	741 480	100
2013	159 138	17	756 889	83	916 027	100
I-III quarters of 2014	179 292	24	557 523	76	736 815	100

Though opening of the card account requires for the identification procedure, and transactions on the card account may be subject to financial monitoring, according to the statistics, the majority of transactions with payment cards are to be settled with cash.

Cash use makes it impossible to control any financial mediator over the targeted use of funds, thus, reducing the possibility of identification of such transfers that may be connected with the financing of terrorism and separatism.

Moreover, there are prepaid (debit) specific payment instruments actually similar to payment cards (they even look like a payment plastic card), though with restricted functions concerning the number and amount of payments. However, these payment instruments are the bearer payment instruments, i.e. they may be freely purchased and transferred to other person. These payment cards may also be connected with virtual e-wallet that, in turn, may be replenished through international payment systems.

Example 14

As a result of monitoring customer transactions of one of the banks, there have been found funds transfers from the current accounts through special payment instruments (accounts were opened in Donetsk region) to the account of the counteragent-natural person in other bank. The payment amounts were different (from 20 to 250 UAH) and not regular (source of funds at the customers' accounts that initiated funds transfer – mainly, targeted use: salary, pension benefit). Basic transfers were made with the purpose of “private transfer”, but there have been found transactions with the purpose of “assistance”, “for drug products”. As a result of the analysis conducted, the person, to whom account funds were transferred, appeared to be the member of

“Donetsk People’s Republic”. Information on fundraising for “Donetsk People’s Republic” and “Luhansk People’s Republic” through the person’s account was posted in Internet (mainly, in social networks, such as “Vkontakte”, “Odnoklassniki”).

From the point of view of financial monitoring, the situation is complicated by advantages to be granted to any ordinary citizen as a result of the implementation of modern technologies, namely, - availability, mobility, efficiency and anonymity. It is referred to those financial mediators providing services on funds transfer without opening of bank accounts in payment systems available through Internet.

Those payment systems, based on public offer agreement, allows the user to register in the system anonymously, credit funds into the system (for example, through ATMs, deposit ATMs, payment terminals, cash-in ATMs, etc.), settle payments with counteragents, make fund transfers and withdrawal from the system.

Further, concerning settlement of those financial transactions through payment systems, including with e-cash, in the amount not exceeding UAH 10,000 or in the amount in foreign currency not exceeding UAH 10,000 in equivalent, there are no requirement of legislation in regard to identification of the remitter/recipient.

In pursuance of the Provision on the procedure for registration of payment systems, participants in payment systems and service providers of payment infrastructure approved by the Decree of the National Bank of Ukraine dated 04.02.2014 No.43, the National Bank of Ukraine keeps the Register of payment systems, settlements systems, participants in these systems and service providers of payment infrastructure and, accordingly, establishes the rules of operation of payment systems.

Those payment systems established by non-residents also successfully perform activity within the territory of Ukraine.

According to legislation, payment systems management established by non-residents shall submit documents for registration by the National Bank of Ukraine in the Register of payment systems till January 01, 2015.

Thus, the comprehensive list of payment systems performing activity within the territory of Ukraine will be submitted by the state regulator only in 2015.

It should be noted that within the territory of Ukraine those payment systems established by non-residents perform activity de facto (for example, WebMoney) that, applying the provisions of the Civil Code of Ukraine, through civil and legal relations arising out of the right of sale and purchase of cash claim, provide those sellers of such cash claim (persons and entities) with the services on management of equivalent financial assistance through electronic wallet. Thus, the situation arises when the resident of Ukraine transfers tangible assets to the defined mediator and receives the right of cash claim to be managed through web-interface that actually operates in other country.

The given web-interface operates according to legislation of other country; web-interface provider is not registered within the territory of Ukraine and does not agree upon the rules of payment system operation with the regulator (National Bank of Ukraine).

Example 1 given above describes the situation proving the use of foreign payment systems established by non-residents for the financing of terrorism and separatism.

The basic principle of payment system operation focused on sale and purchase of cash claim allows any potential user to manage virtual currency (as equivalent of financial assistance) and avoid the requirements of the National Bank of Ukraine in regard to accounting, issuance and movement of electronic currency in Ukraine.

