

LEPL FINANCIAL MONITORING SERVICE OF GEORGIA

ANNUAL REPORT

2022

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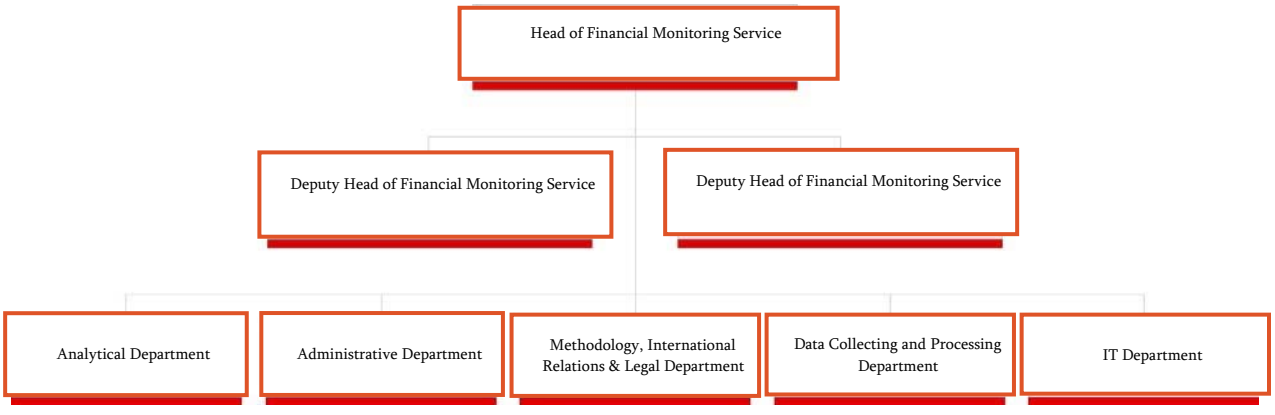
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Goals and Objectives, Main Areas of Activity

The Legal Entity of Public Law (LEPL) - Financial Monitoring Service of Georgia (FMS) - as the authority responsible for prevention of money laundering and terrorism financing, has been operated since 2004 and conducts its activities in accordance with the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing" (AML/CFT Law) along with other legislative acts and subordinate normative acts. For the purpose of detecting and preventing criminal offences, Financial Monitoring Service of Georgia receives information on suspicious activities and other transactions from obliged entities as defined by the law, analyzes this information and upon establishing a reasonable suspicion that the transaction is suspicious and may be conducted for the purpose of money laundering, terrorism financing or/and other predicate offenses promptly forwards such data and case materials at its disposal to the law enforcement authorities (LEAs) without requiring prior consent from any other body or individual.

The objectives, functions and organizational structure of the LEPL - Financial Monitoring Service of Georgia are defined by the "Statute of the Legal Entity of Public Law- Financial Monitoring Service of Georgia" approved by Decree No. 658 of the government of Georgia, dated December 26, 2019. The organizational structure of the Financial Monitoring Service of Georgia in 2022 was as follows:



FMS staff and amount of the salaries for the employees have been approved by the Prime Minister of Georgia, Decree No. 296 dated 28 December, 2022. There are 27 established staff positions within FMS based on the aforementioned act.

Statistics

The list of the obliged entities under the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing" is as follows[1]:

The Financial Institutions: non-bank depository institution - credit union; founder of a non-state pension scheme; insurance broker, reinsurance broker; currency exchange bureau; commercial bank; microfinance organization; brokerage company; payment service provider; insurance organization; leasing company; loan issuing entity; securities registrar; investment fund; virtual asset service provider; microbank (effective from July 1, 2023).

The Non-Financial Institutions: lawyer, law firm; organizer of lotteries, gambling or other commercial games; notary; certified accountant; accountant providing professional services; accounting firm; auditor, audit firm; trader of precious stones and metals; the National Agency of Public Registry and the Revenue Service.

