

LEPL FINANCIAL MONITORING SERVICE OF GEORGIA
ANNUAL REPORT
2020

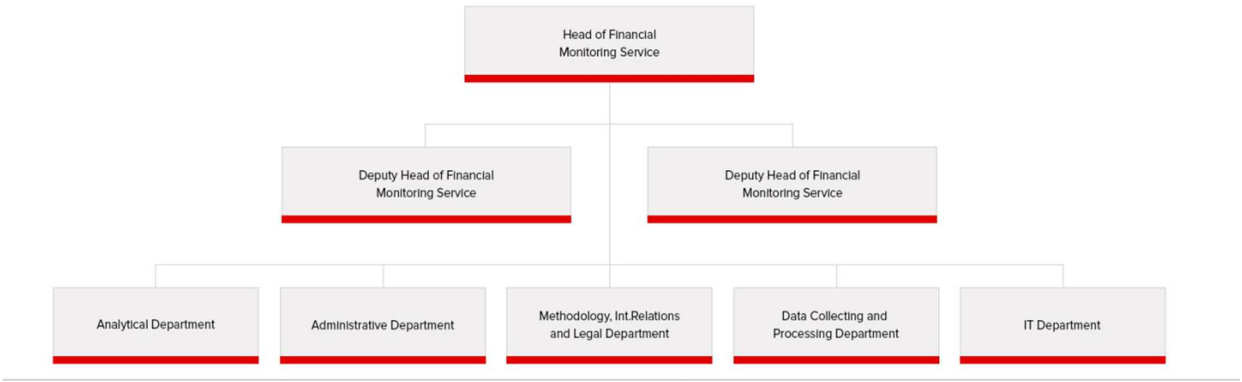
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- *Goals and Objectives, Areas of Activity*

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 the Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing (AML/CFT Law) and according to other legislative acts and bylaws. FMS seeks to detect and prevent criminal offences by examining and analyzing the information on suspicious and other transactions 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.

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:



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[1] 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, investment fund[2].

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. [3]

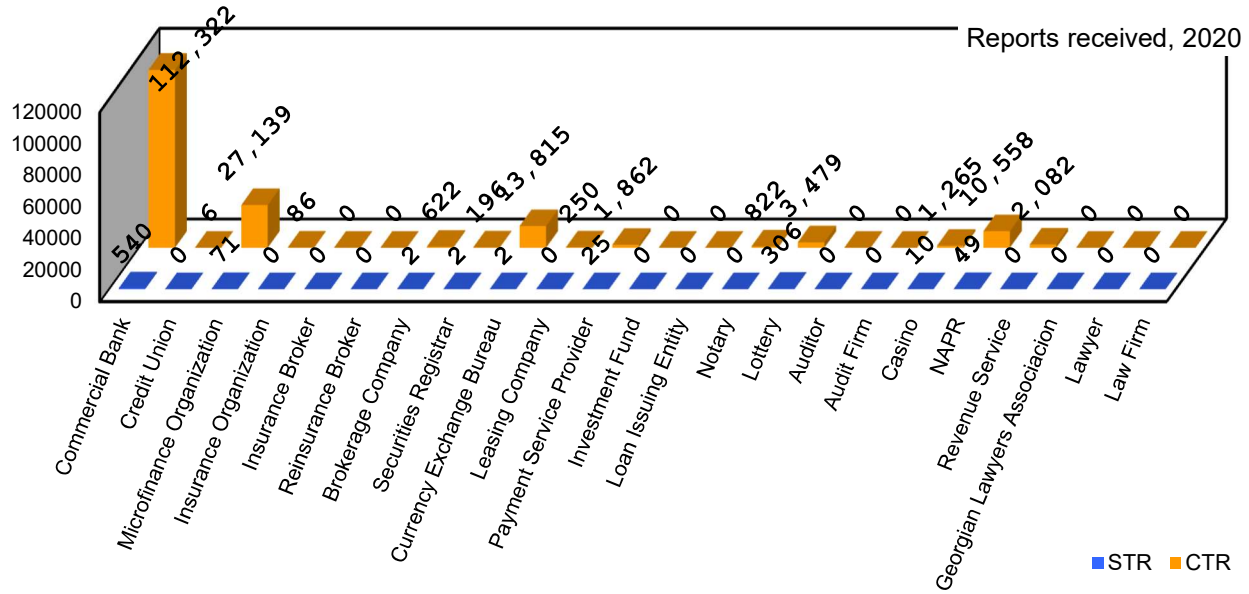
The Statistics of information received by FMS in 2020, are as follows:[4]