Thus, to the moment, similar payment system with fictive virtual currency is implemented by one of the mobile communication providers of Ukraine that provided its subscribers with the possibility to use the balance for payment through payment system to be served by the non-banking financial institution.

Though such co-constitution operates within the legal framework, but it sets a precedent when the issuer of electronic currency is not registered by the state regulator, thus, the latter is not able to evaluate system risks and define any weaknesses in the AML/CFT system.

Fictive enterprise

Shell companies are often used for conversion of large amounts into cash.

As a rule, a company is to be registered in the name of nominees (among socially disadvantaged population groups) intending to sign any required payment documents for a minor amount.

Essentially, “convert centers” serve as an instrument for cash obtaining to be further addressed for the financing and material security of terrorist groups and separatists.

Members of “convert centers” convert non-cash funds into cash, as well as to the current accounts of fictive enterprise hiding their illegal business in the guise of legal business.

Enterprise-customers of “convert centers” transfer non-cash funds to the accounts of fictive entities through “Customer-Bank” system upon account management, funds may be rapidly transferred to the accounts of natural persons, including for the alleged products delivery (services provided, works executed, etc.). Plastic payment cards are used for those transactions on cash obtaining (including – corporate).

As a rule, founders of “convert centers” are experts having corrupted relations with the officials of relevant banking institutions.

Practice of investigation by the law enforcement authorities proves that managers of convert centers agree in advance with bank officials upon any mutual actions in case of threat of funds blocking at the current accounts of fictive entities. For this purpose, the bank is given the application and appropriate order with the details of fictive enterprise without date and number on account closing by the customer itself, thus, allowing the bank employees to withdraw cash prior to blocking. Further actions concerning the purpose of funds that may be transferred to any previously given other account are to be agreed.

The peculiarity of the scheme is the fact that the firm, acting as the seller, is to be established for a short term. After a time upon settlement, the firm and its

accounting disappear. As a rule, firms are to be established according to fictive or stolen passports or in the name of nominees.

Example 15

Within the period from April to July of 2014, the officials of the range of commercial structures of Luhansk region, for financial and material security of the terrorist group “Luhansk People’s Republic”, made illegal funds transfer to the accounts of controlled financial structures that were further withdrawn in cash and handed over to Luhansk by the unidentified persons for the financing of terrorist activity of the members of “Luhansk People’s Republic”.

Example 16

The law enforcement authority received information on illegal activity of the officials of the Company “X” in Kharkiv connected with financial security of activity of terrorist groups (organizations).

Thus, the officials of the Company “X” settled a range of fictitious operations with the fictive Company “F”, Company “A” and Company “O” abusing the official position. There has been found enterprise at the address of registration. The Company “O” also appeared to be fictive, the officials did not intend to perform statutory activity, and the enterprise was not at the address of registration. Besides, the Company “X” was included into “convert center” controlled by the citizen of Ukraine Z and provided services on tax mitigation, conversion of non-cash funds into cash with further money laundering. Funds received from performance of the above illegal activity were further used by the officials of the Company “X” and their crime partners for the financing of activity of certain persons and groups intending to organize, prepare or commit terrorist attack.

Bank transfers and foreign remittance

Taking into consideration the fact that legal funds may be the source of the financing of terrorism and separatism, bank transfers are the most convenient instrument of funds transfer for criminals.

Financial mediators and law enforcement authorities defined that in the schemes of the financing of terrorism and separatism those financial transactions *on transfer from the account to the account, international transfers and cash crediting and withdrawal* were mentioned.

At this, in order to disguise the financing of terrorism and separatism, criminals use combinations of financial transactions. The most popular financial transactions that may be used in order to disguise the financing of terrorism and separatism are crediting of funds to the accounts as financial assistance, donation with further cash withdrawal or transfer to the account in other bank.

Example 17

The legal entity granted financial assistance in the amount of UAH 20 million to the natural person, place of residence and registration – eastern region of Ukraine in the zone of anti-terrorist operations. At this, the named natural person is unemployed, has no sources of income and has no business relations with the mentioned legal entity.