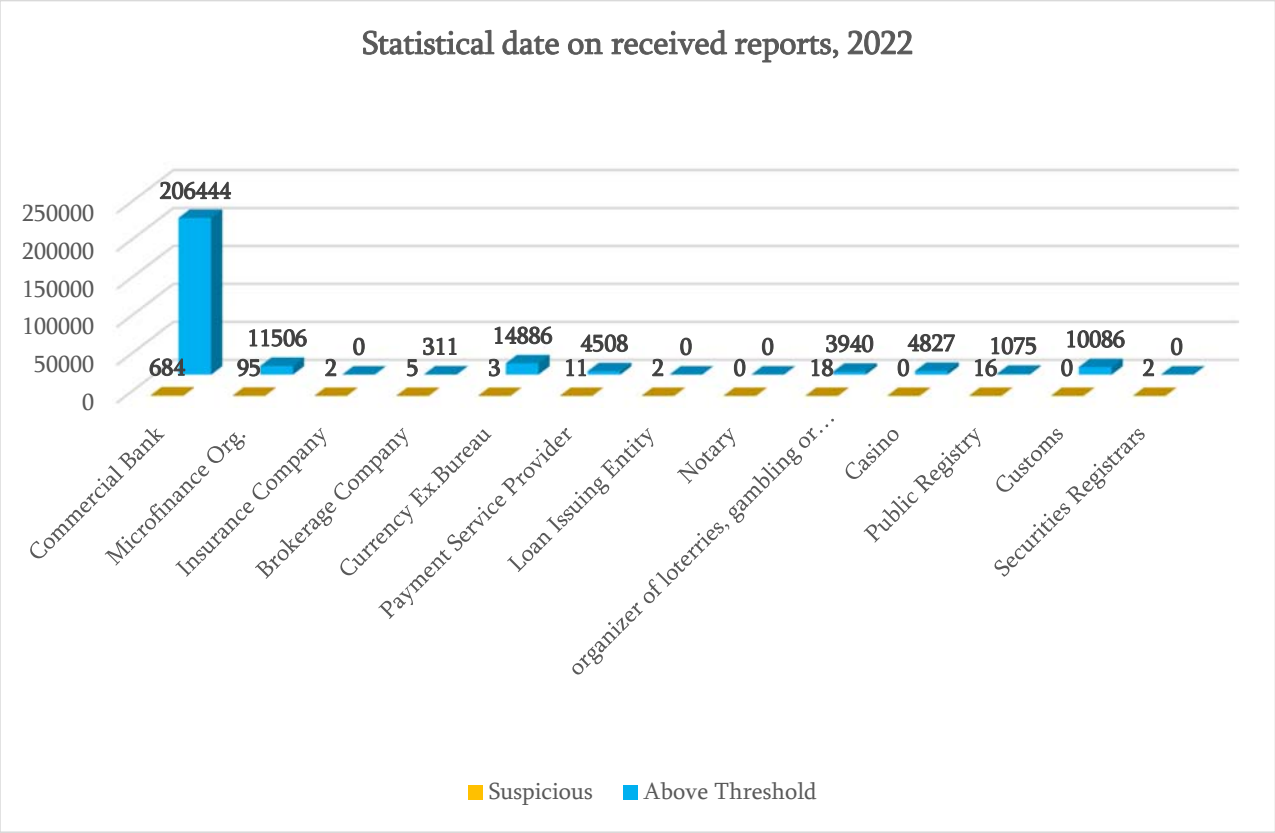
In accordance with the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing", the obliged entities are required to submit a report to the Financial Monitoring Service of Georgia regarding a suspicious transaction or an attempt to prepare, conclude or execute such transaction. Apart from a suspicious transaction, pursuant to the law, FMS, through a subordinate normative act, determines the types of transactions to be reported by the obliged entities to FMS[2].

Taking the above into account, the statistical data concerning the information received by FMS throughout 2022 is as follows:

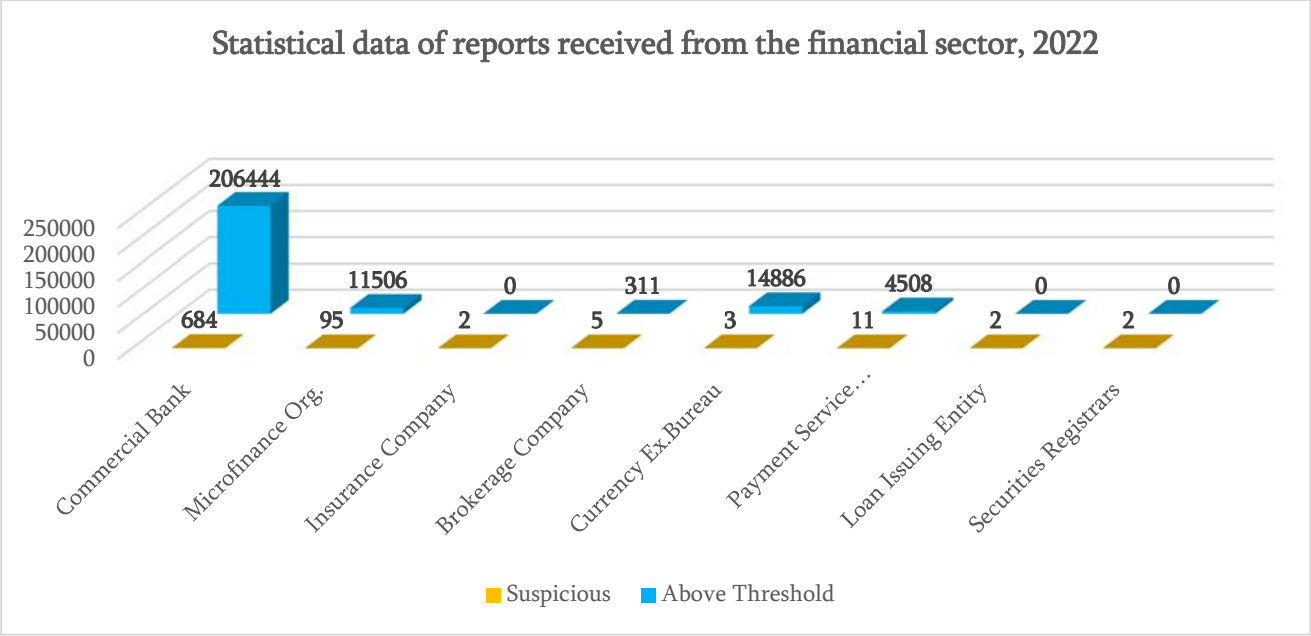
[1] Article 3 of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing".
[2] Article 25, Paragraph 2 of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing".

