Published: Legislative Herald of Georgia
www.matsne.gov.ge 27/01/2012
Registration Code: 190040000.19.012.016026

FINANCIAL MONITORING SERVICE OF GEORGIA

DECREE # 6

Tbilisi January 24, 2012

On Approving the Regulation on Receiving, Systemizing and Processing the Information by the Brokerage Company and Forwarding to the Financial Monitoring Service of Georgia

Pursuant to Paragraph 4 (c), Article 10 of the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization", I Decree:

1. Approve the attached Regulation "on Receiving, Systemizing and Processing the Information by Brokerage Company and Forwarding to the Financial Monitoring Service of Georgia".

2. Brokerage Companies shall:

a) Develop internal regulations concerning conducting financial monitoring into compliance with requirements of the Regulation "on Receiving, Systemizing and Processing the Information by Brokerage Company and Forwarding to the Financial Monitoring Service of Georgia" prior to April 1, 2012;

b) Prior to December 31, 2012 ensure extension of requirements of Article 5 of the Regulation "on Receiving, Systemizing and Processing the Information by Brokerage Company and Forwarding to the Financial Monitoring Service of Georgia" on those clients and their beneficial owners with whom the business relationship already exists for January 1, 2012.

3. Brokerage Companies which commence their operation from the effective date of this Decree shall submit within twenty days from the receipt of the License from the National Bank of Georgia the Form of Registration to the Financial Monitoring Service of Georgia in compliance with the procedure established by the Regulation on "Receiving, Systemizing and Processing the Information by Brokerage Company and Forwarding to the Financial Monitoring Service of Georgia".

4. Regulation "on Receiving, Systemizing and Processing the Information by Brokerage Company and Forwarding to the Financial Monitoring Service of Georgia" approved under the Decree #6 of the Head of the Financial Monitoring Service of Georgia of September 29, 2008 shall become null and void from the effective date of this Decree.

5. This Decree shall become effective upon promulgation.

Mikheil Roinishvili

REGULATION

on Receiving, Systemizing and Processing the Information by Brokerage Company and Forwarding to the Financial Monitoring Service of Georgia

Article 1. General Provisions

1. The present Regulation has been developed on the basis of the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", Law of Georgia "On Securities Markets" and other relevant normative acts of Georgia.

2. This Regulation shall regulate receiving, systemizing, processing and submitting the information by the Brokerage Company, licensed according to Georgian Legislation, to the Financial Monitoring Service, of Georgia (hereinafter referred to as the Service), in compliance with the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization, as well as the procedure for carrying out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction.

Article 2. Definition of Terms

For purposes of this Regulation, the following terms shall have the following meanings defined under the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization" (hereinafter referred to as **the Law**) and the legislation on securities:
a) Illicit income – illicit or / and unjustified property possessed or owned by a person;

b) Legalization of illicit income –legalization of illicit income (acquisition, use, transfer or other action), as well as concealing or disguising its true origin, proprietor or owner, or/and property rights or attempt to commit such an action;

c) Monitoring – identification by brokerage company of persons involved in transactions; recording, systemizing and processing the information on transactions subject to monitoring as well as on persons involved in transactions and forwarding to the Service in compliance with the rule approved on the basis of the Law, this Regulation and and other normative acts adopted (issued) on basis of the Law;

d) Concluded transaction – agreement concluded between the brokerage company and the client of the brokerage company (including, representative of the client, agent or/and third person in whose favor transaction is being concluded) for the purpose of implementing transaction(s) considered under the legislation on securities.

e) Implemented transaction – Stock Exchange or Non-Stock Exchange transaction(s) implemented in compliance with the legislation on securities.

f) Suspicious transaction – a transaction (regardless its amount and operation type) supported with reasonable grounds to suspect that it had been concluded or implemented for the purpose of legalizing illicit income or/and the property (including funds) on the basis of which the transaction had been concluded or implemented is the proceeds of criminal activity or/and the transaction had been concluded or implemented for the purpose

of terrorism financing (person participating in the transaction or the transaction amount causes suspicion, or other reasons exist for considering transaction as suspicious), or any person involved in the transaction is on the list of terrorists or persons supporting terrorism, or / and is likely to be connected with them, or / and funds involved in the transaction may be related with or used for terrorism, terrorist act or by terrorists or terrorist organization or persons financing terrorism, or any involved person's legal or real address or place of residence is located in a non-cooperative zone or the transaction amount is transferred to or from such zone.

g) Unusual transaction - complex, unusually large transaction (operation) and/or unusual patterns of a transaction (operation) that does not have visible economic (commercial) content or lacks lawful purpose, and/or is inconsistent with the ordinary business activity of a person involved therein;

h) Identification of a person – obtaining information on the person, which, when necessary, allows tracing such person and distinguishing from the other person;

i) Beneficial owner – natural person(s) representing an ultimate owner(s) or controlling person(s) of a person or / and a person on whose behalf the transaction (operation) is being conducted; beneficial owner of a business legal entity (as well as of an organizational formation (arrangement) not representing a legal entity, provided for in the Georgian legislation) shall be the direct or indirect ultimate owner, holder or / and controlling natural person(s) of 25% or more of such entity's share or voting stock, or natural person(s) otherwise exercising control over the governance of the business legal entity

j) Control – exercising strong influence directly or indirectly, alone or in concert with others, through use of voting shares or otherwise;

k) Controlling person - Person exercising control;

l) Non-cooperative or watch zone – a country or a part of the territory thereof defined by the National Bank of Georgia on the basis of proposition of Service. The country or territory thereof shall be identified as such on the basis of the information provided by competent international organization, or if the grounded supposition exists that in such zone weak mechanisms for controlling illicit income legalization are effective.

