

LEPL FINANCIAL MONITORING SERVICE OF GEORGIA

ANNUAL REPORT

2023

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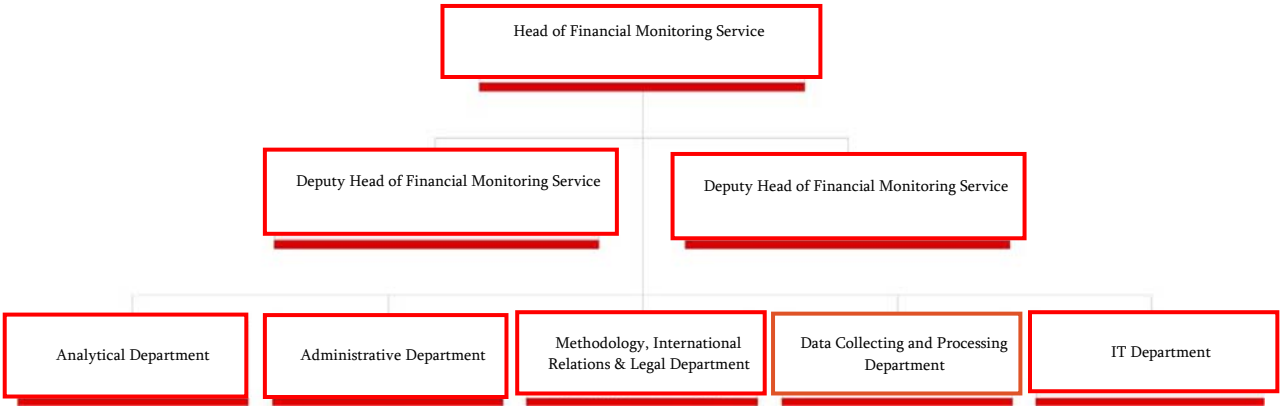
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Goals and Objectives, Main Areas of Activity

The Legal Entity of Public Law (LEPL) - Financial Monitoring Service of Georgia (FMS) - as the authority responsible for the 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" 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 the Decree No. 658 of the government of Georgia, dated December 26, 2019.The organizational structure of the Financial Monitoring Service of Georgia in 2023 was as follows:



FMS staff and amount of the salaries for the employees have been approved by the Prime Minister of Georgia, Order No. 296 dated 28 December, 2022. There are 27 established staff positions within the 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, 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 without assigned asset management company; virtual asset service provider; microbank; asset management company, central depository licensed by the National Bank of Georgia.

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, the FMS, through a subordinate normative act, determines the types of transactions to be reported by the obliged entities to the FMS [2]. Taking the above into account, the statistical data concerning the information received by the FMS throughout 2023 is as follows:

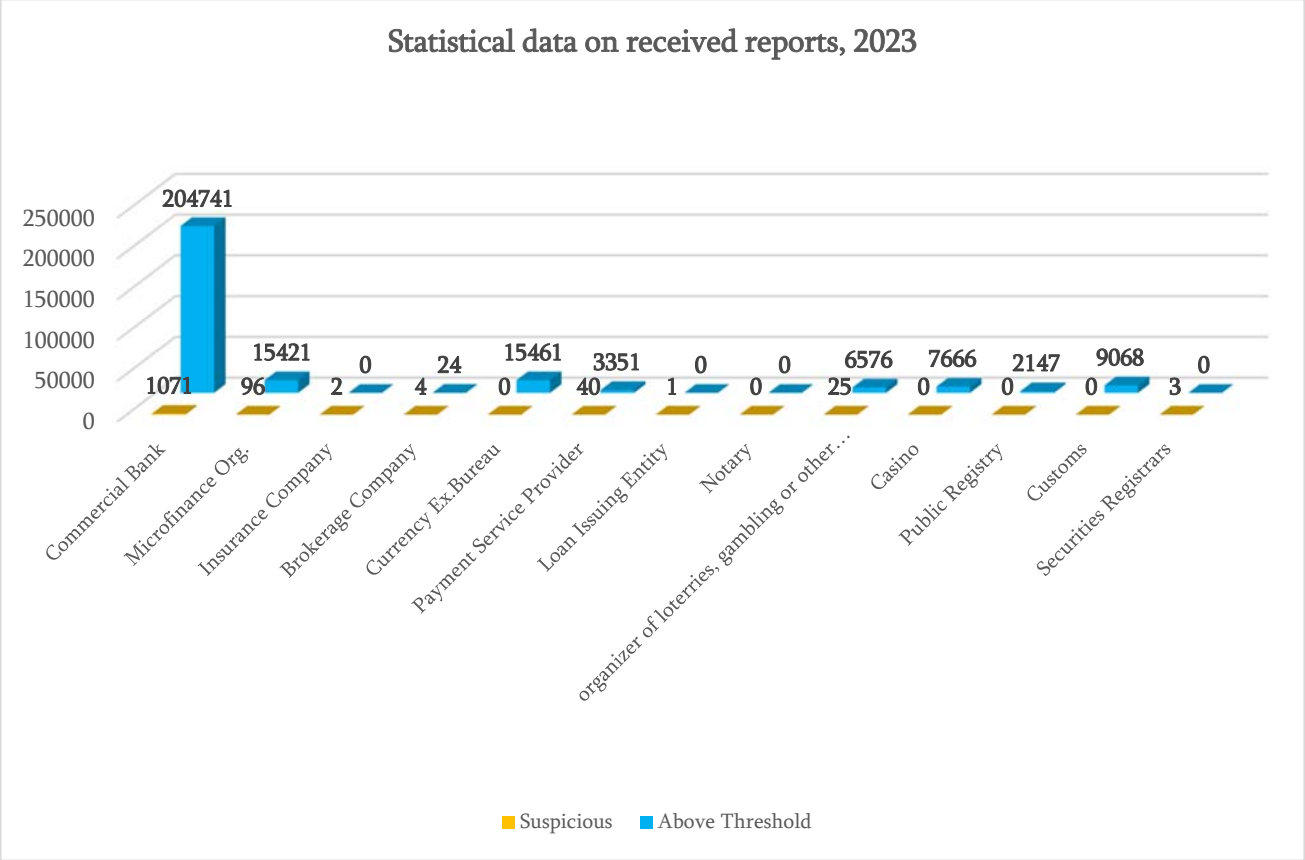
[1] Article 3 of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing".

