GOVERNMENT OF GEORGIA
RESOLUTION
№ 236

March 18, 2014 Tbilisi

On Approving the Strategy and Action Plan for Combating Money Laundering and Terrorism Financing

Article 1

The enclosed Strategy and Action Plan for Combating Money Laundering and Terrorism Financing shall be approved pursuant to Articles 5 and 6 of *the Law of Georgia on the Structure, Authority and Rule of Procedure of the Government of Georgia*.

Article 2

The Resolution shall become effective upon promulgation.

Irakli Gharibashvili
Prime Minister

Strategy for Combating Money Laundering and Terrorism Financing (2014–2017)

Introduction

Fighting and prevention of transnational offences of money laundering and terrorism is one of the priorities of the Government of Georgia. The Strategy for Combating Money Laundering and Terrorism Financing (AML/CFT Strategy) was developed in accordance with the recommendations of the Financial Action Task Force (FATF) to further strengthen the existing AML/CFT framework in Georgia. The AML/CFT strategy will be in force for the period of 2014-2017. It is a living document and can be amended based on the experience acquired through its gradual implementation.

Existing Legislative and Institutional Framework

The legal system for the elimination of money laundering and terrorism financing has been in place in Georgia for over ten years. *The Law of Georgia on Facilitating the Prevention of Illicit Income Legalization* (AML/CFT Law) was adopted on 6 June 2003 and has been in force since 1 January 2004. The law represents major legal instrument for the prevention of

money laundering and terrorism financing. It regulates issues of detection of ML/FT offences, and prevention thereof, as well as modalities of cooperation between Georgian and foreign competent authorities and international organizations.

The AML/CFT Law and regulations adopted thereof by Financial Monitoring Service (FMS) and AML/CFT supervisory bodies in line with international standards define the responsibilities of monitoring entities in the field of combating money laundering and terrorism financing; set forth the procedure and terms of submission of relevant information to FMS by monitoring entities; provide for obligations with respect to protection and dissemination of confidential information, and mechanisms for local and international cooperation.

Amendments introduced to *the AML/CFT Law* on 25 November 2011 include separate provisions on the Governmental Commission Working on Matters Related to the Execution of the United Nations Resolutions. The law defines powers of the Commission and its working group.

The AML/CFT Law sets down the institutional framework in the field of prevention of money laundering and terrorism financing. The law designates supervisory bodies in charge of monitoring observance of relevant requirements by the monitoring entities, in particular:

National Bank is supervising commercial banks, currency exchange bureaus, qualified credit institutions, non-bank depository institutions, microfinance organizations, money remitters, brokerage companies and securities' registrars.

Insurance State Supervision Service is supervising insurance companies and non-state pension scheme founders.

Ministry of Finance is supervising entities organizing lotteries and other commercial games, and those engaged in activities related to precious metals, precious stones and products thereof, as well as antiquities, the Revenue Service, leasing companies, entities providing grants and charities.

Ministry of Justice is supervising notaries and the National Agency of Public Registry.

Self-regulatory organization and member of the International Federation of Accountants is supervising accountants and auditors.

Georgian Bar Association is supervising lawyers.

The AML/CFT Law defines the objectives and responsibilities of FMS. It acts as an independent body, and receives and analyzes information from the monitoring entities; sends relevant information to investigative authorities, when there are reasonable grounds to believe that the transaction is suspicious and is being implemented for ML/FT purposes or committing other related criminal offences.

The Criminal Code criminalizes money laundering and terrorism financing, and also provides for predicate offenses. In particular, all crimes punishable under the Criminal Code are considered as predicate offences for money laundering crime. Thus, all money laundering predicates provided for by the FATF recommendations are duly covered under the Georgian law.

Since 2007, a number of changes were introduced to the Criminal Code aimed at securing full-scale criminalization of money laundering. As a result, the current regime of criminalizing and prosecuting money laundering and predicate offences fully complies with international standards.

