



REPORT ON THE ACTIVITY OF
THE FINANCIAL MONITORING SERVICE
OF THE REPUBLIC OF AZERBAIJAN
FOR
2022





Contents

Acronyms	4
Foreword	6
Legislative Reforms	7
AML/CFT Policy-Making and Preparation for MONEYVAL's 5th Evaluation Round	9
Data Processing	12
Analytical Activity	13
Domestic Cooperation	16
International Cooperation	18
Capacity-Building and Organizational Issues	21
Information technologies	22



ACRONYMS

EGMONT	A united body of Financial Intelligence Units
ML	Money Laundering
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
FATF	Financial Action Task Force of the Organization for Economic Cooperation and Development
GoAML	Special analytical module system
LEA	Law Enforcement Agencies
IT	Information Technologies
FMS	Financial Monitoring Service of the Republic of Azerbaijan
FIU	Financial intelligence unit
MONEYVAL	The Committee of Experts on the Evaluation of Anti-Money Laundering Measures of the Council of Europe
NRA	National Risk Assessment
TF	Terrorism financing



FOREWORD

Today, few people are not affected by financial crimes. To some of us, such criminal events may seem far away, but this does not imply that they do not exist. If it is away from us, it is most probably flourishing in another society. Somewhere else a thief steals someone's plastic card or ID card information, smugglers bring illegal weapons into the country, drugs are traded on the streets, etc. Tracking the money flow from such crimes is extremely important in uncovering committed crimes or impending terrorist acts.

The Financial Monitoring Service of the Republic of Azerbaijan continued and expanded its activities in 2022 to prevent such crimes in our country and abroad.

To successfully combat crimes in the economy of our country, FMS has prosperously completed the NRA project on AML/CFT in 2022. FMS has implemented consistent measures in the field of strengthening domestic and international cooperation, processing, analyzing, and transmitting data according to the established requirements, institutional building, and improving information technologies, as well as strengthening domestic and international cooperation as well. Along with current activities, during the reporting year, systematic and comprehensive measures were taken to prepare for MONEYVAL's 5th evaluation round, a strategic priority direction.



Legislative reforms

The strategic line of the reforms implemented in the field of AML/CFT in the Republic of Azerbaijan was the completion of the process of adapting the national legislation to the requirements of international standards within the framework of preparation for the MONEYVAL 5th round evaluation of the Council of Europe in 2022.

Actions on improving legislation and policy-making covered the implementation of obligations defined basically by the National Action Plan for the Promotion of Open Government for 2020-2022 approved by Decree No. 1859 of the President of the Republic of Azerbaijan dated February 27, 2020 (hereinafter - the National Action Plan) and Resolution of the Cabinet of Ministers No. 404 On Some Measures to Ensure the Periodic Risk Assessment of the System for Combating the Legalization of Criminally Obtained Money or Other Property and the Financing of Terrorism, the Organization of Preparation for the Assessment to be Carried Out in the Relevant Area, and the Creation of a Coordination Mechanism with These Goals dated October 21, 2020 (hereinafter – Resolution No. 404).

As part of those measures, the laws of the Republic of Azerbaijan 'On the Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism' and 'On Targeted Financial Sanctions' prepared by the FMS and agreed upon with the institutions included in the Coordination Council established based on Resolution No. 404

were adopted on December 30, 2022. Adoption of these laws as a result of purposeful and consistent measures taken to adapt national legislation to the FATF requirements constituting international standards on AML/CFT has formed the legal framework for strengthening the preventive system in the field of AML/CFT, expanding the functionality of relevant institutions, especially the financial intelligence unit, supervisory, and law enforcement authorities, improving domestic and international cooperation mechanisms, and effectively implementing targeted financial sanctions of the UN Security Council in the field of combating and financing of terrorism and the proliferation of weapons of mass destruction.

To improve the FMS management, for the reporting period, a draft amendment to the Charter of the Financial Monitoring Service of the Republic of Azerbaijan approved by Decree No. 215 of the President of the Republic of Azerbaijan dated July 18, 2018, was prepared and approved by Decree No. 1910 of the President of the Republic of Azerbaijan dated December 19, 2022.



AML/CFT Policy-Making and Preparation for MONEYVAL's 5th Evaluation Round

During 2022, consistent activity has been continued in the field of AML/CFT policy-making to ensure the consistency of measures arising from Resolution No. 404 and arranging the required interdepartmental cooperation at the country level as part of the 5th evaluation round starting from April 2022.

Thus, in the reporting year, the large-scale analytical work on NRA in the field of AML/CFT was completed, and the prepared report was submitted to appropriate government institutions. To communicate the key NRA results to the monitoring subjects and the public, an information session was held on August 23, 2022, on the FMS's YouTube page.

