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## Project against Money Laundering in Ukraine

(MOLI-UA)

### Inception Report

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## Index

Project against Money Laundering in Ukraine .....	1
(MOLI-UA) .....	1
1 Background information.....	3
1.1 Beneficiary country and entity.....	3
1.2 Contracting authority.....	3
1.3 Implementing organisation.....	3
1.4 Relevant country background .....	3
1.5 Legal basis to combat money laundering in the Ukraine.....	4
2 Project.....	6
2.1 Project duration.....	6
2.2 Project team.....	6
2.3 Project team's activities .....	6
1 <sup>st</sup> mission.....	6
2 <sup>nd</sup> Mission.....	6
3 <sup>rd</sup> Mission .....	7
2.4 Project outputs .....	7
2.5 Progress on project outputs.....	8
Start-up activities.....	8
Output 1.....	9
Output 2.....	10
Output 3.....	11
Output 6.....	12
3 Conclusions .....	13
Annex 1: Project office furniture and IT specifications .....	14
Annex 2: Work plan .....	19
Annex 3: Agenda of the Start-up seminar .....	24
Annex 4: Organization chart.....	26
Annex 5: SDFM IT-system, basic information flow .....	27
Annex 6: System components.....	28
Annex 7: Overview IT-system.....	31

# **1 Background information**

## **1.1 Beneficiary country and entity**

Ukraine, State Department for Financial Monitoring (SDFM)

## **1.2 Contracting authority**

European Commission (EC)

## **1.3 Implementing organisation**

Council of Europe, Economic Crime Division, Directorate General of Legal Affairs (COE)

## **1.4 Relevant country background**

Countries of Central and Eastern Europe are undergoing significant political and economic changes. Accompanying this transition, there has been a considerable rise in criminal activity – including organised crime, economic crime and money laundering – threatening democracy, the rule of law and social and economic progress.

The TACIS Regional Action Programme in the Justice and Home Affairs field is designed to help governments in the NIS confront these challenges through a range of initiatives to strengthen the capabilities of the institutional, financial and law enforcement bodies concerned.

In Ukraine, most criminal activity appears to have an economic purpose. Primary areas generating criminal proceeds reportedly are smuggling (of people, drugs, arms etc.), and financial fraud (including manipulation of the privatisation process) and corruption. Most criminal activities are believed to be carried out by groups. Tackling organised crime is thus a law enforcement priority. In addition, Ukraine is seriously vulnerable to money laundering.

Ukraine has committed itself to anti-money laundering measures, among other things, by ratifying the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances in 1991 and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime (ETS 141) in December 1997.

In 2000, a Feasibility Study on Anti-Money Laundering Measures in Russia, Ukraine and Moldova was launched – commissioned by the European Commission – to examine the key technical assistance needs in the region. The report recommended that measures should focus on three priority areas: financial intelligence unit, legal and law enforcement aspects, and financial sector aspects. With regard to Ukraine it noted in particular the need for adopting an anti-money laundering legislation and the establishment of a Financial Intelligence Unit.

In May 2000, Ukraine underwent a review by the Council of Europe's money laundering evaluation mechanism (PC-R-EV, now Moneyval). The evaluation report, adopted in January 2001, noted serious shortcomings in Ukraine's anti-money laundering system and recommended a number of reforms.

Ukraine has also been reviewed by the Financial Action Task Force which considers Ukraine to be among the non-co-operative countries and territories.

In July 2002, Ukraine requested the European Commission and the Council of Europe to provide immediate assistance to review a draft law against money laundering in order to ensure its compliance with European and other international standards. The EC and the COE provided such assistance under a small project which included a legal opinion (submitted to the Ukrainian authorities on 13 August 2002) and an expert mission (from 2 to 6 September) which included meetings and workshops to further improve the draft law on the basis of the opinion as well as to prepare the outline of a more comprehensive project in support of an effective anti-money laundering system in Ukraine. The present project is based on the results of that mission.

### 1.5 Legal basis to combat money laundering in the Ukraine

The main law to fight money laundering is the “**Law of Ukraine on Prevention and Counteraction to Legalization (Laundering) of Proceeds of Crime #249-IV**”. This law passed the Verkhovna Rada (Supreme Council) on 9 December 2002, was published on 10 December and shall enter into force on 10 June 2003.

It covers six areas:

1. General provision

This part deals with the definition of terms used in this law.

2. System of Financial Monitoring

This part defines which entities are required to file reports with the SDFM and what their obligations and rights are under this law.

3. Financial transactions subject to compulsory and internal financial monitoring

Here it is defined, when institution have to file reports with the SDFM and when it does not yet have to file a report to the SDFM but has to monitor the transactions internally.

4. Tasks, functions and rights of the authorized agency

The authorized agency is the SDFM. This part describes to role and responsibilities of the SDFM.

5. International cooperation in the domain of prevention of the legalization (laundering) of the proceeds

This part deals with the international cooperation of the Ukrainian authorities based on the COE convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime (1990), other international treaties of Ukraine, this law and other laws and regulations.

It furthermore stipulates the role of the Ministry of Justice in requests for mutual legal assistance.

Finally it defines the function of the SDFM in relation to activities with their respective counterparts in other countries and with the FATF.

6. Liability for violation of this law and reinstatement of rights and legitimate interests

This part deals with sanctions for violating the law as well as the reinstatement of rights.

7. Final provisions

This deals with the date of entry of this law, the amendments of other laws, which are affected

Since the legal basis did not seem to be totally in compliance with international standards, amendments were made to several laws in the beginning of 2003 including:

- Law of Ukraine on Prevention on Counteraction to Legalization (Laundering) of Proceeds of Crime (articles 3, 11, 13, final provisions)
- Criminal Code of Ukraine (articles 198, 209, 209<sup>1</sup> and 306)
- Law of Ukraine on Banks and Banking activities (articles 2, Chapter II, 63, 64, 65)
- Law of Ukraine on Financial Services and State Regulation of Markets of Financial Services (article 18)

## **2 Project**

### **2.1 Project duration**

The project started on 1 February 2003 and will last for 24 months.

### **2.2 Project team**

Currently the role of the team leader is performed by Mark van Thiel and Daniel Thelesklaf of TvT compliance ltd, Zurich, Switzerland.

Short-term experts come from the Financial Intelligence Units of Belgium, France, Italy, Slovenia and Slovakia (co-operating FIUs). FIUs of other countries have also promised their support of this project but were yet unable to participate.

A candidate for the position of the local project assistant has been found. Her contract is pending with the COE.

Ms Maria Oreshkina is the project assistant based in Strasbourg, who plays an important role in the coordination with the Ukrainian authorities as well as with the short-term experts.

The project coordinator with the COE in Strasbourg is Mr. Alexander Seger.

