

FINANCIAL MONITORING SERVICE OF GEORGIA
ANNUAL REPORT
2016

Tbilisi

Contents

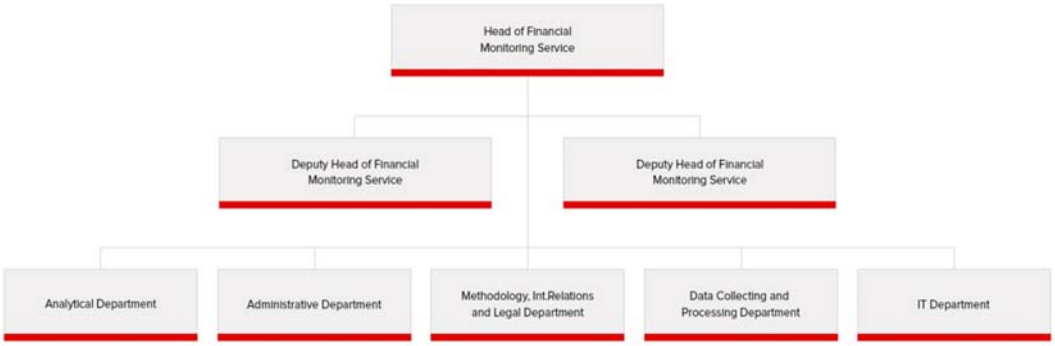
- *Goals and Objectives, Areas of Activity* 3
- *Statistics and Typology* 4
- *Domestic and International Cooperation* 12
- *Legislative Framework* 14
- *Trainings and Seminars* 14

- *Goals and Objectives, Areas of Activity*

The major responsibilities of the Financial Monitoring Service of Georgia (FMS) – the Legal Entity of Public Law – include the identification and prevention of illicit income legalization, terrorism financing and other criminal offences. The goals and objectives, as well as major areas of activity and powers of FMS are defined by the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization (AML/CFT Law), the Law of Georgia on the Legal Entity of Public Law, and the Decree №606 (30 October 2014) of the Government of Georgia on Approving the Regulation of the Financial Monitoring Service of Georgia – the Legal Entity of Public Law.

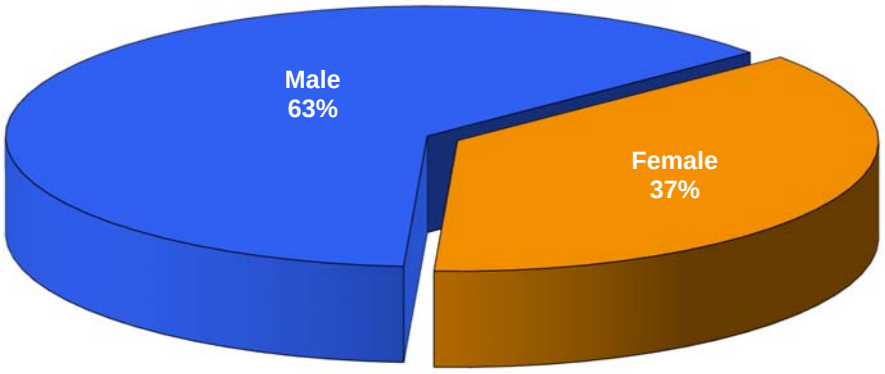
FMS seeks to detect and prevent criminal offences by examining and analyzing the relevant information received from the obliged entities, and immediately disseminates the data and case materials at its disposal to the law enforcement agencies (LEAs), without obtaining permission from any other authority or person, when there are grounds to believe that a transaction is suspicious and is being implemented for the purpose of committing illicit income legalization, terrorism financing or other crimes. In addition to specifying the powers of FMS, the AML/CFT Law designates transactions that are subject to reporting requirements, and defines the obliged entities, supervisory bodies and their responsibilities.