Obliged Entity	Total Reports Received	Above the prescribed threshold	Suspicious	Terrorism FInancing
Commercial Banks	112862	112322	540	9
Credit Unions	6	6	0	0
Microfinance Organizations	27210	27139	71	3
Insurance Companies	86	86	0	0
Insurance Broker	0	0	0	0
Reinsurance Broker	0	0	0	0
Brokerage Companies	624	622	2	0
Securities Registrars'	198	196	2	0

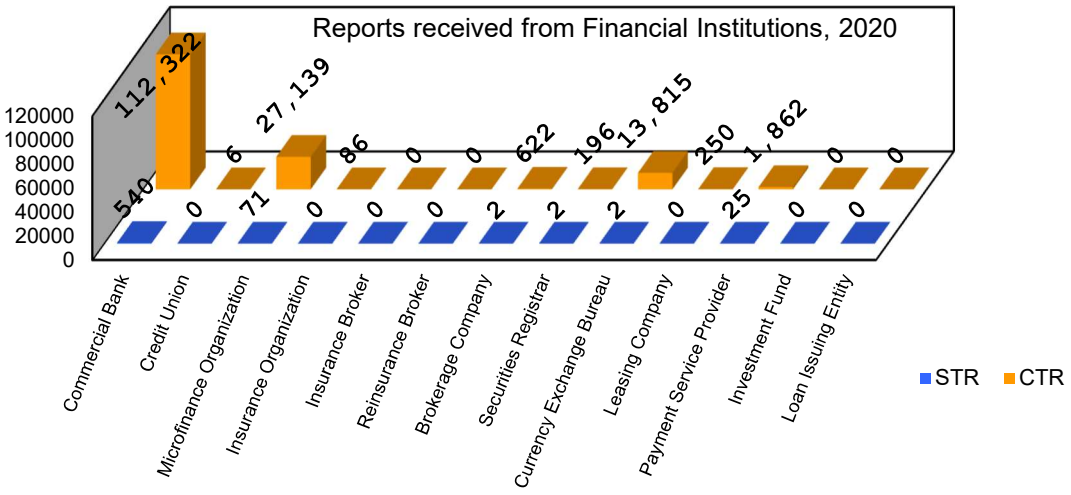
[1] Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing Article 3.
[2] Investment bank is an obliged entity according to the amendments made in AML/CFT law on July 22, 2020.
[3] Law of Georgia on Facilitating the Suppression of Money Laundering and Terrorism Financing Article 25(2).
[4] 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 (in force until October 30, 2019) shall be in force until relevant regulations referred to in this Law are adopted. Therefore, Statistics on information received in 2020, includes the data on reports received according to the acts in force before the adoption of new bylaws (October 20,2020).

