

LEPL FINANCIAL MONITORING SERVICE OF GEORGIA
ANNUAL REPORT
2019

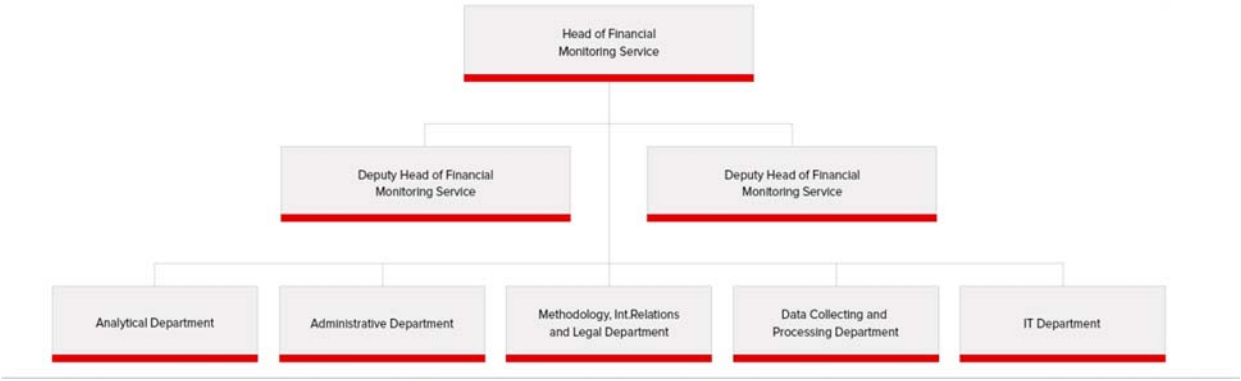
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- *Goals and Objectives, Areas of Activity*

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 Suppression of Money Laundering and Terrorism Financing[1] (AML/CFT Law). FMS seeks to detect and prevent criminal offences by examining and analyzing the relevant information received from the obliged entities, defined by the law 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 money laundering, terrorism financing and/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 defined by the Decree №658 (26 December 2019) 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 is as follows:



[1] Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing is in force since October 31, 2019, the text of the legislative act is published on Legislative Herald of Georgia https://matsne.gov.ge/document/view/4690334?publication=0 . During the working process on 2019 annual report, the fact that before the adoption of before mentioned law, the law of Georgia on Facilitating the Prevention of Illicit Income Legalization was in force (through January-October), has been considered.

FMS's staff list and salaries are approved by the Decree №517 (31 December 2019) of the Prime Minister of Georgia, according to which FMS staff consists of 31 persons.

- *Statistics*

The list of the obliged entities under the AML/CFT Law is as follows:

- Financial Institutions: non-bank depository institution - credit union, founder of a non-state pension scheme, insurance/reinsurance broker, currency exchange bureau, commercial bank, microfinance organization, brokerage company, payment service provider, insurance organization, leasing company, loan issuing entity, securities registrar.
- Non-Financial Institutions: lawyer/law firm, organizer of lotteries, gambling or other commercial games, notary, certified accountant/legal person rendering accounting services through a certified accountant, auditor/audit firm, trader of precious stones and metals, the National Agency of Public Registry – the Legal Entity of Public Law, Revenue Service of Georgia.

Pursuant to the AML/CFT Law, the obliged entity shall report to FMS a suspicious transaction or an attempt to prepare, conclude or carry out a suspicious transaction. In addition to a suspicious transaction, FMS, through its regulation, determines the types of transactions to be reported by obliged entities to FMS. [2]

Before October 31, 2019, according to the law of Georgia on Facilitating the Prevention of Illicit Income Legalization, obliged entities were required to submit reports to FMS on monitored transactions. The monitored transactions according to the law of Georgia on Facilitating the Prevention of Illicit Income Legalization, Article 5, were considered suspicious transactions, as well as certain transactions above 30,000 GEL threshold.