m) Suspicious zone –a country or a part of the territory thereof, identified as having weak mechanisms for controlling illicit income legalization, based on information available to the monitoring entity.

n) Suspicious financial institution – financial institution, determined as such by the National Bank of Georgia, which does not meet standards of preventing illicit income legalization.

o) Client - any person who addresses to the Brokerage Company for the service defined by the Georgian legislation as the principal activity of the latter or / and uses such service.

p) Person - any resident as well as non-resident natural person or legal entity, and an organizational formation, provided for in Georgian legislation not representing a legal entity;

q) Politically Exposed Person (PEP) - a foreign citizen, who has been entrusted with prominent state (public) functions in a respective country or / and carry out significant public and political activities. The PEPs are as follows: the head of the state, the head of the government and member of the government, their deputies, a senior official of government institution, a member of the parliament, a member of the supreme court, a member of the constitutional court, a senior military official, a member of the central (national) bank's council, an ambassador, a senior executive of state owned corporation, important political party (union) official and member of executive body of the political party (union), other prominent politician, his / her family members as well as persons having close business relations with him / her; a person shall be considered as a politically exposed during a year following his / her resignation from the foregoing positions;

r) Family member – spouse of a politically exposed person (PEP), his / her parents, siblings, children (including step – children) and their spouses;

s) Person having close business relationship with the politically exposed person (PEP) – natural person who owns or / and controls a share or voting stock of that legal entity, in which a share or voting stock is owned or / and controlled by the Politically Exposed Person (PEP); also, a person having other type of close business relationship with the Politically Exposed Person (PEP);

t) User Manual – Instruction for using of web-portal set on the official website of the FMS (www.fms.gov.ge);

u) Implementation of the transaction (operation) – Implementation of the transaction (including the registration of property) by the monitoring entity except for the monitoring entities listed in subparagraphs "f", "j" and "m" of Article 3 of the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization.

Article 3. Transactions Subject to Monitoring

1. For purposes of this Regulation, subject to monitoring shall be a transaction implemented or concluded by the person and/or series of transactions aimed at partition of the transaction, if one or both of the following provisions exist:

a) Transaction is suspicious according to subparagraph (f), Article 2 of this Regulation;

b) The amount of the transaction or series of transactions aimed at partition of the transaction, exceeds GEL 30,000, (or its equivalent in other currency) and transaction (operation) by its content represents one of the following:

b.a) Transactions implemented through securities, in bearer form;

b.b) Transaction (operation) carried out through participation of a suspicious financial institution;

b.c) Transactions implemented in securities by a person (including a branch of such a legal entity registered in Georgia) residing and registered in watch or suspicious zone or/and through use of bank account operating in such zone;

b.d) Transactions implemented in cash.

2. Any transaction, other than transactions listed in this Article, shall be subject to monitoring if there is a supposition that any person involved in the transaction is connected or is likely to be connected with terrorist, persons supporting terrorism, or / and funds involved in the transaction, whether obtained legally or illegally, may be related with or used for terrorism, terrorist act or by terrorists or terrorist organization or persons financing terrorism. The list of terrorists and persons supporting terrorism shall be published in the Legislative Herald of Georgia.

3. Pursuant to definition of terms set under the Law, for purposes of this Regulation, grounds for considering the transaction as suspicious by the Brokerage Company may be:

a) Price of the transaction for securities quoted at stock exchange differs by 40% or more from officially quoted price;

b) Securities are given as a gift to a person not representing a spouse, a child, grandchildren, parents, grandmother, grandfather, sister, brother;

c) Buying broker can not ascertain origin of the money:

c.a) amount is transferred from a person registered in a non-cooperative zone;

c.b) it is not clear whose account the amount is transferred from;

c.c) amount is deposited/transferred from a third person (not transaction participant), whose identification has not been conducted;

d) Origin of securities is impossible to ascertain for the selling broker:

d.a) securities are transferred from a person registered in a non-cooperative zone;

d.b) it is not clear whose account the securities are transferred from;

d.c) amount is deposited/transferred from the third person (not transaction participant) whose identification has not been carried out;

e) When it is obvious that the transaction has been concluded and/or implemented for partition of the transaction and therefore to evade requirements of the Law;

f) Legal or real address or place of residence of any of the transaction participants is located in a non-cooperative zone or the transaction amount is transferred to or from such zone.

g) All other cases which (based on definition of terms for purposes of this Regulation) may represent grounds for considering transaction as suspicious.

4. Subject to monitoring also shall be attempt to conclude or implement suspicious transaction or any other fact (circumstance), which, according to the written instructions of the Service, may be related to legalization of illicit income or financing terrorism.

5. Brokerage Companies shall pay special attention to unusual transactions and transactions (operations) provided under subparagraph "b.c", Paragraph 1 of this Article, which do not have visible economic (commercial) content or lack lawful purpose, ascertain the purpose and grounds of such transactions to the reasonable extent possible, and document obtained results in writing. In case of detecting the high risk of money laundering and terrorism financing, the Brokerage Company is required to undertake enhanced procedures of identification and verification provided under Article 5^1 of this Regulation, which are commensurate with the risk identified. In such cases, the monitoring of business relationship must be enhanced in order to ascertain whether a transaction is unusual or suspicious.

6. Pursuant to the procedure set by the present Decree, Brokerage Companies shall at own discretion determine principles for categorizing transaction of business related person as unusual.