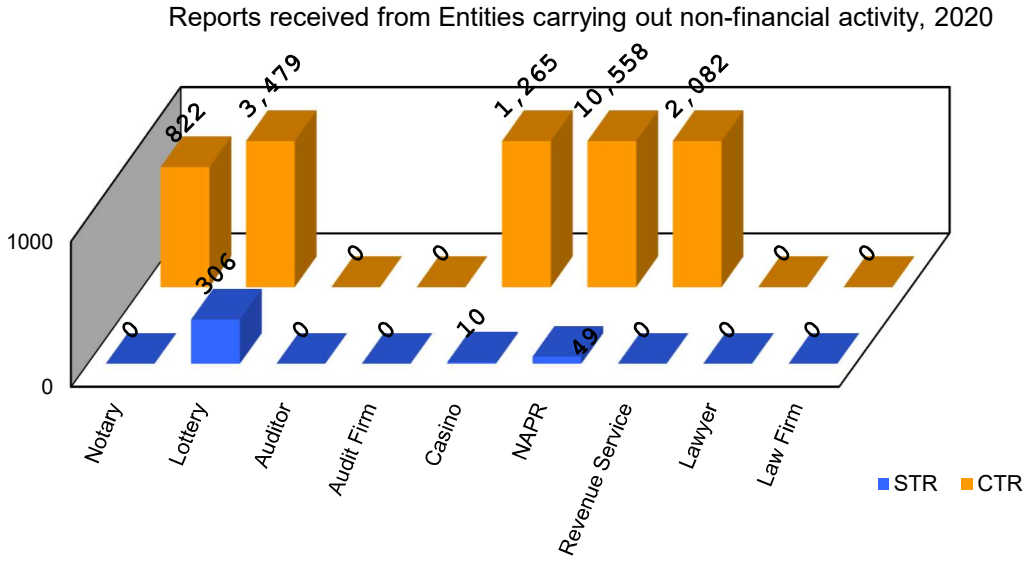
Currency Exchange Bureaus	13817	13815	2	0
Leasing companies	250	250	0	0
Payment Service Provider	1887	1862	25	13
Investment Fund	0	0	0	0
Loan Issuing Entity	0	0	0	0
Notaries	822	822	0	0
Entities Organizing lotteries, gambling and other commercial games	3785	3479	306	1
Auditor	0	0	0	0
Audit Firm	0	0	0	0
Casinos	1275	1265	10	10
The National Agency of Public Registry	10607	10558	49	0
The Revenue Service (Customs)	2082	2082	0	0
Bar association	0	0	0	0
Lawyer	0	0	0	0
Law firm	0	0	0	0
Total	175511	174504	1007	36

The chart demonstrates the number of reports received by FMS in 2020:



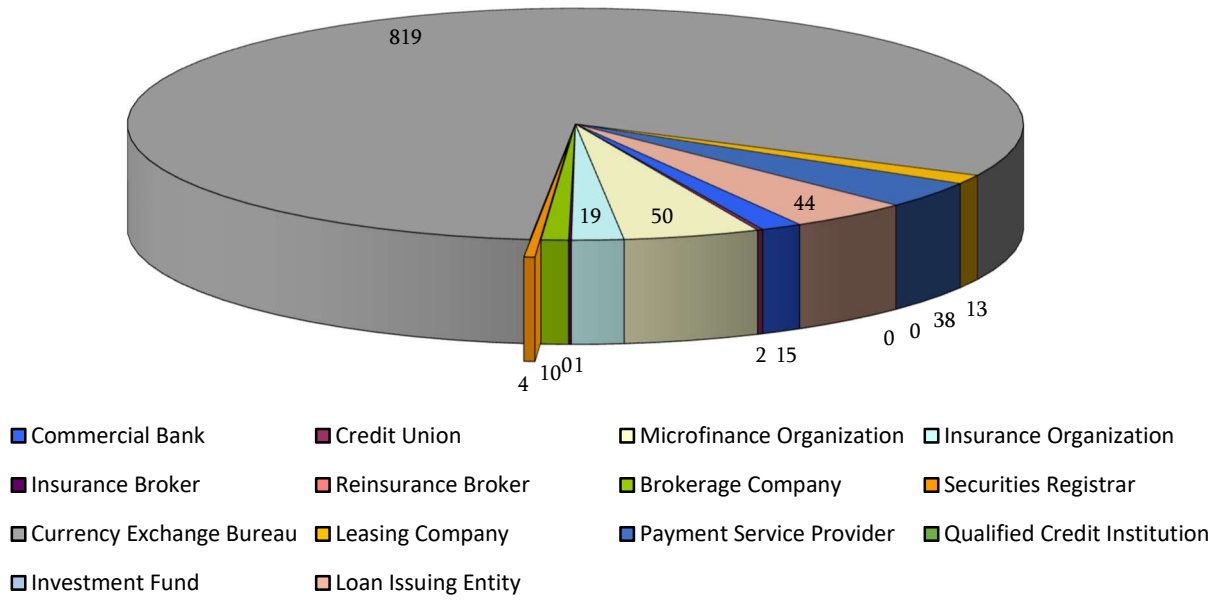
The chart demonstrates the number of reports received by FMS divided between the financial and non-financial sectors:





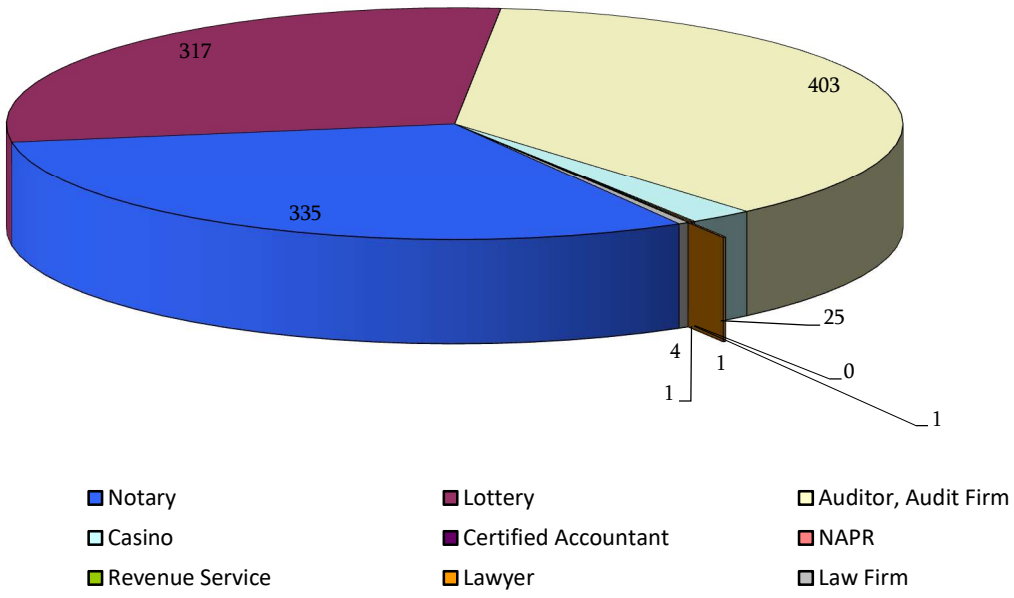
As of 1 January 2021, representatives of Georgia's financial sector designated as the obliged entities by the AML/CFT Law and registered at FMS include: 15 commercial banks, 2 credit unions, 50 microfinance organizations, 19 insurance organizations and founders of non-state pension schemes, 10 brokerage companies, 1 insurance broker, 4 securities' registrars, 819 currency exchange bureaus, 13 leasing companies, 38 payment service providers and 44 loan issuing entity.

Financial Sector, 2020

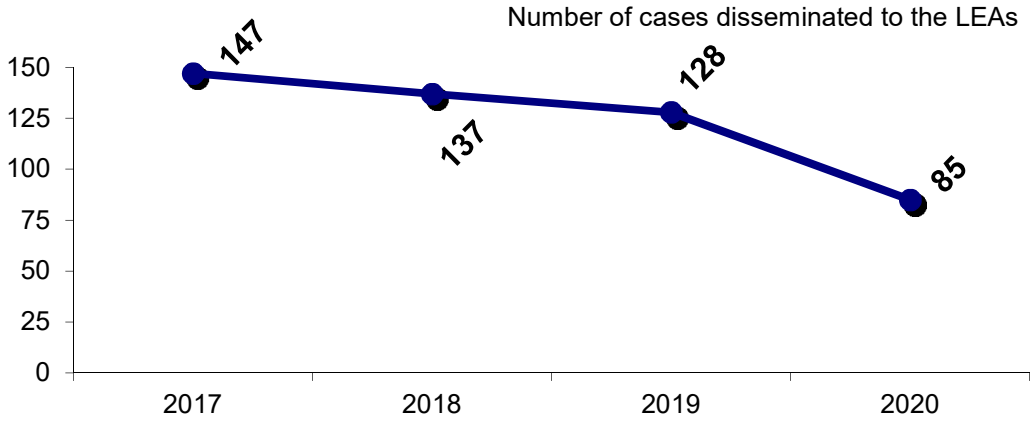


As of 1 January 2021, representatives of Georgia's non-financial sector designated as the obliged entities by the AML/CFT Law and are registered in FMS include: 335 notaries, 317 entities organizing lotteries, gambling and other commercial games, 403 auditing firms, 25 casinos, the National Agency of Public Registry, the Revenue Service (customs) and 1 lawyer and 4 law firms.