The structure of FMS:



FMS's staff list and salaries are approved by the Decree №387 (30 October 2014) of the Prime Minister of Georgia. The FMS employs 32 individuals with the following gender balance:

Gender Balance, 2016



- ***Statistics and Typologies***

As of 1 January 2017, the list of the obliged entities under the AML/CFT Law includes:

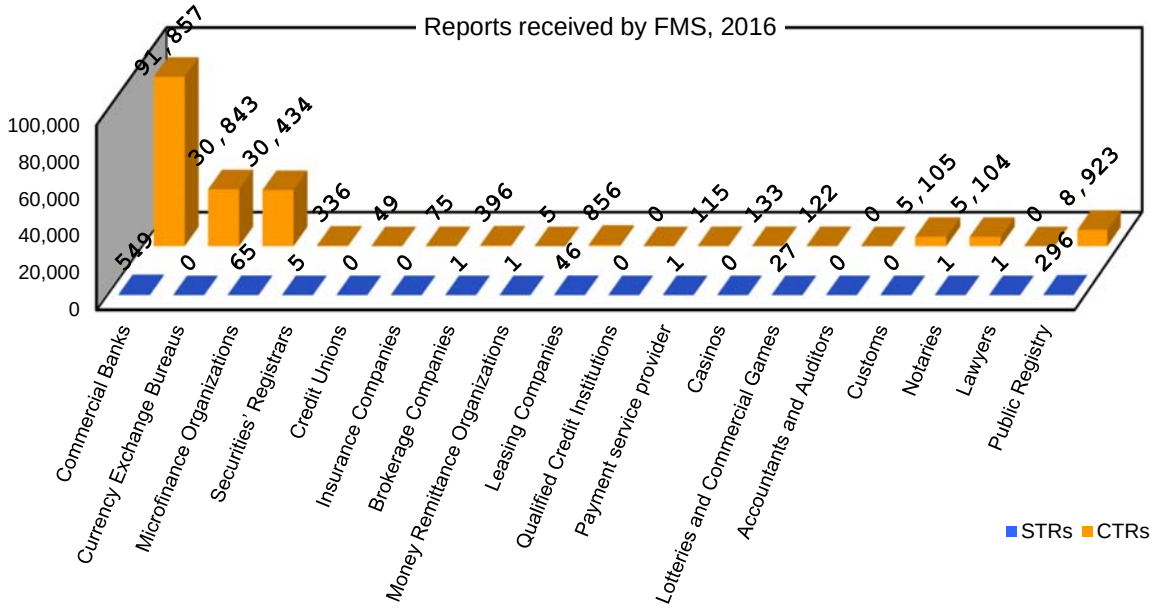
- Financial Institutions: commercial banks; currency exchange bureaus; non-bank depository institutions; microfinance organizations; money remittance organizations; qualified credit institutions; brokerage companies; securities' registrars; insurance companies and founders of non-state pension schemes; payment service providers; and leasing companies.

- Non-Financial Institutions: entities organizing lotteries, gambling and other commercial games, including casinos (internet casinos); dealers in precious metals and stones and products thereof, as well as antiquities; the Revenue Service of the Ministry of Finance (customs); entities engaged in the provision of grants and charitable assistance; notaries; the National Agency of Public Registry – the Legal Entity of Public Law; accountants and auditors; and lawyers - members of the Georgian Bar Association.

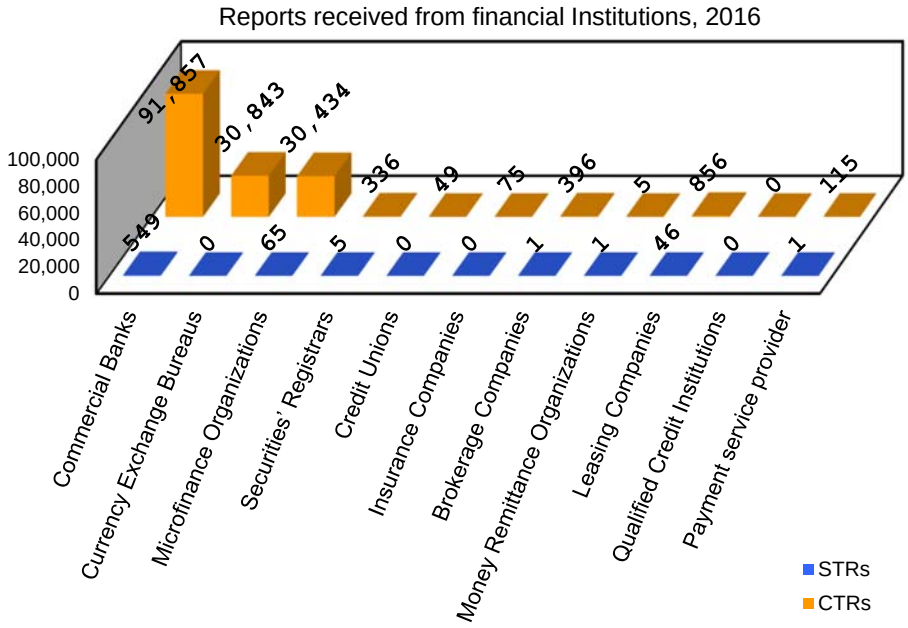
Pursuant to the AML/CFT Law (Article 5), the obliged entities are required to submit reports to FMS on suspicious transactions, as well as certain transactions above 30,000 GEL.