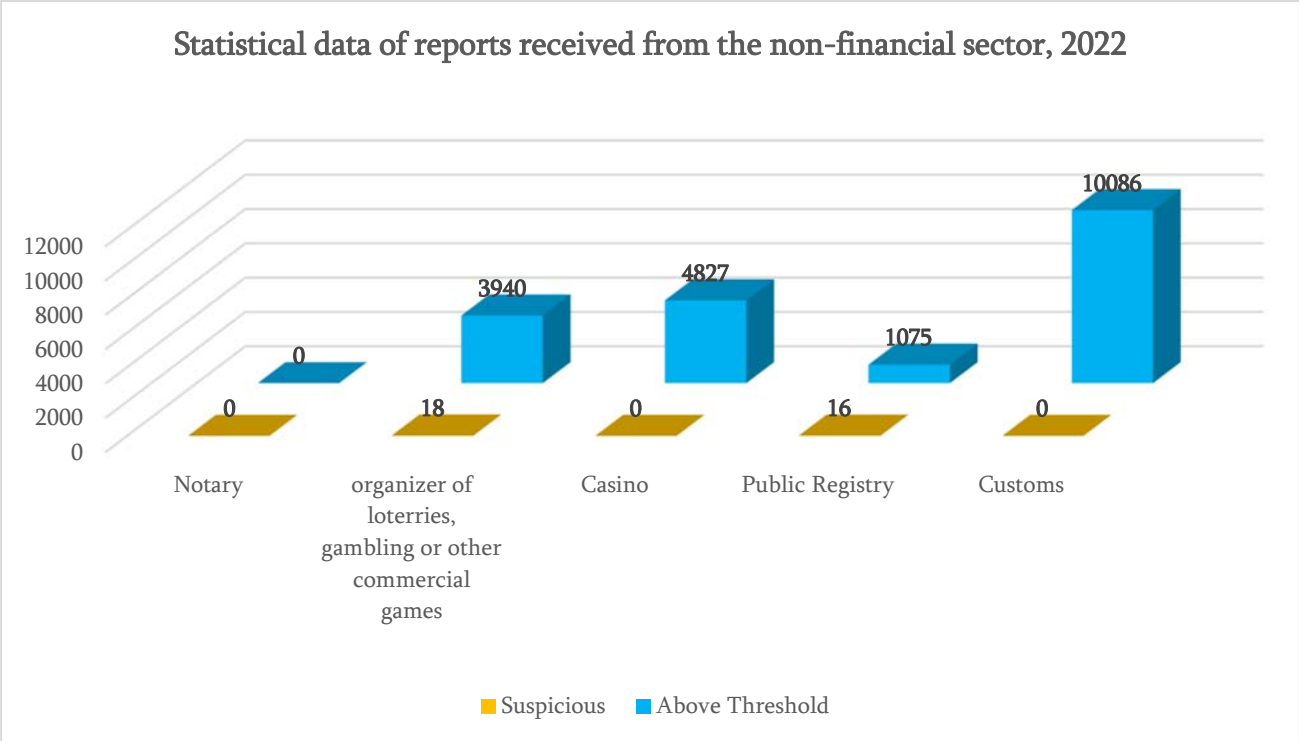
Statistical data on received reports, 2022	Transaction Reports	Threshold Based Transaction Reports	Suspicious Transaction Reports	Terrorism Financing
Commercial Bank	207128	206444	684	11
Microfinance Organization	11601	11506	95	3
Insurance Company	2	0	2	0
Brokerage Company	316	311	5	0
Currency Exchange Bureau	14889	14886	3	1
Payment Service Provider	4519	4508	11	2
Loan Issuing Entity	2	0	2	0
Notary	0	0	0	0
organizer of lotteries, gambling or other commercial games	3958	3940	18	0
Casinos	4827	4827	0	0
Public Registry	1091	1075	16	0
Customs	10086	10086	0	0
Securities Registrars	2	0	2	0
Total	**258421**	**257583**	**838**	**17**

A number of reports received by FMS throughout 2022 is presented graphically as follows:

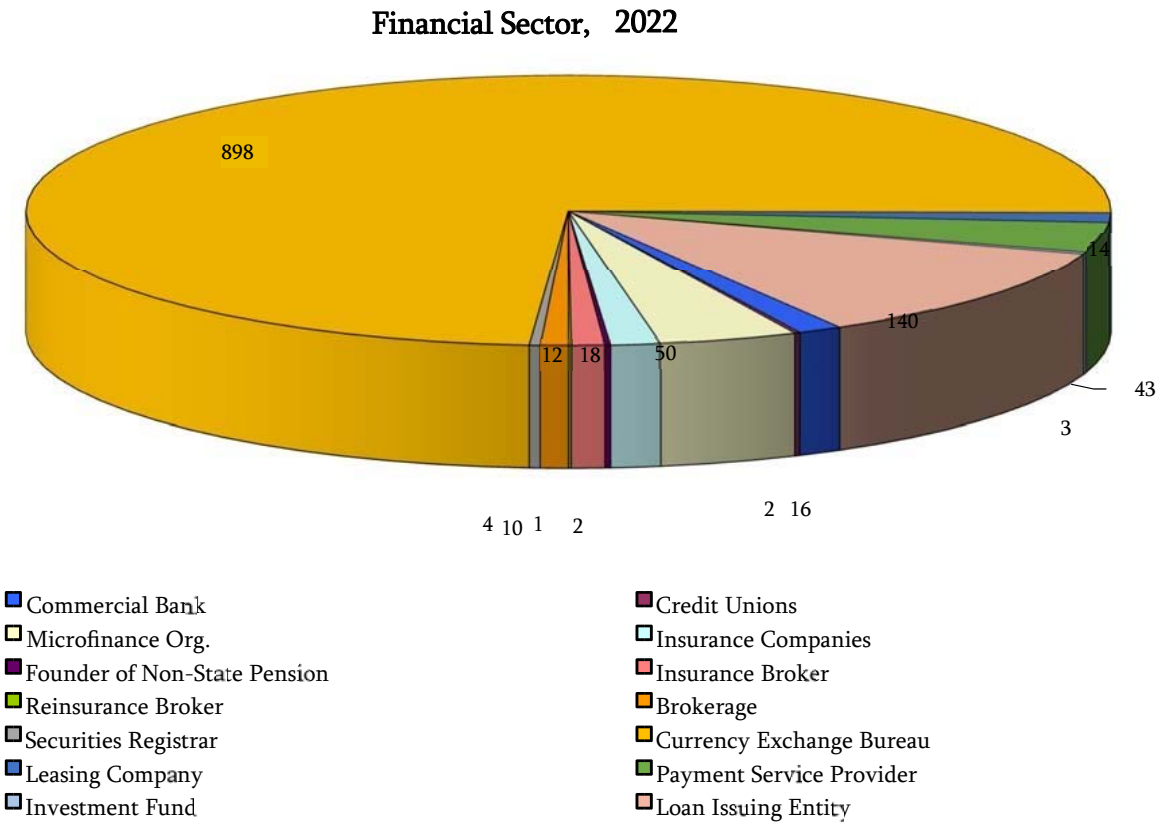


Accordingly, based on the systematization of statistical data, the number of reports received in 2022 from financial institutions (including commercial banks) and non-financial institutions is as follows:


Statistical data of reports received from the financial sector, 2022
250000
200000
150000
100000
50000
0
206444
684
11506
95
0
2
311
5
14886
3
4508
11
0
2
0
2
Commercial Bank
Microfinance Org.
Insurance Company
Brokerage Company
Currency Ex.Bureau
Payment Service…
Loan Issuing Entity
Securities Registrars
Suspicious
Above Threshold