Example 18

The law enforcement authority initiated a criminal proceeding on a crime as specified by Article 15 and Article 258 of the Criminal Code of Ukraine in response to the financing of terrorism and separatism by the citizen of Ukraine committed through bank transfer in the amount of UAH 3.93 million in the guise of non-repayable financial assistance to other natural person.

Example 19

Pursuing the aim of financial and material security of terrorist groups acting in the territory of southern and eastern Ukraine, being in collusion with the officials of the Company “X”, a range of natural persons, using the personal data of the citizen Y, transferred funds in the amount of over UAH 5 million to the bank account of the given person. A portion of funds further should be transferred to the accounts of the above entity with conversion into cash for financial and material security of terrorist groups, organization and commitment of terrorist attacks within the territory of Ukraine.

Foreign remittance calls for special attention. All cases found by the entities and law enforcement authorities prove the undisputed fact of international transfers aimed at the financing of terrorist and separatist activity in Ukraine from the territory of the Russian Federation.

All given transfers are to be conducted both by persons and entities, private and even state structures.

Example 20

The law enforcement authority initiated a criminal proceeding in regard to a crime as specified by Article 258 “Terrorist attack” of the Criminal Code of Ukraine in regard to commitment by the officials of the Open Joint Stock Company “X” (Autonomous Republic of Crimea) and the Company “U” (Donetsk) of actions aimed at laundering of 100 mln. Rubles received from the state body of the Russian Federation “B” in guise of payment for services for the financing of separatist groups in the territory of Donetsk region.

Thus, from its branch in Sevastopol the state body of the Russian Federation “B” tried to transfer through one bank the amount of 100 mln. Rubles to the account of the shell company in Donetsk. Payment was made as prepayment for construction works.

Instead, funds should be used for illegal activity of terrorist groups within the territory of Ukraine and commitment of explosions upon May 9 VE Day celebrations. According to the Law of Ukraine “On Prevention and Counteraction to Legalization (Laundering) of the Proceeds of Crime or Terrorist Financing”, unlawful banking transactions were suspended, accounts of the fictive enterprise were blocked.

Example 21

The law enforcement authorities of Ukraine initiated a criminal proceeding in regard to a crime as specified by Article 258 “Terrorist attack” of the Criminal Code of Ukraine in regard to commitment by the officials of the subsidiary banking institution of the Russian Federation during March-April 2014 of daily funds transfer to plastic cards of separatist group members in the amount of US \$200-500.

There have been found cases of conducting by the residents of the Russian Federation of international transfers with crediting of funds to the accounts of those non-profit organizations being registered and acting within the territory of Ukraine as assistance to be used for promulgation within the territory of Ukraine concerning discreditation of the ruling government, escalation of armed conflict between various social groups of Ukraine, stirring of ethnic hostility. The detailed overview of the mentioned examples is given in the section below.

Non-profit organizations

According to given information, the main (prevailing) way of the illegal involvement of non-profit organizations was redirection of funds to terrorists from the side of non-profit organizations. In the sector of non-profit organizations there is a range of interconnected weaknesses and terrorist organizations try to use these weaknesses.

Peculiarities of non-profit organizations that may be also attractive for use in criminal schemes include, in particular, are as follows: possibility of piling up funds through member contributions, donations and so-called non-profit activity, and funds should be spent for the project implementation or purchase of required equipment.

It is quite difficult to track all frauds in this sector, prevent due to nature of these organizations (statutory functions) and loyal government control and

monitoring system in different countries. Obtaining the status of charitable organization and being exempted from taxation, they could be involved in territorial funds transfer through branches and for material and technical support of terrorists and separatists (directly or as front of their actions).

Banking institutions involve charitable, public companies of other non-profit organizations for the financing of terrorism and separatism.

Example 22

There has been initiated a criminal proceeding in regard to unlawful actions of the officials of the Ukrainian public organization that, acting in collusion with the unidentified persons among the citizens of the Russian Federation, concluded with the public company (RF) the agreement of granting funds in the amount of 8 mln. Rubles. These funds were credited to the account of the given Ukrainian public organization and should be used for promulgation within the territory of Ukraine concerning discreditation of the ruling directory, escalation of armed conflict between various social groups of Ukraine, stirring of ethnic hostility, information support for holding of so-called referendums concerning incorporating of administrative-territorial units of Ukraine to the Russian Federation in violation of the provisions of the Constitution of Ukraine.