### **2.3 Project team's activities**

#### 1<sup>st</sup> mission

From 18 to 21 February, a mission comprising Mr. Mark Van Thiel (short-term consultant) and Mr. Alexander Seger (COE) visited Kyiv to initiate project activities in close cooperation with the SDFM.

Initial activities focused on the establishment of the project, including the recruitment of staff. However, with the passing of new legislation by the Parliament in January and February 2003 and the entry into force of the anti-money laundering legislation on 10 June 2003, the immediate support by the project to the SDFM and other institutions is of critical importance. The mission thus provided advice to the SDFM on an number of issues.

In addition –, with the support of the EC (Delegation in Kyiv) – EU Member States and representatives of other countries and organisations were briefed on the project.

#### 2<sup>nd</sup> Mission

From 25 to 29 March 2003 a second visit to the SDFM was paid by Mr. Mark van Thiel and Mr. Daniel Thelesklaf (both short-term consultants to the COE) and Ms Maria Oreshkina (Project assistant with the COE).

The purpose of this trip was primarily to learn about the progress of the work plan, to organise the start-up seminar on 16 April 2003 and to interview candidates for project assistants.

In addition visits were paid to the EC (Delegation in Kyiv) and the information bureau of the Council of Europe.

### 3<sup>rd</sup> Mission

From 7 to 24 April, with the exception of 12-16 April for the Start-up seminars in Moscow and Kyiv, Mark van Thiel spent his third visit to Kyiv.

The main objective was the preparation of this Start-up seminar in Kyiv, to follow up the progress of the work plan and the preparation of visits of the Head of SDFM to foreign FIUs.

## **2.4 Project outputs**

The project foresees 8 fields of activities and 7 outputs:

### Start-up

Activities: Recruit staff, equip project office, prepare a detailed work plan and inception report, organise a Start-up seminar

Output 1: Organisational set up of the State Department for Financial Monitoring completed in terms of staffing, budgeting and resourcing and working procedures

Output 2: Relevant legislation in line with the requirements of the new anti-money laundering law and proposals for amendments of other laws to enhance the effectiveness of the anti-money laundering system available

Output 3: System for the collection, processing, analysis, protection and exchange of information on transactions in operation within the SDFM

Output 4: Effective mechanisms are in place to ensure cooperation between the SDFM and law enforcement, criminal justice and regulatory authorities

Output 5: Guidelines for financial operators on identification and analysis of suspicious transactions and reporting obligations available and a mechanism to review their effectiveness will have been elaborated by SDFM in cooperation with regulators and adopted

Output 6: The number, quality, accuracy and speed in processing of incoming and outgoing requests for information from and to other FIUs of all types will have increased.

Output 7: Feasibility study and proposal for a follow up project available

## 2.5 Progress on project outputs

This sections list the activities, which have been started so far. Activities which have not yet started are therefore not listed.

### Start-up activities

#### *Activity 0.1: Staff recruitment*

The project team has been recruited. Please refer to [2.2 Project team](#) for details.

#### *Activity 0.2: Equip project office*

The SDFM has put three rooms at the disposal of the project. One was immediately available, the second one upon hiring of the local project assistant and one as reserve.

The SDFM has furthermore supplied specifications [\(Annex 1: Project office furniture and IT specifications\)](#) for the project office furniture and a price list for the IT-equipment according to the needs of Mark van Thiel. These specification have been sent to the COE for approval and further processing.

#### *Activity 0.3: Detailed work plan and inception report*

This is the inception report and the latest work plan is attached [\(Annex 2: Work plan\)](#).

#### *Activity 0.4: Organization of the Start-up seminar*

The SDFM has devoted much time and resources for the Start-up seminar. Please refer to the agenda for details [\(Annex 3: Agenda of the Start-up seminar\)](#).

The seminar took place on 16 April in the building of the SDFM. The seminar was opened with speeches on behalf of the President of Ukraine and the Cabinet of Ministers, of the Head of Delegation of the EC and of the COE. In the second part, the Head of SDFM, the representative of the COE as well as the team leader of the project presented the project into more details to the audience.

The third part consisted of presentations of foreign FIUs, which have committed themselves to participate as short-term experts in this project (co-operating FIUs).

The forth and final part consisted of presentations of the Head, Deputy Heads and a Head of Department of the SDFM on the outputs of the project.

The seminar attracted a wide range of participants ranging from government officials, members of parliament, regulators, law enforcement, diplomatic community and the financial industry. The event was covered by the Ukrainian media with high interest. Based on the feedback from the participants this seminar can be considered successful.



## Output 1

### **Activity 1.1: Organization chart**

The organization chart was finalized and accepted by the government of Ukraine in February. ([Annex 4: Organization chart](#)).

The SDFM moved to larger premises within the same building at the end of February.

### **Activity 1.2: Assist in reviewing staff requirements and preparations of ToR/Job descriptions**

The number of staff was raised from 40 to 60 by the government of Ukraine (Resolution #186, 21 February 2003). As per 23.04.03 a total of 36 staff is employed by the SDFM.

The SDFM management was reinforced by the government (Resolution # 187, 21 February 2003).

To ensure that qualified staff can be employed by the SDFM the government decided to raise the salaries (Resolution #346, 15 March 2003).

The respective ToR/Job descriptions are pending. The SDFM has to deliver these items until the end of April 03.

### **Activity 1.3: Internal work procedures/manual of operations**

The SDFM has started to write down the functions of its organization. These functions describe the activities of the SDFM, which it has to perform according to the law. As per 23.04.03 a total of 39 functions were identified. The list of all the functions will then serve as a basis for the ToR/Job descriptions. The function list has not yet been translated into English. The consultant was therefore not able to evaluate it.

### **Activity 1.6: Train the trainers**

The COE contacted several FIUs for support in February 03. Five FIUs (Belgium, France, Italy, Slovenia and Slovakia) replied with a positive answer. These FIU plus the FIU of the Russian Federation confirmed their participation in the Start-up seminar.

A precondition to organize training by and internships with other FIUs for SDFM staff, is a formal and personal contact between the two units. Preferably the Head of the SDFM visits several FIUs to become acquainted with them. During these initial visits a range of topics will be discussed including the presentation of each FIU, training possibilities, internships, co-operation, information exchange etc..

Since February visits have been arranged for a SDFM delegation to the FIUs of Belgium, Germany, Luxembourg, Switzerland and Liechtenstein. These visits will take place from 13-20 May 2003. Visits of other FIUs are in the planning stage.