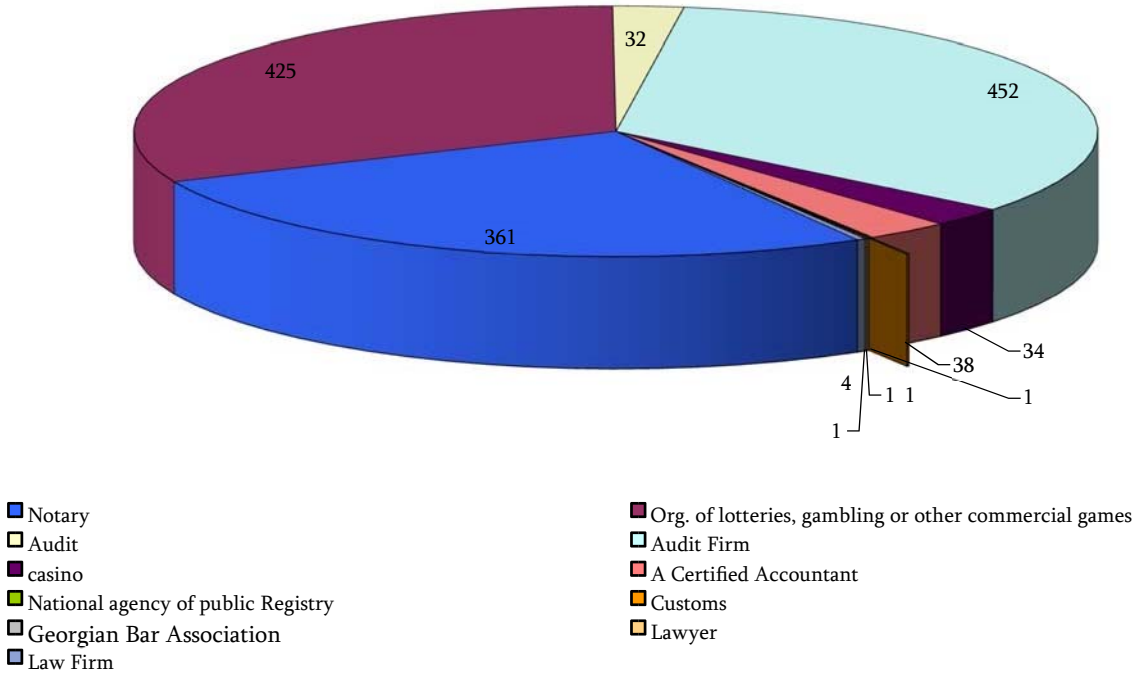

Statistical data of reports received from the non-financial sector, 2022
12000
10000
8000
6000
4000
2000
0
0
0
18
3940
0
4827
16
1075
0
10086
Notary
organizer of loterries, gambling or other commercial games
Casino
Public Registry
Customs
Suspicious
Above Threshold

As of December 31, 2022, obliged entities defined by the law and registered within the Service, representing the financial sector of Georgia, included: 16 commercial banks, 2 credit unions, 50 microfinance organizations, 18 insurance organizations, 2 founders of a non-state pension scheme, 10 brokerage companies, 12 insurance brokers, 1 reinsurance broker, 4 securities registrars, 898 currency exchange bureaus, 14 leasing companies, 43 payment service providers, 140 loan issuing entities and 3 investment funds.



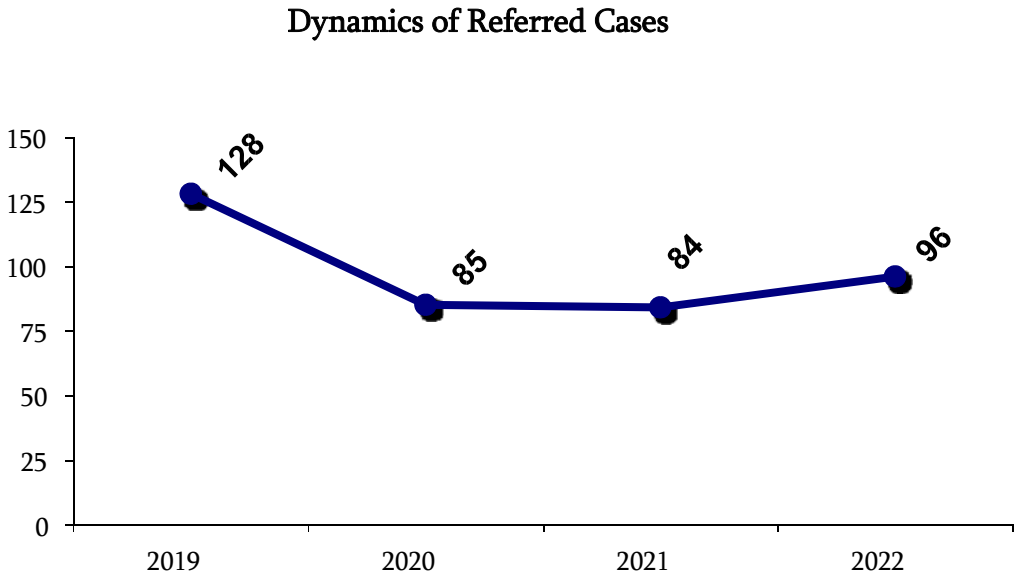
As of December 31, 2022, obliged entities defined by the law and registered within the Service, representing the non-financial sector of Georgia, included: 361 notaries, 425 organizers of lotteries, gambling and other commercial games, 32 auditors, 452 auditing companies, 34 casinos, the National Agency of Public Register, the Revenue Service (customs), 1 lawyer, 4 law firms and 38 certified accountants.