non-financial Sector, 2020

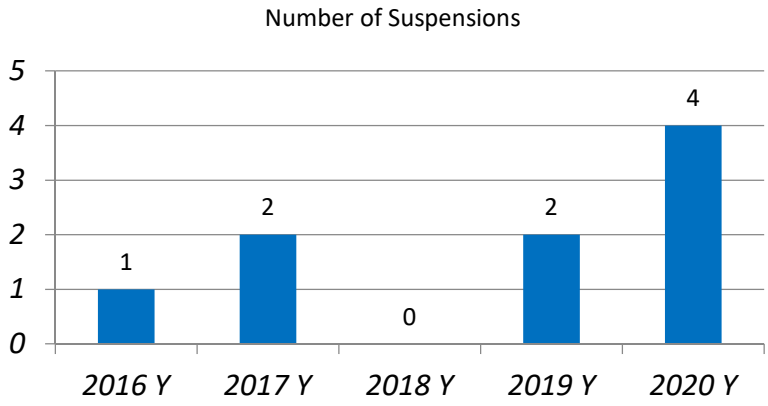


In 2020, based on the analysis of reports received from the obliged entities and other information obtained, FMS disseminated according to AML/CFT law to the respective agencies of the Chief Prosecutor's Office of Georgia, the State Security Service of Georgia, the Ministry of Internal affairs of Georgia and Revenue Service of Georgia 85 cases (including 1 cases of potential terrorism financing). The decline in the number of the disseminated cases to the LEAs and Revenue Service compared to the previous years is the result of Covid19 Global pandemic, that negatively affected the economic growth of Georgian and partner countries' economies and thus resulted in the decreased number of the transactions in this period. The graph demonstrating the dynamic of the number of disseminated cases to LEAs and Revenue Service during the years of 2017-2020 looks as follows:



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 4 times in 2020, inter alia, in one case as a result of analyzing the information in the question received from the foreign counterpart. The statistics on the number of suspensions is as follows:

[5] Article 36 of AML/CFT law



- *Typologies*

As a result of Covid19 pandemic, the number of transactions in Georgia decreased, therefore the information from the financial sector ought to be analyzed by Financial Monitoring Service of Georgia, significantly decreased. In 2020, 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 cybercrime in nature, conducted in order to legalize funds obtained via different ways (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.). In these cases, traditionally, criminals were using bank accounts or quick money transfers to move funds; Though, FMS believes, that the use of e-wallets and accounts of online gambling users became more frequent for the same purposes. In these cases, as a rule the funds from bank accounts/cards are transferred to online gambling accounts, that are subsequently transferred to the accounts owned by criminals or persons connected with them. The cases related to obtaining customers' confidential banking information through social engineering and fake websites continued in 2020.

Similar to the previous years, in 2020, the use of legal entities established in Georgia, having similar names to the legitimate international more or less famous legal entities established abroad, was occurring. This method is used to disorientate foreign traders – victims of fraud, attention during the international transaction. FMS sent instruction to commercial banks concerning these cases in previous year.

In parallel to the spread of Covid19 pandemic, the new type of scam evolved – Covid-Scam. Dramatic increase in demand for single use hygienic and protection products (masks, single use medical gloves, antibacterial solutions etc.) gave criminals opportunity to frame new type

of scheme. Criminals started contacting the clients eager to buy hygienic and protection products, offering them the products "from their supply stock" or "from their partner manufacturers" (in frequent cases, real manufacturers from South-Asia), with the condition of upfront payment of certain amount of full price (approximately 30-40%), therefore, these funds went to the pockets of criminals and customers received no product.

Similar to previous years, in 2020, several cases sent to LEAS, were related to the persons, wanted by foreign law enforcement authorities, some of them were listed in international "black lists", such as Interpol list, OFAC etc.

