

LEPL FINANCIAL MONITORING SERVICE OF GEORGIA
ANNUAL REPORT
2017

Tbilisi

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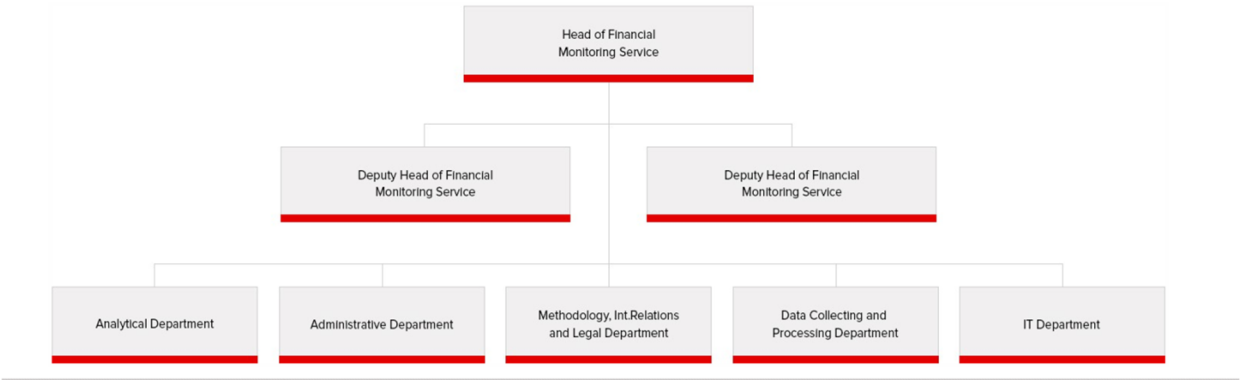
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- *Goals and Objectives, Areas of Activity*

The major responsibilities of the Financial Monitoring Service of Georgia (FMS) – the Legal Entity of Public Law is defined under the law of Georgia on Facilitating the Prevention of Illicit Income Legalization (AML/CFT Law), according to which the major objective of FMS is the identification and prevention of illicit income legalization, terrorism financing and other criminal offences. The goals and objectives, as well and structure of FMS are also defined by 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.

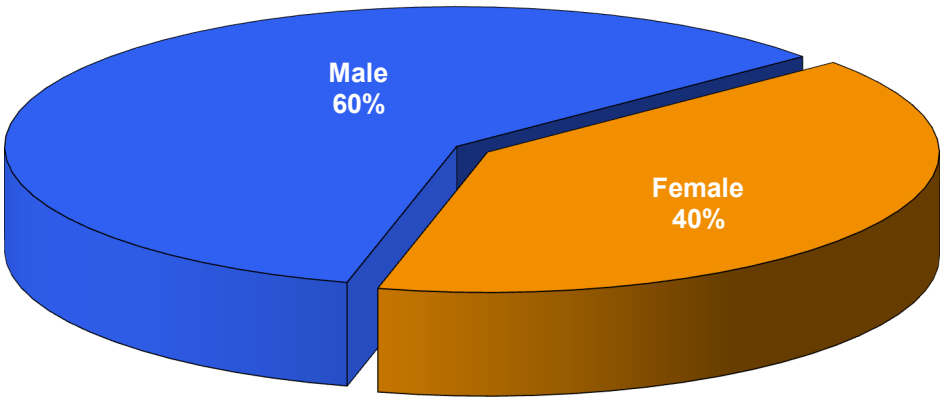
FMS seeks to detect and prevent criminal offences by examining and analyzing the relevant information received from the obliged entities, and immediately disseminates the data and case materials at its disposal to the law enforcement agencies (LEAs), without obtaining permission from any other authority 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 №16 (29 January 2018) of the Prime Minister of Georgia, according to which FMS staff decreased from 32 (As it was set by the Decree №236 30 August 2017 of the Prime Minister of Georgia) to 31. As of 2017 FMS employees 31 individuals with the following gender balance:

Gender Balance, 2017



- ***Statistics***

In 2017, the list of the obliged entities under the AML/CFT Law was as follows:

- 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.