Article 4. Obligations of Brokerage Companies with Respect to Implementation of Internal Control

1. Rules and terms for exercising control by the Brokerage Company over enforcement of the Law and normative acts adopted on its basis (including the present regulation) shall be defined under the normative act of the National Bank of Georgia adopted on the basis of paragraph 7, Article 8 of the same Law.

2. Main directions of internal control implementation shall include the following:

a) In cases specified in Subparagraphs (a) – (c), Paragraph 1, Article 5 of this Regulation identification of clients of the Brokerage Company, their representatives and agents, beneficial owner, as well as the third person if transaction (operation) is concluded in favor of the third person;

b) Exercising measures provided for in the Law and this Regulation against Politically Exposed Person (PEP);

c) Analyzing the information obtained through identification and revealing transactions subject to monitoring as well as recording, systemization and filing such information;

d) Submission of the information on transactions subject to monitoring to the Service in the reporting form;

e) Defining terms and procedures for exercising permanent monitoring of business relationships with the client in compliance with the procedure set under the present Regulation;

f) Determination of functions, responsibilities and duties of the person in charge of monitoring;

f[1]) Terms and procedure for carrying out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction;

g) Implementation of training programs for employees of Brokerage Company with respect to avoiding and revealing cases of illicit income legalization and terrorism financing. Such trainings shall be of regular type in order to ensure timely acquaintance of employees with changes introduced to the Georgian legislation, internal regulation of the Brokerage Company, as well as with new techniques, methods and trends of money laundering and terrorism financing.

3. For the purpose of defining internal control rules and procedures, the Brokerage Company shall develop internal regulation on the basis of the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization" and this Regulation that should be approved by the executive person (General Director, Director) of the Brokerage Company. The internal regulation shall set terms for: identification of clients, their beneficial owners as well as other relevant persons; systemizing, analyzing and filing the information obtained through the identification process; revealing transactions (operations) subject to monitoring and submission of reporting forms to the Financial Monitoring Service of Georgia. All employees of the Brokerage Company shall get acquainted with the internal regulation.

4. Internal regulation developed and approved by the Brokerage Company for conducting monitoring shall define:

a) Procedures for identification of clients of the Brokerage Company, their beneficial owners as well as other persons as it is defined under the Law of Georgia "on Facilitating the Prevention of Illicit Income Legalization" (including the enhanced and simplified identification/verification procedures);

b) Procedures for ascertaining of Politically Exposed Persons (PEPs) by the Brokerage Company and exercising measures against them as it is defined under the legislation;

c) Procedure for transferring information obtained through the identification process and other information existing to the Brokerage Company to an employee (special structural unit) in charge of monitoring;

d) Procedures for recording, systemizing and filing information related to the monitoring;

e) Procedure for submission of reporting forms and other materials (information) to the Financial Monitoring Service of Georgia;

e[1]) Terms and procedure for carrying out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction;

f) Functions, authority and responsibility of the employee in charge of monitoring;

g) Functions, authority and responsibility of other employees (structural units) of Brokerage Company, including administrators, as well as the director of the Registrar who is directly charged with supervision of the monitoring process;

h) Administrators, responsible employees and/or employees of Brokerage Company, who shall be granted the authority under the internal regulation to keep confidential information related to the monitoring process;

h[1]) Rights and responsibilities of the employee/employees authorized to confirm the receipt and to carry out the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction;

i) Procedure for certification of copies of documents presented by clients and employee (employees) having certification authority.

5. Executive person (General Director, Director) of the Brokerage Company shall be responsible for fulfillment of duties defined under the Law and Normative Acts adopted on its basis as well as for taking the respective measures.

6. For the purpose of conducting monitoring process, the Brokerage Company shall designate an employee in charge of monitoring on the basis of appropriately legalized resolution. Position of the employee in charge of monitoring shall correspond to the senior hierarchy (management) level in the Brokerage Company's organizational chart.

7. Under the internal regulation employee (or special structural unit) in charge of monitoring shall be granted authority to obtain any information from other employees of Brokerage Company necessary for fulfillment of his/her functions and shall be obligated to ensure observance of confidentiality of any information related to his/her activities.

8. Executive person of the Brokerage Company (General Director, Director) shall carry out activities of the Broker Company and implement recruitment policy (which includes investigation of qualification and reputation of employees) so that possible participation of employees of the Broker Company in illicit income legalization and terrorism financing is prevented at maximum extent.

Article 5. Obligations of Brokerage Company with respect to Identification of a Person and Registration of Identification Information (Documents)

1.Brokerage Company shall identify the client (its representative and proxy, as well as the third person if the transaction is being concluded in favor of the third person) and take reasonable measures to verify their identity by means of reliable and independent source of information (documents) when:

a) Transaction (operation) amount exceeds GEL 3 000 (or its equivalent in other currency);

b) The transaction represents a suspicious transaction according to subparagraph (f) of Article 2 of this Regulation;

c) There is suspicion regarding accuracy or / and compliance of clients identification data.

2. Brokerage Company shall identify the beneficial owner of the client, as well as to undertake reasonable measures to verify his/her identity by means of reliable, independent source and be satisfied that it knows who the beneficial owner of the client is. Identification

procedures similar to those used for natural persons shall be applied against beneficial owner.