In 2020, the use of Georgian bank accounts for the transit purposes continued. Companies (including companies registered in different free industrial zones of Georgia) were used for depositing and then transferring funds in third countries, the turnover frequently amounted equivalent of several million GEL. Per usual, the activities of such legal companies are not in the economical connection with Georgia.

In 2020, the trend of transactions conducted by call centers grew. Those companies call potential customers abroad and offer to purchase different kind of products, to make investment, currency binary options trading 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") or loses the funds made for the investment ("investment Scam").

During the year, the trend where unknown persons offered victims the "products" and "service" using social networks, either by messaging or through advertisements, continued. In these cases, customer refers to the financial institution, stating that no service was received and funds were lost. As the persons assisting such crimes, as well as the global restrictions promoting formed environment for the e-commerce, minimal financial risk from the side of the criminals and the improper caution from the online customers, still exists, presumably such trend will continue.

- *International Evaluation/Domestic and International Cooperation*

On September 14-18, 2020, Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) on its 60th plenary meeting discussed and adopted mutual evaluation report of Georgia. The report taking into consideration international standards, analyzes and assesses country's national framework to prevent ML/TF, according to which the country is given recommendations on both

technical and effectiveness level and in order to enhance institutional mechanisms based on the criteria defined under Financial Action Task Force (FATF) recommendations.

The fifth round mutual evaluation report positively assesses the ML/TF prevention measures conducted during the years 2014-2019, inter alia adopting National Risk Assessment Report, the measures conducted to harmonize national laws with international standards, measures towards enhancing cooperation between FMS and LEAs and steps taken to ensure effective supervision of financial sector. The Mutual Evaluation Report acknowledges the high level of understanding of money laundering and terrorism financing risks present in Georgia by Financial Monitoring Service of Georgia, as well as measures taken in order to improve the quality of STRs reported are positively assessed. The Mutual Evaluation Report underlines that the disseminations made by FMS to LEAs have been numerously used for the opening of an investigation and beginning the prosecution. MER discusses and acknowledges operational independence of FMS and its capabilities to have the access to different information and sources, including direct access to certain information and international databases, that eventually positively influences on the effective analysis of the information contained in FMS and on development process of intelligence information.

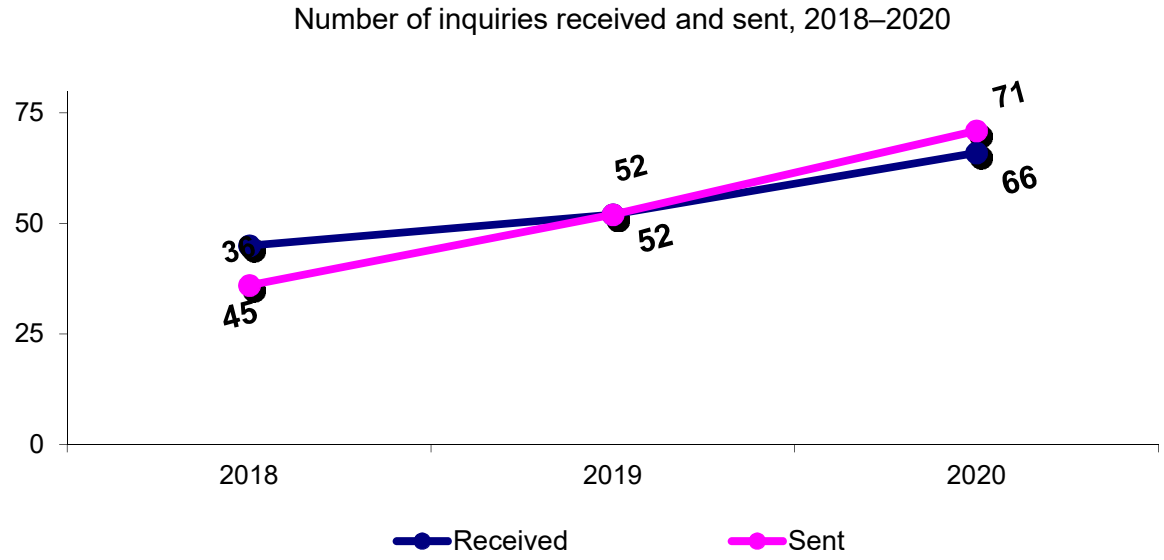
MER underlines that the restrictions in force during the assessment period interfered effective capabilities of information sharing between FMS and LEAs, that is why the country is given a recommendation to take further steps in order to fill this gap, including removal of any restriction on information sharing.