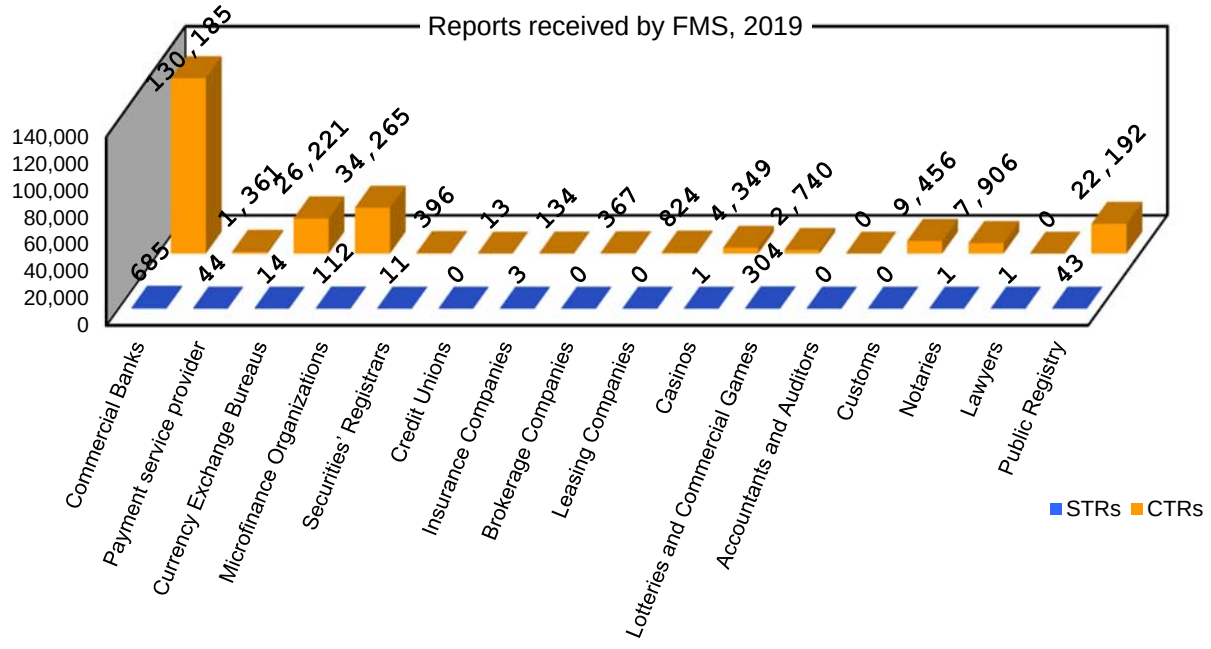
The Statistics of information received by FMS in 2019, are as follows:[3]

Obliged Entity	Total Reports Received	Above the prescribed threshold	Suspicious	Terrorism FInancing
Commercial Banks	130870	130185	685	22