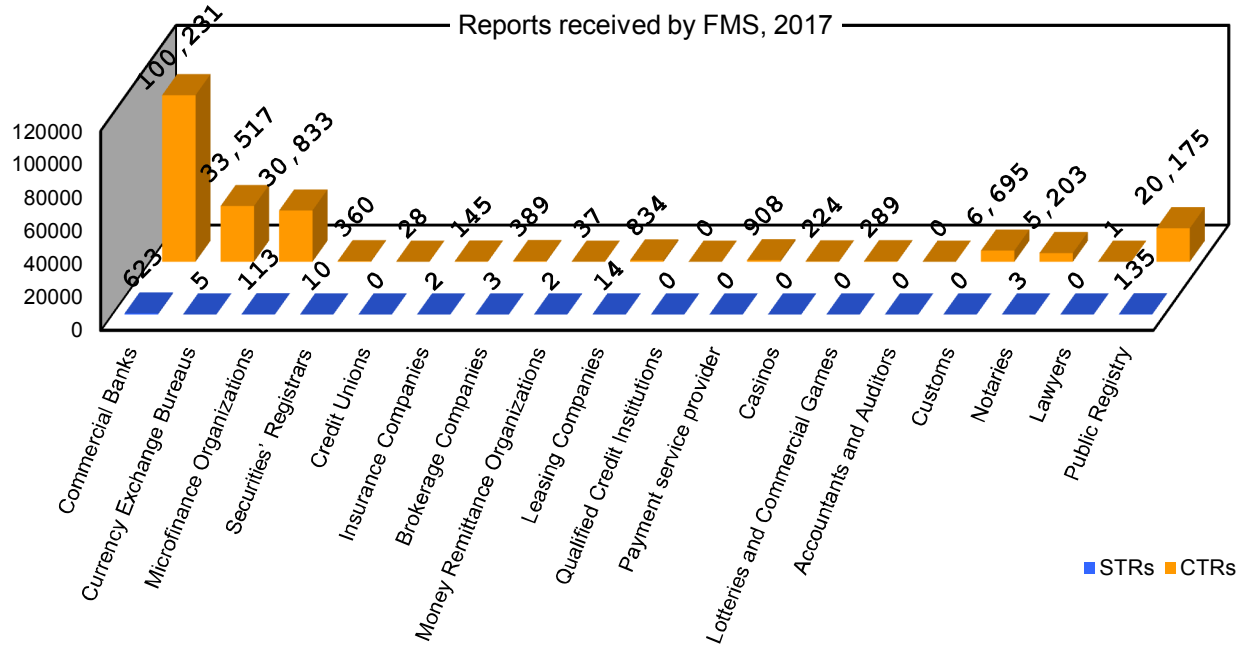
- Non-Financial Institutions: entities organizing lotteries, gambling and other commercial games, including casinos (internet casinos); dealers in precious metals and stones and products thereof, as well as antiquities; the Revenue Service of the Ministry of Finance (customs); entities engaged in the 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.