Example 23

The law enforcement authority initiated a criminal proceeding in regard to the citizen of the Russian Federation that organized transfer of funds to the controlled settlement accounts of charitable organization in the amount of UAH 23.9 million, further addressed for the financing of unlawful actions within the unlawfully annexed territory of the Autonomous Republic of Crimea.

For fundraising as charity support, information resources are to be formed in Internet with posted banking details for funds crediting.

Example 24

Several persons posted in Internet informational resource to propose to the citizens of Kharkiv to credit funds for charity support of army of the self-proclaimed “Kharkiv People’s Republic” and further purchase of body armors, weapons and ammunition by the revolutionaries of “Kharkiv People’s Republic”. Thus, under the given conditions, the unidentified persons committed actions for financial and material security of the terrorist group, i.e. a crime as specified by part 1 Article 258-5 “The financing of terrorism” of the Criminal Code of Ukraine.

To prevent the involvement of non-profit organizations for illegal interests, the following is essential:

- control of funds transfer;
- clear requirements to registration of charitable and other non-commercial organizations, especially those foreign and/or established by non-residents, and state control over their activity.

SECTION 3. Methods of determination and mechanisms of countering the financing of terrorism and separatism

Criteria of determining the financial transactions on the financing of terrorism and separatism

Failure to define the common features of suspicions of the financing of terrorism and separatism is one of the difficulties of suspicions concerning such cases. It is referred to the fact that any schemes and methods, including the involvement of persons, may be used for the financing of terrorism and separatism.

Moreover, it is not possible to define purpose and further use of assets within one financial institution. In case of cash withdrawal, it is impossible to verify the targeted purpose. At this, there are no customer transactions, as a rule, having the direct purpose, peculiarities or details that could prove the financing of terrorism and separatism.

Nevertheless, according to the summarized information on the facts of the financing of terrorism and separatism, such criteria of determination of the above financial transactions could be defined:

- region of the most potential demonstration of the financing of terrorism and separatism;

- recipient and/or initiator of funds transfer is any public and/or charitable organization;

- crediting of funds in minor amounts from different persons within a short period of time in favor of one person with the purpose of “assistance”, “for treatment”, “charity support”, “for humaneness”;

- absence of confirmation of the targeted purpose of any incoming/outgoing payments settled many times (for example, funds credited as “charity support”, “for treatment”, etc. are to be used only for cash withdrawal, i.e. there is non-cash transfer that would allow defining of the targeted purpose of payment);

- financial transaction uncommon for the customer in the amount;

- counteragent uncommon for the customer;

- payment purpose unusual for the financial transaction;

- private transfer from the territory of the Russian Federation;

- payments to be made by those persons being not fully aware or not willing to inform the payment details (address/contact information, etc.);

- transaction on electronic transfer with missing information on the initiator or recipient;

- crediting of funds to the settlement/card account of the person or transfer in the name of natural person to be made without account opening, if the given information shows that the source of such crediting/transfer is funds to be transferred through payment systems providers of which are not registered within the territory of Ukraine, including with e-funds;

- involved nature of the financial transaction;

- lack of economic factor;

settlement of financial transactions by the customer in large amounts without any direct (personal) contact with the subject of primary financial monitoring within three months.

It should be noted, that upon this study, the regions of Ukraine with the majority of facts of the financing of terrorism and separatism, according to information received from the law enforcement authorities, included the territory of Kyiv, Luhansk and Donetsk region.

According to the Decree of the Board of the National Bank of Ukraine dated 06.08.2014 No.466 "On suspension of financial transactions", the banks of Ukraine should be obliged to suspend all types of financial transactions in town settlements not controlled by the Ukrainian Government, and non-banking institutions and postal service providers, being payment organizations of internal national/international payment systems and/or their participants, should be obliged to suspend transactions on crediting/payment of cash transfers from/in the territories not controlled by the Ukrainian Government.

Taking the foregoing into consideration, accumulation of financial flows related to the financing of terrorism and separatism *in the neighboring regions of performing the anti-terrorist operation* is possible.