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

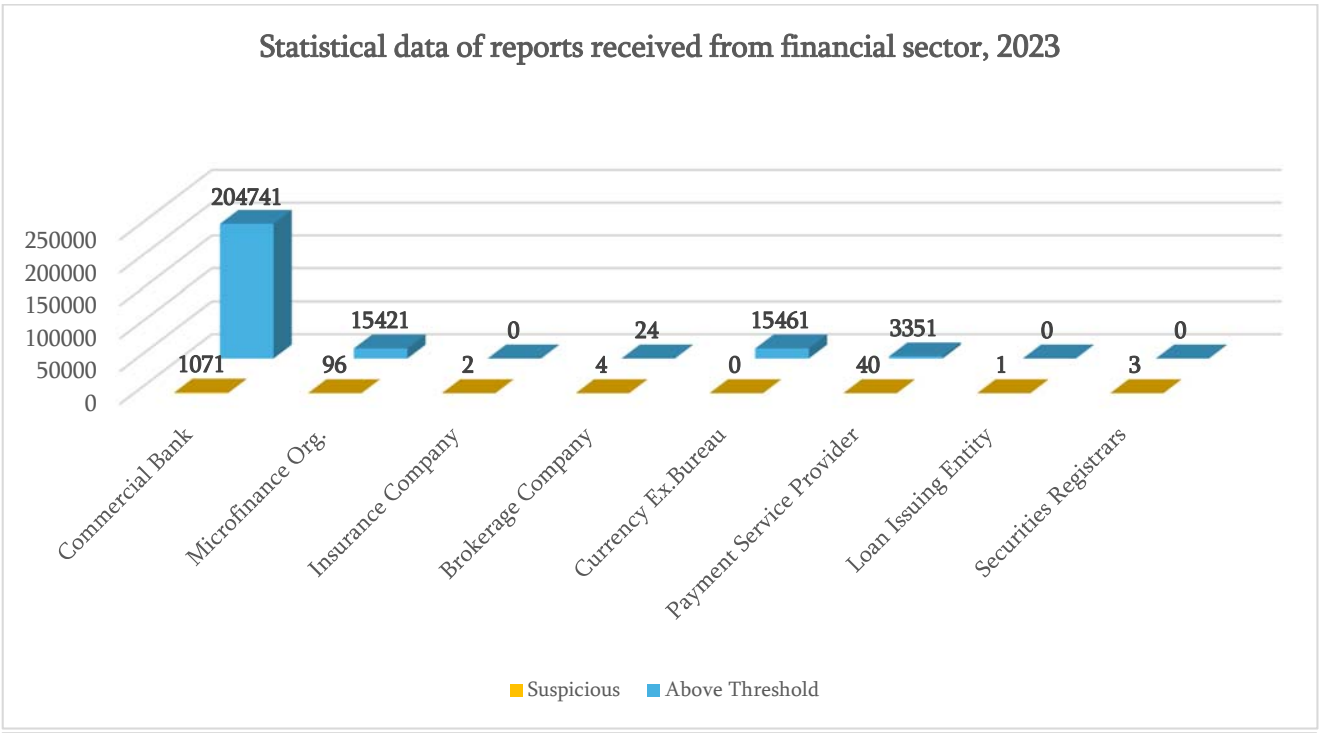
Obliged Entities	A total Number of Transaction Reports	Threshold-Based Transaction Reports	Suspicious Transaction Reports	Among Them Terrorism Financing
Commercial Bank	205812	204741	1071	7
Microfinance Organization	15517	15421	96	2
Insurance Company	2	0	2	0
Brokerage Company	28	24	4	0
Currency Exchange Bureau	15461	15461	0	0
Payment Service Provider	3391	3351	40	0
Loan Issuing Entity	1	0	1	0
Notary	0	0	0	0
organizer of lotteries, gambling or other commercial games	6601	6576	25	0
Casino	7666	7666	0	0
The National Agency of Public Registry	2147	2147	0	0
Customs	9068	9068	0	0
Securities Registrars	3	0	3	0

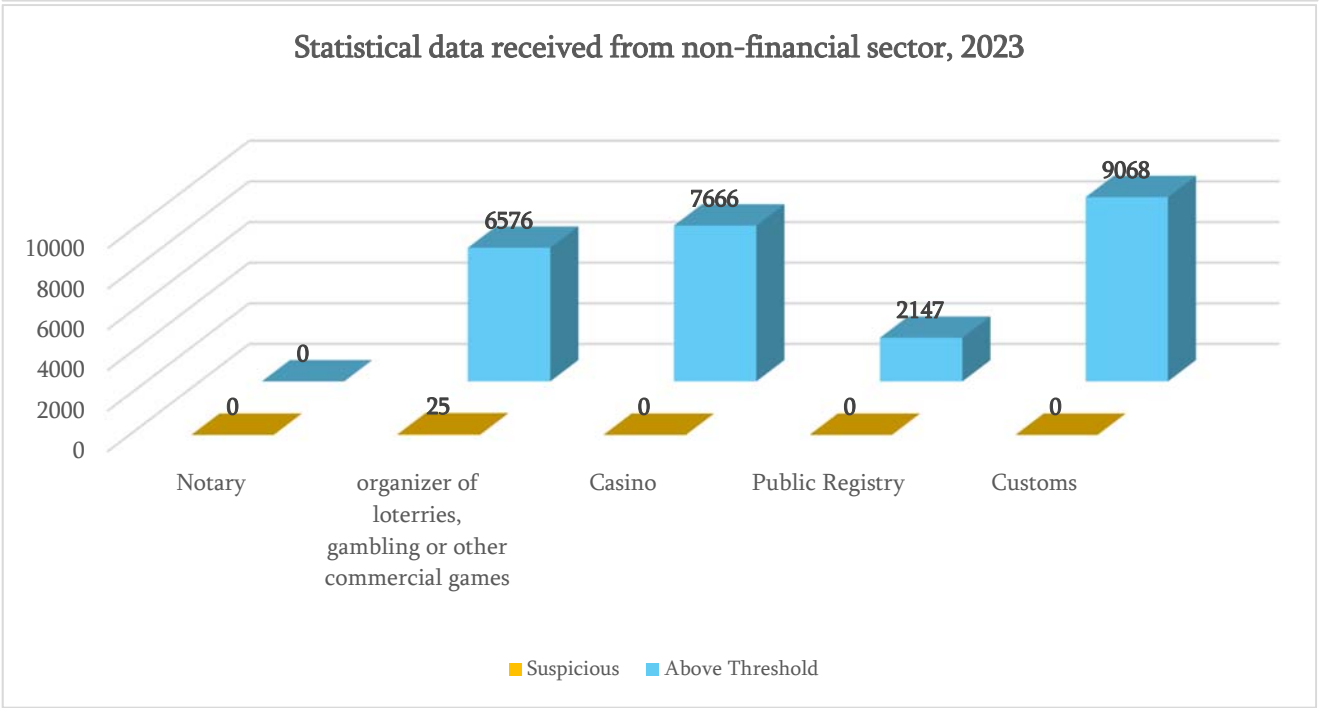
Total	**265697**	**264455**	**1242**	**9**