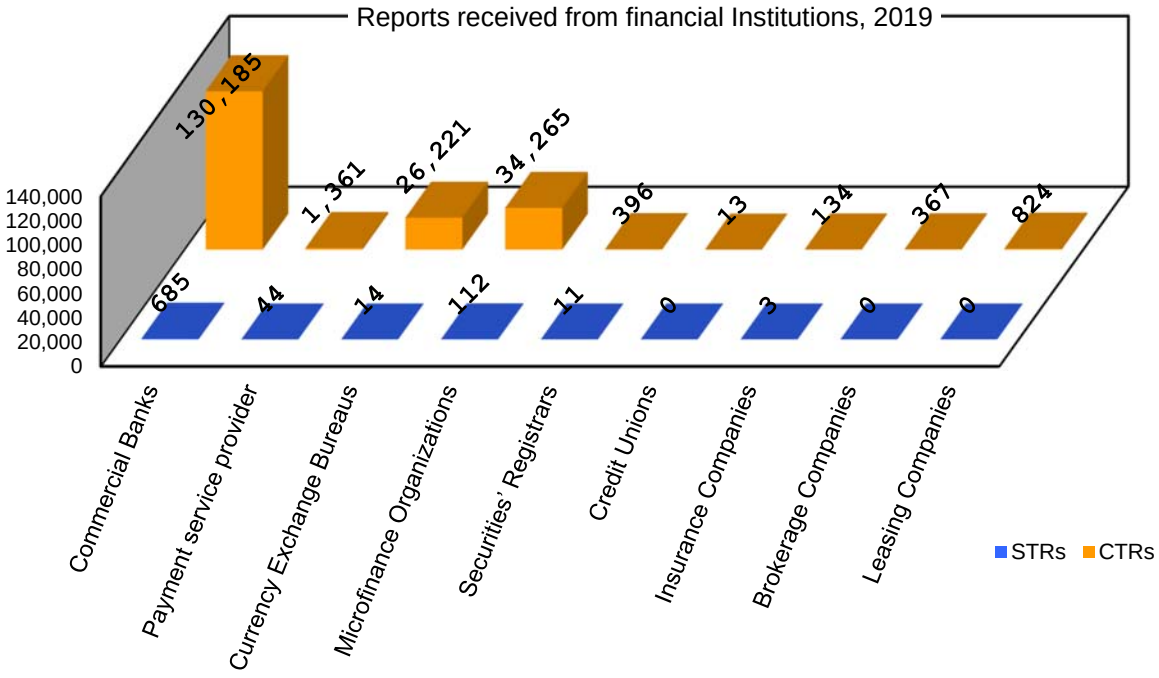
[2] Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing Article 25(2).
[3] According to Article 45 of AML/CFT law, the regulations adopted based on the Law of Georgia on Facilitating the Prevention of Illicit Income Legalization shall be in force until relevant regulations referred to in this Law are adopted. Therefore, Statistics on information received in 2019, is prepared in accordance with the acts in force during 2019 annual year.

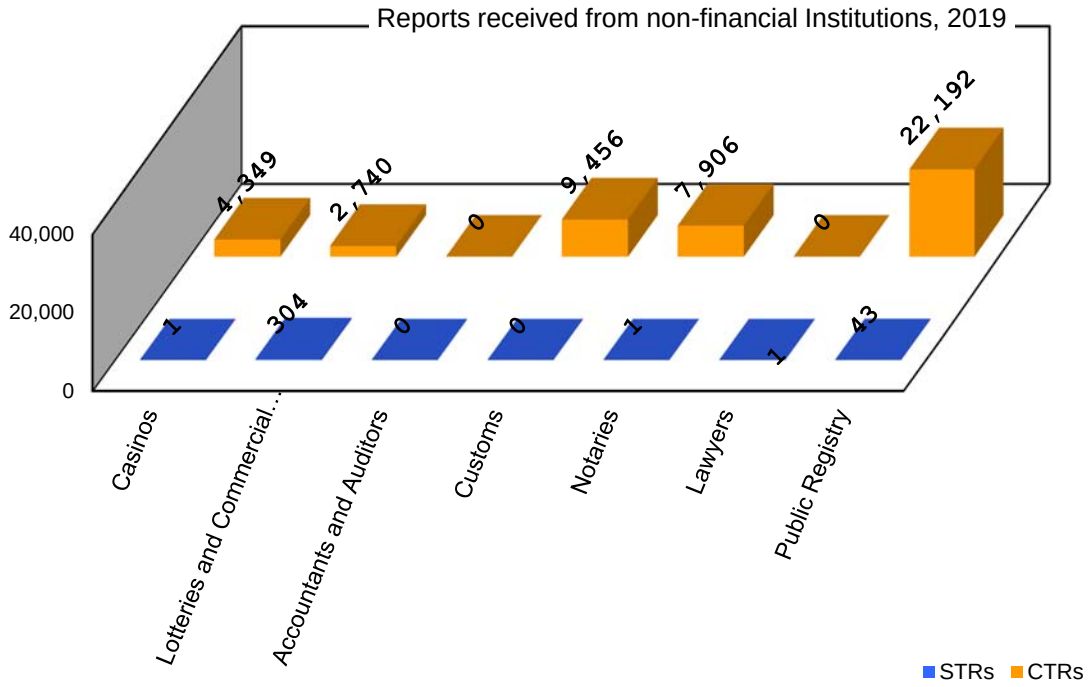
Microfinance Organizations	34377	34265	112	7
Insurance Companies	137	134	3	-
Notaries	7907	7906	1	-
Brokerage Companies	367	367	-	-
Securities Registrars'	407	396	11	-
Currency Exchange Bureaus	26235	26221	14	-
The Revenue Service (Customs)	9456	9456	-	-
Entities Organizing lotteries, gambling and other commercial games	3044	2740	304	-
Casinos	4350	4349	1	1
Credit Unions	13	13	-	-
The National Agency of Public Registry	22235	22192	43	-
Payment Service Provider	1405	1361	44	10
Leasing companies	824	824	-	-
Lawyers	1	-	1	-
Persons conducting accounting/auditing service	-	-	-	-
Total	241628	240409	1219	40