Output 2**Activity 2.1: Review of the requirement for amendments to laws and regulations**

According to the Program of Counteraction to Legalization (Laundering) of Proceeds from Crime for 2003 (Resolution No. 140 of The Cabinet of Ministers of Ukraine and the National Bank of Ukraine) the following task are exclusively for the SDFM:

Article	Issue	Deadline	Status
5	Prepare and submit for consideration by the Cabinet of Ministers of Ukraine draft:		
	<ul style="list-style-type: none"> <li>- Procedure of registration of financial transactions subject to financial monitoring by entities of initial financial monitoring and of</li> <li>- Procedure of submission of information regarding such financial transactions to the State Department for Financial Monitoring</li> </ul>	1 Q 03	23.04.03 approved by resolution of Cabinet of Ministers
	<ul style="list-style-type: none"> <li>- Procedure of registration by the State Department for Financial Monitoring of financial transactions subject to financial monitoring</li> </ul>	1 Q 03	23.04.03 approved by resolution of Cabinet of Ministers

Furthermore the SDFM has developed a draft order for entities of initial financial monitoring, which covers the following:

1	General provisions of organisation of financial monitoring by entities of initial financial monitoring
2	Rules, duties and functions of employee, who is responsible with the entity of initial financial monitoring
3	Definition of rules how to conduct financial monitoring and program of fulfilment
4	Disclosing financial transactions, which are subject to financial monitoring
5	Procedure of identification on who performs financial transactions
6	Registration of financial entities, which are subject to monitoring
7	Procedure of information submission, which are subject to monitoring
8	Staff training on how to monitor

Theses drafts have not been translated into English. As soon as the translations are available, they will be sent to the co-operating FIUs for comments.

## Output 3

### *Activity 3.1: IT systems*

The SDFM presented to the experts their idea of an IT-system for the handling of information within the SDFM. The basic flow of information is shown in [\(Annex 5: SDFM IT-system, basic information flow\)](#).

The SDFM intends to have a very sophisticated system in place. The system is made up of four main components. For more details refer to [\(Annex 6: System components\)](#).

<b>1</b>	<b>System of collection of information</b>
	Information sources
	Forms of information inputs
	Scanning and input of electronic data into the IT-system
	Electronic registration
	Electronic archiving of information
<b>2</b>	<b>System of processing of information</b>
	Receipt of information
	Input into operative database
	Logical control of incoming reports
	Feedback to sender
	Formation of incoming flow or reports for transfer into segment of primary analytical processing
<b>3</b>	<b>System of analysis of information</b>
	Analysis of information
	Subsystem of data input and creation of analytical database (Product: ORACLE)
	Subsystem of operative analytical data processing (Product I2)
	Subsystem of interaction with informational systems of entities of financial monitoring
	Subsystem of closed document processing – overview of files about objects suspected of money laundering
	Subsystem of macro-analytical data processing
<b>4</b>	<b>The system of protection of information</b>
	System Objectives
	System principles
	Protection levels

The most important objectives of the IT-system are, that it can

- automatically handle a large number of transaction reports
- rapidly analyse the transaction reports for possible patterns and links

The analysis part is covered in component 3 "System of analysis of information". The SDFM has evaluated analytical software packages and has opted for the products of the UK-based company i2.

Amongst other things the products of the company i2 visualize links between entities in databases and therefore speed up the analytical processes dramatically. This will lead to faster and more accurate results in analytical processes.

The SDFM has requested that the products of i2 are to be financed under this project. The SDFM has yet to provide the product specifications to the experts in order to start the procurement process. A separate request will then be sent to the COE.

Mark van Thiel visited the FIUs of the Netherlands and UK to learn, if there were any developments, suggestions or issues to consider from those FIU, which could have been incorporated into the IT-system of the SDFM. Both countries have faced an enormous increase in transaction reports. Both systems have been built to cope with the high number of transactions which have to be processed. From an analytical point of view however no additional input was elaborated.

The SDFM therefore decided to go along with their proposal of a system. Mark van Thiel offered his support for the structural development of the database (tables, user interfaces etc.).

This system has the potential to be one of the leading FIU IT-systems worldwide, if implemented successfully and completely as intended.

## Output 6

### ***Activity 6.1: Information exchange with FIUs***

The process of the membership application for the Egmont Group of FIUs was started. The SDFM should receive the official membership questionnaire over the next few weeks.

The earliest possible date of joining the Egmont Group of FIUs will be at the plenary meeting in 2004.

Furthermore the SDFM is invited as an observer to the Egmont Group of FIUs plenary meeting, which takes place in Sidney/Australia from 21-25 July 2003. The SDFM will have an excellent opportunity to make contacts with the heads of FIUs of the world. This will serve as a basis for future co-operation with foreign FIUs.

### 3 Conclusions

Right from the first visit in February until now the experts could see and feel that the SDFM with its staff is very committed to this project. Furthermore the SDFM made every effort to support the project staff whenever and wherever possible. A visible example is certainly the successful Start-up seminar.

This commitment and the speed of work must be maintained for the tasks to come. A close eye must be kept on the following important issues:

1. The creation and implementation of the IT-system
2. The drafting and translation of the secondary legislation and the review by experts of the co-operation FIUs
3. Co-operation between SDFM and law enforcement, criminal justice and regulatory authorities of Ukraine
4. Guidelines and seminars for primary financial operators
5. Co-operation with foreign FIUs

Since the international co-operation is essential for the success in the fight against money laundering, it is utmost important to support the communication with the foreign FIUs. Since the official language of the Egmont Group of FIUs is English, the SDFM will have to use the best of their interpreters to support its management in the communication. However every interpretation has its limits. Be it in quantity (limited number of interpreters available) and/or quality (limitation of language skills). However the latter is momentarily not an issue within the SDFM. It may however be useful if the senior staff of the SDFM, which has contact with foreign FIUs receive intensive English language courses.

Mark van Thiel  
TvT compliance ltd  
Acting Team Leader

## Annex 1: Project office furniture and IT specifications

### Overview procurement office furniture and IT equipment

Item	UAH	EUR	ToR budget	Result	Remarks
<u>Furniture</u>					
Project leader	17'068.13	3'202.28			
Office manager	6'479.73	1'215.71			
Experts	6'716.87	1'260.20			
Subtotal furniture	30'264.73	5'678.19	6'000.00	-321.81	within budget
<u>IT equipment</u>	81'616.00	15'312.57	16'000.00	-687.43	within budget