A number of reports received by the FMS throughout 2023 is presented graphically as follows:



Accordingly, based on the systematization of statistical data, the number of reports received in 2023 from financial institutions (including commercial banks) and non-financial institutions is as follows:


Statistical data of reports received from financial sector, 2023
250000
200000
150000
100000
50000
0
204741
1071
15421
96
0
2
24
4
15461
0
3351
40
0
1
0
3
Commercial Bank
Microfinance Org.
Insurance Company
Brokerage Company
Currency Ex.Bureau
Payment Service Provider
Loan Issuing Entity
Securities Registrars
Suspicious
Above Threshold

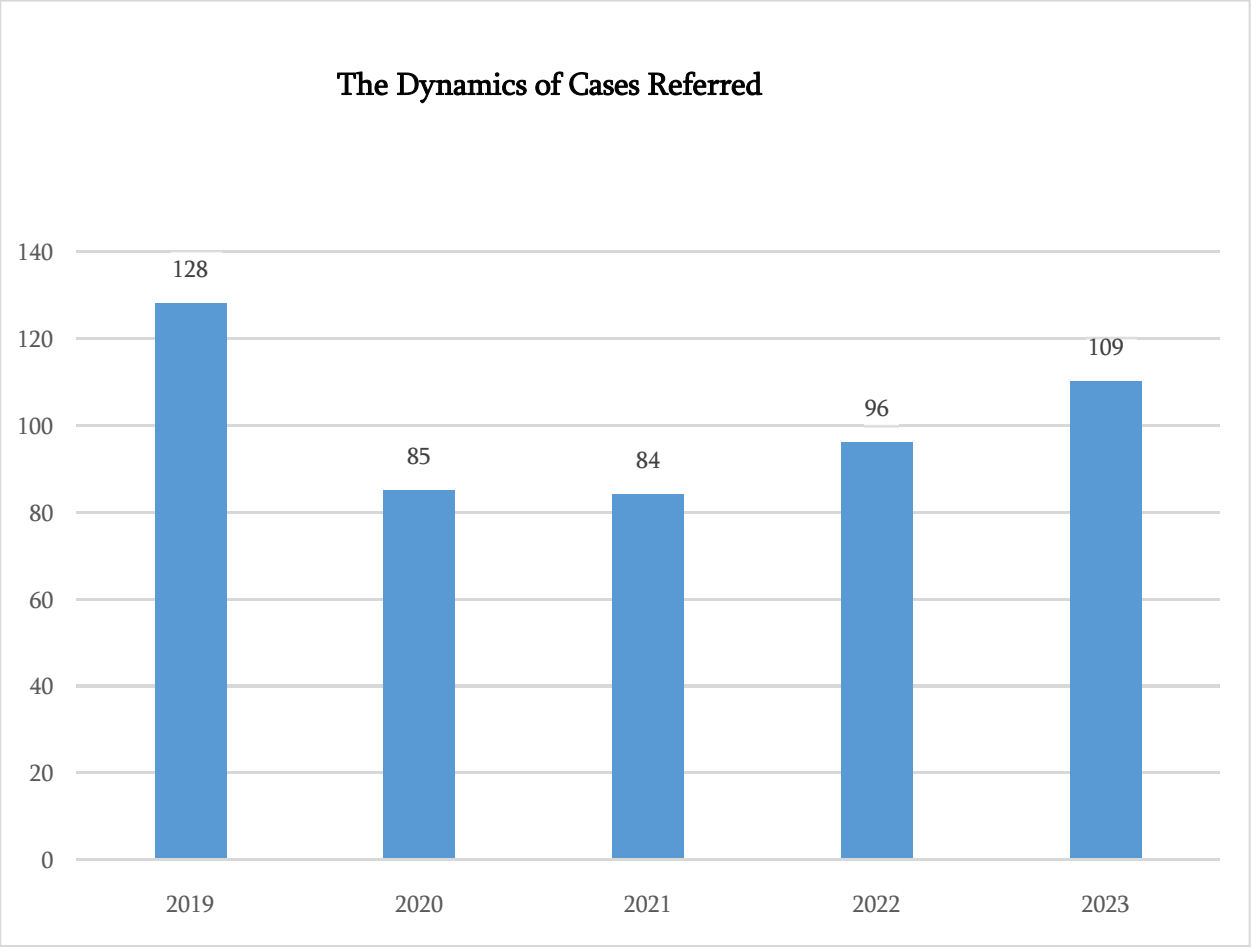

Statistical data received from non-financial sector, 2023
10000
8000
6000
4000
2000
0
0
0
6576
25
7666
0
2147
0
9068
0
Notary
organizer of loterries, gambling or other commercial games
Casino
Public Registry
Customs
Suspicious
Above Threshold

As of December 31, 2023, obliged entities defined by the law and registered within the FMS, representing the financial sector of Georgia, included: 17 commercial banks, 2 credit unions, 49 microfinance organizations, 17 insurance organizations, 2 founders of a non-state pension scheme, 10 brokerage companies, 20 insurance brokers, 1 reinsurance broker, 4 securities registrars, 977 currency exchange bureaus, 15 leasing companies, 45 payment service providers, 147 loan issuing entities, 6 investment funds and 1 virtual asset service provider.

As of December 31, 2023, obliged entities defined by the law and registered within the FMS, representing the non-financial sector of Georgia, included: 368 notaries, 484 organizer of lotteries, gambling and other commercial games, 32 auditors, 452 auditing companies, 39 casinos, the National Agency of the Public Register, the Revenue Service (customs), 1 lawyer, 3 law firms, 1 Georgian Bar Association, 39 certified accountants, 41 accountant providing professional services and 54 accounting firms.

Based on the analysis of the reports received in 2023 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 Suppression of Money Laundering and Terrorism Financing", transferred 109 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 3 cases concerning alleged instances of possible terrorism financing, 37 cases regarding on 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 authorities and the Revenue Service during 2019-2023.