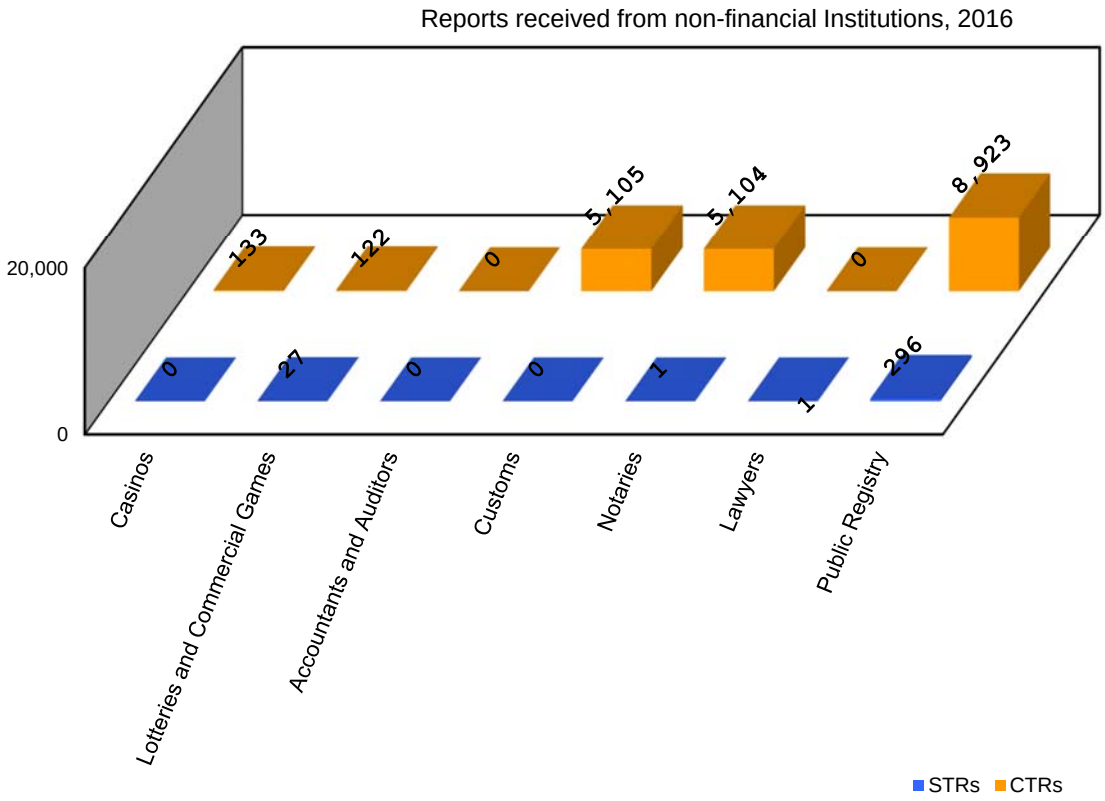
In 2016, FMS received 175,346 reports, including 993 reports on suspicious transactions and 174,353 reports on transactions above the prescribed threshold. Similar to previous years, the largest amount of information was provided by commercial banks – 92,406 reports, including 549 suspicious transaction reports (STRs). As for the other obliged entities, microfinance organizations submitted 30,499 reports, including 65 STRs; insurance companies and founders of non-state pension schemes - 75 reports; brokerage companies – 397 reports, including 1 STR; securities' registrars – 341 reports, including 5 STRs; currency exchange bureaus – 30,843 reports; money remittance organizations – 6 reports, including 1 STR; non-bank depository institutions – credit unions – 49 reports; payment service providers - 116 reports, including 1 STR; notaries – 5,105 reports, including 1 STR; casinos – 133 reports; entities organizing lotteries, gambling and other commercial games – 149 reports, including 27 STRs; leasing companies – 902 reports, including 46 STRs; lawyers - 1 STR; the Revenue Service (customs) – 5,105 reports; and the National Agency of Public Registry - 9,219 reports, including 296 STRs.