The Criminal Code additionally provides for the mechanism of asset forfeiture, which is essential for combating money laundering and terrorism financing (Article 52). It envisages confiscation of the object and instrumentalities of the criminal offence, items intended for the commission of crime and property acquired through criminal means. The asset forfeiture may also be applied against the property equivalent in value to the proceeds of crime.

The Law of Georgia on Operational - Investigative Activities defines operational measures and procedure for the detection and prevention of crime, including money laundering and terrorism financing offences.

The Civil Procedure Code (Chapter XLIV[1]) provides for civil forfeiture of illegal and undocumented property held by a convicted person, his/her family member, close relative or associate. This instrument is very important in fighting money laundering and terrorism financing, since unlike the criminal law mechanism of confiscation, a reversed burden of proof is applied in the context of civil forfeiture proceedings - respondent is required to prove the lawful origin of the property.

The Law of Georgia on International Cooperation in the Field of Criminal Law stipulates the procedure of providing mutual legal assistance, extradition and enforcement of foreign judgments in criminal cases, including those related to money laundering and terrorism financing.

The Law of Georgia on International Law Enforcement Cooperation regulates cooperation of Georgia's law enforcement agencies with corresponding institutions of other countries and

appropriate international organizations through the exchange of operational-investigative information and personal data, implementation of operational-investigative activities and collaboration in other areas. This cooperation is aimed *inter alia* at the prevention, detection and elimination of money laundering and terrorism financing offences.

Under the Georgian law, investigation of money laundering is the authority of the Chief Prosecutor's Office, while the Ministry of Internal Affairs investigates terrorism related crimes, including financing of terrorism. Investigation of money laundering and terrorism financing are conducted by specialized units of the Chief Prosecutor's Office and the Ministry of Internal Affairs.

The Goal and Objectives of the Strategy

The strategy aims to establish the effective national framework for combating money laundering and terrorism financing, which is compatible with international standards and will contribute to the prevention, early detection and reduction of money laundering and terrorism financing crime.

The objectives of the strategy include:

Development of risk-based public policy for combating money laundering and terrorism financing

This objective implies identification of money laundering and terrorism financing risks, and designing risk-based policy for the prevention of the ML/FT crime. In particular, the general, sectoral and thematic risk assessment will be conducted by relevant state and non-state agencies for identifying major ML/FT threats and vulnerabilities in order to determine policy priorities and to effectively allocate public resources. The difficulties identified through the risk assessment will be addressed by developing new instruments or revising those already provided for by the Georgian AML/CFT legislation and state supervisory policy in various sectors of the economy.

Harmonization of Georgian legislation with international standards in the field of combating money laundering and terrorism financing

One of the key objectives of the strategy is to further improve the national legislative framework against money laundering and terrorism financing in line with international standards. The Georgian law is based on the FATF recommendations, respective EU directives and international treaties. However, the implementation of these standards must continue in various respects. The strategy and action plan provide for amendments to a number of laws for the purpose of meeting international requirements in the field.

Furthermore, strengthening of the national AML/CFT institutional framework is planned and the extension of preventative AML/CFT legislation to additional professions and activities that are vulnerable to money laundering and terrorism financing crime is also envisaged.

Enhancement of the national institutional framework in the field of combating money laundering and terrorism financing

The objective of the strategy to enhance the national institutional framework for combating money laundering and terrorism financing is based on following priorities: strengthening the capacities of supervisory bodies by providing appropriate human and technical resources; raising awareness of supervisory bodies, law enforcement agencies and judiciary in the FATF methodology and national AML/CFT legislation by conducting regular trainings; introducing legislative changes to equip supervisory bodies and FMS with appropriate instruments to effectively discharge their responsibilities in conformity with international standards and best practices.

Strengthening local and international cooperation

One of the objectives of the strategy is to strengthen collaboration between the national public agencies and self-regulatory bodies fighting money laundering and terrorism financing, as well as enhance international cooperation with corresponding foreign institutions. In this respect, implementation and upgrading of regulations on information exchange and cooperation, and other related legal instruments in line with international standards will be prioritized.