3. In the course of the identification and/or verification of a client (its beneficial owner), the Brokerage Company may rely on a third party/intermediary that carries out the identification and verification of a person in accordance with the FATF recommendations, keeps documents (their copies) as provided under Article 8 of this Regulation, and is subject to the supervision and regulation as defined under the FATF recommendations. The Brokerage Company shall be required to immediately obtain from a third party/intermediary the information related to the identification and verification of a client (its beneficial owner), as well as the purpose and intended nature of the business relationship. Furthermore, the Brokerage Company shall be required to undertake necessary measures to ensure that it can access the identification data of a client (its beneficial owner) and other relevant documents related to the identification and verification of a client (its beneficial owner) held by a third party/intermediary immediately upon request. In such cases, the ultimate responsibility for identification and verification of a client in accordance with the procedure provided for by this Regulation shall remain with the Brokerage Company. The Brokerage Company shall take into account the information available about the risk of illicit income legalization and terrorism financing in the host country of a third party/intermediary, when selecting a third party/intermediary.

4. Identification process shall be conducted in compliance with the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization", this Regulation, normative acts issued by the National Bank of Georgia, the relevant internal regulation of the Brokerage Company and guidelines and recommendations of the Financial Monitoring Service of Georgia.

5. For the purposes of this Regulation, Brokerage Company shall themselves set procedures necessary for person's identification. In addition, they shall be entitled to request any other information (documents) related with transaction (operation) and persons involved therein.

6. For the purpose of identifying the client (representative or proxy, as well as the third person, if the transaction is being concluded in favor of the third person) and its beneficial owner in conformity with the Law of Georgia "On Facilitating the Prevention of Illicit Income Legalization" and the present Regulation, the Brokerage Company shall be entitled to use the electronic databases of identification documents provided by State Services Development Agency – legal entity of public law at the Ministry of Justice of Georgia according to the procedure set by the Georgian legislation.

7. Identification and verification of client as well as its beneficial owner and obtaining of other information shall take place before carrying out of a transaction or establishing of another type of a business relationship, as well as prior further continuation of the business relationship if legalization of illicit income or terrorism financing is suspected or if doubts exist about the veracity or adequacy of previously obtained identification data, except for cases provided under paragraph 3, Article 5^1 of this Regulation.

8. Brokerage Company shall not be authorized to serve the client or to establish business relationship with the person without preliminary identification of this person in compliance with the Law and this Regulation in cases defined under paragraph (1) of this Article.

9. Prior to commencement of business relations with the client, Brokerage Company shall ascertain nature of business relationship the client intends to establish, as well as purpose thereof and perform ongoing scrutiny of business relationship between existing clients and the Brokerage Company.

9^1. A brokerage Company shall be required to obtain the information about the nature of business activity, ownership and control structure of a legal entity (including an organizational formation (arrangement) not registered as a legal entity) when undertaking the identification and verification procedure.

$9^{2.}$ A brokerage Company shall be required to undertake the appropriate measures for obtaining the information about the purpose and intended nature of business relationship with the client.

10. Despite the assumed suspicious nature and the amount of the transaction, the Brokerage Company shall not suspend implementation of the transaction (providing services to the client), except for the following cases:

a) Person (client) willing to establish business relationship with the Brokerage Company can not be identified;

b) Any party of the transaction is on the list of terrorists or persons supporting terrorism.

c) Upon receipt of refusal of the management on establishing business relations with the person in the event provided for in subparagraph (a), paragraph (2), Article 6 of this Regulation;

d) Upon receipt of the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction as prescribed under Article 9^1 of this Regulation.

11. In cases indicated in subparagraphs (a) – (c), paragraph 10 of this Article, the Brokerage Company shall be obligated not to serve the client (establish business relationship with the person) and shall immediately submit the respective reporting form, available materials and any other relevant information on transaction and persons participating therein to the Financial Monitoring Service of Georgia.

12. The following information shall be obtained through the standard identification process:

a) in case of natural person:

a.a) First name, last name;

a.b) Citizenship;

a.c) Date of birth;

a.d) Place of residence;

a.e) Number of ID (Passport) and citizen’s personal number by ID (Passport);

a.f) If the natural person is registered as a sole trader – the relevant registration date, number, registering authority, identification number of tax payer;

b) In case of legal entity:

b.a) Full name;

b.b) Business activity;

b.c) Legal address (in case of the branch or representation the legal address of the head office also);

b.d) Registering authority, date and number of registration;

b.e) Identification number of tax payer;

b.f) Identification details of persons authorized for management and representation (in conformity with subparagraph (a) of this paragraph);

13. Documents necessary for identification process shall be:

a) if the natural person is a Georgian citizen – a citizen identity card, or a citizen passport, or any other official document, which contains the relevant information and is equalized to them under the Georgian legislation; if the natural person is registered as sole trader – document confirming registration;

b) if the natural person is a foreign citizen – passport issued by the competent authority of the relevant State or other official document containing relevant data, equalized to the passport according to the Georgian legislation.

c) in case of resident legal entity (or organizational formation which does not represent a legal entity) – respective act as determined by the Georgian legislation on establishing the entity or excerpt from entrepreneurial or any other relevant register and document confirming authority for representation of a legal entity;

d) in case of non-resident legal entity foundation and registration documents issued by the competent authorities of foreign countries and document proving authority for representation of such entity shall be presented;.

14. Brokerage Companies shall record country and authority, which issued documents presented for identification, as well as date of issuance and validity period thereof.

15. If documents (information) stored in or presented to the Brokerage Company allow, in addition to the information listed in subparagraphs (a) and (b), paragraph 12 of this Article, the following details shall be documented:

a) In case of natural person:

a.a) Patronymic;

a.b) Place of birth;

a.c) Temporary (real) place of residence (in Georgia as well as abroad), if different from registered place of residence;

a.d) Main business activity and position held;

a.e) Bank account (accounts) details (name of banking institution, type of account, number of account, date of opening (closing) account;

a.f) Tel/fax, e-mail.

b) In case of legal entity:

b.a) Date of appointing persons authorized for management and representation (if it is known);

b.b) Tel/fax, e-mail;

b.c) Bank account (accounts) details.

