

LEPL FINANCIAL MONITORING SERVICE OF GEORGIA
ANNUAL REPORT
2018

Tbilisi

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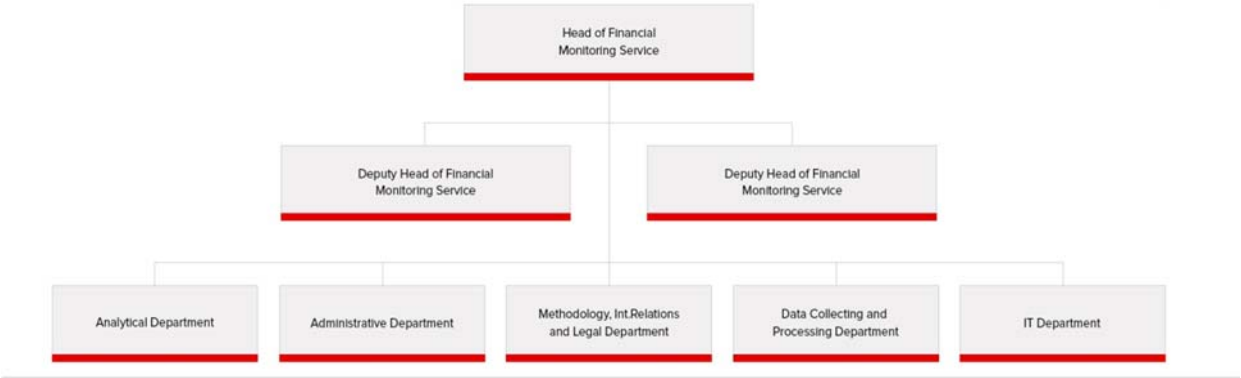
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- *Goals and Objectives, Areas of Activity*

The Financial Monitoring Service of Georgia (FMS) – the Legal Entity of Public Law, as a prevention agency for ML/TF, was established in 2004 and acts according to Georgian legislation, inter alia the law of Georgia on Facilitating the Prevention of Illicit Income Legalization (AML/CFT 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 reasonable grounds to believe that a transaction is suspicious and is being implemented for the purpose of committing illicit income legalization, terrorism financing or other predicate 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 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.

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 consists of 31 persons.

- ***Statistics***

In 2018, 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; 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.

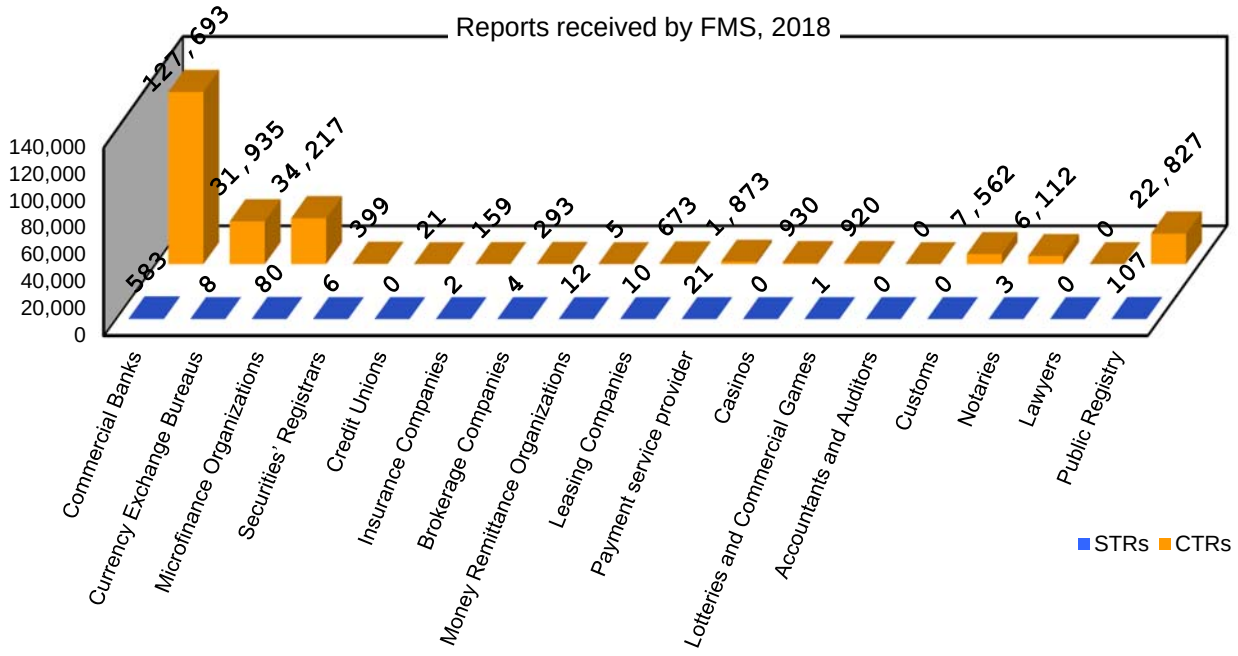
Pursuant to the AML/CFT Law (Article 5), the obliged entities are required to submit reports to FMS on suspicious transactions, as well as certain transactions above 30,000 GEL.