Supporting proper fulfillment of requirements in the AML/CFT field by monitoring entities, particularly in areas with high ML/FT risk

One of the most important objectives of the strategy is to make sure that the duties provided for by the Georgian AML/CFT legislation are properly discharged by the monitoring entities. Therefore, development of instructions and guidelines for monitoring entities based on international recommendations, and organization of appropriate trainings and consultative meetings will continue.

Ensuring effective investigation and prosecution of money laundering and terrorism financing

The strategy seeks to ensure that money laundering and terrorism financing offences are investigated and prosecuted effectively. This requires provision of periodic trainings for ML/FT investigative authorities.

Conclusion - Implementation of the Strategy

In order to ensure implementation of the goal and objectives of the strategy, the action plan providing for concrete actions, designating agencies in charge of their fulfillment and setting specific timeframes is enclosed with the strategy. Implementation of the strategy and action plan shall be supervised by the inter-agency council comprised of representatives of appropriate government bodies and other organizations operating in the field of fighting and prevention of money laundering and terrorism financing. The inter-agency council will be tasked to supervise fulfillment of the strategy and action plan, as well as AML/CFT recommendations of international organizations, and to coordinate activities of public agencies and self-regulatory bodies in this area.

Action Plan of the AML /CFT Strategy

Objective №1						
Development of risk-based public policy for combating money laundering and terrorism financing.	**Target**		**Activity**	**Implementing Agency[1]**	**Timeframe**	**Comments**
	1.1	Identification and assessment of general, sectoral and thematic risks of money laundering and terrorism financing for the purpose of developing effective risk-based public policy and appropriate allocation of resources.	(1) Development and periodic review of the document reflecting money laundering and terrorism financing risks in both financial and non-financial sectors of the economy, which are either subject to or outside of state supervision under the AML/CFT Law. (2) Development of new and/or improvement of existing mechanisms under the Georgian law and state supervisory policy with the purpose of elimination and/or mitigation of threats and vulnerabilities identified through the risk assessment.	Inter-Agency Council for the Development and Coordination of Implementation of the AML/CFT Strategy and Action Plan Ministry of Internal Affairs Chief Prosecutor's Office Supervisory bodies	2014-2017	
Objective №2						
Harmonization of Georgian legislation with international standards in the field of combating money laundering and	**Target**		**Activity**	**Implementing Agency**	**Timeframe**	**Comments**
	2.1	Expanding the group of monitoring entities under the AML/CFT Law.	Drafting amendments to the AML/CFT Law to designate payment service (electronic money) providers as monitoring	Financial Monitoring Service	2014-2015	

terrorism financing.			entities.			
	2.2	Improvement of provisions of the AML/CFT Law concerning the identification and verification of clients (beneficial owners) by the monitoring entities.	Drafting amendments to the AML/CFT Law to ensure: (1) Understanding of the essence of activities and control structure of the client, as well as the purpose and intended nature of business relationship by the monitoring entities; (2) Application of risk-based approach in accordance with the FATF recommendations; (3) Improvement of provisions governing reliance on third parties or intermediaries by the monitoring entities in accordance with the FATF recommendations.	Financial Monitoring Service	2014-2015	
	2.3	Improvement of provisions of the AML/CFT Law concerning Politically Exposed Persons.	Drafting amendments to the AML/CFT Law to extend the effect of provisions concerning Politically Exposed Persons to Georgian citizens.	Financial Monitoring Service	2014-2015	