Non-Financial sector, 2022

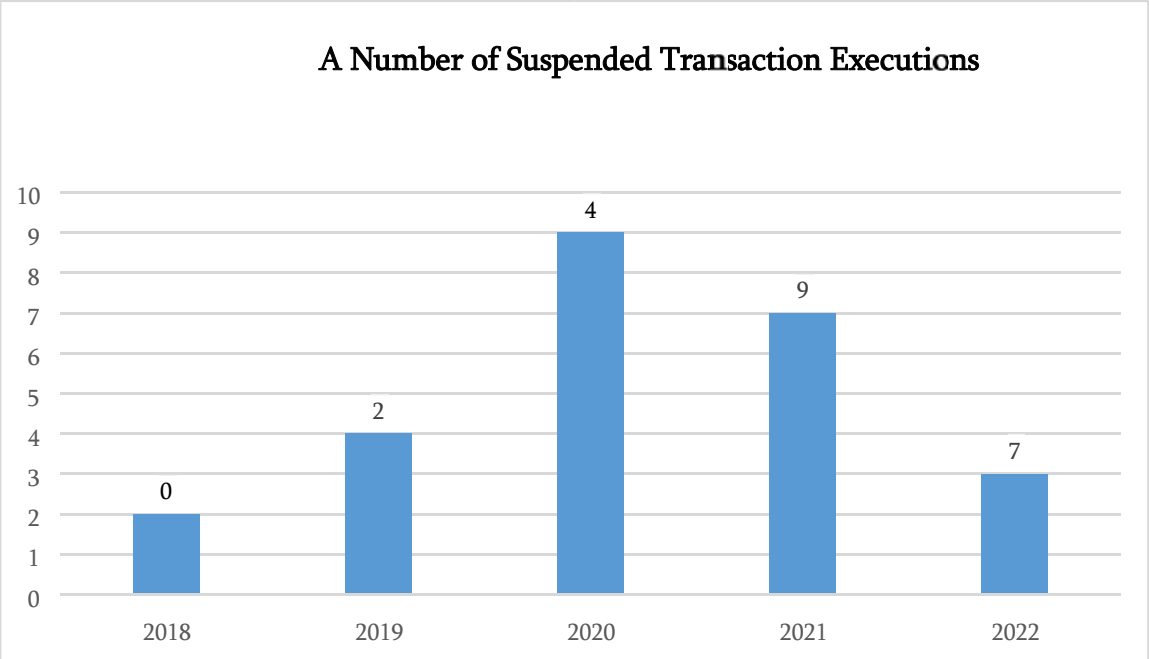


Based on the analysis of the reports received in 2022 and processing of additional information obtained either by the Service or from foreign counterparts, the Financial Monotiling Service of Georgia identified and, in accordance with the Law of Georgia on "Facilitating the Suppressionof Money Laundering and Terrorism Financing", transferred 96 cases to the relevant structural units of the Prosecutor's Office of Georgia, the Ministry of Internal Affairs, the State Security Service and the Revenue Service (including 4 cases related to possible terrorism financing and 21 cases on different possible attempts to circumvent sanctions imposed on various countries).

See below the dynamics of the number of cases presented in graphics forwarded by the Financial Monitoring Service of Georgia to the law enforcement agencies and the Revenue Service during 2019-2022:



It is noteworthy, that in accordance with the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing", upon emergence of a reasonable suspicion of money laundering, terrorism financing or any other criminal offence, regardless of the transaction amount, Financial Monitoring Service of Georgia is authorized to issue a written instruction to the obliged entity to suspend the preparation, conclusion or execution of that transaction or any other transaction related to that transaction and/or individual involved therein within no more than 72 hours. FMS exercised such authority and suspended the execution of transactions 7 times in 2022. Number of suspensions are as follows:



Typology

The analysis of reports submitted to the Financial Monitoring Service of Georgia along with additional information requested from the obliged entities, data received from foreign colleagues and information obtained from open sources, showed that a significant portion of cases detected by FMS during 2022 was related to different forms of fraud manifested in various methods (including unauthorized access to computer systems or email accounts, hacking of bank accounts, changing banking details in documentation, falsification of identification documents, unauthorized use of data from stolen plastic cards, the so called *Romance-scam*, the so called *Identity theft*, the so called *Merchant-scam* and etc.) and in attempts to legalize obtained funds, while traditional methods were applied for moving criminal assets primarily involving bank accounts and cash withdrawals.

In 2022, as in previous years, legal entities registered in Georgia continued to be used for criminal purposes with their names identical to those of more or less well-known international companies operating abroad. Such methods were used to mislead foreign entrepreneurs targeted as victims during international financial transactions. However, it is important to note that the number of such fraudulent cases is decreasing.

During the reporting year, the use of Georgina-based bank accounts for transit purposes continued by both legal entities and individuals. Deposits and subsequent transfers were made to the accounts to the third countries, and the total turnover sometimes reached the equivalent of several million Georgian Lari. Typically, such transactions have no economic connection with Georgia.

The volume of transactions potentially conducted by the call centers was significant in 2022. Such companies are primarily formed to establish contacts with potential customers abroad offering them to purchase various products, make investments, play on currencies (including cryptocurrencies), binary options etc. In cases where a call center is created for fraudulent purposes, the victim either does not receive any pre-agreed service at all or receives a much lower quality service (the so-called *Boiler-Room Scam*) or losses the funds invested (commonly referred to as *Investment Scam*).