16. Brokerage Company shall exercise permanent monitoring of business relationships with their clients that includes:

a) Maintaining current information and records relating to the client and its beneficial owner;

b) Updating periodically existing identification data and ensuring their conformity with current norms;

c) Scrutiny of transactions in order to establish that the conducted transaction is consistent with their knowledge of the client, client's business or personal activity and risk profile and where necessary the source of property (including funds).

17. A Brokerage Company shall be required to have the appropriate risk management system for the identification and verification of clients that may pose high risk of illicit income legalization and/or terrorism financing, and shall apply the enhanced identification and verification, and the enhanced monitoring procedure with respect to such clients as provided under Article 5^1 of this Regulation. The identification and verification procedure shall be carried out through the risk-based approach having regard to the type of the clients (the beneficial owners), their location (place of registration), geographic area or field of operation, as well as the nature and intensity of the business relationship, the type or size of transactions (operations) or products/services or other factors. A Brokerage Company shall be required to define the appropriate criteria (risk-factors) through its internal regulations and assign the clients to the category of the high risk of illicit income legalization and/or terrorism financing.

17^1. A Brokerage Company shall be authorized to use the simplified identification and verification procedure as provided under Article 5^1 of this Regulation that is commensurate with the low risk of illicit income legalization and/or terrorism financing identified through the appropriate risk assessment by a Brokerage Company. The use of the simplified procedure shall be prohibited when there is a suspicion of illicit income legalization and/or terrorism financing or in cases of the high risk of illicit income legalization and/or terrorism financing as provided under paragraph 17 of this Article. A Brokerage Company shall be authorized to use the simplified procedure once the appropriate criteria (risk-factors) are defined through its internal regulations and the clients are assigned to the category of the low risk of illicit income legalization and/or terrorism financing.

18. Brokerage Company should pay special attention to any threats that may arise from new technologies, products and service that might favor anonymity during the service and take all measures, to prevent their use in legalization of illicit income and terrorism financing. Brokerage Company should have in place such identification and verification policy and procedures that reduces the risks associated with non-face to face service as it is considered under the Georgian legislation. Policy and procedures defined under this paragraph shall be used when establishing business relationship and when conducting permanent monitoring.

Article 5^1. The enhanced and simplified identification and verification procedure

1. A Brokerage Company (authorized employee) shall be required, in addition to implementing the requirements provided under Article 5 of this Regulation, to apply the enhanced identification and verification procedure with respect to the client that may pose the high risk of illicit income legalization and terrorism financing, in particular to:

a) Verify the existing and/or obtain additional information about the client and the beneficial owner (income, assets and activity), and to ensure, where appropriate, the immediate access to such information;

b) Update the identification data of the client (the beneficial owner) more frequently and verify the authenticity of the documents submitted by the client;

c) Verify the existing and/or obtain additional information about the purpose and intended nature of the business relationship;

d) Take reasonable measures to obtain the information about the source of funds or wealth of the client (the beneficial owner);

e) Verify the existing and/or obtain additional information about the reasons and grounds for performed (intended) transactions (operations);

f) Obtain the approval of senior management to enter into and/or continue the business relationship;

g) Conduct the enhanced monitoring of the business relationship, which includes increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

2. A Brokerage Company is authorized, in addition to implementing the requirements provided under the first paragraph of this Article, to carry out other measures and/or obtain additional information to ensure that the risk identified is effectively managed, including, by determining the expected type and size of future transactions (operations).

3. A Brokerage Company is authorized, in cases provided under paragraph 17^1, Article 5 to use the simplified identification and verification procedure that is commensurate with the low risk of illicit income legalization and terrorism financing, including to:

a) Verify the identity of the client and the beneficial owner after the establishment of the business relationship;

b) Reduce the frequency of updates of the identification data of the client and the beneficial owner;
c) Reduce the frequency of implementing the requirements provided under subparagraph "c" , paragraph 16 of Article 5 of this Regulation based on the reasonable monetary threshold;

d) Establish the purpose and intended nature of the business relationship based on the information provided by the client about the transactions (operations) undertaken and/or the business relationship established.

4. A Brokerage Company shall not be exempted from the obligation of obtaining the data provided under paragraph 12 of this Article, and verifying the identity of the client and the beneficial owner when applying the simplified identification and verification procedure in cases provided under paragraph 17^1, Article 5 of this Regulation. A Brokerage Company shall be required, when applying the simplified identification and verification procedure, to obtain sufficient information for determining the reasonableness of assigning the client to the category of the low-risk of illicit income legalization and terrorism financing.

5. A Brokerage Company shall define the enhanced and simplified identification and verification procedure through its internal regulations on the basis of the requirements provided under this Article.

Article 6. Obligations of Brokerage Company with respect to Politically Exposed Persons (PEPs)

1. Brokerage Company shall identify whether the client or his / her beneficial owner belongs to the category of Politically Exposed Persons (PEPs).

2. If a person having the business relationship with the Brokerage Company or / and his / her beneficial owner represents a Politically Exposed Person (PEP), in addition to the steps stipulated under the Law and the present Regulation, the Brokerage Company (its authorized officer) shall take the following actions:

a) Obtain permission from the management of the Brokerage Company to establish business relationship with such person;

b) Take reasonable measures to ascertain the origin of funds, property of such person;

c) Perform enhanced monitoring over its business relations with such person.

3. If the client (his / her beneficial owner) becomes Politically Exposed Person (PEP) after establishing business relations with the Brokerage Company, the latter shall undertake measures provided for in paragraph 2 of this Article against such person upon availability of the aforementioned information.