The chart demonstrates the number of reports received by FMS in 2016:

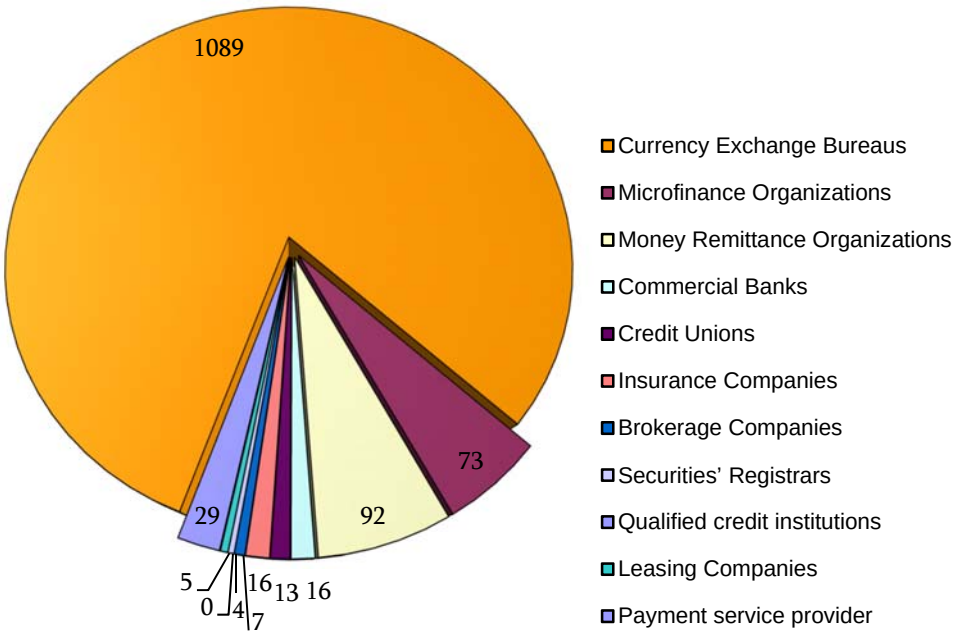


The chart demonstrates the number of reports received by FMS divided between the financial and non-financial sectors:

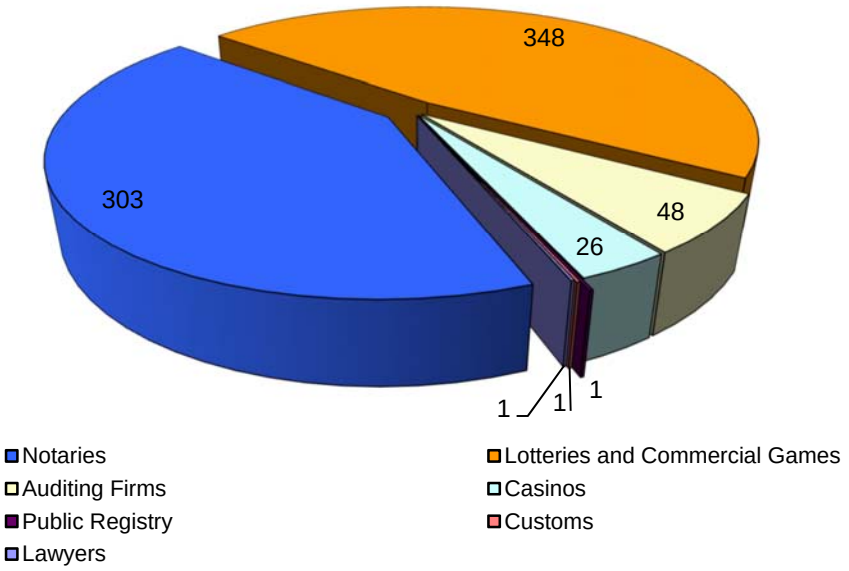

Reports received from financial Institutions, 2016
100,000
80,000
60,000
40,000
20,000
0
91,857
30,843
30,434
336
49
75
396
5
856
0
115
549
0
65
5
0
0
1
1
46
0
1
Commercial Banks
Currency Exchange Bureaus
Microfinance Organizations
Securities' Registrars
Credit Unions
Insurance Companies
Brokerage Companies
Money Remittance Organizations
Leasing Companies
Qualified Credit Institutions
Payment service provider
STRs
CTRs



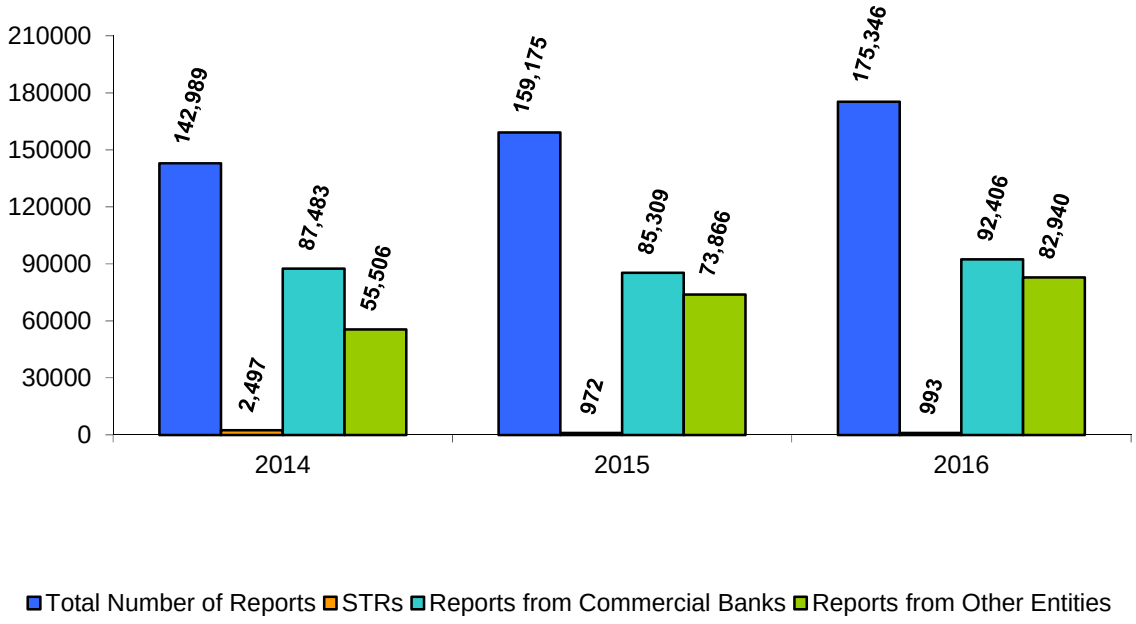
As of 1 January 2017, representatives of Georgia's financial sector designated as the obliged entities by the AML/CFT Law include: 16 commercial banks, 13 credit unions, 73 microfinance organizations, 16 insurance organizations and founders of non-state pension schemes, 7 brokerage companies, 4 securities' registrars, 92 money remittance organizations, 1,089 currency exchange bureaus, 5 leasing companies and 29 payment service providers.



As of 1 January 2017, representatives of Georgia's non-financial sector designated as the obliged entities by the AML/CFT Law include: 303 notaries, 348 entities organizing lotteries, gambling and other commercial games, 48 auditing firms, 26 casinos, the National Agency of Public Registry, the Revenue Service (customs) and all lawyers that are members of the Georgian Bar Association.