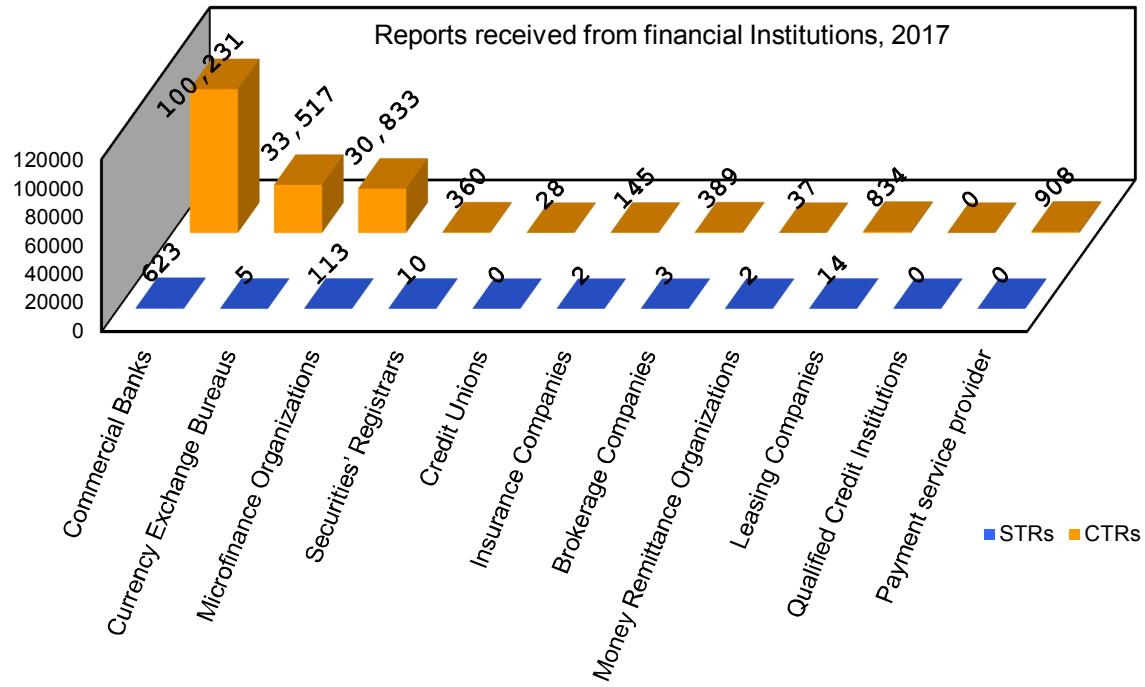
In 2017, FMS received 200,779 reports, including 911 reports on suspicious transactions and 199,868 reports on transactions above the prescribed threshold. Similar to previous years, the largest amount of information was provided by commercial banks – 100,854 reports, including 623 suspicious transaction reports (STRs). As for the other obliged entities,

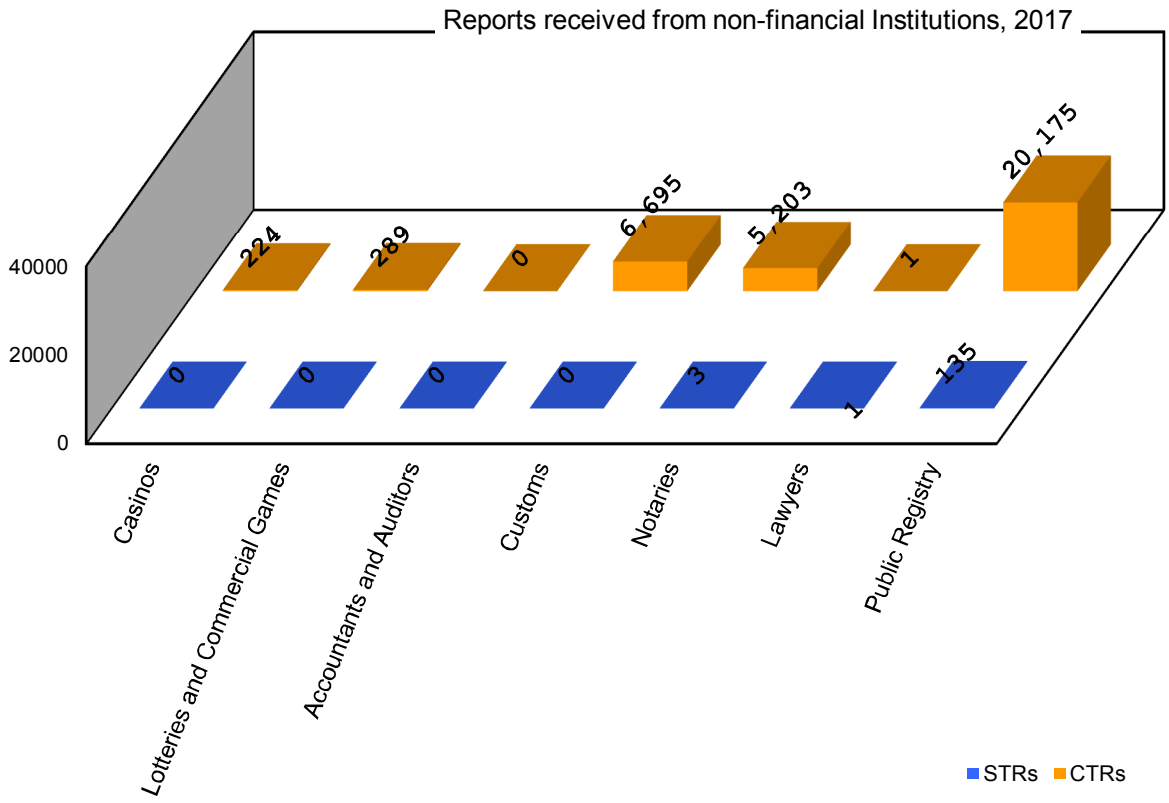
microfinance organizations submitted 30,946 reports, including 113 STRs; insurance companies and founders of non-state pension schemes - 147 reports, including 2 STRs; brokerage companies – 392 reports, including 3 STR; securities' registrars – 370 reports, including 10 STRs; currency exchange bureaus – 33,522 reports including 5 STRs; money remittance organizations – 39 reports, including 2 STR; non-bank depository institutions – credit unions – 28 reports; payment service providers - 908 reports; notaries – 5,206 reports, including 3 STR; casinos – 244 reports; entities organizing lotteries, gambling and other commercial games – 289 report; leasing companies – 848 reports, including 14 STRs; lawyers - 1 STR; the Revenue Service (customs) – 6,695 reports; and the National Agency of Public Registry - 20,310 reports, including 135 STRs.