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. The FMS exercised such authority and suspended the execution of transactions 3 times in 2023. 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 the FMS during 2023 was related to different forms of fraud manifested in various methods (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 - primarily bank accounts and cash withdrawals - were used for moving criminal assets along with various electronic wallets through which transactions were carried out using cryptocurrency to cover the money trail.

The volume of transactions potentially conducted by the call centers was significant in 2023. However, following appropriate measures taken by law enforcement authorities a significant decline was observed both in the number of transactions and amounts of funds. These types of companies are typically established to target vulnerable potential clients abroad offering and persuading them to purchase different products, make investments, place bets on currency (cryptocurrency) exchange rates and binary options etc. through aggressive marketing tactics. Victims of fraudulent call centers either do not receive pre-agreed service at all or receive

services of significantly lower quality (the so-called *Boiler-Room Scam*) or lose the funds invested (commonly referred to as *Investment Scam*).

During a reporting period, as in previous years, certain individuals continued to offer services to customers through social media messaging and online advertisements. In such cases, after payment, the customer generally loses the money entirely. Particularly noteworthy is the increased number of the so-called phishing cases. In 2023 the use of fake websites and social network platforms to obtain customers' confidential banking information demonstrated a growing trend. Taking advantage of the victims' unawareness criminals lure them with offers of "profitable investment" (when the supposedly "returns" on the invested money significantly exceed the market rate) and "interesting job opportunities" etc. Victims voluntarily give access to their accounts after which the funds are transferred to the third parties. As in the previous year, the conditions facilitating this type of crime have not changed. Expansion of online commerce, the increased activity of social media users, minimal financial costs by fraudsters and lack of due diligence among the online users created a fertile environment for such crimes. 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 2023).