UAH / EUR exchange rate            5.33

No	Title	Colour	Per piece Price in UAH	Quantity	Cost in UAH
<b>Office of the Project leader (1 work place plus conference table)</b>					
1	Writing-table	Walnut	2'188.07	1.00	2'188.07
2	Front attached table	Walnut	773.27	1.00	773.27
3	Side auxiliary table	Walnut	1'666.81	1.00	1'666.81
4	Table for negotiations	Walnut	2'245.34	1.00	2'245.34
5	Wardrobe with glass	Walnut	2'056.33	1.00	2'056.33
6	Wardrobe for clothes	Walnut	1'523.61	1.00	1'523.61
7	Side panels for wardrobe H=207	Walnut	475.41	1.00	475.41
8	Upper top L=186	Walnut	263.47	1.00	263.47
9	Low. locked wardrobe	Walnut	720.57	1.00	720.57
10	Side panels for wardrobe H=76	Walnut	211.93	1.00	211.93
11	Upper top L=90	Walnut	206.64	1.00	206.64
12	Office chair		151.25	10.00	1'512.50
13	Office armchair		1'102.50	1.00	1'102.50
14	Safe (key coded)		1'520.00	1.00	1'520.00
15	Floor flowers		750.00	2.00	1'500.00
					17'966.45

17'966.45 Gross

-898.32 Discount of

5%

**17'068.13** Net without tax

3'413.63 20 % VAT if applicable

Nº	Title	Colour	Per piece Price in UAH	Quantity	Cost in UAH
<b>Office of the Office manager (1 work place)</b>					
1	C719 Table 160-90-75	Apple	661.38	1.00	661.38
2	C741 detachable device 50-90-75	Apple	203.50	1.00	203.50
3	C734 detachable device 90-90-75	Apple	416.25	1.00	416.25
4	C202 portable bedside table 45-40-62	Apple	559.63	1.00	559.63
5	C371Wardrobe for clothes 60-42-207	Apple	712.25	1.00	712.25
6	C362 Glazed wardrobe 91-42-207	Apple	1'216.38	1.00	1'216.38
7	C354 Corner shelf 42-42-207	Apple	740.00	1.00	740.00
8	C321 locked wardrobe 91-42-69	Apple	467.13	1.00	467.13
9	C815 additional storey 50-50-10	Apple	83.25	1.00	83.25
10	Office armchair		406.00	1.00	406.00
11	Office chair		151.25	4.00	605.00
12	Safe (key coded)		1'520.00	-	-
13	Floor flowers		750.00	1.00	750.00

6'820.77 Gross

-341.04 Discount of

5%

**6'479.73 Net without tax**

1'295.95 20 % VAT if

applicable



Nº	Title	Colour	Per piece Price in UAH	Quantity	Cost in UAH
<b>Two working places for short-term experts</b>					
1	C716 Table 160-120-75	Apple	841.75	1.00	841.75
2	C717 Table 160-120-75	Apple	841.75	1.00	841.75
3	C736 detachable device 74-37-75	Apple	305.25	2.00	610.50
4	C202 portable bedside table 45-40-62	Apple	559.63	2.00	1'119.26
5	C371 Wardrobe for clothes 60-42-207	Apple	712.25	1.00	712.25
6	C362 Glazed wardrobe 91-42-207	Apple	1'216.38	1.00	1'216.38
7	C815 additional storey 50-50-10	Apple	83.25	2.00	166.50
8	Office armchair		406.00	2.00	812.00
12	Safe (key coded)		1'520.00	-	-
13	Floor flowers		750.00	1.00	750.00
					7'070.39
					Gross
					-353.52
					Discount of
					5%
					<b>6'716.87</b>
					<b>Net without tax</b>
					1'343.37
					20 % VAT if applicable

**Software**

Description	Amount	Price for one item UAH	Price for one item UAH	Total costs UAH
Windows XP Professional OEM Eng	2	190	1'089.00	2'178.00
Office XP Win32 English OEM Eng	3	470	2'155.00	6'465.00
Norton Personal Firewall	1	95	458.00	458.00
Norton AntiVirus 2003 for Win 2000/ME/98/XP RET Symantec	3	75	330.00	990.00

**Peripheral and office equipment**

Description	Amount	Price for one item UAH	Price for one item UAH	Total costs UAH
XEROX Phaser 3400N 16page/min,PS3 net, monochrome, laser	0	760	4'355.00	-
Printer A4 EPSON AcuLaser C1900 5120 1200dpi USB Ethernet 10/100	1	1230	7'400.00	7'400.00
Xerox WorkCentre 312	1	565	3'238.00	3'238.00
Flash 256MB - USB	1	90	516.00	516.00
Xerox WorkCentre 390	0	610	3'496.00	-
shredder GBC 55X	1	95	545.00	545.00
iPAQ MP1400 Projector	1		13'720.00	13'720.00
Phone Panasonic KX-TS2360RUW	4	17	98.00	392.00
Pass - ATS Panasonic KX-TA308	1	280	1'605.00	1'605.00
Cellular service packet XL "Kyivstar" (Cellular phone Nokia, Samsung)	2			
Phone line	4		1'114.00	2'228.00
modem 56Kbit	1	190	1'000.00	4'000.00
Dial-up internet connection	1		440.00	440.00
Case for documents metal three-section	1		150.00	150.00
	1	190	1'089.00	1'089.00
				<b>81'616.00</b>

## Annex 2: Work plan

<b>Work plan (as revised per 24.04.2003)</b>			
Level	Description	Timing	Inputs required
<b>Overall objective</b>	The project will contribute to the establishment of a fully functioning system to prevent the use of the financial system to launder the proceeds of serious crime and enable Ukrainian authorities to cooperate internationally in fighting money laundering in accordance with European and international standards.	Project start: 1 Feb 2003	
Start-up activities			
0.1	<p>Recruit staff: Partially done</p> <ul style="list-style-type: none"> <li>▪ Two short-term advisers (TVT) to manage activities and provide inputs until mid-June 2003 with 10 work days per month in Ukraine and serving as resource persons. Done</li> <li>▪ Options for long-term adviser to be reviewed over the coming months. Open</li> <li>▪ Long-term support staff: Job description to be drafted by COE. Search for candidates through COE Information Centre and EC Delegation in Kyiv as well as through SDFM. Pre-selection by COE. Interviews during mission 25 – 29 March 2003 to be followed by background check. Done</li> <li>▪ Candidate for long term support staff recruited chosen by TVT. Done</li> <li>▪ Contract to be finalised by COE. Open</li> </ul>	2-3/03	COE HQs inputs
0.2	<p>Equip project offices: Partially done</p> <ul style="list-style-type: none"> <li>▪ Office space with three workplaces will be provided by SDFM within its premises. Done</li> <li>▪ SDFM to establish equipment list and offers (following Ukrainian procurement guidelines?). Done</li> <li>▪ Decision on procurement until end of April 2003. Specifications were sent to COE on 22.04.03. Waiting for approval. Open</li> </ul>	3-4/03	COE HQs inputs, office equipment and computers
0.3	<p>Prepare a detailed work plan and an inception report. Done</p> <ul style="list-style-type: none"> <li>▪ Work plan to be finalised during mission 20 April 2003 by TVT. Done</li> <li>▪ Inception report to be prepared by TVT end-April 2003. Done</li> <li>▪ Note : Government's Work Programme against Money Laundering for 2003 approved by Resolution No. 140 of 29 January 2003 by Cabinet of Ministers of Ukraine and the National Bank of Ukraine. open</li> </ul>	4/03	TVT
0.4	<p>Organise a start up workshop Done</p> <ul style="list-style-type: none"> <li>▪ Workshop to be held on 16 April 2003 at SDFM in Kyiv. Done</li> <li>▪ Terms of Reference for start-up workshop to be finalised by 25 Feb 2003 Done</li> <li>▪ Administrative arrangement to be concluded between COE and SDFM. Done</li> <li>▪ International participants to be informed as soon as possible. Done</li> <li>▪ Organisational details to be finalised during mission 25-29 March 2003. Done</li> <li>▪ Invitations to be sent out first week of April by SDFM and COE. Done</li> </ul>	16 April 2003	LT-adviser/COE inputs Workshop cost through administrative arrangement
<b>Project objective</b>	<b>To enable the State Department for Financial Monitoring to exercise its functions in accordance with relevant regulations</b>		