The chart demonstrates the number of reports received by FMS in 2017:

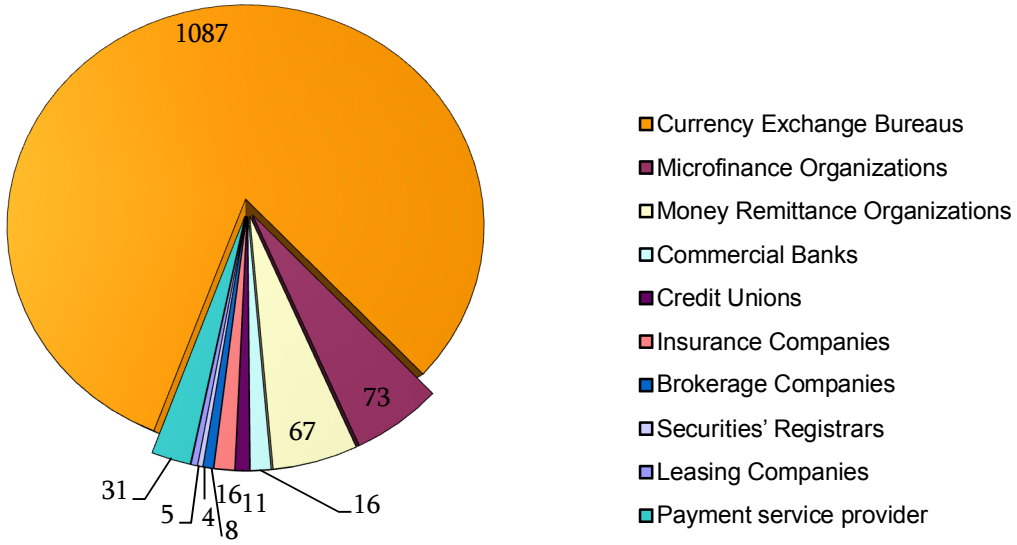


The chart demonstrates the number of reports received by FMS divided between the financial and non-financial sectors:

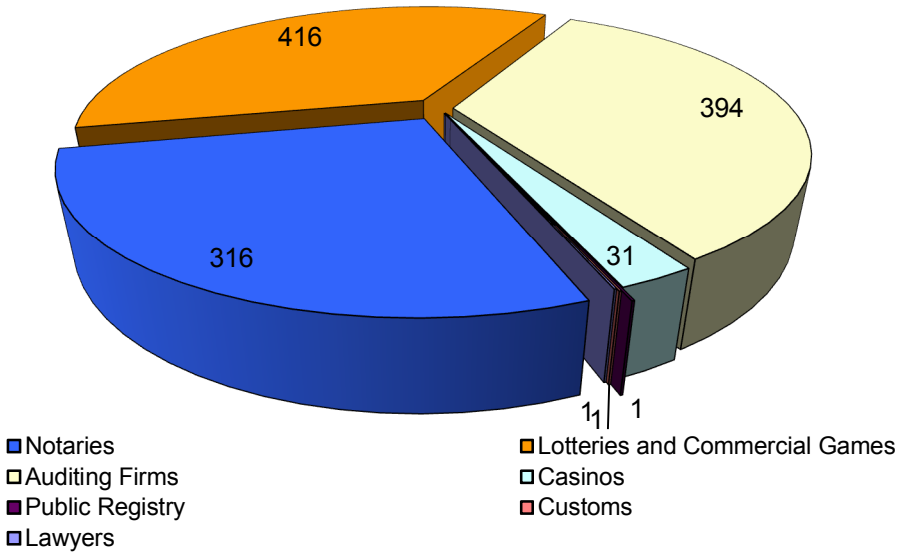

Reports received from financial Institutions, 2017
120000
100000
80000
60000
40000
20000
0
100,231
33,517
30,833
360
28
145
389
37
834
0
908
623
5
113
10
0
2
3
2
14
0
0
Commercial Banks
Currency Exchange Bureaus
Microfinance Organizations
Securities' Registrars
Credit Unions
Insurance Companies
Brokerage Companies
Money Remittance Organizations
Leasing Companies
Qualified Credit Institutions
Payment service provider
STRs
CTRs


Reports received from non-financial Institutions, 2017
40000
20000
0
224
289
0
6,695
5,203
1
20,175
0
0
0
0
3
1
135
Casinos
Lotteries and Commercial Games
Accountants and Auditors
Customs
Notaries
Lawyers
Public Registry
STRs
CTRs

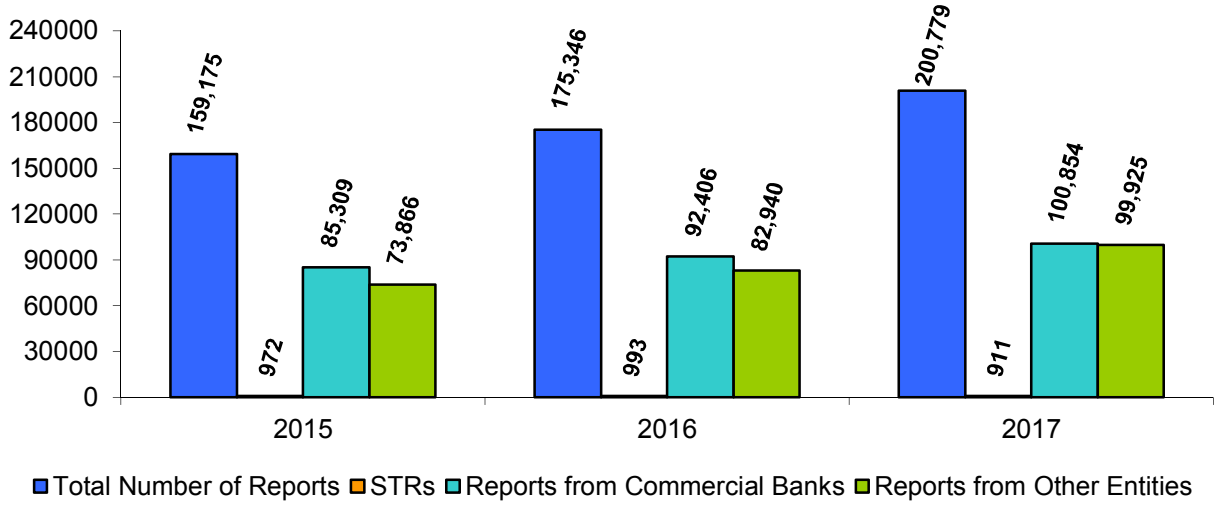
As of 1 January 2018, representatives of Georgia's financial sector designated as the obliged entities by the AML/CFT Law include: 16 commercial banks, 11 credit unions, 73 microfinance organizations, 16 insurance organizations and founders of non-state pension schemes, 8 brokerage companies, 4 securities' registrars, 67 money remittance organizations, 1,087 currency exchange bureaus, 5 leasing companies and 31 payment service providers.