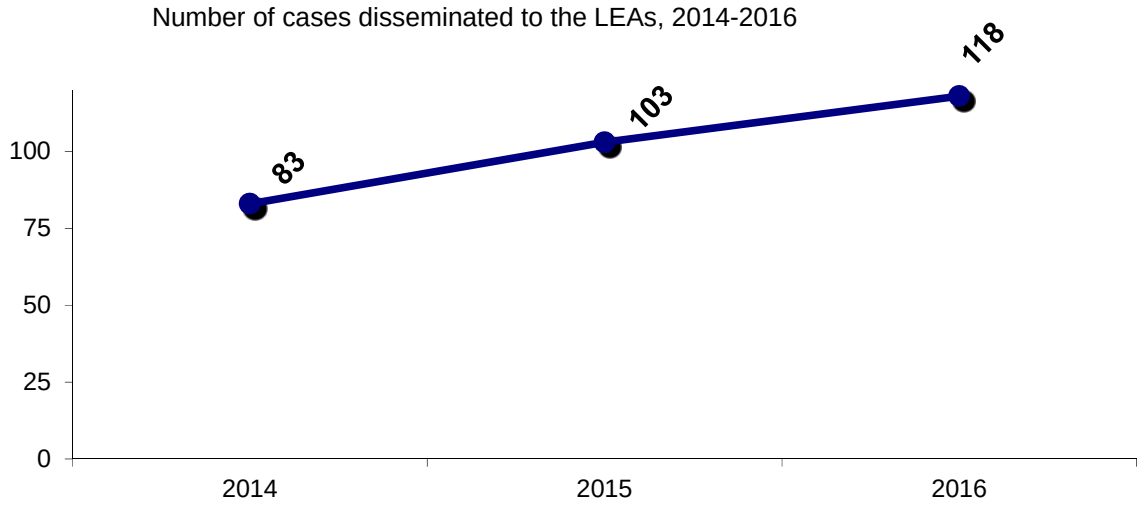


The amount of information received by FMS in 2016 compared to previous years:

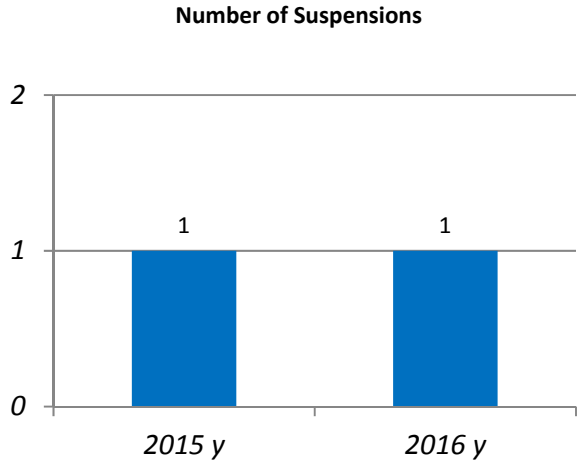


In 2016, based on the analysis of reports received from the obliged entities and other information obtained, FMS disseminated to the respective agencies of the Chief Prosecutor's Office of Georgia, the State Security Service of Georgia and the Ministry of Internal affairs of Georgia 118 cases (including 15 cases of potential terrorism financing).

The trend of the growing number of cases disseminated to LEAs in 2016 compared to previous years:



FMS was granted the authority to suspend suspicious transactions temporarily (72 hours) based on the amendments introduced to the AML/CFT Law on July 3, 2015 and this power was used once in 2016.



Similar to previous years, the analysis of reports submitted to FMS and additional information obtained from the obliged entities, as well as the data received from open sources and foreign FIUs indicates that transfers of fraudulently obtained funds (unauthorized access to computer systems or e-mails, change of bank details in relevant documents, identity fraud, romance scam, identity theft, etc.) to and from Georgia using financial channels of different jurisdictions and attempts to legalize them continued to be the major trend in 2016. The majority of cases disseminated to LEAs were related to such attempts. The hacking of computer systems of resident legal persons maintaining accounts in Georgian financial institutions, which allowed criminals to monitor communications between the companies and their business partners also persisted. This scheme involved transfers of funds abroad from the accounts of potential victims in Georgia using fraudulent payment orders. The funds were then withdrawn and owners of fraudulent accounts could not be found.

Transfers of funds potentially obtained via fraudulent means to the accounts held in Georgian banks were also common in 2016. In some of the cases, transfers were made using international payment service providers such as PayPal and Web Money, as well as other international systems for quick money transfers. Most of the funds received on the accounts held in Georgia were immediately transferred to third countries, while Georgian financial institutions received requests for refund.