	2.4	Improvement of provisions of the AML/CFT Law concerning protection and dissemination of confidential information.	Drafting amendments to the AML/CFT Law to bring provisions concerning protection and dissemination of confidential information in compliance with the recommendations of the 4th round evaluation report of MONEYVAL.	Financial Monitoring Service	2014-2015	
	2.5	Improvement of provisions of the AML/CFT Law concerning unusual transactions.	Drafting amendments to the AML/CFT Law to amend the definition of unusual transactions to include the part of transaction, including unusual pattern of transactions, which does not have visible economic content or lacks lawful purpose.	Financial Monitoring Service	2014-2015	
	2.6	Improvement of provisions of the AML/CFT Law concerning shell banks.	Drafting amendments to the AML/CFT Law to explicitly require monitoring entities to satisfy themselves that their respondent financial institutions do not permit their accounts to be used by shell banks.	Financial Monitoring Service	2014-2015	
	2.7	Restriction of the use of bearer	Drafting amendments to the Law of Georgia on	National Bank	2015	

		instruments under the Georgian law.	Cheques to annul the bearer cheque instrument.			
	2.8	Provision of legislative basis for the use of risk-based approach with respect to financial institutions under the National Bank's supervision.	Drafting amendments to the Organic Law of Georgia on the National Bank to allow the National Bank to exercise supervision of financial institutions for AML/CFT purposes through risk-based approach.	National Bank	2014	
	2.9	Improvement of legislation governing cross-border transportation of physical currency, cheques and the other bearer negotiable instruments.	(1) Drafting amendments to the tax legislation to allow competent authorities in case of non-declaration of physical currency, cheques or other bearer negotiable instruments to request and obtain information about their origin and intended use. (2) Drafting amendments to the tax legislation to allow competent authorities in case of non-declaration of physical currency, cheques or other bearer negotiable instruments to stop or restrain the property for a reasonable period of time,	Ministry of Finance Ministry of Finance	2014-2017 2014-2017	

			when there is ML/FT suspicion, in order to ascertain whether evidence of money laundering or terrorism financing may be found. (3) Drafting relevant legislative amendments to ensure application of effective sanctions regime for the violation of rules of cross-border transportation of physical currency, cheques and the other bearer negotiable instruments.	Ministry of Finance	2014-2017	
	2.10	Improvement of legislation governing activities of non-profit organizations.	Drafting amendments to the relevant legislation governing activities of non-profit organizations to impose requirements of keeping information and documents on relevant transactions, as well as ensuring application of effective sanctions regime for the violation of these requirements in accordance with the FATF recommendations.	Ministry of Finance	2014-2017	
	2.11	Development of legislative	Drafting amendments to relevant legislation to	Ministry of Finance	2014-2017	

		framework governing activities related to precious stones, precious metals and products thereof, as well as antiquities.	ensure application of state supervision over the entities engaged in activities related to precious stones, precious metals and products thereof, as well as antiquities in accordance with the FATF recommendations.			
	2.12	Adoption of new and/or improvement of existing regulations governing activities of monitoring entities under the AML/CFT Law.	(1) Adoption of regulations on receiving, systemizing, processing and forwarding information to FMS by lawyers and payment service (electronic money) providers. 2) Development of new and/or improvement of existing regulations governing activities of payment service (electronic money) providers. (3) Introducing amendments to the National Bank's regulation on imposing requirements regarding information on the payer that must be accompanying transfers of funds by payment service	Financial Monitoring Service National Bank National Bank	2014-2015 2015 2014	

			(electronic money) providers in accordance with the FATF recommendations and the Regulation (EC) no 1781/2006 of the European Parliament and Council of 15 November 2006.			
Objective №3						
	Target		**Activity**	**Implementing Agency**	**Timeframe**	**Comments**
Enhancement of institutional capacities of public agencies for the prevention and effective investigation of money laundering and terrorism financing.	3.1	Improvement of risk-based supervisory mechanisms over the monitoring entities.	(1) Development of the methodological manual for exercising risk-based AML/CFT supervision by the National Bank. (2) Bringing the Decree of the President of the National Bank on the Policy of the National Bank for Combating Money Laundering and Terrorism Financing in compliance with the methodological manual of risk-based supervision. (3) Improvement of the manual of on-site inspection over financial institutions by the National Bank in accordance with the principles of risk-based supervision.	National Bank National Bank National Bank	2014-2015 2016 2015-2016	