Concerning funds transfer from the territory of the Russian Federation, it should be noted that such criterion should not intervene the exercise of rights of law-abiding citizens. This situation is complicated by a great number of employees settling financial transactions on funds transfer to Ukraine earned within the territory of the Russian Federation. However, it should be taken into consideration for importance of the given criterion, especially combining with other provided information.

It should also be noted on those transactions on cash withdrawal or crediting. Without other information, a certain financial transaction on cash withdrawal or crediting may not be deemed to be a sufficient ground for suspicion on its purpose for the financing of terrorism and separatism, but in the context of other information such sign should draw attention at the subject of primary financial monitoring.

Preventive and countering measures

One of the efficient measures of countering the financing of terrorism and separatism is providing the financial market players with methodological, guidance and other assistance in the sphere of anti-money laundering or countering the financing of terrorism.

Such measures are not comprehensive and require for regular initiative from the side of state regulators.

In particular, the National Bank of Ukraine gave recommendations to the banks in regard to taking actions concerning:

those persons involved in exacerbation of political and economic crisis of Ukraine and concerning whom international sanctions are applied;

analysis of financial transactions aimed at determination of those cases proving use of bank services by the customers for the financing of any illegal business.

Concerning the subjects of primary financial monitoring, in particular, banks, they apply mechanisms of countering the financing of terrorism and separatism as specified by legislation in the sphere of anti-money laundering, internal documents on financial monitoring, with due account of recommendations of the State Financial Monitoring Service and the National Bank of Ukraine.

Some banks have own existing mechanisms for tracking of financial transactions of those natural persons, being directly or indirectly involved in the financing of separatism. For example, the bank makes and summarizes information on natural persons involved in the financing of terrorism based on information of the law enforcement authorities, received from the State Financial Monitoring Service, from open sources and due to the measures taken independently and defines a range of affiliated persons. In case any person involved in terrorism or separatism (or the affiliated person) tries to settle any financial transaction, information on such transaction shall be transferred to the bank unit performing financial monitoring of transactions, for further analysis of this transaction, decision making on registration in the register of financial transactions and notice for the State Financial Monitoring Service.

The example of the implementation of own bank mechanism of tracking financial transactions of natural persons, being directly or indirectly involved in the financing of separatism, may be used for information posted at the web-site of the Ministry of Internal Affairs, concerning those persons wanted, including according to Article 260 “Establishment of military or armed groups not permitted by law” of the Criminal Code of Ukraine.

Some banks use official mass media (Specially Designated Nationals and Blocked Persons List, journal of the European Union, etc.).

In order to execute own lists, some banks form own communication channel where citizens may inform on suspicions of utilization of bank accounts for the financing of terrorism or separatism.

The vital aspects complicated the measures of preventing and countering the financing of terrorism or separatism are volume and nature of funds attracted. Wherefore suspension of any financial flow of terrorists and separatists may appear to be complicated task. In this context, the best common decision may be full enforcement and absolute execution of the rules “know your customer”. That bank, being aware of its customers, less likely could become an unforeseen channel for funds transfer from the side of terrorists and separatists.

Any preventive measures of the rules “know your customer” exceed the limits of standard account opening and recording, they require the banks to implement the policy of customer research and program of multilevel customer identification ensuring common and specially controlled verification of high risk accounts, as well as practical monitoring of any suspicious accounts.

Need for strict standards concerning customers should not be restricted by banking institutions. Similar rules shall be applied by any non-banking financial institutions, as well as professional mediators at the market of financial services.

In the context of the rules “know your customer”, special attention should be drawn at search of additional information from open sources, in particular, in Internet

and social networks where many cases of publications on support (including financial) from the persons intending to prepare or commit any terrorist attack, involvement into commitment of any terrorist attack, public calls for commitment and direct commitment of any terrorist attack, overthrow of constitutional order in Ukraine and destabilization of social and political situation in eastern Ukraine have been recorded.

In the context of prevention and countering the financing of terrorism and separatism, those important measures required for special attention are increase in control of payment systems.

It should also be noted that fictive payment systems (issuers of own virtual currencies) based on relations of sale and purchase of the rights of cash claim (detailed description given in the section “Electronic payment systems and the financing of terrorism and separatism”) take the risk to be neglected by state regulator, that may lead to system risks for the AML/CFT system.