Output 1	Organisational set up of the State Department for Financial Monitoring completed in terms of staffing, budgeting and resourcing, and working procedures		
Activities			
1.1	Assist in finalisation of organigramme: Done <ul style="list-style-type: none"> <li>▪ Discussion of the organigramme on 19 February 2003 between SDFM and project advisers (Mark van Thiel and Alexander Seger). Done</li> <li>▪ Move to enlarged premises within MinFin approved in mid-February followed by immediate move (21-23 February). Done</li> <li>▪ Organigramme to be approved by Government before end-February. Done</li> </ul>	2/03	Mark Van Thiel/Alexander Seger
1.2	Assist in reviewing staffing requirements and preparation of terms of reference/job descriptions for positions: Partially done <ul style="list-style-type: none"> <li>▪ Level of 60 staff agreed by Government in February 2003. Done</li> <li>▪ TOR/job descriptions finalised by end of April. Open</li> </ul>	3-4/03	ST-advisers (TVT)
1.3	Assist in establishing internal working procedures/manual of operations Partially done <ul style="list-style-type: none"> <li>• See also Government's Work Programme against Money Laundering for 2003 (Resolution No. 140). Partially Done</li> <li>SDFM input according to Art. 5 of Resolution No. 140 was approved by the Cabinet of Ministers of Ukraine on 23.04.03. Translation into English to follow. Then these three procedures will be sent to the co-operating FIUs for comment. Finalised and revised by end of May. Open</li> </ul>	3-5/03	ST-advisers (TVT)
1.4	Advice in establishing rules on data protection, disciplinary measures, screening/vetting of staff. Open	3-5/03	ST-advisers (TVT)
1.5	Support preparation of training plan and modules for SDFM staff. Open	3-6/03	ST-advisers (TVT)
1.6	Train trainers: Partially done <ul style="list-style-type: none"> <li>▪ COE to contact partner FIUs for organising internships to initiate planning (end-Feb 2003). Done</li> <li>▪ Arranging initial visits at partner FIUs for the head of the SDFM to prepare internships. In May Belgium, Germany, Switzerland and Liechtenstein. Done</li> </ul>	5-12/03	12 internships in foreign FIUs x 2 weeks or equivalent in shorter terms
1.7	Support implementation of training plan. Open	9/03-12/04	LT-adviser and ST-advisers Up to 8 training events in Ukraine Training materials

Output 2	Relevant legislation in line with the requirements of the new anti-money laundering law and proposals for amendments of other laws to enhance the effectiveness of the anti-money laundering system available		
Activities			
2.1	<p>Assist in the review of the requirements for amendments to laws and regulations partially done</p> <ul style="list-style-type: none"> <li>▪ SDFM to produce draft secondary legislation by 14 April. SDFM delayed this due to the organisation of the Start-up seminar. SDFM drafts have been adopted by the Cabinet of Ministers on 23.04.03. Translations into English not yet done by SDFM.</li> <li>▪ Urgent task to bring secondary legislation in place before 10 June 2003 deadline (entry into force of anti-money laundering law)</li> <li>▪ See also Government's Work Programme against Money Laundering for 2003 (Resolution No. 140) for details</li> <li>▪ The secondary legislation will be reviewed by the legal department of the co-operating FIUs in May 03. Open</li> </ul>	4/03-12/03	ST-advisers (TVT) 1 in-country seminars with the participation of international experts of co-operating FIUs (Belgium, France, Italy, Slovenia, Slovakia)
2.2	<p>Assist the SDFM, the Ministry of Justice and other relevant bodies in preparing the necessary proposals for amendments. Open</p> <ul style="list-style-type: none"> <li>▪ Bring secondary legislation in place before 10 June 2003.</li> </ul>	4-6/03 (1 <sup>st</sup> phase)	ST-advisers (TVT) COE HQs inputs
2.3	<p>Assist the SDFM and the Ministry of Justice in the review of the overall legal framework of the anti-money laundering system as well as the provisional measures and confiscation regime. Open</p> <ul style="list-style-type: none"> <li>▪ Overall review by early June to set further reform agenda.</li> </ul>	Early June 03 8/03-10/04	Two ST-advisers to review legislation in May Up to 2 in-country seminars with the participation of international experts
2.4	<p>Provide the necessary legal expertise for the preparation of further amendments of laws and regulations</p>	8/03-10/04	Up to 6 legal opinions LT-adviser
<b>Output 3</b>	<b>System for the collection, processing, analysis, protection and exchange of information on transactions in operation within the SDFM</b>		
Activities			
3.1	<p>Assist SDFM in</p> <ul style="list-style-type: none"> <li>• The assessment of needs, including information in databases managed by other Ukrainian authorities, commercial databases etc. Open</li> <li>• design of the information system and its architecture. Done</li> <li>• the procurement of hardware (to be funded by Government). Open</li> <li>• the procurement, installation and operationalisation of software (to be funded from the project budget). Open. To be addressed until End of May 03.</li> <li>• elaboration of rules for the handling and protection of data. Open</li> </ul> <p>Note: first discussions and review on 18-21 February 2002 (Mark van Thiel/Alexander Seger). Agreement with SDFM:</p> <ul style="list-style-type: none"> <li>• Mark van Thiel to review UK and NL models and other options and report back to SDFM on 25-29 March. Done</li> <li>• Decision on software and hardware to be made by 29 March 2003. Done</li> <li>• Ukrainian participation in Egmont Group IT workshop on 10-11 March to be explored. Not possible. Done</li> </ul>	3/03-5/03 (1 <sup>st</sup> phase) 5-8/03 (2 <sup>nd</sup> phase)	ST-advisers (TVT) Software: Database administration Oracle 9i for 50 users. Options for analytical software to be explored.