The Statistics of information received by FMS in 2018, are as follows:

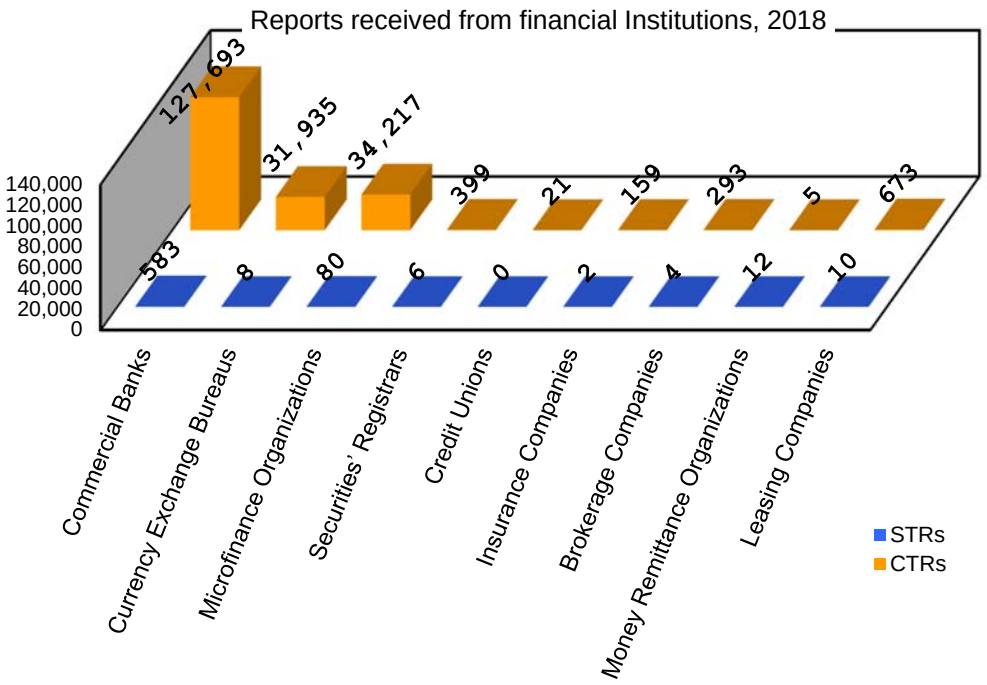
Obliged Entity	Total Reports Received	Above the prescribed threshold	Suspicious	Terrorism FInancing
Commercial Banks	128276	127693	583	13
Microfinance Organizations	34297	34217	80	0
Insurance Companies	161	159	2	0
Notaries	6115	6112	3	0
Brokerage Companies	297	293	4	0
Securities Registrars'	405	399	6	0
Currency Exchange Bureaus	31943	31935	8	1
Money Remittance Organizations	17	5	12	0
The Revenue Service	7562	7562	0	0