As anticipated, during the reporting period, certain individuals continued to offer some services to customers through social media messaging and online advertisements. In such cases, after payment, the customer cannot receive a service and loses the money entirely. As in the previous year, the conditions facilitating this type of crime have not changed. Expansion of online commerce, minimal financial costs by fraudsters and lack of due diligence among the online users have created a fertile environment for crime. We suppose that the trend of committing this type of crime will continue (it is worth noting that potential involvement of Russian speaking individuals was relatively common in such cases in 2022). The use of social engineering, fraudulent websites and social network platforms to obtain customers' confidential banking details persisted and demonstrated an upward trend throughout the reporting year. Victims of *phishing* schemes generally suffer from losing small and medium amounts.

The imposition of sanctions on Russia and Belarus after Russia's invasion of Ukraine in 2022 was followed by attempts to circumvent them. In such cases a relatively simple and typical typology is applied. Funds are transferred from abroad to the account of the legal entity newly (or several years ago) established in Georgia based on a purchase/sale agreement. A Georgian company appears as a seller while a foreign entity as a buyer. The subject of the contract is various product that, due to sanctions, are no longer imported into the buyer's country and become difficult to obtain. After transferring the money to the account, Georgian company tries to make a transaction to the relevant foreign entrepreneur naturally in exchange for a certain fee for facilitating the operation. The company founder may be either the resident of Georgia or a foreign national. According to their statements, typically, the purchased goods do

not enter Georgian territory. Upon identifying transactions of such typology, the obliged entities promptly terminate businesses with their clients.

Domestic and International Cooperation

An Inter-Agency Standing Commission was established pursuant to resolution No. 235, dated May 31, 2022, on the establishment of an Inter-Agency Standing Commission and approval of its statute issued by the Government of Georgia. The Commission is aimed at Supporting the Prevention, Detection and Suppression of Money Laundering, Terrorism Financing and Financing the Proliferation of Weapons of Mass Destruction. The purpose of the Commission is to facilitate Georgia's alignment with the international standards of the Financial Action Task Force (FATF), the recommendations of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), and the provision of the Association Agreement between Georgia and the European Union concerning the misuse of the financial system aimed at money laundering or financing terrorism. Furthermore, the Commission is tasked to ensure MONEYVAL recommendations by improving national coordination, upgrading work on national risk assessment document, adopting national strategy and action plan in the field of money laundering and terrorism financing prevention.

The work of the Commission is chaired by the Head of the FMS of Georgia while the Secretariat of the Commission is composed of the FMS employees. The Commission is staffed with the representatives of all relevant agencies. Throughout the reporting year the Commission held 2 sessions and several meetings with the working group, as a result the National Strategy for the Prevention of Money Laundering and Terrorism Financing and its Action Plan was presented to the Government, the work on updating the National Risk Assessment document was resumed.

The Strategy and the Action Plan serve as a unified guiding document for state agencies enabling them effectively and in coordination integrate measures into the national systems over the next 3 years. These measures are essential for advancing Georgia's European perspective. The National Strategy document outlines the priority areas to achieve the goal, and the Action Plan stipulates the appropriate objectives for completing each priority area, the activities planned to achieve the goal, activity performance indicators, the responsible agencies, as well as implementation timelines and budget needed for performance of each activity.

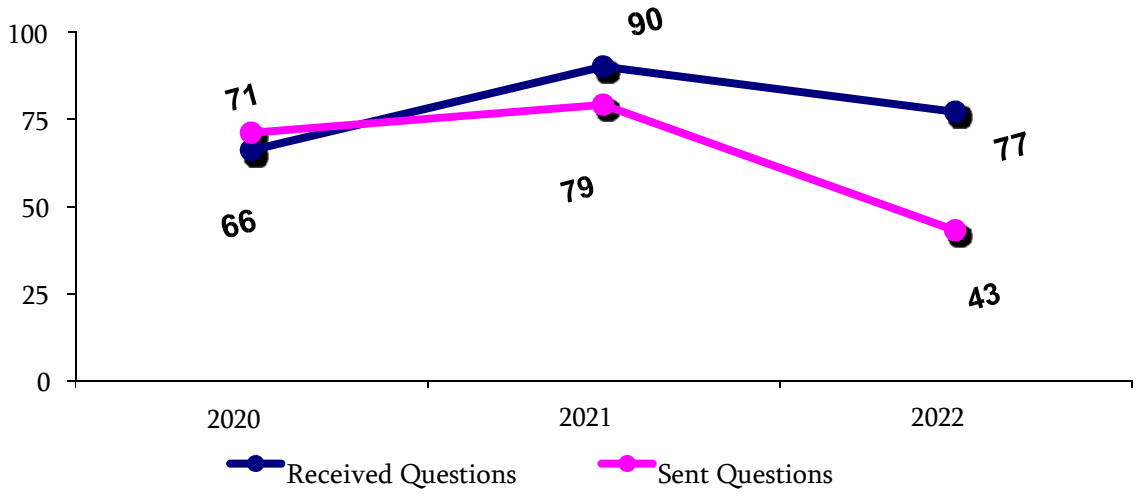
During the reporting year, the FMS of Georgia maintained cooperation with international and foreign organizations.