During 2023, as in previous years, the use of Georgian-based bank accounts for transit purposes continued by both legal entities and individuals. Transfers, cash deposits and subsequent transfers were made to the accounts to the third countries. In the majority of cases, these transactions had no economic link with Georgia while the total turnover sometimes reached the equivalent of several million GEL.

Attempts to circumvent the sanctions imposed on Russia and Belarus following Russia's invasion of Ukraine continued in 2023. In such cases a relatively simple and typical typology is applied. Funds are transferred from abroad to the account of a 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 is 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 the purchased goods generally do not enter Georgian territory. Upon identifying transactions of such typology, the obliged entities promptly terminate businesses with their clients.

Domestic and International Cooperation

The Inter-Agency Standing Commission, established pursuant to Ordinance No. 235 of May 31, 2022, issued by the the Government of Georgia, "on the establishment of an Inter-Agency Standing Commission and approval of its Statute, for the Purpose of Supporting the Prevention, Detection and Suppression of Money Laundering, Terrorism Financing and Financing of the Proliferation of Weapons of Mass Destruction", continued its activities throughout the year 2023. The Objective 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), as well as the provisions of the Association Agreement between Georgia and the European Union concerning the prevention of the misuse of the financial system for the purposes of money laundering or financing of terrorism. Furthermore. the Commission is also tasked to ensure the implementation of MONEYVAL recommendations.

The work of the Commission is chaired by the Head of the Financial Monitoring Service of Georgia while the Secretariat of the Commission is composed of FMS employees. The Commission is staffed with the representatives of all relevant agencies. Throughout the year 2023 the Commission held 2 sessions and several meetings with the Commission working group.

As a result, on April 4, 2023, under the resolution of the Government of Georgia the Commission approved[1] the National Strategy and Action Plan for the Prevention of Money Laundering and Terrorism Financing; furthermore, on October 3, 2023, under the Decree of the Government of Georgia [2] the Commission approved the National Risk Assessment Document for Money Laundering and Terrorism Financing in Georgia.

The Strategy and the Action Plan serve as a unified guiding document for state agencies enabling them over the next 3 years effectively and in coordination integrate measures into the national systems. 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

[1] No. 135 resolution of the Government of Georgia dated on April 4, 2023 "on Approval of the National Strategy of 2023-2026 on facilitating the Prevention, Detection and Suppression of Money Laundering, Terrorism Financing and Financing of the Proliferation of Weapons of Mass Destruction" and "2023-2026 Action Plan for the implementation of National Strategy on facilitating the Prevention, Detection and Suppression of Money Laundering, Terrorism Financing and Financing of the Proliferation of Weapons of Mass Destruction".

[2] Decree No. 1757 of the Government of Georgia dated on October 3, 2023 "on the Approval of the the National Risk Assessment Report for Money Laundering and Terrorism Financing in Georgia".

authorities, as well as implementation timelines and budget needed for performance of each activity.

The National Risk Assessment Document is based on the standards of Financial Action Task Force (FATF) and expertise of other countries. The purpose of the document is to raise awareness among competent authorities and representatives of private sector regarding the risks of money laundering and terrorism financing present in Georgia. This, in turn, assists authorities and private sector in the risk management and effective allocation of resources.

The National Risk Assessment Document is divided into two parts, the first part assesses risks at national level, and the second part addresses the analysis of sectoral risks.