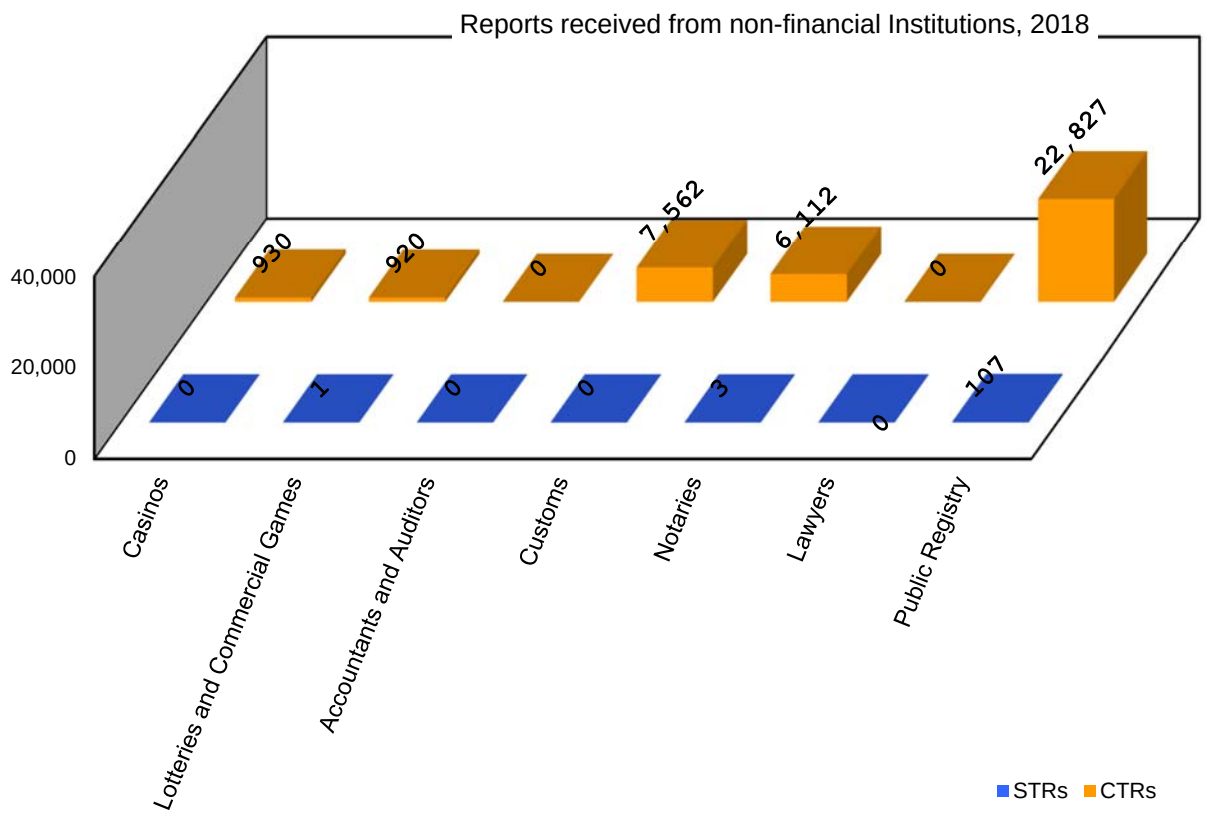
(Customs)				
Entities Organizing lotteries, gambling and other commercial games	921	920	1	0
Casinos	930	930	0	0
Credit Unions	21	21	0	0
The National Agency of Public Registry	22934	22827	107	0
Payment Service Provider	1894	1873	21	0
Leasing companies	683	673	10	0
Lawyers	0			0
Total	236456	235619	837	14

The chart demonstrates the number of reports received by FMS in 2018:

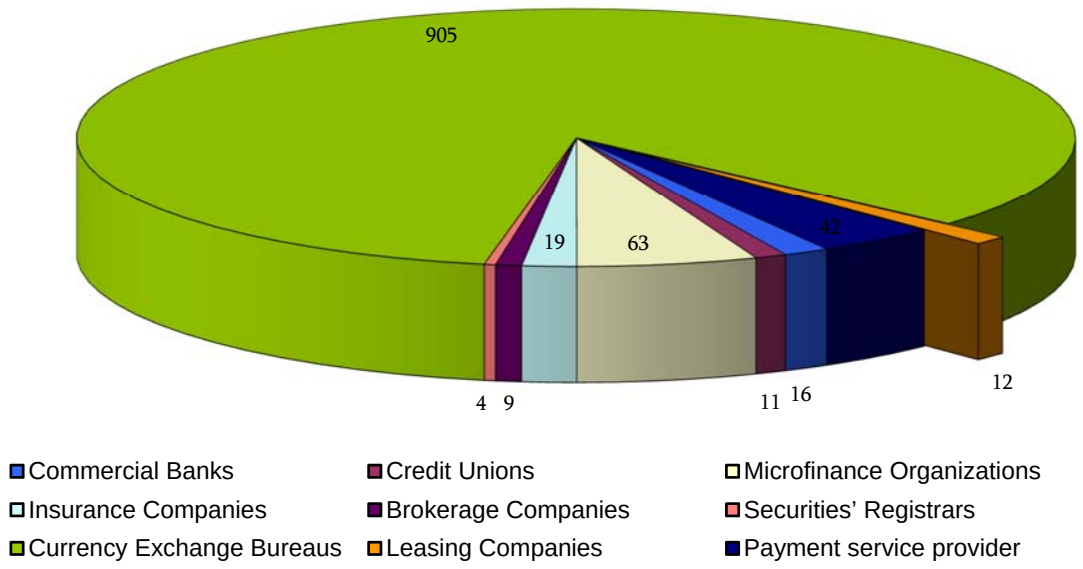


The chart demonstrates the number of reports received by FMS divided between the financial and non-financial sectors:

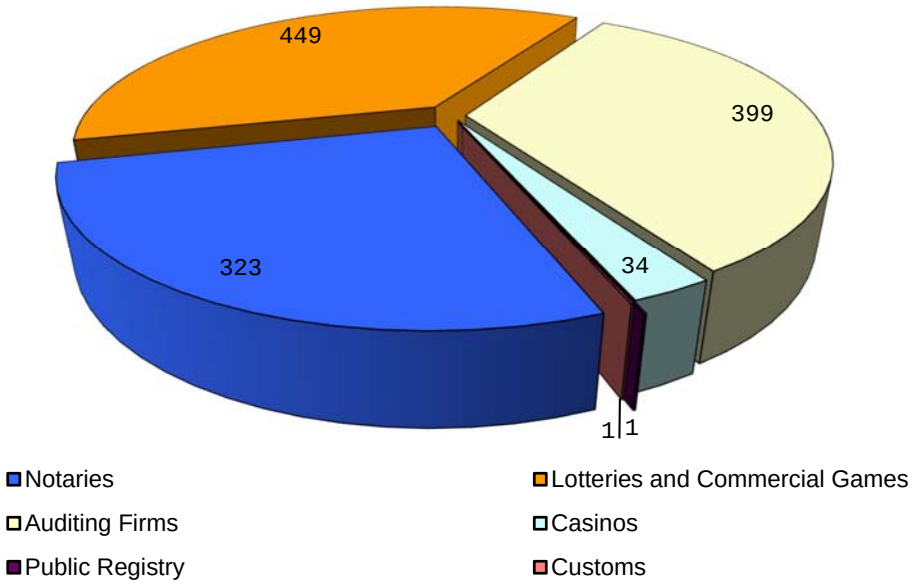




As of 1 January 2019, representatives of Georgia's financial sector designated as the obliged entities by the AML/CFT Law include: 16 commercial banks, 11 credit unions, 63 microfinance organizations, 19 insurance organizations and founders of non-state pension schemes, 9 brokerage companies, 4 securities' registrars, 905 currency exchange bureaus, 12 leasing companies and 42 payment service providers.