The most progressive and efficient measures of countering the financing of terrorism and separatism may be strict limits of cash turnover, for example:

establishment of strict limits of accounts for cash withdrawal;

increase in limits of cash withdrawal only according to documents confirming sources of funds and targeted purpose.

However, establishment of mentioned limits may lead to dissatisfaction of all levels of population and become an impulsive cause of the shadow economy growth.

Information monitoring in Internet by the bank employees for search of those customers using their accounts for fundraising for charity support and security of terrorist and separatist groups, as well as imposition of limitations to the accounts of persons involved in the financing of separatism (limitation of funds transfer from the account or cash withdrawal) may be the most efficient measures of diligence of criteria of finding financial transactions in order to prevent use of bank services that could be used.

According to the found facts of the financing of terrorism and separatism by means of financial flows through the accounts of non-profit organizations, the important measures to prevent such cases in future should be strengthening of state control in the given sector. In particular, it is required for the implementation of clear control over declaration of programs by non-profit organizations and, accordingly, reporting on its performance. On the other hand, such information should be available for banks as subjects of primary financial monitoring that allows them to analyze financial transactions of non-profit organizations through data correlation. Such mechanisms allow finding of financial transactions if they do not comply with the registered programs.

Interdepartmental cooperation

Expansion of terrorism and separatism in Ukraine in a new way sets the tasks of countering their signs and requires for taking strict measures to control over financial flows. Thus, measures to find and efficiency block any channels of financial security of terrorist and separatist organizations are the key trends of the long-term

anti-terrorist strategy and may be conducted by efforts of all participants in the national AML or CFT system.

Under conditions of current countering the financing of terrorism and separatism, the expended sphere of financial control defines peculiarities of activity of certain state authorities concerning problem solving.

Basic principles of methodologies in regard to financial control, according to the national legislation, development of international relations and information exchange are the most vital conditions for definition and destruction of the financial structure fueling activity of terrorist organizations, mainly, focused on forcible change or overthrow of constitutional order or take-over, changes in borders of territory or state boundary of Ukraine.

On the other hand, active information exchange between private and state sector would contribute to efficient counterterrorism, in particular, in regard to the following:

- identification of persons involved in the financing of terrorism;
- receipt by the subjects of primary financial monitoring of feedback information concerning the results of financial transaction analysis according to banks to be addressed pursuant to Articles 15, 16 of the Law of Ukraine “On Prevention and Counteraction to Legalization (Laundering) of the Proceeds of Crime or Terrorist Financing”, on the facts of violation (termination) of criminal proceedings and adoption of court judgement on these cases.

International cooperation

According to the Conception of counterterrorism, international cooperation of Ukraine concerning counterterrorism should be performed as follows:

practice of accession, according to legislation of Ukraine, to international counterterrorism agreements concluded within the United Nations organization, other international organizations where Ukraine is a member;

cooperation with the European Union in counterterrorism according to the rules of international law;

coordination, improvement and extension of cooperation of subjects countering terrorism with law enforcement authorities and special services of foreign countries, anti-terrorist units of the United Nations organization, Organization for Security and Cooperation in Europe, North Atlantic Treaty Organization, European Union, other international organizations countering terrorism by virtue of international agreements;

conclusion of international agreements on cooperation in the field of counterterrorism between the subjects of counterterrorism and relevant authorities of foreign countries;

establishment of shared experiences with relevant authorities of foreign countries and international organizations countering terrorism, probation and training of national experts abroad by virtue of agreements on international cooperation.

The basic task of this stage of international cooperation in the field of countering terrorism and separatism should be making of strategic decisions. On the

one hand, common actions of the European countries should improve the level of countering terrorism and separatism, namely, in the European region, and on the other hand – disadvantage the Continent of Europe.

International cooperation could be efficient under conditions of mutual confidence and similarity of executive functions based on similar standards, laws, procedures and – the most crucially - common values.

According to the EU approach, counterterrorism, in particular, on the one hand, requires for reducing obstructions, including those national and departmental, upon exchange of necessary information, in particular, intelligence information, and on the other hand, for establishing enforced multilevel systems of control over personal, financial and other data.