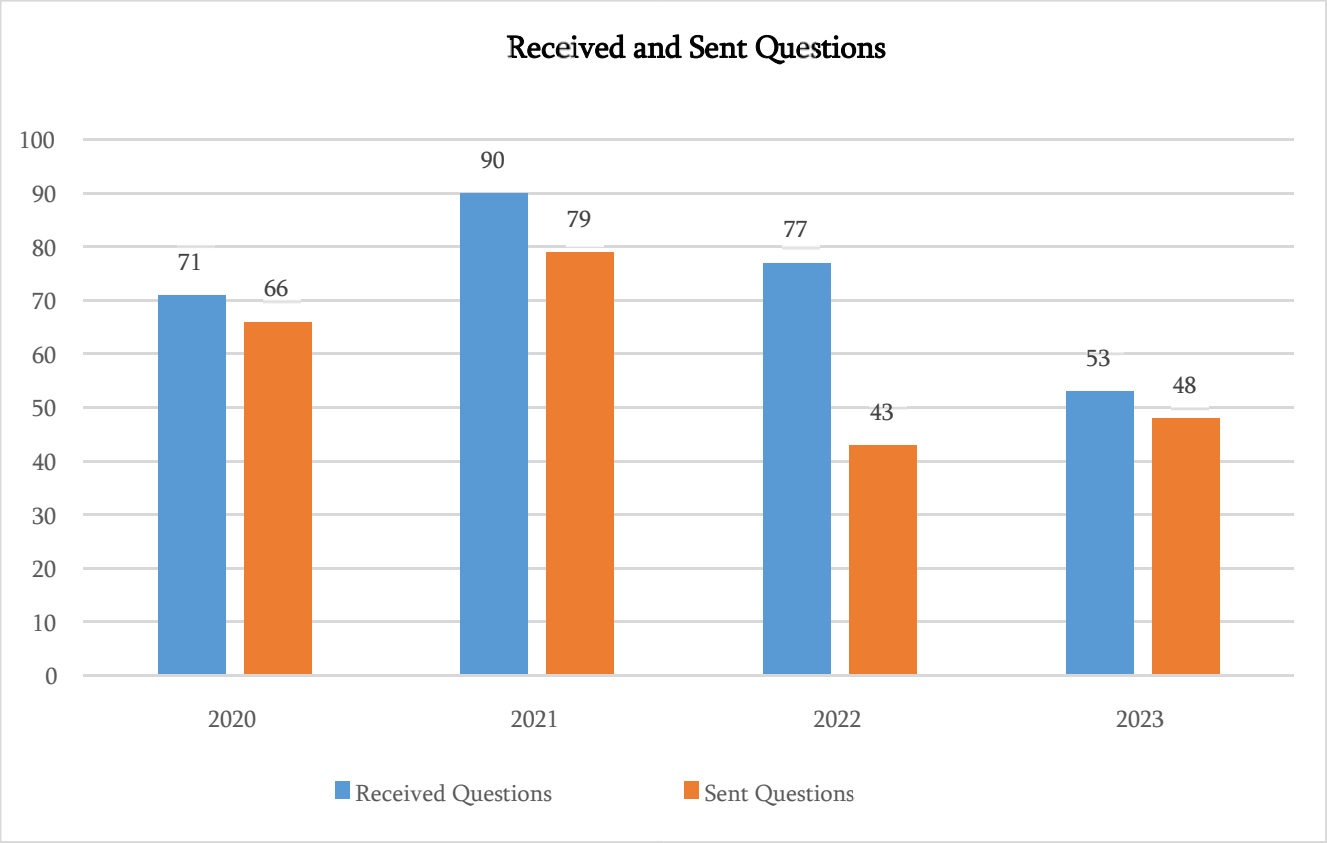
According to the findings of the National Risk Assessment Report, the effectiveness of Georgia's legal and institutional system in the field of prevention, detection and suppression of money laundering and terrorism financing was assessed as an average - high. The risk of money laundering was evaluated as average, while the risk of terrorism financing –low.

During the reporting year, the FMS of Georgia continued the 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 2023, 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 8-10, 2023, in Strasbourg.

Within the reporting year the FMS of Georgia continued bilateral cooperation with foreign counterparts. In 2023, 53 requests were received from financial Intelligence Units (FIUs) of different countries, 49 of them were provided with appropriate answers. In turn, the FMS sent 48 requests to foreign counterparts of which 45 were responded. In 2023 the FMS of Georgia shared information with the relevant organizations in foreign countries about 7 potential cases of money laundering, in return the FMS received 18 notifications about similar cases from foreign counterparts.