3.2	Review training needs of SDFM analysts. Open	5/03	ST-adviser 2 weeks
3.3	Select a core group of 12 analysts and train them as trainers. Open	5-6/03	
3.4	Organise internships (one month) for this core group in FIUs of other countries. Open <ul style="list-style-type: none"> <li>Link visits to 1.6</li> </ul>	6-12/03	12 internships in foreign FIUs x 1 month ST-advisers (TVT) COE HQs inputs
3.5	Support training measures. Open	9/03-12/04	ST-adviser 3 x 1 week Up to 6 training events
<b>Output 4</b>	<b>Effective mechanisms are in place to ensure cooperation between the SDFM and law enforcement, criminal justice and regulatory authorities</b>		
Activities			
4.1	Assist SDFM in organising annual typology meetings with law enforcement and regulatory authorities by providing relevant input on methodology, distribution of responsibilities, documents preparation etc. Open	11/03 + 11/04	LT-adviser 2 in-country meetings with participation of international experts
4.2	Support role of SDFM in the Interagency Working Group. Open	1/03-12/04	LT-adviser
4.3	Support the SDFM in the organisation of Interagency Working Group meetings on specific issues of concern to law enforcement, criminal justice and regulatory authorities, in particular on the interpretation and application of the anti-money laundering legislation. Open	4/03 – 11/04	Up to 4 in-country seminars with participation of international experts LT-adviser
4.4	Support conclusion of joint orders between SDFM and other bodies (including in particular Ministry of Interior and Prosecution). Open	5/03 + 3/04	LT-adviser Up to 2 in-country workshops
4.5	Assist in the design and implementation of a mechanism on feedback from law enforcement and criminal justice authorities on follow up to reports received from the SDFM. Open	11/03 + 9/04	LT-adviser Up to 2 in-country workshops
4.5	Organise four one-week study visits for judges, prosecutors, law enforcement officers, SDFM staff and regulatory authorities to counterpart organisations of other European countries. Open  Participants from SDFM, Office of Prosecutor General, Min of Interior, Security Service of Ukraine, Min of Justice, National Bank, State Commission on Regulations of Financial Markets and Financial Services, Min of Foreign Affairs, State Commission on Securities and Stock Market of Ukraine.	9/03 – 2/04	Up to 4 study visits (one week) for a total of 30 officials LT-adviser COE HQs inputs

<b>Output 5</b>	<b>Guidelines for primary financial operators on identification and analysis of suspicious transactions and reporting obligations available and a mechanism to review their effectiveness will have been elaborated by SDFM in cooperation with regulators and adopted</b>			
Activities				
5.1	Assist SDFM and regulators in elaboration of guidelines. Open <ul style="list-style-type: none"> <li>Priority: Procedures and forms for monitoring and reporting of suspicious transactions to be elaborated</li> </ul>	5/03	ST-advisers (TVT) Production of materials	
5.2	Support SDFM in organising seminars on reporting and other obligations for primary operators and regulators in accordance with the guidelines and in cooperation with professional associations. Open <ul style="list-style-type: none"> <li>Meeting of SDFM with senior managers of banks and financial institutions as well as National Bank to review requirements (May 2003)</li> <li>Training seminars for compliance officers on know-your-customer and identification of STR (June 2003)</li> </ul>	6/03 – 11/04	ST-advisers (TVT) Up to 6 in-country seminars ST-advisers 6 x 1 week	
<b>Output 6</b>	<b>The number, quality, accuracy, and speed in processing of incoming and outgoing requests for information from and to other FIUs of all types will have increased measurably</b>			
Activities				
6.1	Organise an in-country training seminar on information exchange between FIUs. Open <ul style="list-style-type: none"> <li>Assist SDFM in acceding to Egmont Group. Partially done</li> <li>SDFM is invited as observer to the Egmont Plenary in Sydney, Australia in June 03</li> <li>In-country training seminar Open</li> </ul>	2-7/04 7/04 9/03	ST-advisers (TVT) 1 seminar in Kyiv with participation of international experts	
6.2	As a follow up to the seminar, arrange study visits for SDFM staff, as well as prosecutors, and representatives of the Ministry of Interior and of Justice responsible for international cooperation to FIUs of other European countries to promote the conclusion of MOUs and to train SDFM staff. Partially done Visits of the Head of SDFM to Belgium, Germany, Switzerland and Liechtenstein during 13-21 May 03	3-5/04	LT-adviser 2 visits (one week) for up to 18 SDFM staff and other officials to foreign FIUs	
<b>Output 7</b>	<b>Feasibility study and proposal for a follow up project available</b>			
Activities				
7.1	Carry out an analysis in view of additional technical assistance needs. Not started	4/04	LT-advisers with COE HQs inputs	
7.2	Prepare a feasibility study including terms of reference for a follow up technical cooperation project. Not started	5-7/04	LT-advisers with COE HQs inputs	