The problem of integration of Ukraine into the system of international security and cooperation with world and European integration structures in security sector is referred to setting of equal standards for different countries in regard to global counterterrorism that should include assessment and tracking of activity of terrorist organizations and groups under conditions of response coordination of the security system of Ukraine and foreign countries, in particular, NATO countries. In the context of ensuring own security, Ukraine should integrate into international anti-terrorist structures.

In this context, organizational and technical mechanisms of “rapid” information exchange between the Ukrainian authorized bodies and law enforcement authorities, armed power subdivisions, special services, financial monitoring institutions of NATO partner countries are vital.

Public mechanisms

One of the basic information sources of finding financial transactions of those persons involved in the financing of terrorism and separatism is formation and execution of the list of persons by the example of the list of the State Financial Monitoring Service of persons related to terrorist activity or concerning whom international sanctions are applied.

Such mechanism provides for finding and suspension of financial transactions and would significantly improve finding of persons involved in the financing of terrorism and separatism. In particular, at the official web-site of the department, the Ministry of Internal Affairs posted the list of persons wanted on suspicion of the involvement in commitment of a crime pursuant to Article 260 “Establishment of military or armed groups not permitted by law” of the Criminal Code of Ukraine.

In turn, lack of any official list of separatists and persons suspected by the example of the list of persons related to terrorist activity or concerning whom international sanctions are applied to be noticed by the State Financial Monitoring Service is pointed by the National Bank of Ukraine as information not sufficient for verification by banking institutions in regard to financial transaction and involvement of its participants in the financing of terrorism and separatism.

Conclusion

Risk of the financing of terrorism and separatism should be considered as derivatives from the threat of terrorist activity or separatism and weakness of the financial system to be used for the financing of this activity.

Till 2014 Ukraine has not been suffered from internal terrorist accidents, although the law enforcement authorities sometimes define crimes as terrorist actions (results of further analysis proved they have being committed from molester motives or in order to redistribute property).

The situation has dramatically changed in early 2014.

Up to the date, *high level of the threat* of terrorist and separatist activity (and the financing of this activity) in Ukraine is the actual factor.

This study intended to identify the methods of financing to be used by terrorists and separatists and defined differences of methods to be taken by other criminal groups and sources of funds, classified for the categories of relevant risks and proposed for the ways of risk mitigation.

There have been found differences between legal an illegal sources of funds and potential use of the existing anti-money laundering system for fining and proceedings concerning terrorists and separatists due to their financial activity.

Some groups of persons with common idea of forced changes or overthrow of constitutional order or changes of territory of state border of Ukraine may create funds, thus, fully controlling institutions within its partnership. Sources of any established funds may be various membership dues, publications, donations of rich partnership members, etc. Difference between legal and illegal ways of funds obtaining by terrorist organizations highlight the problem of taking any measures aimed at countering the financing of terrorism.

In opposition to money “laundering”, a terrorist does not intends to earn income resulted from application of any fund establishing mechanism, but obtaining resources necessary for commitment of any terrorist actions. Accordingly, the main problem of financial institutions is the fact that they should track not only sources of funds, but also purposes of use.

The control system is not properly established yet and does not allow completing of these tasks. The system mainly based on the ability of banks to analyze any given information is exposed to risk. On the other hand, too much complex procedures of inspection would create those conditions preventing the activity of law-abiding citizens, thus, they may be deemed to be those restricting legal rights and freedom.

As the zone of conflict is limited to south and east regions, any preventive measures concerning customers and their financial transactions based on the geographical location are justified mechanism of countering. At the same time, such approach may lead to charges of prejudgment in regard to citizens from the given regions. In addition, there is a problem with bank reporting as self-defensive instrument. Pursuing the policy of protection against any potential use by terrorists of services of their institution, banks may inform on any suspicious transactions that, in

turn, may create the situation when the regulating authorities would be engulfed by relevant reports.

The main obstacles preventing verification of financial information and their parties concerning the financing of terrorism were as follows:

- lack of any official public/confidential list of separatists and persons suspected;

- lack of any official list of countries supporting terrorism financing;

- lack of free electronic sources of information verification, especially lists of natural persons and free access to databases of lost passports (being declared as lost) and other;

- limitation of information on those persons settling financial transaction in the amount of less than UAH 150,000, without account opening, as well as in case of settlement of financial transactions with e-funds.