The MER also discusses institutional capabilities of supervisory authorities under AML/CFT law and their ability to effectively put supervisory measures in the respective sector. The MER underlines the role of the National Bank of Georgia and emphasizes the effective supervisory policy to limit the risks associated with the financial sector. According to the report major enhancements are needed in the direction of DNFBP sector supervision, that inter alia can be evolved in creation of the respective supervisory division, strictening sanctions, introducing market entry criteria, publishing guidelines, enhancing cooperation with the sector etc. Furthermore, report underlines the need to further broaden the list of obliged entities in accordance with FATF standards and the country is given recommendations with regards to this finding.

5th round Mutual Evaluation Report of Georgia is an acknowledgement of successfully introduced measures and effective work done by the authorities participating in it and the organizations involved, during the period of last years in the sense to prevent ML/TF.

In 2020, representatives of FMS participated in the work of 12th meeting of the Conference of the Parties (COP) to the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism. (October 27-28, 2020, Strasbourg).

FMS continued bilateral cooperation with the corresponding foreign agencies. In 2020, FMS received 66 requests for information from financial intelligence units (FIUs) of different countries and responded to all of them. FMS sent out 71 requests to its foreign counterparts and received 62 responses. FMS also made 16 spontaneous disseminations on potential money laundering cases to foreign FIUs, while receiving 45 such disseminations.



In 2020, 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.

- ***Normative-Legislative Framework***

In 2020, FMS continued its work on ML/TF normative-legislative framework. Considering the fact, that the AML/CFT law adopted on October 30, 2019, in its transitional Articles, provided for that the acts in force and adopted under the previous AML/CFT law, continued to be in force before the adoption of new normative acts under the new AML/CFT law, FMS on June 5, 2020 adopted The Order N 1 of the Head of the Financial Monitoring Service of Georgia "On Approval of the Rule on Record-keeping, Storage and Reporting of the Information on the Transaction by Obliged Entity to the Financial Monitoring Service of Georgia and the

Order №2 Of the Head of the Financial Monitoring Service of Georgia "On Approval of the Procedure of Identification and Verification of a Customer by Obliged Entity".
These normative acts, according to AML/CFT law, defines the rules for obliged entities, on record keeping, storage, as well as types of suspicious and threshold based transactions to be reported to FMS, as well as identification and verification data, information and documents for the obliged entity to identify and verify the client and the person acting on its behalf, as well as the rules to keep and update these information, to notirize and register. Abovementioned normative acts are in force since October 20, 2020, therefore before the enactment of new normative acts, FMS conducted awareness raising consultations with the obliged entities and public sector.

- *Trainings and Seminars*

Despite of the restrictions introduced due to Covid-19 pandemic, awareness raising online seminars and workshops continued during the year 2020. EU and Council of Europe Partnership for Good Governance project to strengthen the mechanisms including measures on prevention and combating corruption, and measures on prevention and combating money-laundering/terrorist financing", with the cooperation with FMS, on November 5-6, 2020, the online training was held for financial institutions on "effective Implementations of ML/TF requirements" and on November 23-24, online training for the gambling sector representatives on "compliance with the ML/TF requirements for casinos and online gambling games" was conducted.
In 2020, in order to raise awareness on obligations under AML/CFT law for notaries, FMS, together with the Notary Chamber of Georgia, conducted online training for the notaries in sector.

During the year, 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:

July 27 – FATF Webinar on Money Laundering and the Illegal Wildlife Trade;
July 30 – FATF webinar on the COVID ML/TF risk landscape;
July 31 – FATF webinar on the Impact of COVID on ML/TF detection;
November 17-18 – TAIEX international online workshop on "Security risks in the era of Covid19 pandemic"'
September 26 – Seminar organized by GEORGIAN CENTER FOR STRATEGY AND DEVELOPMENT and financed by Norwegian Ministry of Foreign Affairs on "Enhancing Georgian Capabilities for the prevention of violent extremism and radicalization"