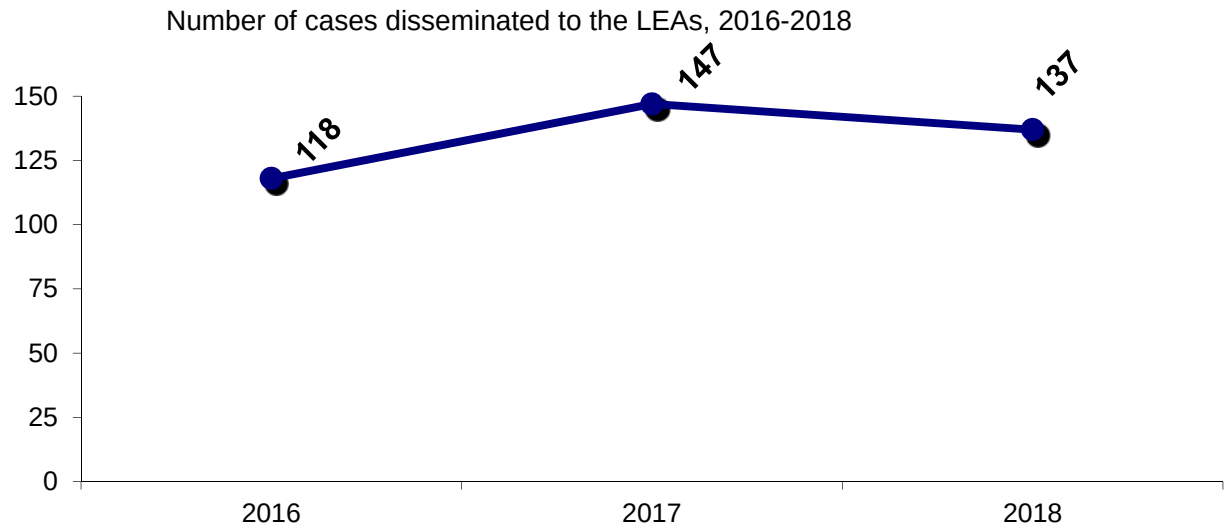


As of 1 January 2019, representatives of Georgia's non-financial sector designated as the obliged entities by the AML/CFT Law include: 323 notaries, 449 entities organizing lotteries, gambling and other commercial games, 399 auditing firms, 34 casinos, the National Agency of Public Registry, the Revenue Service (customs) and all lawyers that are members of the Georgian Bar Association.

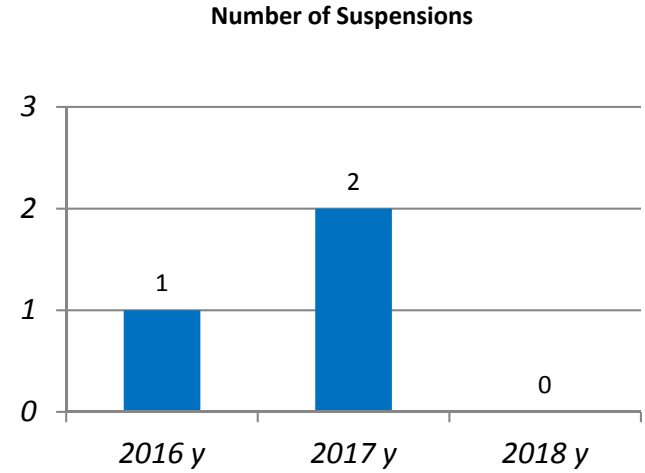


In 2018, based on the analysis of reports received from the obliged entities and other information obtained, FMS disseminated to the respective agencies of the Chief Prosecutor's Office of Georgia, the State Security Service of Georgia and the Ministry of Internal affairs of Georgia 137 cases (including 14 cases of potential terrorism financing).

The trend of the growing number of cases disseminated to LEAs in 2018 compared to previous years:



The authority to suspend suspicious transactions temporarily has not been used in 2018.



- ***Typologies***

In 2018, 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 attempts to legalize fraudulently obtained funds (unauthorized access to computer systems or e-mails, change of bank details in relevant documents, identity fraud, unauthorized use of data of stolen plastic cards, romance scam, identity theft, etc.) continued to be the major trend in 2018. The majority of transfers were made through bank accounts or international money remittance systems for quick money transfers. The funds received, were immediately transferred to the bank accounts of the foreign countries or were withdrawn in Georgia.

In 2018, 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 Interpol list, some of them were wanted by foreign LEAs for the offences committed in their countries.

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

In 2018, small number of cases were related to the possible abuse of powers by the proxies of the companies, specifically unreasonable money transfers from company to private accounts.