According to international studies, terrorist organizations apply a great number of methods and schemes of moving financial resource in the financial system, in particular – trade finance, cash couriers, charitable organizations, alternative payment systems, etc.

Choosing the scheme of financing, terrorist organization and separatist movements take into consideration geographical location, primary type of assets, amount, necessary transfer speed, cost of transfer and potential risk level (theft, exposure by the law enforcement authorities, etc.).

In Ukraine the main factor of choosing the scheme of the financing of terrorism and separatism is legal nature of income sources.

Under conditions of legal source of funds, the chosen financing scheme would be characterized with use of simple, standard, rapid and relevant methods of transfer, financial instruments. As a rule, such financial transactions would not differ from various similar transactions to be settled by financial mediators. With minor amounts of transfers, criminals may avoid identification procedure. In order to avoid procedure of obligatory financial monitoring, mediators are involved in the financing schemes, financial transactions are to be settled through various financial institutions or the amount of financial transaction is to be fractioned.

Failure to define similar signs for suspicions of the financing of terrorism and separatism is one of the basic problems in defining suspicions of such cases. At the same time, according to summarized information on the defined facts of the financing of terrorism and separatism, the following criteria of the above mentioned financial transactions may be defined:

- crediting of funds in minor amounts from different persons within a short period of time in favor of one person with the purpose of “support”, “for treatment”, “charity support”, “for humaneness”;

- recipient and/or initiator of funds transfer is a public and/or charitable organization;

- financial transaction uncommon for the customer in the amount;

- counteragent uncommon for the customer;

- payment purpose unusual for the financial transaction;

- private transfer from the territory of the Russian Federation;

payments to be made by those persons being not fully aware or not willing to inform the payment details (address/contact information, etc.);

transaction on electronic transfer with missing information on the initiator or recipient;

crediting of funds to the settlement/card account of the person or transfer in the name of natural person to be made without account opening, if the given information shows that the source of such crediting/transfer is funds to be transferred through payment systems providers of which are not registered within the territory of Ukraine, including with e-funds;

involved nature of the financial transaction;

lack of economic factor.

In case of illegal source of funds, the schemes of the financing of terrorism and separatism are complicated by elements aimed at levelling of risk of defining the link between funds and their source. In such schemes criminals credit illegally gained funds and allocate them. It is made through change in assets form, use of various financial instruments, nominees, etc. These schemes are similar to the schemes of money laundering, with the difference that it should be implemented without the last phase – integration of funds into the financial system, but with further transfer of funds to the final recipient.

In this context, the best common decision should be enforceability and absolute execution of the rules “know your customer”. That bank, being aware of its customers, less likely could become an unforeseen channel of funds transfer from the side of terrorists and separatists.

Preventive measures of the rules “know your customer” exceed the limits of standard account opening and recording, they also require the banks to apply the policy of customer search and program of multilevel customer identification system ensuring common and specially controlled verification of high risk accounts, as well as preventive monitoring of suspicious accounts.

The schemes of the financing of terrorism and separatism concerning the following should be taken into consideration:

activity of non-profit organizations

fictive enterprise (conversion of non-cash funds into cash);

operation of electronic payment systems.

Preventive and countering measures that may improve the level of efficiency of the AML/CFT system should be focused on the following:

methodical and methodological assistance in the field of anti-money laundering or countering the financing of terrorism;

measures taken by the subjects of primary financial monitoring aimed at the increased requirements to request for/investigation of information necessary for execution of rules “know your customer”, including with information from open sources, in particular, in Internet, social networks, etc.;

increased control over payment systems and non-banking financial institutions in a part of extension of the requirements to the rules of internal financial monitoring;

review of state standards that regulate settlements in cash downwards of aggregate settlement amounts;

increase control over activity of non-profit organizations;
increased interdepartmental cooperation between state regulators, subjects of primary financial monitoring, State Financial Monitoring Service and law enforcement authorities;
increased international cooperation in the field of countering terrorist and separatist activity.