As of 1 January 2018, representatives of Georgia's non-financial sector designated as the obliged entities by the AML/CFT Law include: 316 notaries, 416 entities organizing lotteries, gambling and other commercial games, 394 auditing firms, 31 casinos, the National Agency of Public Registry, the Revenue Service (customs) and all lawyers that are members of the Georgian Bar Association.

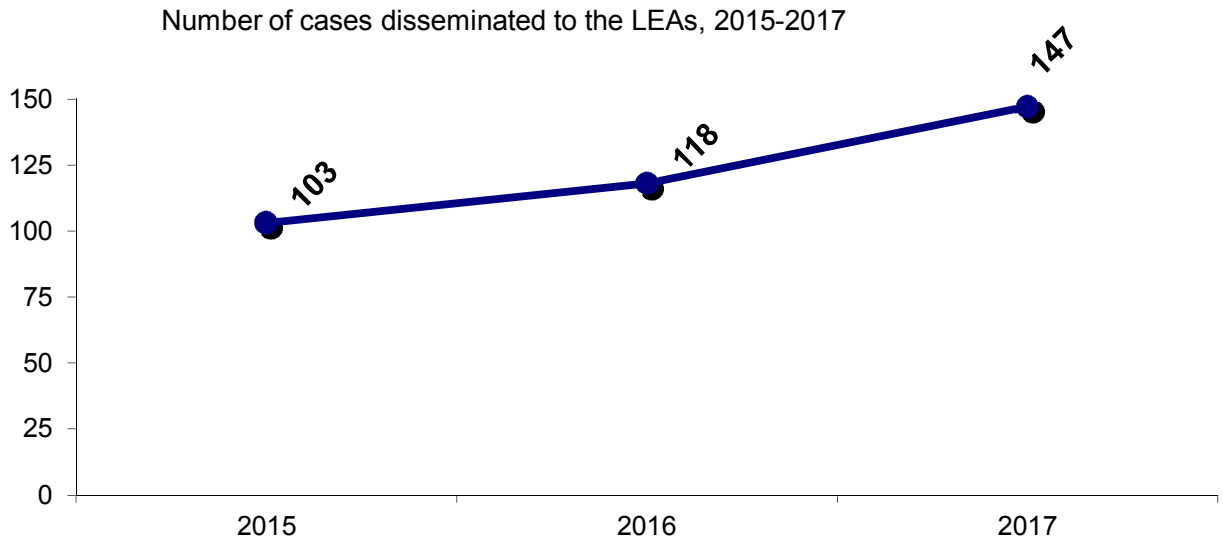


The amount of information received by FMS in 2017 compared to previous years:

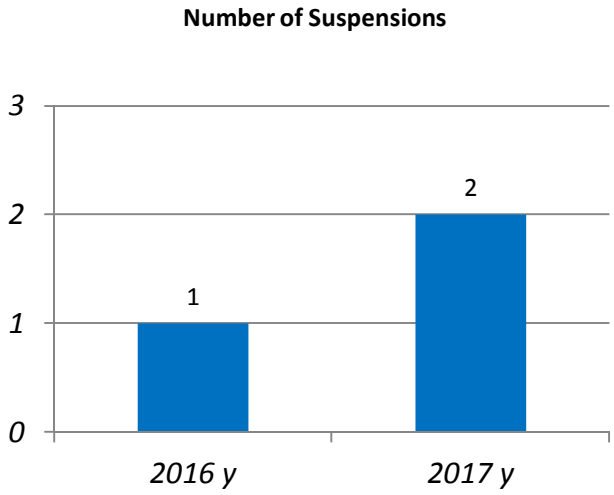


In 2017, based on the analysis of reports received from the obliged entities and other information obtained, FMS disseminated to the respective agencies of the Chief Prosecutor's Office of Georgia, the State Security Service of Georgia and the Ministry of Internal affairs of Georgia 147 cases (including 28 cases of potential terrorism financing).

The trend of the growing number of cases disseminated to LEAs in 2017 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 twice in 2017.



- ***Typologies***

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 the 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 2017. The majority of transfers were made through banks or international money remittance systems for quick money transfers. Most of the funds received, were immediately transferred to the bank accounts of the third countries or were withdrawn in Georgia, while Georgian financial institutions received requests for refund from sending organizations. In some cases, similarly to other years, funds were sent to Georgian nationals escorted by African Residents who were withdrawing money or giving indications. The majority of cases disseminated to LEAs were related to such attempts. In 2017, the transfers of probably fraudulently obtained funds from abroad to Georgian accounts and money remittance to Georgian residents or nonresidents significantly decreased compared to previous years.

In 2017, several cases sent to LEAS, were related to the persons, in the databases used by FMS, with the negative information on the possibilities of connection with different offences. Several persons were listed in “black lists”, such as US department of the treasury international asset control office list and Interpol list.

During the year, some cases revealed by FMS were related to the attempts to avoid sanctions against Iran, using transactions of Georgian legal entities, established by Iranian origins, to the companies established in third countries.

In 2017, small number of cases were related to the abuse of powers by the management of the companies, specifically unreasonable money transfers from company to private accounts.

Some cases were related to quick fund transfers from the large group of Georgian Citizens to several common receivers in neighborhood country. Among the remitters aged 20-35, in early past were convicted with offences related to drugs. FMS considered the possibility, that transactions might have been related to the unlawful circulation of drugs. All the files related to these cases were disseminated to LEAs.

- *Domestic and International Cooperation*

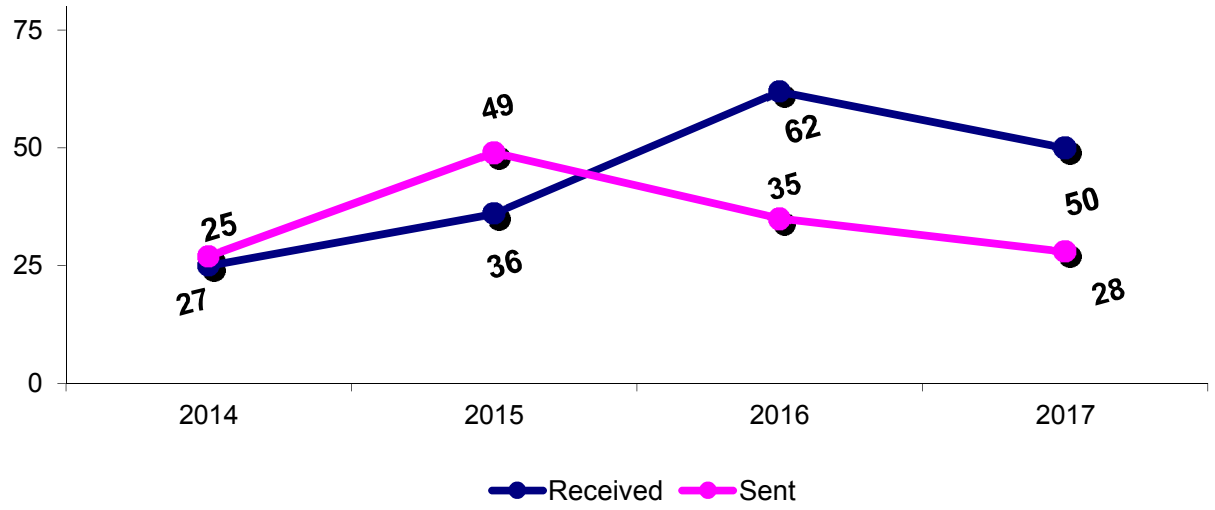
In 2017, FMS continued active cooperation with the AML/CFT supervisory agencies. Supervisory agencies and FMS have been exchanging information about the implementation of legislative requirements in the field of combating money laundering and terrorism financing both to assist in the preparation of relevant inspections of obliged entities and to share the results of such inspections.