The chart demonstrates the number of reports received by FMS in 2019:

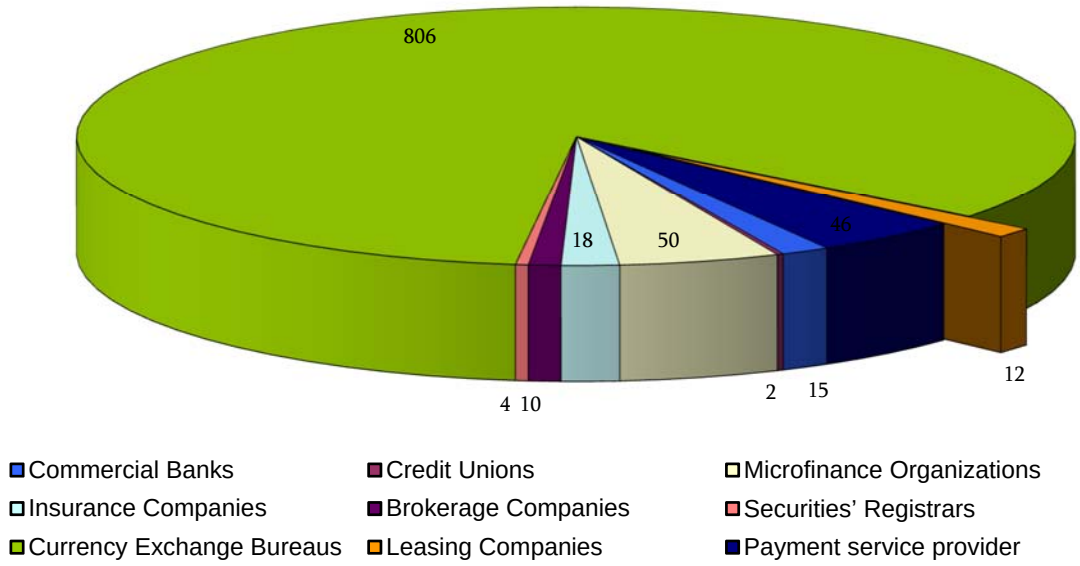


The chart demonstrates the number of reports received by FMS divided between the financial and non-financial sectors:

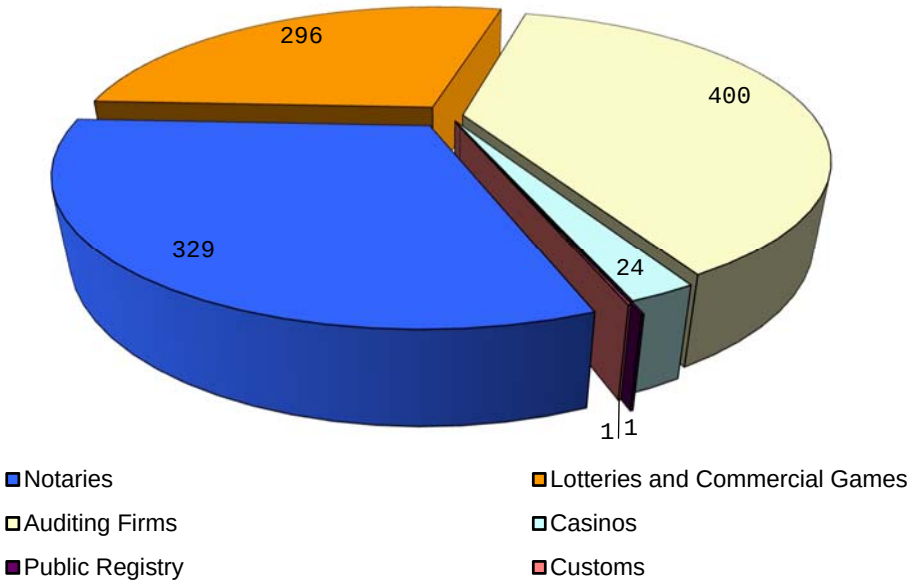




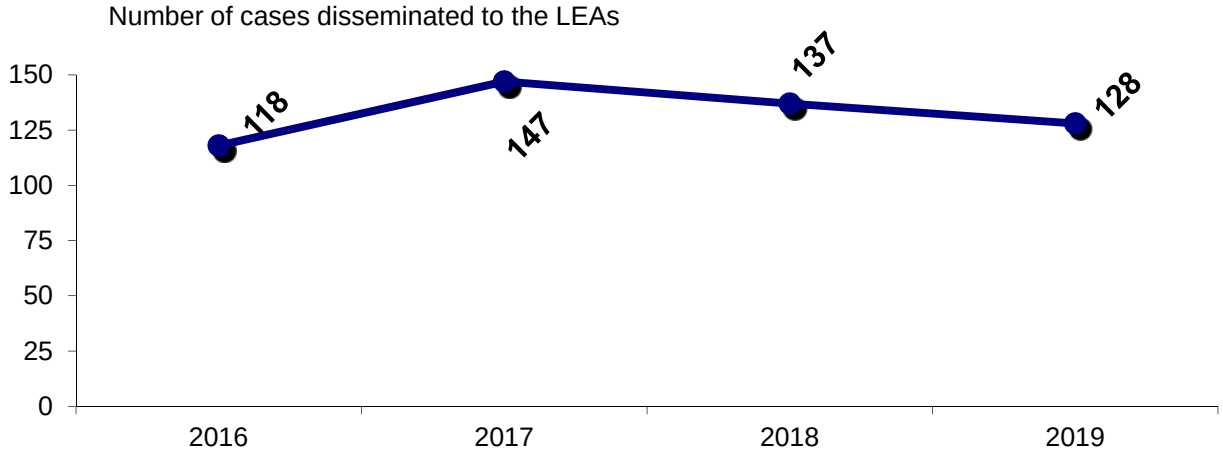
As of 1 January 2020, representatives of Georgia's financial sector designated as the obliged entities by the AML/CFT Law include: 15 commercial banks, 2 credit unions, 50 microfinance organizations, 18 insurance organizations and founders of non-state pension schemes, 10 brokerage companies, 4 securities' registrars, 806 currency exchange bureaus, 12 leasing companies and 46 payment service providers.



As of 1 January 2020, representatives of Georgia's non-financial sector designated as the obliged entities by the AML/CFT Law and are registered in FMS include: 329 notaries, 296 entities organizing lotteries, gambling and other commercial games, 400 auditing firms, 24 casinos, the National Agency of Public Registry, the Revenue Service (customs) and all lawyers that are members of the Georgian Bar Association.