In 2023 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. Throughout 2023, Georgia underwent its second enhanced follow-up evaluation procedure.

For the effective conduct of the procedure, within the year of 2023, the FMS of Georgia introduced a significant amendment to the Law of Georgia on "Facilitating the Suppression of

Money Laundering and Terrorism Financing". As a result, the MONEYVAL Committee upgraded the country's rating on the Recommendation 12. This became possible by introducing clarifications to the definition of politically exposed persons (PEPs).

Specifically, according to the modifications dated May 16, 2023, an amendment is proposed to some articles of the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing". As a result, the term of money laundering is clarified addressing to all crimes specified in the Criminal Code; the obliged entities are tasked to identify and record the risks related to their activities and carry out effective measures to manage the identified risks, as well as consider the findings included in the National Risk Assessment document; the obliged entities are exempted from the obligations stipulated by the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing' only in strictly defined cases; a legal basis for the avoidance of the so-called tipping-off is introduced; the enhanced preventive measures are required to be carried out in case of increased risk instead of high risk, while simplified preventive measures are required to be implemented in case of lower risk instead of low risk; the term related to a person connected to a politically exposed person (PEP)was clarified, etc.;

In 2023, the 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.

According to the amendments introduced in the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing" on June 28, 2023, pension company, investment company without the assigned asset management company, asset management company were clarified as the obliged entities.

By the amendments of November 16, 2023, the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing" was amended to define a central depository licensed by the National Bank of Georgia as an obliged entity.

By the amendments of November 29, 2023, the Law of Georgia on "Facilitating the Suppression of Money Laundering and Terrorism Financing" was improved with respect to legal and institutional mechanisms related to persons included in the sanctions list maintained by the United Nations Sanctions Committee.

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

Trainings and Seminars

Within the year 2023, the 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 2023 FMS employees participated:

- February 28 – March 15, 2023 – Baku, participation in the 5th round evaluation of Azerbaijan for the compliance of money laundering and terrorism financing prevention effectiveness mechanisms by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and recommendations of the Financial Action Task Force (FATF).
- April 19-21, 2023 - Regional Cyber Exercise, Romania.
- April 23-26, 2023 – Warsaw, high level meeting planned by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).
- April 17-23, 2023 – Dublin, training organized by the United Nations Interregional Crime and Justice Research Institute (UNICRI).
- May 23-25, 2023 - VII Project Steering Committee and Regional Meeting on Financial Co-operation, Moldova.
- May 24 – June 4, 2023 – Busan, training - FATF Standards Training Course organized by the Organization for Economic Co-operation and Development (OECD) and Financial Action Task Force (FATF).
- June 21, 2023 - 23rd Meeting of the Working Subgroup on Anti-Corruption and Money Laundering, GUAM, online meeting.
- June 22, 2023 - ACAMS EURASIA Chapter and LexisNexis Event, Tbilisi.
- August 1, 2023 - Chainalysis Reactor Workshop, Tbilisi.
- October 2-4, 2023 - EXBS-K2I Sanctions Capacity Building Program with the support of Export Control and Related Border Security Program of the Embassy of the United States (EXBS), Tbilisi.
- October 9-13, 2023 – Antalya, Regional Seminar on Cooperation and Information Sharing with the Private Sector in the Investigation of Financial and Cybercrime, jointly organized by the Council of Europe and Turkish Financial Crimes Investigation Board (MASAK).
- October 10-12, 2023 - Joint Regional Meeting on Financial Cooperation - iPROCEEDS-2 and CyberEast projects, Türkiye.
- October 17-20, 2023 - OSCE advanced training on virtual assets investigations, Tbilisi.
- November 8-12, 2023, Strasbourg, the 15th meeting in the frames of 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.

- November 27-30, 2023 – learning course on security issues organized by the Georgian Centre for Strategy and Development (GCSD), Tbilisi.
- December 3-7, 2023 - Batumi, training – Money Laundering and Investigation of Related Crimes organized by the Department of Justice of the Embassy of the United States and Federal Bureau of Investigation of the USA.
- December 4-6, 2023 – Investigation of Crimes related to Money Laundering and Cryptocurrencies from the Perspective of the Federal Bureau of Investigation, Batumi.