In 2016, a number of cases disseminated to LEAs involved loans obtained by criminals from online-credit platforms using identification data of other physical persons. The victims of such identity thefts were later requested to cover the unlawfully appropriated funds Furthermore, a number of disseminations made by FMS involved potential signs of corruption.

- *Domestic and International Cooperation*

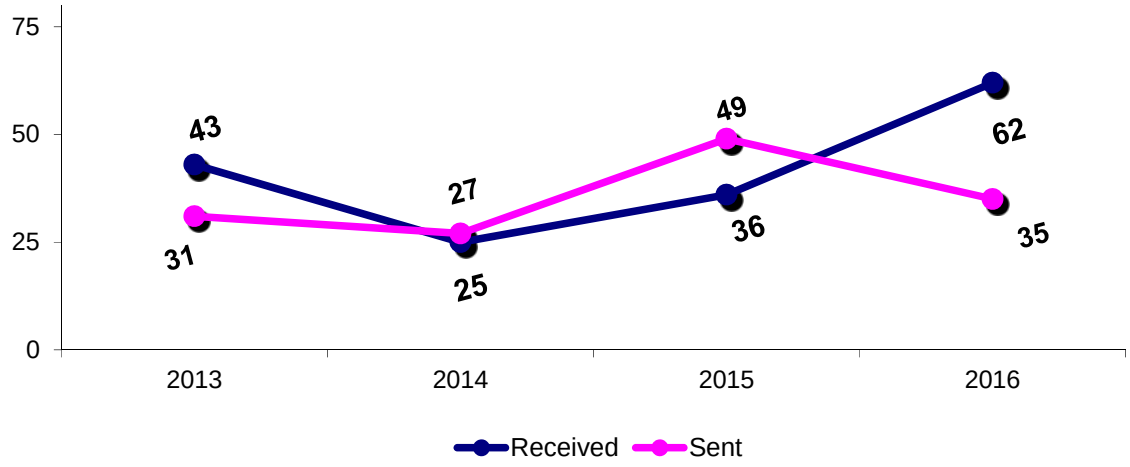
In 2016, FMS continued active cooperation with the AML/CFT supervisory agencies – the National Bank, the Ministry of Justice, the Ministry of Finance, the Georgian Federation of Professional Accountants and Auditors, and the Georgian Bar Association. Supervisory agencies and FMS have been exchanging information about the implementation of legislative requirements in the field of combating money laundering and terrorism financing both to assist in the preparation of relevant inspections of obliged entities and to share the results of such inspections.

The Memorandum of Understanding (MoU) was signed between FMS and the National Bank of Georgia on August 5, 2016. It aims to improve inter-agency cooperation in the process of information-exchange, and for the development of relevant normative base and methodological guidance. This memorandum updated the terms of the previous MoU signed between the parties on May 30, 2007.

In 2016, FMS was also actively involved in the work of the Anti-Corruption Inter-Agency Coordination Council and the Inter-agency Council for Developing and Coordinating Implementation of the Strategy and Action Plan for Combating Money Laundering and Terrorism Financing.

FMS continued its active cooperation with the corresponding foreign agencies. In 2016, FMS received 62 requests for information from financial intelligence units (FIUs) of different countries and responded to all of them. FMS sent out 35 requests to its foreign counterparts and received 33 responses. FMS also made 6 spontaneous disseminations on potential money laundering cases to foreign FIUs, while receiving 9 such disseminations.

Number of requests received and sent, 2013–2016



In 2016, FMS signed the Memorandums of Understanding with FIUs of Kazakhstan, Montenegro and Monaco for the purposes of facilitating bilateral cooperation. As of 1 January 2017, FMS had memorandums on cooperation and information-exchange concluded with FIUs of 42 countries.

FMS was actively involved in the work of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) throughout 2016. The representative of FMS participated in the 5th round evaluation mission to Slovenia, which was organized by MONEYVAL on November 6-19, 2016. Representatives of FMS also participated at the 8th meeting of the Conference of Parties to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism[1] (October 24-

[1] The Convention was ratified by the Parliament of Georgia on October 4, 2013 and entered into force since May 1, 2014.