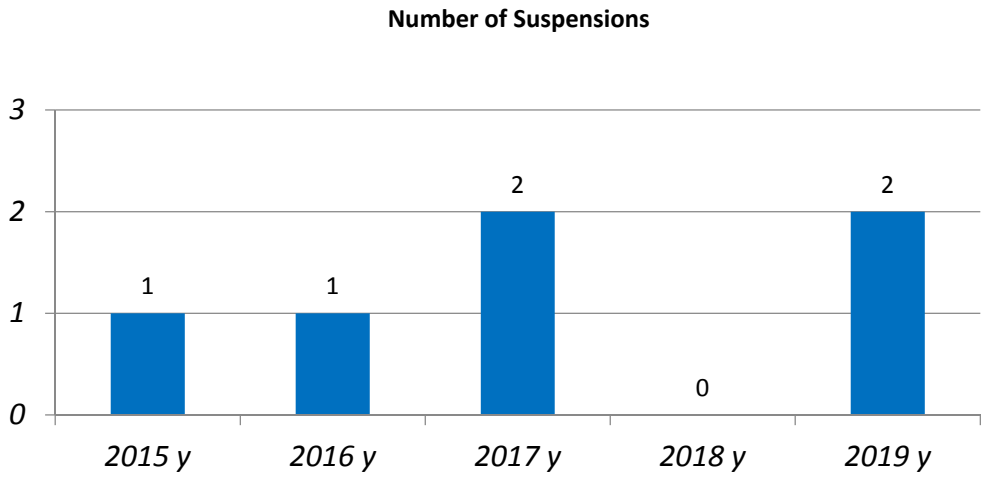
In 2019, based on the analysis of reports received from the obliged entities and other information obtained, FMS disseminated to the respective agencies of the Chief Prosecutor's Office of Georgia, the State Security Service of Georgia, the Ministry of Internal affairs of Georgia and Revenue Service of Georgia 128 cases (including 7 cases of potential terrorism financing).[4]



[4] Requirement for FMS to disseminate information to Revenue Service of Georgia is new requirement in nature and is defined under Article 34(1) of AML/CFT law.

According to AML/CFT law[5], if there are reasonable grounds to suspect money laundering, terrorism financing or other criminal activity, regardless of the amount of funds involved in a transaction, the Head of FMS shall be authorized to issue a written instruction to the obliged entity to suspend preparation, conclusion or carrying out of that transaction or any other transaction related to that transaction and/or to persons involved therein for no more than 72 hours. The authority to suspend suspicious transactions temporarily has been used twice in 2019.

The statistics on number of suspensions since 2015 of is as follows:



- *Typologies*

In 2019, 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 major part of suspicious attempts suspected by FMS were attempts to legalize fraudulently obtained funds (unauthorized access to computer systems or e-mails, unauthorized access to bank accounts, change of bank details in relevant documents, identity fraud, unauthorized use of data of stolen plastic cards, romance scam, identity theft, etc.). Criminals were using bank accounts or quick money transfers. The funds received, were immediately transferred/moved abroad or were withdrawn in Georgia using ATMs or bank's cashier's offices.

[5] Article 36 of AML/CFT law

Several cases were related to transfers of funds, obtained illegally from bank accounts/cards, to online gambling accounts, that were subsequently transferred to the accounts owned by the persons involved in these fraud schemes. Accessing customers' confidential banking information through social engineering and fake websites was major trend in 2019, used mechanisms involved bank accounts and customer's accounts in gambling sector.

During the last period, schemes with funds fraudulently obtained abroad and transferred to Georgia, involved legal entities established in Georgia, having similar names of legitimate international legal entities established abroad. This method is used to disorientate foreign traders – victims of fraud, attention during the international transaction. Legal entities, frequently, are registered in the same legal address in Georgia. FMS sent instruction to commercial banks concerning these cases.