4. Brokerage Company shall have respective procedures based on which it ensures obtaining respective information from the client, as well as from public sources or respective electronic databases for the purpose of ascertaining and verifying Politically Exposed Persons (PEPs).

Article 7. Obligations of Brokerage Companies to Record Information (Documents) on Transactions

1. Pursuant to the Paragraph 6, Article 6 of the Law, the Brokerage Company shall be obligated to record information (documents) on concluded and/or implemented transactions.

2. Information on implemented as well as concluded transactions with client (clients) based on its main activities shall be filled by Brokerage Company separately, in the respective fields of the reporting form.

3. The Brokerage Company shall be obligated to record the following information (documents) on transaction concluded by the Company with the client:

a. Type of the concluded transaction according to legislation on securities;
b) Form of transaction (verbal or written);
c) Subject of transaction concluded with securities (full name of issuer, class of securities, amount);
d) Purpose of concluded transaction;
e) Value and currency of transaction;
f) Date of concluding transaction, transaction commencement and completion dates (including, date of issuing of order), country and city of concluding of transaction;
g) Name (or first and last names) of the organ registering the concluded transaction, address (legal, real), registration date and number (in case of registration of the transaction).

4. The Brokerage Company shall be obligated to record the following information (documents) on securities transactions (action provided for in the Law on Securities), proceeding from the transaction concluded with the client (under client's order):

a) Type of implemented transaction according to the legislation on securities;
b) Form of transaction;
c) Grounds for implementing transaction;
d) Subject of transaction implemented with securities (full name of the issuer, class of securities, amount);
e) Date of transaction implementation;
f) Value and currency of transaction;

g) Name of the registering authority (or first and last name), address (legal, real); registration date and number (in case of registration of transaction);

h) Identification details of all persons involved in a transaction, including:

h.a) Identification details of those persons based on whose order Brokerage Company implements transaction, including type, number and opening date (closing date if necessary) of the bank account, which is used for implementation of the specific transaction;

h.b) Information on the second party of the transaction, identification data, bank account details (e.g. in case of money transfer – name of the relevant banking institution, type and number of account);

h.c) Identification details of the person who acts under the order of the client (representative, proxy) of the Brokerage Company, as well as content of the relevant power of attorney or procuration, issuer, issuance date and validity period, person certifying power of attorney or procuration (e.g. notary), date and place of certification;

i) If transaction is concluded in favor of the third person – identification details of the relevant person.

5. For the purpose of documenting, systemizing and filing the information indicated in paragraphs 3 and 4 of this Article, the Brokerage Company shall develop the relevant system.

Article 8. Obligations of Brokerage Companies to Keep Information (Documents)

1. Brokerage Company shall be required to keep the information (documents) about a client (its beneficial owner) as provided under Articles 5 and 5^1 of this Regulation (including information submitted in accordance with the procedure defined in paragraph 6, Article 5 of this Regulation) as well as business correspondence and written notes as provided under paragraph 5, Article 3 of this Regulation in electronic or material form for at least 6 years from the moment of terminating business relationship with a client unless the respective supervisory or other competent authority requests retention of such information (documents) for a longer period and/or a longer period for keeping such information (documents) is provided for by the Georgian legislation. In addition, information recorded electronically (respective databases and etc.) as well as documentary information (documents) shall be retained for the aforementioned period.

1^1. Brokerage Company shall be required to keep the information (documents) on a transaction (operation) (both international and local) for at least 6 years from the moment of concluding or implementing a transaction, except for the information (documents) provided under the first paragraph of this Article, unless the respective supervisory or other competent authority requests the retention of such information for a longer period and/or a longer period for keeping such information (documents) is provided for by the Georgian legislation.

2. All information (documents) related to transaction, including information (documents) for identification of the client, shall be kept in their original form, and where impracticable, a copy of such information (documents) confirmed by a notary according to the set procedure or signed by person authorized by the Brokerage Company shall be maintained. The copy shall be certified in a way that it is clear who and when certified the copy. Information submitted according to the procedure provided for in paragraph 6, Article 5 of the present Regulation for identification of the person and information verified by the Brokerage Company does not require notarization (certification).

3. In addition to the information indicated in paragraph 1 of this Article, subject to retention for the period of six years (if a requirement of retaining for a longer period is not set by the respective supervisory authority) shall be reporting forms submitted to the Financial Monitoring Service of Georgia pursuant to Article 9 of this Regulation and Article 9 of the Law. When retaining reporting forms electronically the Brokerage Company shall observe security measures. Responsibility for retaining the reporting forms in an electronic format shall be determined by the internal regulation of Brokerage Company. Also, hard copies of reports retained in the Brokerage Company shall be certified with the signature of an employee, who is authorized under the internal regulation of the Brokerage Company, and if it is provided for by the internal regulation of the Brokerage Company, with the seal of Brokerage Company.

4. The information (documents) retained in the Brokerage Company shall fully reflect the concluded or implemented transaction and persons involved. In addition, information shall be systemized and filed in a way, that when needed (timely submission to the supervision authorities as well as necessity to use as evidence in criminal cases) it can be found and retrieved in a shortest period of time.

5. Brokerage Companies, according to the procedure set under the Law, shall ensure functioning of database for identification details of clients and other respective persons and transactions subject to monitoring and implementation of software system for revealing transactions aimed at partition.

Article 9. Obligations of Brokerage Company to Present Reporting Forms on Transactions Subject to Monitoring

1. If the Brokerage Company has the suspicion regarding authenticity of identification data or identification of the client is not possible to be carried out or the transaction (operation) considered under Article 3 of this Regulation is present, it shall be obligated to send a notice to the Financial Monitoring Service of Georgia about this fact according to the rule and procedure set under the Law of Georgia “on Facilitating the Prevention of Illicit Income Legalization" and this Regulation.