During the year, the trend to use Georgian bank accounts for the transit purposes continued. The accounts of the companies (most of them were registered in Free Industrial Zones of Tbilisi and Kutaisi), were used for crediting and then transferring, amount of a turnover of several million Georgian Laris, to the third countries. In cases, noteworthy to FMS, remitters and receivers were of a large quantity, geographically diverse and transactions were of a vague character ("Advisory Service", "invoice", "Marketing Service", etc.) for a typical business relations.

It should be mentioned, that using of Georgian bank accounts for transit reasons, sometimes is connected to the companies business activity, that is so called call centers. Those companies call potential customers (usually abroad) and offer to purchase different kind of products, to make investment etc. After transferring money, customer either does not get an agreed service or receives the service of a low quality. The mentioned scheme is known under a name of "boiler Room Scam" and is of a multinational character. Usually, the founder of a call center is from a different country where the company is registered and makes calls to the residents of third country. After accumulating the amount, then money is transferred in fourth country or is withdrawn from the bank pay desk.

Similar, but small scale fraud has been identified where targets were Georgian citizens. In those cases, unknown persons offered victims the "products" using social networks, either by messaging or through advertisements.

In 2018, cases revealed by FMS, were connecting to money transfers using quick money transfers and cryptocurrencies by large group of Georgian citizens. Transfer of a cryptocurrency was made using one payment service provider, analysis made together with the person responsible for a monitoring activities in the payment service provider, revealed the transactions most likely linked to the unlawful circulation of drugs. The relevant cases, together with the relevant documents were disseminated to LEAS according to the Georgian Legislation.

During the year, the cases where foreign citizens possible infringed immigration regime, increased. The mentioned persons, were trying to make financial operations in financial institutions, but after detecting infringements by employees in identification documents (no stamp confirming border cross, expiration of the staying days in Georgia, etc.), the persons would quickly leave the financial institution, in some cases even passports were left with the operator.

- *Domestic and International Cooperation*

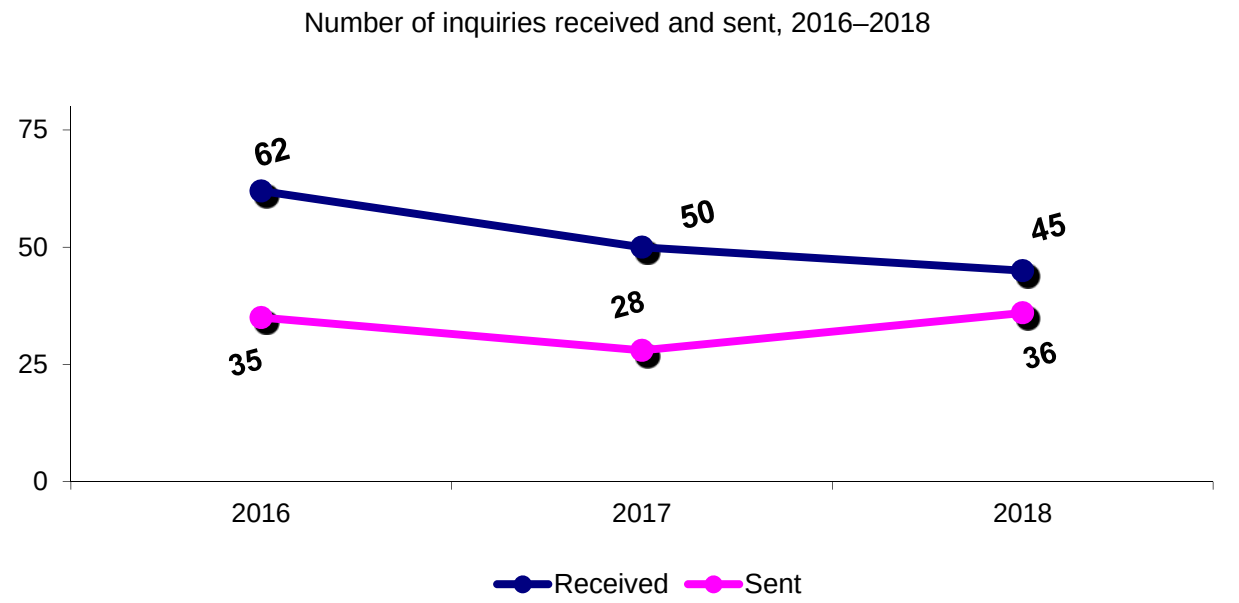
In 2018, FMS continued active cooperation with the AML/CFT supervisory agencies. Supervisory agencies and FMS have been exchanging information about the implementation of legislative requirements in the field of combating money laundering and terrorism financing both to assist in the preparation of relevant inspections of obliged entities and to share the results of such inspections.