			(4) Development of risk profile matrix of financial institutions with the purpose of exercising risk-based supervision by the National Bank.	National Bank	2014-2015	
			(5) Development and implementation of risk-based supervisory policy, including enforcement methodology, mechanisms for ensuring timely access to relevant information and effective inspection procedure, for entities engaged in activities related to precious stones, precious metals and products thereof, as well as antiquities, non-profit organizations, including entities providing grants and charities, and leasing companies.	Ministry of Finance	2014-2015	
			(6) Development and implementation of risk-based supervision policy, including enforcement methodology, mechanisms for ensuring timely access to relevant information and effective inspection	Insurance State Supervision Service	2014-2017	

			procedure, for insurance companies and founders of non-state pension schemes.			
	3.2	Improvement of off-site monitoring and on-site inspection mechanisms over the monitoring entities.	(1) Development of the methodological manual on conducting off-site monitoring by the National Bank's Money Laundering and Special Inspection Department.	National Bank	2014-2016	
			(2) Introduction of structural changes to the National Bank's Money Laundering and Special Inspection Department with the purpose of allocating respective functions and responsibilities.	National Bank	2014-2015	
			(3) Introduction of reporting forms for obtaining appropriate statistics and financial information for the purpose of exercising off-site monitoring by the National Bank.	National Bank	2014-2015	
			(4) Improvement of instructions governing activities of financial institutions under the	National Bank	2016	

			National Bank's supervision for the purpose of obtaining and analyzing relevant information on financial services provided abroad.			
			(5) Bringing the National Bank's on-site inspection methodological manual in compliance with the amendments introduced to the AML/CFT legislation.	National Bank	2014-2015	
			(6) Development of the methodological manual for on-site inspection of payment service (electronic money) providers.	National Bank	2015	
			(7) Improvement of on-site inspection of financial institutions under the National Bank's supervision, including by conducting thematic inspections.	National Bank	2014-2017	
			(8) Improvement of instructions governing the activities of insurance companies to regulate issues related to storage and systemization of	Insurance State Supervision Service	2014-2015	

			information.			
	3.3	Improvement of sanctions regime for the violation of requirements under the AML/CFT legislation.	(1) Adoption of the regulation to introduce appropriate pecuniary sanctions for failure of payment service (electronic money) providers to comply with requirements under the AML/CFT Law, and regulations and instructions adopted thereof by FMS.	National Bank	2014-2015	
			(2) Bringing regulations on imposing pecuniary sanctions on financial institutions under the National Bank's supervision in compliance with the amendments to the AML/CFT legislation.	National Bank	2016–2017	
			(3) Adoption of the regulation to introduce effective sanctions regime for failure of the monitoring entities under Ministry of Finance supervision to comply with requirements of the AML/CFT Law, and	Ministry of Finance	2014-2017	

			regulations and instructions adopted thereof by FMS. (4) Improvement of the regulation, which introduces sanctions regime for failure of insurance companies to comply with requirements of the AML/CFT Law, and regulations and instructions adopted thereof by FMS.	Insurance State Supervision Service	2014-2015	
	3.4	Improvement of processing and analysis of relevant information, and subsequent response by public agencies operating in the field of combating money laundering and terrorism financing.	(1) Upgrading the software used by FMS and its equipment with appropriate instruments. (2) Improvement of procedure regulating systemization and analysis of information obtained by the Insurance State Supervision Service.	Financial Monitoring Service Insurance State Supervision Service	2014-2017 2014-2017	
	3.5	Supporting improvement of capacities of public officials working for agencies in the field of combating money laundering	Provision of periodic trainings to public officials, including judges, and ensuring their participation in international workshops and seminars with the purpose of raising their	Financial Monitoring Service Chief Prosecutor's Office Ministry of Internal Affairs	2014-2017	