27, 2016), as well as in the 2nd meeting of the EU-Georgia Sub-Committee on Justice, Freedom and Security (April 20-22, 2016).

- *Legislative Framework*

According to the amendments introduced to the AML/CFT law on une 8, 2016, the member of the International Federation of Accountants established under the Georgian law was replaced by the Service for Accounting, Reporting and Auditing Supervision under the Ministry of Finance of Georgia as the supervisory body for persons conducting accounting and auditing services.

In 2016, FMS continued its work of updating the lists of terrorists or persons supporting terrorism within the framework of the AML/CFT Law. The lists are compiled based on the statements of the Financial Action Task Force (FATF), and the resolutions of the UN Al-Qaida and Taliban Sanctions Committee (established on the basis of Resolutions №1267 (1999) and №1988 (2011) of the UN Security Council). FMS was regularly introducing changes to the List of Terrorists and Persons Supporting Terrorism based on the decisions of the UN committee. These changes were published in the Legislative Herald of Georgia, as well as on the FMS's web-site, and distributed to the obliged entities. These measures are aimed to ensure the full compliance of the domestic legislation with the lists approved by the UN Al-Qaida and Taliban Sanctions Committee.

- *Trainings and Seminars*

FMS continued organizing consultative meetings, trainings and seminars in 2016 to assist the obliged entities in the implementation of AML/CFT requirements. Training-seminars were conducted by FMS either independently or with the support of international organizations:

- FMS representatives conducted the training for notaries on the implementation of requirements of the AML/CFT Law and the identification of suspicious transactions on a meeting organized by the Chamber of Notaries of Georgia (February 20, 2016);
- FMS representative conducted the training for compliance officers of insurance companies on the implementation of requirements of the AML/CFT Law and the identification of suspicious transactions on a meeting organized by the Council of Europe (March 31, 2016);
- FMS organized a meeting with representatives of the banks operating in Georgia, were the typologies of criminal offences identified in the years of 2014-2015 were presented (May 17, 2016);

- FMS organized a meeting with representatives of insurance companies to discuss topics related to the implementation of requirements of the AML/CFT Law and to clarify certain legal provisions (May 23, 2016);
- FMS organized trainings for member organizations of the Association for the Development and Support of Microfinance Organizations in Georgia regarding the identification of suspicious and other transactions subject to reporting requirements (June-July, 2016).

FMS developed and distributed among financial institutions the guidance on the identification of terrorism financing. The guidance is based on international experience in the field of fighting terrorism and includes risk-indicators for financial institutions to identify transactions related to terrorism financing.

The employees of FMS took part in various international trainings and seminars, and also participated in meetings organized by international organizations. In particular, FMS representatives attended:

- Meeting on issues related to the investigation of money laundering organized by the US Embassy in Tbilisi (February 8-12, 2016);
- Meeting of the Financial Action Task Force (FATF) and the Counter ISIL Finance Group (CIFG) in Paris (February 13-15, 2016);
- Meeting of experts from FATF, the United Nations Office on Drugs and Crime (UNODC) and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) concerning the money laundering and terrorism financing typologies (May 8-12, 2016);
- Training-seminar organized by MONEYVAL for the 5th Round Evaluators in Jerusalem (29 May - 4 June, 2016);
- Meeting of the sub-working group for fighting corruption and money laundering chaired by Georgia at the GUAM secretariat in Kiev (June 15-18, 2016);
- Training on the methods to prevent the financing of proliferation of weapons of mass destruction organized by US Embassy (July 26-27, 2016);
- Workshop on money laundering investigation and prosecution organized by the US Embassy in Batumi (September 19-23, 2016);
- Training organized by the UNODC in Vienna (October 9-11, 2016);
- Seminar organized by the Financial Intelligence Unit under the National Bureau of Investigation of Finland in Vantaa (October 12-15, 2016);
- Training on issues of anti-money laundering legislation organized by the EU Twinning Project in Tbilisi (October 25-26, 2016);
- Meeting of the sub-working group for fighting corruption and money laundering chaired by Georgia at the GUAM secretariat in Kiev (November 6-9, 2016);

- Training on the confiscation and recovery of illicit assets organized by the Council of Europe in Tbilisi (November 7-8, 2016).