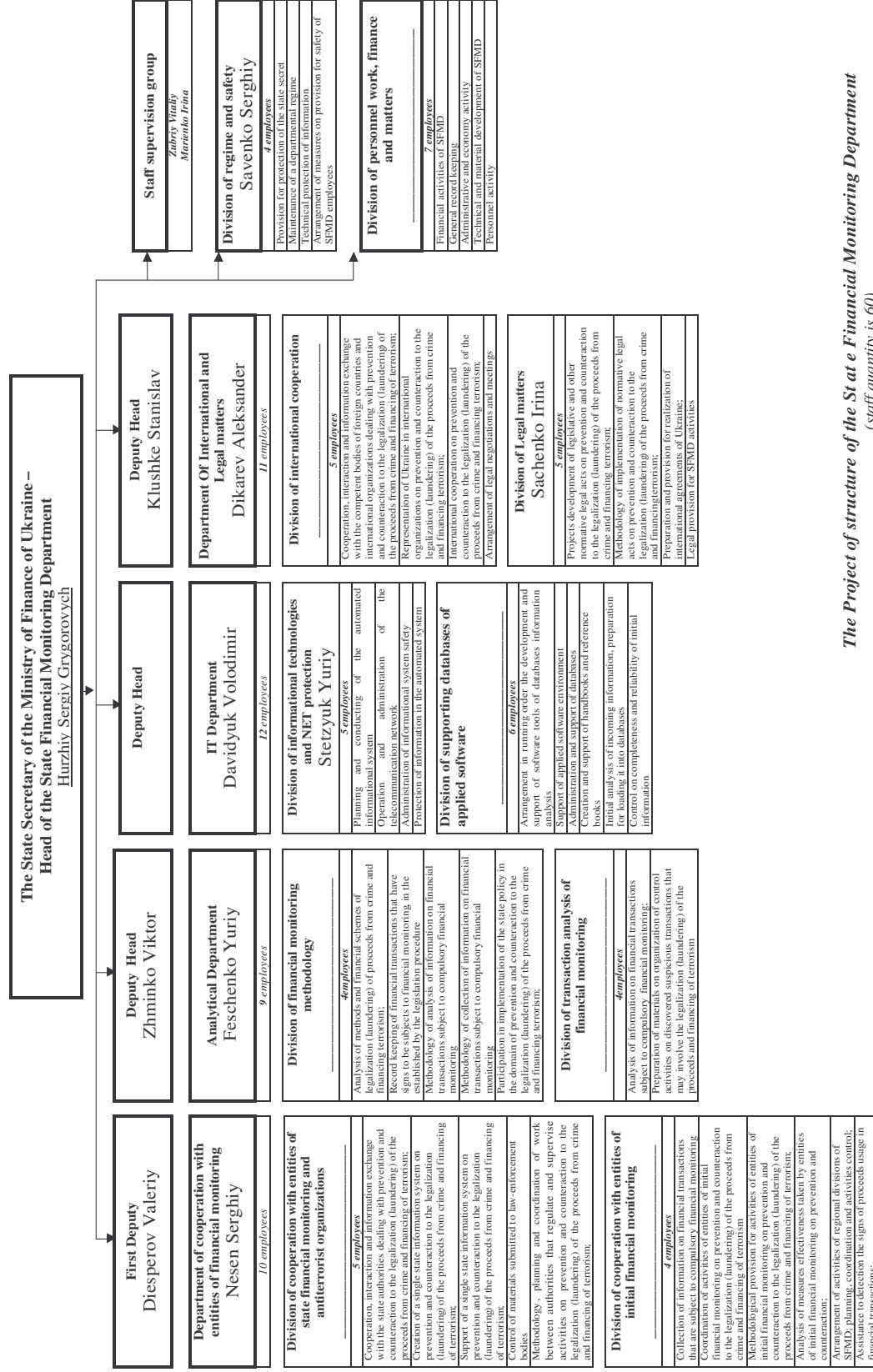
### Annex 3: Agenda of the Start-up seminar

08.30 – 09.25	Registration of participants / coffee
<b>09.30</b>	<b>I. Opening session</b>
09.30 – 09.40	Greeting on behalf of the President of Ukraine Mr. Pavlo Gaidutskiy
09.40 – 09.50	Greetings on behalf of the Verhovna Rada of Ukraine Mr. Pavlo Gaidutskiy
09.50 – 10.05	Greetings on behalf of Cabinet of Ministers of Ukraine Mr. Oleksander Shnipko
10.05 – 10.20	Statement by the Head of delegation of the EC in Ukraine Mr. Norbert Jousten
10.20 – 10.35	Presentation by the COE Mr. Alexander Seger
10.35 – 11.00	Press briefing / coffee break
<b>11.00</b>	<b>II. The Project against Money Laundering in Ukraine: Overview</b>
11.00 – 11.20	Objectives, results and activities Presentation by the COE, Mr. Alexander Seger
11.20 – 11.40	General characteristic and preconditions of introduction of the project Presentation by Mr. Serghiy Hurzhiy, Head of SDFM
11.40 – 12.00	Roles and responsibilities in project implementation Presentation by the Mr. Mark van Thiel, TvT compliance ltd, Short-term expert of COE
12.15 – 13.45	Lunch



<b>14.00</b>	<b>III. Working session: Presentations and discussions on the project work plan</b>
14.00 – 15.30	Statements by co-operating FIUs Belgium, France, Italy, Russia, Slovakia, Slovenia
15.30 – 15.50	1. Organizational set up of the State Department for Financial Monitoring completed in terms of staffing, budgeting and resourcing and working procedures (Output 1 of the Project work plan)
15.50 – 16.20	2. Relevant legislation in line with the requirements of the new anti-money laundering law and proposals for amendments of other laws to enhance the effectiveness of the anti-money laundering system available. – Guidelines for primary financial operators on identification and analysis of suspicious transactions and reporting obligations available and a mechanism to review their effectiveness will have been elaborated by SDFM in co-operation with regulators and adopted (Outputs 2 and 5 of the Project work plan)
16.20 – 16.40	Coffee break
16.40 – 17.10	3. System for the collection, processing, analysis, protection and exchange of information on transactions in operation within the SDFM. – The number, quality, accuracy and speed in processing of incoming and outgoing requests for information from and to other FIUs of all types will have increased measurably (Outputs 3 and 6 of the Project work plan)
17.10 – 17.30	4. Effective mechanisms are in place to ensure co-operation between the SDFM and law enforcement, criminal justice and regulatory authorities (Output 4 of the Project work plan)
17.30 – 17.45	5. Feasibility study and proposal for a follow up project available (Output 7 of the Project work plan)
<b>17.45</b>	<b>IV. Closing session</b>
17.45 – 17.55	Conclusions
17.55 – 18.00	Adoption of the Project work plan
19.00	Dinner