The Memorandum of Understanding (MoU) was signed between FMS and Service for Accounting, Reporting and Auditing Supervision on March 31, 2017, It aims to improve inter-agency cooperation in the process of information-exchange, and for the development of relevant normative base and methodological guidance.

In 2017, 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 2017, FMS received 50 requests for information from financial intelligence units (FIUs) of different countries and responded to all of them. FMS sent out 28 requests to its foreign counterparts and received 25 responses. FMS also made 12 spontaneous disseminations on potential money laundering cases to foreign FIUs, while receiving 16 such disseminations.

Number of inquiries received and sent, 2014–2017



FMS continues cooperation with international and foreign organizations. 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 2017. Representatives of FMS also participated at the 9th 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] (November 21-22, 2017).

- ***Legislative Framework***

In order to fulfill the obligations under the Association Agreement between Georgia and EU, as well as to harmonize Georgian legislation towards the 4th AML/CFT Directive (Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council), and fulfill the requirements of Financial Action Task Force recommendations as well as Council of Europe Convention "On laundering, search, seizure and confiscation of the proceeds from crime and on the financing of terrorism", FMS drafted new AML/CFT law. The draft law will be presented to the government of Georgia in 2018. In the course of 2017, the draft law has been discussed on mutual meetings with the representatives of the commercial banks, insurance companies and other financial institutions.

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

On December 23, 2017, Organic law of Georgia "On national Bank of Georgia", was amended (N1894), as to change the definition of "representative of financial sector", that no more includes person conducting money remittance services. According to the amendment, money remittance providers were given a period of 6 months to register in the National Bank of Georgia as payment service providers or to sign a contract with the payment service providers. Similarly, amendments were made with the regard of qualified credit institutions, that are no longer independent entities. Due to the abovementioned amendments, AML/CFT law was amended accordingly and money remittance entities and qualified credit institutions are no longer obliged entities.

In 2017, 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 2017 to assist the obliged entities in the implementation of AML/CFT requirements. In June 2017, FMS held a meeting with the representatives of Georgian commercial banks to discuss typologies, revealed in 2016.

During the year 2017, 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:

- Workshop on "Fight against Money Laundering and Terrorism Financing" for Auditors and Accountants organized by Council of Europe (February 27-28, 2017);
- Meeting of the sub-working group for fighting corruption and money laundering chaired by Georgia at the GUAM secretariat in Kiev (April 26-29, 2017);
- Workshop on "Regional case simulation exercise on cybercrime and financial investigations", held by Council of Europe and European Union in the scope of the program against cybercrime (April 24-28, 2017);
- Training "Follow the money – Money Laundering in Casinos", organized by US Embassy (May 28- June 3, 2017);

- Training on “Money laundering and terrorism financing investigations, search and confiscation of the proceeds from the crime” within the range of the project “Partnership for good Governance”, organized by Council of Europe and European Union, (June 1-2, 2017);
- Seminar organized by the United Nations Office on Drugs and Crime Central Asian regional office (UNODC ROCA) (June 26- July2, 2017);
- 8th IAP Eastern European and Central Asian Regional Conference “Asset Recovery and Cybercrime” (June 27-28, 2017);
- Training on “Cash and money laundering” organized by “Partnership for good Governance”, organized by Council of Europe and European Union, (October 3-4 2017);
- Meeting of the sub-working group for fighting corruption and money laundering chaired by Georgia at the GUAM secretariat in Kiev (October 11-14, 2017).