		and terrorism financing.	awareness in the FATF recommendations and methodology, and sharing information about the best practices in the field of investigation of money laundering, terrorism financing and predicate offences, and up-to-date typologies.	High School of Justice Supervisory bodies		
	3.6	Strengthening cooperation mechanisms between the public agencies involved in the fight against money laundering terrorism financing.	Signing cooperation agreements between FMS and supervisory bodies with the purpose of exchanging information and enhancing other types of cooperation.	Financial Monitoring Service Insurance State Supervision Service Georgian Bar Association	2014-2015	
	3.7	Assessment of effectiveness of the state supervisory framework in the AML/CFT field.	(1) Periodic publication of statistics on actions taken against money laundering and terrorism financing. (2) Analyzing effectiveness of actions taken against money laundering and terrorism financing.	Financial Monitoring Service Supervisory bodies Financial Monitoring Service Chief Prosecutor's Office Ministry of Internal Affairs Supervisory bodies	2014-2017	
Objective №4						

	Target		Activity	Implementing Agency	Timeframe	Comments
Supporting proper compliance with requirements of the AML/CFT legislation by the monitoring entities.	4.1	Development of new and/or improvement of existing guidance for the monitoring entities.	(1) Development of new and/or improvement of existing indicators for detecting suspicious and unusual transactions in accordance with the FATF recommendations and the best AML/CFT practices.	Financial Monitoring Service Supervisory Bodies	2014-2017	
			(2) Improvement of the methodological manual for ML/FT risk assessment by financial institutions under the National Bank's supervision to define the list of high risk financial products, services and clients that require additional, detailed analysis.	National Bank	2014	
			3) Development of the methodological manual for the provision of distance financial products by financial institutions under the National Bank's supervision.	National Bank	2015-2016	
			4) Development of the methodological manual on issues related to the creation of client profile by financial institutions under	National Bank	2014	

			the National Bank's supervision. (5) Development of the methodological manual on issues related to data storage by financial institutions under the National Bank's supervision.	National Bank	2015	
	4.2	Raising awareness and upgrading practical skills of monitoring entities to meet the requirements of AML/CFT legislation.	Provision of trainings and consultative meetings for the monitoring entities to facilitate proper compliance with requirements of AML/CFT legislation in accordance with the FATF recommendations and methodology, as well as best practices in the field of combating money laundering and terrorism financing.	Financial Monitoring Service Supervisory bodies	2014-2017	
	4.3	Improvement of mechanisms for providing feedback to the monitoring entities.	Providing feedback to the monitoring entities by FMS about the actions taken by investigative authorities based on their reporting.	Financial Monitoring Service Chief Prosecutor's Office Ministry of Internal Affairs	2014-2017	
Objective № 5						
	Target		**Activity**	**Implementing Agency**	**Timeframe**	**Comments**

Strengthening international cooperation in the field of combating money laundering and terrorism financing.	5.1	Improvement of cooperation and information exchange between the Georgian public agencies operating in the field of combating money laundering and terrorism financing and corresponding agencies of other countries.	(1) Signing of cooperation agreements by FMS with Egmont Group member financial intelligence units.	Financial Monitoring Service	2014-2017	
			(2) Signing of cooperation agreements by the Insurance State Supervision Service with corresponding agencies of other countries.	Insurance State Supervision Service	2014-2017	
			(3) Signing of cooperation agreements by the National Bank with corresponding agencies of other countries.	National Bank	2015-2017	
			(4) Signing of cooperation agreements by the Ministry of Internal Affairs with corresponding agencies of other countries.	Ministry of Internal Affairs	2014-2017	
			(5) Signing of cooperation agreements by the Ministry of Finance with corresponding agencies of other countries.	Ministry of Finance	2014-2017	

[1] The Parliament of Georgia is responsible for the adoption of legislative amendments provided for by the Action Plan.