The FMS of Georgia was actively involved in the working process of plenary sessions of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

In 2022, the representatives of the FMS of Georgia also participated in the 13th Conference of the parties of the Council of Europe Convention (C198-COP) on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on Terrorism Financing held on November 15-16, 2022, in Strasbourg.

Within the reporting year the FMS of Georgia continued bilateral cooperation with foreign counterparts. In 2022, 77 requests were received from Financial Intelligence Units (FIUs) of different countries, 76 of them were provided with appropriate answers. In return, the FMS sent 43 requests to foreign counterparts of which 33 were responded. In 2022 the FMS of Georgia shared information to the relevant organizations in foreign countries regarding 14 potential cases of money laundering, in return the FMS received 26 notifications about similar cases from foreign counterparts.

Received and Sent Questions 2019–2022.



In 2022 the FMS maintained active cooperation with supervisory bodies. Regarding the preparation for the verification of obliged entities and the outcomes of inspection the FMS regularly exchanges information with supervisory authorities on the monitoring of compliance with the requirements of legislative framework in the field of preventing money laundering and terrorism financing.

Legislative and Regulatory Framework

Following the publication of Mutual Evaluation Report of Georgia in 2020 by MONEYVAL Committee, the country has been placed under an enhanced follow-up evaluation procedure requiring the submission of a follow-up report about the implementation of recommendations 2 years after the publication of the evaluation report, along with rising a request to the Council of Europe to update the rating of specific recommendations. To meet this requirement the FMS initiated an important amendment during the reporting year to the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing". As a result, the MANEYVAL Committee upgraded the country's rating in respect to the Recommendation 29. This became possible through enhanced efforts of FMS to exchange information with law enforcement bodies.

As of the amendments enacted on May 11, 2022, the change was made in Articles 34 and 39 of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing". As a result, FMS shall send the outcomes of its analytical analyses to the Investigation Service of the Ministry of Finance as well, which in turn shall request the information obtained by the FMS. Apart from this, whereas under the previous version of the law the exchange of information was permitted only in connection of certain offenses specified in the Criminal Code of Georgia, the amended provisions now allow the investigative authorities to submit a request for information to the FMS to achieve the necessary objectives of criminal investigation. The above-mentioned amendments were presented to the MONEYVAL Committee. Subsequently, in November of the current year, the Committee published the first enhanced follow-up report, resulting in an upgrade of Georgia's rating with respect to the Recommendation 29 of the Financial Action Task Force.

In 2022, FMS of Georgia continued its work on normative-legislative framework regulating the prevention of money laundering and terrorism financing focusing its further development and improvement of legal framework.

On December 9, 2022, the amendment was introduced to the Law of Georgia on "Facilitating the Suppression of Money Laundering and the Terrorism Financing" whereby the list of obliged entities was expanded to include the accountant providing professional services.

On September 9, 2022, the adjustment was made to the Law of Georgia on "Facilitating the Suppression of Money Laundering and the Terrorism Financing", whereby the list of obliged entities was expanded to include virtual asset service provider.

On May 11, 2022 the amendment was adopted to the Law of Georgia on "Facilitating the Suppression of Money Laundering and the Terrorism Financing". As a result, it was clarified that the legal act of the supervisory authority shall define the procedures of electronic identification and verification of the client, identification and verification of the beneficial owner, as well as the rule for assessing the structure of client's ownership and control (management). Moreover, the National Risk Assessment Document shall be upgraded at least once in every three years.

FMS of Georgia continues to refine the legal framework in line with MONEYVAL recommendations and for the second follow-up evaluation report procedure.

Trainings and Seminars

Within 2022 FMS maintained participation in various seminars and workshops aimed at raising awareness.

Over the reporting year the FMS employees took part in different international trainings and seminars, as well as attended appropriate meetings initiated by the international organizations. Specifically, in 2022 FMS employees participated:

April 10-15, 2022 – training on Methods of Financial Investigation, Money Laundering and Asset Forfeiture organized by the Embassy of the United States of America and the Central and Eastern European Law Initiative Institute (CEELI Institute).

July 14, 2022 – working meeting held on parallel financial investigation within the framework of the EU project - Support of Public Administration Reform in Georgia (PAR TA).

September 19-23, 2022 – Seminar organized by the Council of Europe – Comparative Approaches and Good Practices for Strategic and Operational Analysis in the Financial Monitoring Services.

November 18-27, 2022 – training - Train the Trainer course on the FATF Standards organized by the Organization for Economic Co-operation and Development (OECD) and Financial Action Task Force (FATF).

December 10-19, 2022 – Training of Country Assessors organized by the International Monetary Fund (IMF).