2. Submission of the notice to the Financial Monitoring Service of Georgia shall imply completing and forwarding by the Brokerage Company of respective reporting form on transaction as well as confirmation of its submission by the Service according to the procedure set by the present Regulation. Notices submitted to the Financial Monitoring Service of Georgia shall be compiled through the web portal of the FMS of Georgia. Report shall be completed and submitted to the Service according to the User Manual published on the website of the FMS. Confirmation of receiving of information by the FMS means to assign electronically, through the web portal status “confirmed” to the report.

3. Reporting forms shall be submitted to the FMS in an electronic form (online form) pursuant to the procedure defined under paragraph 6 of this Article. Hard copies of reporting forms to the Financial Monitoring Service of Georgia shall be submitted according to the procedure defined under this Regulation only if reporting forms are technically impossible to be sent in an electronic format.

4. The following time periods shall be set for submission of reporting forms to the Financial Monitoring Service of Georgia:

a) If the amount of transaction or series of transactions aimed at partition exceeds GEL 30 000 or its equivalent in other currency and at the same time it presents transaction (operation) defined under paragraph 1 (b), Article 3 of this Regulation, the report shall be submitted no later than five working days from the moment of implementing or concluding transaction or from the moment of receiving information on such transaction or series of transactions;

b) If the transaction or identification data is considered as suspicious - the report shall be submitted on the day of origination of supposition;

c) If any person involved in the transaction is on the list of terrorists or persons supporting terrorism, or / and is likely to be connected with them or / and funds involved therein may be related to or used for terrorism, terrorist act or by terrorists or terrorist organization or persons financing terrorism, the report shall be submitted on the day the information is received. In addition, in the latter case all relevant materials and documents available to the Brokerage Company along with the reporting form shall be forwarded to the Financial Monitoring Service of Georgia.

5. In cases provided in paragraph 3 of this Article hard copy of the reporting form (and attached materials if necessary) shall be submitted to the Service in a sealed envelope by the authorized employee of the Brokerage Company or by post as registered mail. Name and address of the sender Brokerage Company shall be written on the envelope, as well as the addressee – "Financial Monitoring Service of Georgia". Delivery address: 2 Sanapiro Str., Tbilisi 0105, Georgia. The envelope shall be marked as confidential.

6. Reporting Forms as well as other confidential information on transactions subject to monitoring shall be submitted to the FMS in electronic form through the relevant web shell and/ or web server of the web portal set on the official site of the FMS of Georgia (www.fms.gov.ge).

7. Decision on completion of the reporting form and submission to the Service shall be made by the responsible employee of the Brokerage Company, who, according to the resolution of the Company, is in charge of monitoring.

8. Electronic reporting form sent to the Service shall be subject to retaining by the Brokerage Company for the period defined under Article 8 of the present Regulation. In the event of sending hard copy of the form it is to be printed in two copies, each is to be certified with the signature of the employee designated under the internal regulation of the Brokerage Company as it is provided under the legislation and if provided in the internal regulation, by the seal of the Brokerage Company. One copy of the report is to be sent to

the Service, while the other copy is to be retained at the Brokerage Company and be retained in conformity with the procedure and period defined under the Article 8 of this Regulation.

9. The Brokerage Company shall maintain register of reporting forms submitted to the Service in compliance with the procedure set under the internal regulation. Reporting form of transactions subject to monitoring shall be filled completely.

10. In the event of revealing suspicious transaction and submitting related reporting form to the Service, the Brokerage Company shall be obligated to indicate grounds of suspicion and to focus special attention on other transactions, concluded or implemented by persons involved in this particular transaction.

11. Pursuant to subparagraph (a), paragraph 4, Article 10 of the Law, the Service shall be authorized to request additional information from the Brokerage Company and available documents (including confidential) in relation to any transaction and persons involved therein, including those transactions on which reporting forms have not been presented to the Service. The Brokerage Company shall be obligated to submit requested information to the Service not later than two working days from the moment of receiving the request.

12. If the Brokerage Company reveals any additional information, with respect to the relevant transaction or parties thereof, after the report is submitted, it shall forward this information to the Service according to the set procedure and timeframe. Also, the additional information shall contain number and submission date of the reporting form, to which the information should be added. Additional information on transaction subject to monitoring shall be presented according to the procedure as it is defined under the User Manual.

13. The Brokerage Company shall strictly observe confidentiality of any information related to form completion and submission to the Service. In case of suspicion regarding the transaction or parties thereof, and in the event of completion of the reporting form and submission to the Service, the Brokerage Company shall not inform persons involved in the relevant transaction, their representatives and proxies and any other persons except for persons who are presented such information according to the effective legislation. The employee of the Brokerage Company, who reveals suspicious transaction or completes the reporting form, shall disclose this information only to those employees that are authorized to keep such information according to the internal regulation of the Brokerage Company.

Article 9^1. The instruction of the Financial Monitoring Service on the suspension of implementation of the transaction (operation)

1. The Head of the Financial Monitoring Service shall be authorized, if the transaction is believed to be suspicious and irrespective of the amount of funds, to issue the written instruction to the Brokerage Company on the suspension of implementation of the transaction (operation) or any other related transaction (operation) for no more than 72 hours (non-working days and public holidays shall not be considered in the time limit). The case materials shall be immediately disseminated to the respective authorities of the Chief Prosecutor's Service, the Ministry of Internal Affairs and/or the State Security Service of Georgia.