In 2019, 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. Some of them were wanted by foreign LEAs for the offences committed in their countries, several persons were listed in international "black lists", such as Interpol list, OFAC etc.

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

During the year 2019, the trend to use accounts of companies registered in Georgia, with no apparent business connection to the country (including companies registered in Free Industrial Zones), for flows of funds – funds were credited and then transferred to third countries, in some cases, company turnover reached several million GEL. Such schemes in nature, have remitters and receivers of a large quantity, are geographically diverse and have vague transaction character ("Advisory Service", "Marketing Service", etc.), as well as radically different business type of transactions.

In 2019, growing trend of transactions conducted by call centers operating in Georgia were observed. Those companies call potential customers abroad and offer to purchase different kind of products, to make investment etc. It's true, that call center is a legitimate business, but in some cases, after transferring money, customer doesn't receive agreed service or receives of a low quality ("boiler Room Scam"). After accumulating the amount, then money is transferred in other country or cash 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" and "service" using social

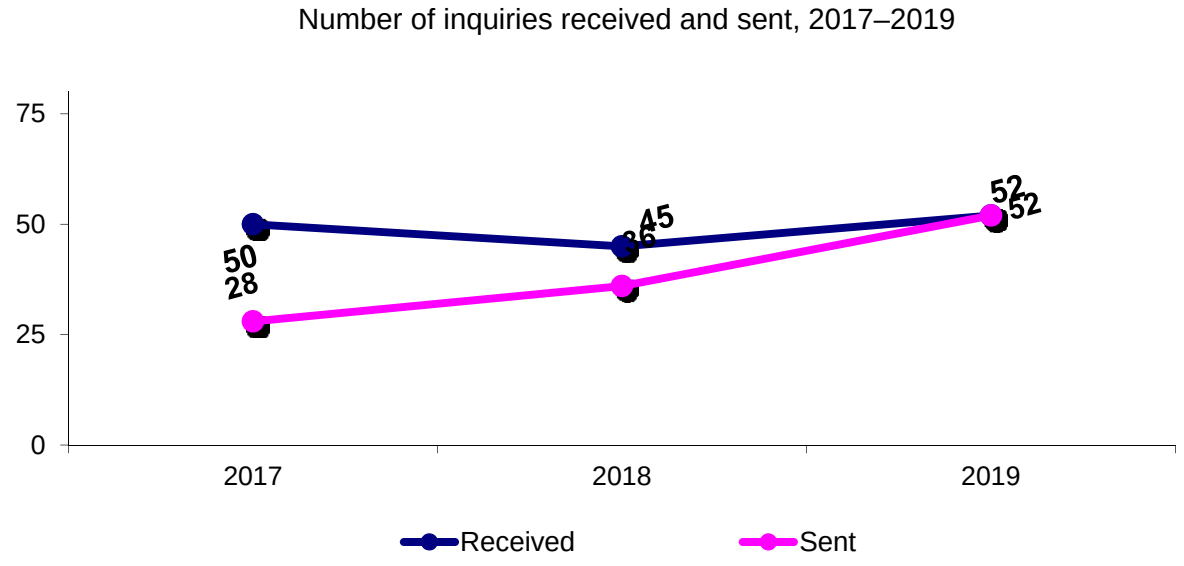
networks, either by messaging or through advertisements. FMS considers this trend to be evolving.

- *Domestic and International Cooperation*

In 2019, FMS continued active cooperation with the AML/CFT supervisory agencies. Supervisory agencies and FMS have been systematically exchanging information about the implementation of legislative requirements in the field of combating money laundering and terrorism financing to assist in the preparation of relevant inspections of obliged entities and to share the results of such inspections.

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 2019, FMS received 52 requests for information from financial intelligence units (FIUs) of different countries and responded to all of them. FMS sent out 52 requests to its foreign counterparts and received 44 responses. FMS also made 23 spontaneous disseminations on potential money laundering cases to foreign FIUs, while receiving 38 such disseminations.