# Annex 4: Organization chart



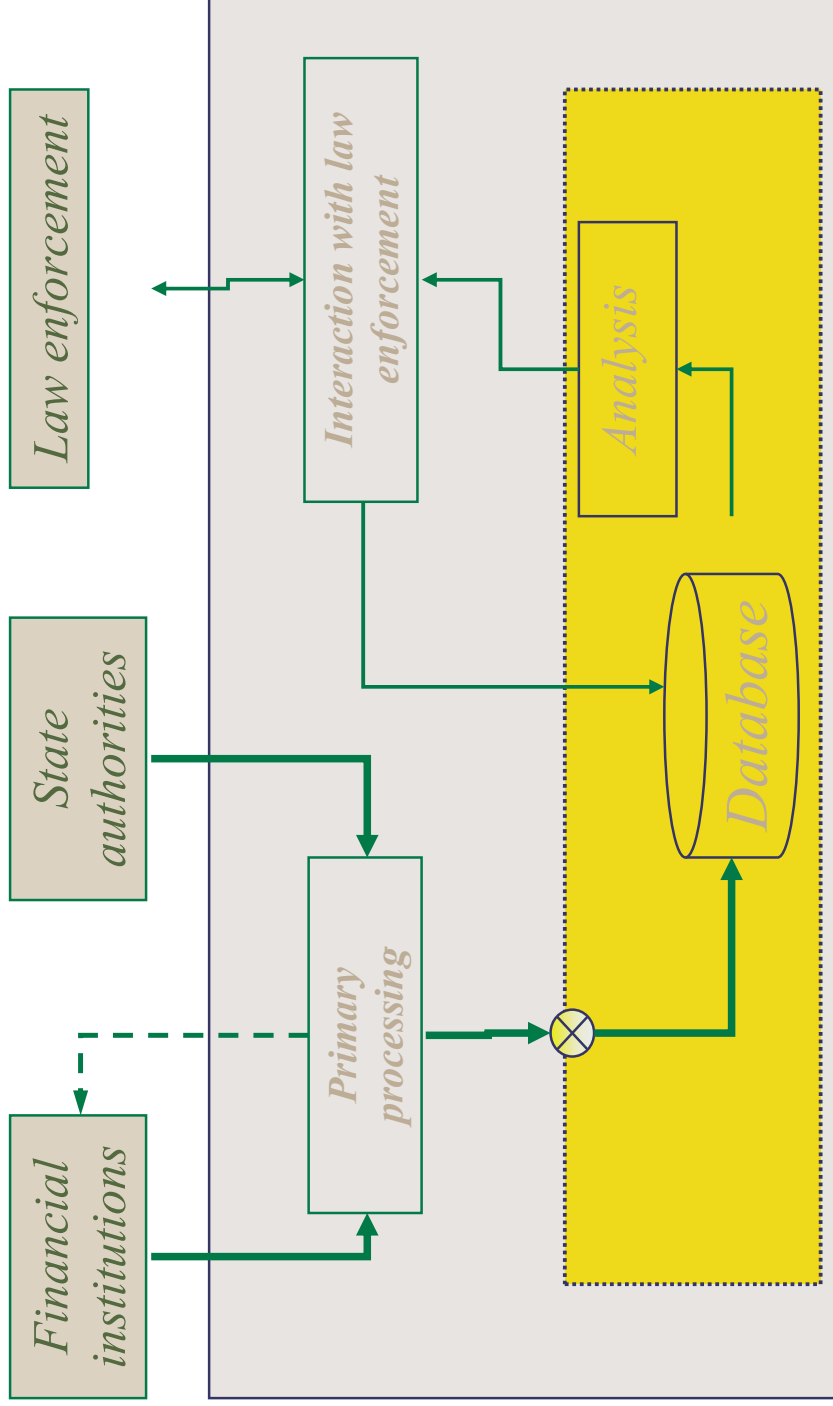
*The Project of structure of the State Financial Monitoring Department  
(staff quantity is 60)*

### Annex 5: SDFM IT-system, basic information flow

## State Department for Financial Monitoring

The system of collection, processing, analysis, exchange and protection of information

### Basic information flows



## Annex 6: System components

<b>1</b>	<b>System of collection of information</b>
	Information sources
	<ul style="list-style-type: none"> <li>- Banks</li> <li>- Insurance and other financial institutions</li> <li>- Commodity, stock and other exchanges</li> <li>- Professional operators in securities market</li> <li>- Pawnshops</li> <li>- Gambling establishments</li> <li>- Legal entities holding any lottery</li> <li>- Investment funds</li> <li>- Private pension funds</li> <li>- Communication companies and associations</li> <li>- Etc.</li> </ul>
	Forms of information inputs
	<ul style="list-style-type: none"> <li>- Formalized</li> <li>- Non-formalized</li> </ul>
	Scanning and input of electronic data into the IT-system
	Electronic registration
	Electronic archiving of information
<b>2</b>	<b>System of processing of information</b>
	Receipt of information
	<ul style="list-style-type: none"> <li>- Verification of information integrity</li> <li>- Preparation for primary processing</li> </ul>
	Input into operative database
	Logical control of incoming reports
	Feedback to sender
	<ul style="list-style-type: none"> <li>- Report was received</li> <li>- Information was incomplete</li> <li>- Report was registered</li> </ul>
	Formation of incoming flow or reports for transfer into segment of primary analytical processing
	<ul style="list-style-type: none"> <li>- Transfer of processed reports to primary analytical processing</li> <li>- Reports about number and types of information being processed</li> </ul>

<b>3</b>	<b>System of analysis of information</b>
	Analysis of information
	<ul style="list-style-type: none"> <li>- Establishment of connections between participants of transaction</li> <li>- Study of documents</li> <li>- Establishment of the degree of suspicion with regard to transaction and its participants</li> <li>- Decision-making about further actions</li> </ul>
	Subsystem of data input and creation of analytical database (Product: ORACLE)
	<ul style="list-style-type: none"> <li>- Structuring of report for input into analytical storage</li> <li>- Input of records into analytical storage</li> <li>- Registration of financial transactions subject to financial monitoring</li> <li>- Preparation of information for processing by analytical application software</li> </ul>
	Subsystem of operative analytical data processing (Product I2)
	<ul style="list-style-type: none"> <li>- Establishment of analytical ties for analysis of financial transactions</li> <li>- Analysis of operations of financial monitoring according to established priority</li> <li>- Decision-making</li> </ul>
	Subsystem of interaction with informational systems of entities of financial monitoring
	<ul style="list-style-type: none"> <li>- Interaction with entities of initial financial monitoring (financial institutions etc.)</li> <li>- Interaction with entities of state financial monitoring (regulators, law enforcement etc.)</li> <li>- Interaction with regional subdivisions</li> <li>- Interaction with foreign subjects – FIUs</li> </ul>
	Subsystem of closed document processing – overview of files about objects suspected of money laundering
	<ul style="list-style-type: none"> <li>- Information</li> <li>- Requests to foreign FIUs</li> <li>- Requests to international institutions and organizations</li> <li>- Requests for investigation of financial transactions by law enforcement</li> <li>- Formation of registry files</li> <li>- Maintenance of registry files</li> <li>- Control of compliance with requests for information necessary for examination of suspicious transactions</li> </ul>
	Subsystem of macro-analytical data processing
	<ul style="list-style-type: none"> <li>- Macroanalysis of database of suspicious transactions</li> <li>- Establishment of criteria of analysis of financial transactions</li> <li>- Establishment of methodology of financial monitoring</li> <li>- Reporting number and types of information processed</li> </ul>

<b>4</b>	<b>The system of protection of information</b>
	System Objectives
	<ul style="list-style-type: none"> <li>- Integrity of information</li> <li>- Confidentiality of information</li> <li>- Accessibility of information</li> <li>- Transparency of system</li> </ul>
	System principles
	<ul style="list-style-type: none"> <li>- Complex architecture</li> <li>- Compatibility of principles and methods</li> <li>- Efficiency</li> <li>- Ability to control the systems protection at all stages</li> <li>- Automatic system protection</li> <li>- Responsibility for measures taken</li> <li>- Feasibility</li> <li>- Distinctive access to the data processed</li> </ul>
	Protection levels
	<ul style="list-style-type: none"> <li>- Physical (SDFM building, rooms)</li> <li>- Network (LAN, virus, firewall)</li> <li>- Local (LAN, virus, firewall)</li> <li>- User (client identification, authentication, data encryption, digital signature)</li> <li>- Technology (Certification by Ukraine Security Service)</li> <li>- Transport (VPN)</li> </ul>

# Annex 7: Overview IT-system