2. The Head of the Financial Monitoring Service or the person designated therein shall be authorized, in case of urgency, to verbally (directly or through electronic means) or in writing through electronic means issue the instruction referred to in paragraph 1 of this Article that shall be confirmed by the written instruction of the Head of the Financial Monitoring Service and handed over to the Brokerage Company in the next 24 hours (non-working days and public holidays shall not be considered in the time limit). If within this time limit the written instruction is not handed over to the Brokerage Company the instruction of the Financial Monitoring Service shall not be observed. The protocol shall be drawn up as provided for by subparagraph 3 of this Article when the instruction referred to in this paragraph is issued.

3. The protocol shall be drawn up separately by the Financial Monitoring Service of Georgia on the one hand and the authorized employee of the Brokerage Company on the other hand immediately upon the issuance of the instruction of the Financial Monitoring Service on the suspension of implementation of the transaction as prescribed under subparagraph 2 of this Article. The protocol shall include:

a) First name, last name and the position of the issuer of the instruction (authorized employee of the Financial Monitoring Service) and the recipient (authorized employee of the Brokerage Company);

b) Exact time of issuance/receipt of the instruction (specifying the hour and minute);

c) The form of issuance/receipt of the instruction (verbal, including through means of electronic communication, or written, including through electronic mail or other means of electronic communication);

d) The substance of the instruction, including the data enabling the identification of the transaction (transactions) and/or the person carrying out the transaction (transactions);

e) The period of the suspension of implementation of the transaction;

f) The confirmation of the receipt of the instruction by the Brokerage Company's authorized employee;

g) The exact time and date of drawing up the protocol;

h) The signature of authorized employees of the Financial Monitoring Service and the Brokerage Company.

4. The Brokerage Company shall be required to immediately confirm the receipt of the instruction referred to in paragraphs 1 and 2 of this Article to the Financial Monitoring Service through the same means used to communicate the instruction, and to undertake all necessary measures for its implementation. The confirmation of the receipt of the instruction on the suspension of implementation of the transaction under paragraph 2 of this Article shall be included in the protocol referred to in paragraph 3 of this Article.

5. The time limit referred to in paragraph 1 of this Article shall start to run from the moment of receipt by the Brokerage Company of the written instruction issued by the Head

of the Financial Monitoring Service, or the instruction issued by the Head of the Financial Monitoring Service or the designated person as provided by paragraph 2 of this Article.

6. The instruction referred to in paragraphs 1 and 2 of this Article can be revoked before the expiry of the time limit provided for in paragraph 1 of this Article if the suspicious nature of the transaction could not be ascertained or if this is required for the interests of investigation based on the written request of the respective authorities of the Chief Prosecutor's Service, the Ministry of Internal Affairs or the State Security Service of Georgia. The Financial Monitoring Service shall immediately notify the Brokerage Company about the revocation of the instruction through the procedure referred to in paragraph 2 of this Article, which shall be confirmed by the written instruction of the Head of the Financial Monitoring Service and handed over to the Brokerage Company in the next 24 hours. The Brokerage Company shall be required to immediately confirm the receipt of the notice on the revocation of the instruction referred to in paragraphs 1 and 2 of this Article to the Financial Monitoring service through the same means used to communicate the notice.

7. The Brokerage Company shall be required to keep the written instructions of the Head of the Financial Monitoring Service (including written instructions issued through electronic means) referred to in paragraphs 1 and 2 of this Article for no less than 6 years unless the respective supervisory authority requests to keep the instructions for a longer period. The protocols referred to in paragraph 3 of this Article shall also be retained for 6 years.

8. The Brokerage Company shall be required to designate an employee (employees) based on formal decision who shall be authorized: to receive/accept the instruction on the suspension of implementation of the transaction issued by the Head of the Financial Monitoring Service or the person designated therein as provided for by paragraphs 1 and 2 of this Article and the instruction revocation notice; to confirm the receipt of the instruction on the suspension of implementation of the transaction and the instruction revocation notice to the Financial Monitoring Service; to draw up the protocol referred to in paragraph 3 of this Article and undertake all necessary measures for the implementation of the instruction on the suspension of implementation of the transaction.

9. The senior management and employees (both fixed and unspecified term employees) of the Brokerage Company shall not be authorized to notify the parties to a transaction or other persons about the implementation of measures provided for by this Article.

Article 10. Obligation of Brokerage Company to Submit the Form of Registration

1. For the purpose of systemization and processing the information received by the Service on concluded and / or implemented transactions subject to monitoring, the Service shall carry out registration of Brokerage Companies licensed by the National Bank of Georgia. For registration of the information the Brokerage Company shall submit to the FMS Form of Registration through the relevant web shell of the web portal set on the official web site of the FMS (www.fms.gov.ge). The Form of Registration shall be considered as submitted only after sending the relevant electronic message by the FMS. Hard copies of the Form of Registration shall be submitted to the Financial Monitoring Service of Georgia only if Forms of Registration are technically impossible to be sent in an electronic format.

2. In case of change of any information in the Form of Registration submitted to the FMS, the Brokerage Company shall present not later than three working days from the moment the relevant change have taken place completed form with renewed information to the Financial Monitoring Service of Georgia according to the procedure defined under paragraph 1 of this Article.

Article 11. Responsibilities Related to Monitoring

1. National Bank of Georgia shall supervise compliance of the Brokerage Company with norms and requirements of the Law and this Regulation.

2. For violation of norms and requirements of the Law and this Regulation, the sanctions, according to the procedure and amount set by the National Bank of Georgia, shall be used against the Brokerage Company.