FMS continues cooperation with international and foreign organizations. MONEYVAL assessment team visited Georgia for on-site inspection on 4-15 November within the 5th round mutual assessment process. On-site visit aimed to assess the effectiveness and compliance of ML/TF mechanisms of the country to FATF recommendations. During the

visit, meetings were held with the representatives of FMS, Prosecutor's office, State Security Service of Georgia, Ministry of Internal Affairs of Georgia, Ministry of Finance of Georgia, National Bank of Georgia, as well as with other state or private sector representatives. The assessment report drafted by the assessment team will be discussed and adopted on 60th plenary meeting of MONEYVAL in 2020.

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 2019. Employees of FMS evaluated Moldova in Moneyval 5th mutual evaluation round.

In May and November of 2019, FMS representatives participated in the plenary of Anti Corruption and Money Laundering working subgroup meeting organized by Organization for Democracy and Economic Development (GUAM) Secretariat.

Representatives of FMS also participated at the 11th 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 22-23, 2019).

- *Legislative Framework*

In 2019, to fulfill the obligations under the Association Agreement between Georgia and EU, as well as to harmonize ML prevention legislation of Georgian 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 Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing and legislative amendments necessary for the adoption connected to the law was concluded.

On October 30, 2019, parliament of Georgia adopted Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing. The new law and relevant amendments, based on requirements of FATF recommendations and EU directive, ensured implementation of a risk based approach on national, sectorial and private sector level. Money Laundering and Terrorism Financing preventive mechanisms are regulated in a new manner, considering international recommendations, the list of obliged entities and their obligations, together with the obligations of supervisory authorities were reconsidered.

On October 30, 2019, the government of Georgia with the decree #2257 adopted National Risk Assessment report of Georgia and action plan. The document was adopted according to

FATF standards and relevant best international examples of other countries. NRA report aims to analyze, assess ML/TF risks; to raise awareness of private and public sector representatives on ML/TF risks. The main findings of NRA report, shall assist national agencies to define priorities taking into account the risks and distribute resources accordingly. The information referred to in NRA report shall assist financial and non-financial institutions to identify ML/TF risks associated with their activities. It's worth mentioning, that within the program of Council of Europe and European Union - Partnership For Good Governance, and its project "Strengthening measures to prevent and combat economic crime", on October 18, 2019, for the representatives of relevant private and public sectors, with the participation of FMS and EU experts, the presentations on National Risk Assessment Draft report was held.

In 2019, FMS continued its work on updating the lists of terrorists or persons supporting terrorism. 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 on the website of Financial Monitoring Service of Georgia and distributed to the obliged entities.

- *Trainings and Seminars*

During the year 2019, FMS continued organizing trainings and seminars for different categories of obliged entities. 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:

- Seminar on Money Laundering and Drugs offences organized by European Union in Tbilisi, Georgia (January 30-31, 2019);
- Conference on ML/TF combatting and preventing mechanisms in Georgia, Organized by Gambling Association of Georgia, in Katchreti, Georgia (March 21, 2019);
- Training-Seminar for assessors in 5th round mutual evaluation, organized by MONEYVAL and FATF, in Ostia (April 7-13, 2019);
- Assessment and Compliance meeting, organized by FATF, in Paris, France (8-11 September, 2019);

- Regional Training on Growing cryptocurrency and risks associated therein: ML, drugs and corruption, in Minsk, Belarus (24-28 September, 2019)
- Training on investigation of illegal use of cryptocurrency, organized by International Law Enforcement Academy – ILEA, in Budapest, Hungary (October 13-26, 2019);
- Seminar on aspects of financial investigation in Trafficking in human beings cases, organized by Ministry of Justice of Georgia and IOM, in Tbilisi, Georgia (25-27 November, 2019);
- Training on Investigation and prosecution of TF cases, organized by European Union, in Tbilisi, Georgia (27-28 November, 2019).