In 2018, 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. During the year, FMS was participating in the work of Government commission on EU Integration.

In 2018, FMS participated in the work of standing inter-agency commission on Fight against Terrorism for 2019-2021 National Strategy and Action Plan and Compliance Monitoring.

FMS continued its active cooperation with the corresponding foreign agencies. In 2018, FMS received 45 requests for information from financial intelligence units (FIUs) of different

countries and responded to 44 of them. FMS sent out 36 requests to its foreign counterparts and received 31 responses. FMS also made 13 spontaneous disseminations on potential money laundering cases to foreign FIUs, while receiving 27 such disseminations.



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 2018. Employees of FMS evaluated Moldova and Czech Republic in Moneyval 5th mutual evaluation round.

In 2018, on August 29-31, FMS employee also participated in Evaluation mission organized by Egmont Group on compliance of Azerbaijan with the membership criteria for enrollment in Egmont international network.

In December 2018, Tbilisi hosted training organized by FMS and Moneyval Secretariat, aimed to prepare representatives of private and public sectors in Georgia, who will participate in 5th round mutual evaluation process. On-site visit of evaluation mission is planned to take place in November 2019.

Representatives of FMS also participated at the 10th 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 (Strasbourg, October 30-31, 2018).

In June and November 2018, FMS representatives participated in Anti Corruption and Money Laundering subgroup meeting organized by GUAM secretariat.

- *Legislative Framework*

During 2018, 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), the work on draft AML/CFT law and other relevant legislative amendments continued. New law also aims to 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".

During the year, draft AML/CFT law has been discussed with every supervisory authority as well as with the interested organizations and agencies (including, commercial banks, microfinance organizations, casinos and entities organizing lotteries, gambling and other commercial games, etc.). With the help of Council of Europe, draft law has also been agreed upon with the experts from EU, whose findings and evaluations have been presented during the workshop, help in March 2018. Draft AML/CFT law and other relevant legislative amendment were sent to the Government of Georgia in November 2018.

In 2018, 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*

During the year 2018, 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:

- MONEYVAL training for 5th Round Evaluators held in Larnaca, Cyprus (April 22-27, 2018);
- "Anti-Corruption Series of Financial Investigations" held in Budapest by International Law Enforcement Academy - ILEA (April 29 – May 5, 2018);
- Awareness Training on Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) for Accountants and Auditors (May 29-30, 2018);
- Seminar on "Accent on cases of Unjustified enrichments in a field of fight against corruption", held in Kishinev by Council of Europe (June 17-20, 2018);
- Compliance with the norms for lawyers in AML/CFT sphere held in Tbilisi, (June 25-26,2018);
- (July 17-20, 2018); US Embassy export control and border security program and US federal investigative Bureau Training on "Methods fighting against the financing of distribution of Weapons of Mass Destruction" held in Yerevan;
- „Training Course 6 on FATF Standards" organized by FATF training-educational institute (September 1-7, 2018);
- Training on "Investigation and prosecution of ML cases", held in Tbilisi (October 15-17, 2018);
- International Conference organized by Council of Europe on "Transparency of Beneficial ownership", held in Tirana (October 29-November 2, 2018);
- Training on "ML using new payment methods", held in Tbilisi (November 15-16, 2018);
- "Confiscation and return of criminally obtained property", held in Tbilisi (November 21-22, 2018);
- Training on "beneficial ownership, using offshore companies and legal arrangements, movement of financial means from high risk jurisdictions" Held in Tbilisi (December 3-4, 2018);