As part of the NRA, external and internal sources of threats to the country's AML/CFT system and the need for improving some law-making and institutional issues have been identified. In this regard, to improve the efficiency of the national AML/CFT system and strengthen domestic and international cooperation in this field, considering the existing domestic, regional, and global risks, the draft National Action Plan on the Fight Against the Legalization of Criminally Obtained Property and the Financing of Terrorism for 2023-2025 (National Action Plan) was prepared and approved by Decree No. 3770 of the President of the Republic of Azerbaijan dated February 28, 2023.

In 2022, the FMS also conducted consistent activity on assessing risks in various areas of the country's AML/CFT system. Thus, to assess the risks of the financing of terrorism for non-commercial organizations, work was done as part of the Civil Society Organization Strengthening Program for Transparency of the US Agency for International Development, and a corresponding report was prepared and submitted to appropriate government institutions.

In the reporting year, according to Clause 16.2 of Resolution No. 404, as part of the preparation for the 5th evaluation round, the Action Plan for the Elimination of Shortcomings and Weaknesses in the National AML/CFT System was adopted at the Coordination Council meeting on June 23, 2022, and delegated for implementation.





Data Processing

In 2022, the FMS registered 29 reporting entity and 44 new obliged entities in the GoAML database, thereby increasing the total number of registered persons to 326. Also, to improve the quality of the monitoring subjects' reports to the FMS, the database was optimized, and about 150 feedback algorithms were developed for the erroneously reported data.

One of the critical issues as part of the effective implementation of the statutory FMS functions is expanding the opportunities for using various databases. For this purpose, the Draft Resolution On Determining the Degree of Access of the Financial Monitoring Service of the Republic of Azerbaijan to Information Resources (the Scope of Data Received) of the Supervisory and Certain Other Bodies (Institutions), prepared by the FMS to implement Part 2 of Resolution No. 558s of the Cabinet of Ministers dated July 26, 2018, adopted to ensure the implementation of Decree No. 214 of the President of the Republic of Azerbaijan dated July 18, 2018, was adopted by Resolution No. 359 of the Cabinet of Ministers dated September 19, 2022. Adopting this Resolution allows for ensuring access of the FMS to databases of 12 government institutions according to the requirements of international standards in the field of AML/CFT, thereby strengthening its analytical potential.

Analytical Activity

In 2022, monitoring subjects submitted a total of 56,297 reports to the FMS. Of the relevant data included in the FMS's electronic information database, 29,493 (52%) make up reports on current transactions, 24,472 (44%) - high-risk transactions, 1,078 (2%) - suspicious transactions, and 1,254 (2%) - other report types.

Compared to 2021, the number of reports on limit-based and high-risk transactions increased by, respectively, 6% and 5%, and the number of reports on suspicious transactions increased more than 2-fold in 2022 (Diagram 1).



Diagram 1. Distribution of Reports to the FMS in 2020-2022

Also, in 2022, the FMS sent 5,516 domestic and 25 international requests related to the analysis of suspicious transactions. For this period, 5,490 requests were submitted to obliged entities, 21 - law enforcement agencies, and 5 - other domestic institutions. 95% of requests to foreign FMBs were related to the legalization of the criminally obtained property, and 5% - the suspicion of the financing of terrorism.

In the reporting year, the number of cases delegated by the FMS to law enforcement bodies, as well as those using financial intelligence data, significantly increased compared to the previous year. Thus, in 2022, as a result of the investigation of data received by the FMS from obliged entities, law enforcement bodies, and foreign FIUs, as well as analyzes of open sources, information on a total of 70 cases were reported to the law enforcement bodies of the Republic of Azerbaijan, of which 46 cases to the Prosecutor General's Office, 16 - the State Security Service, 2 - the Ministry of Internal Affairs, 5 - the State Tax Service under the Ministry of Economy, and 1 - the State Customs Committee (Diagram 2). Of them, 20 cases were submitted by the monitoring subjects, 47 - by law enforcement bodies, 2 - by foreign financial monitoring bodies based on the FMS's investigation, and 1 - based on the FMS's strategic investigation. Also, information on 124 individuals concerning suspicion of tax evasion crime was spontaneously submitted to the State Tax Service.

Also, in 2022, 43 and 7 requests concerning, respectively, the legalization of criminally obtained property and the financing of terrorism were received from law enforcement bodies, investigated, and appropriately reported to the other party. In 2022, law enforcement bodies initiated 8 criminal cases on the fact of legalization of criminally obtained property based on the information provided by the FMS. Also, the information provided by the FMS was used as financial analysis data in 21 criminal cases (which is 2.1 times more than in the previous year) initiated in connection with other predicate crimes. In the reporting year, the FMS investigated and responded to 32 requests received from foreign FMBs.

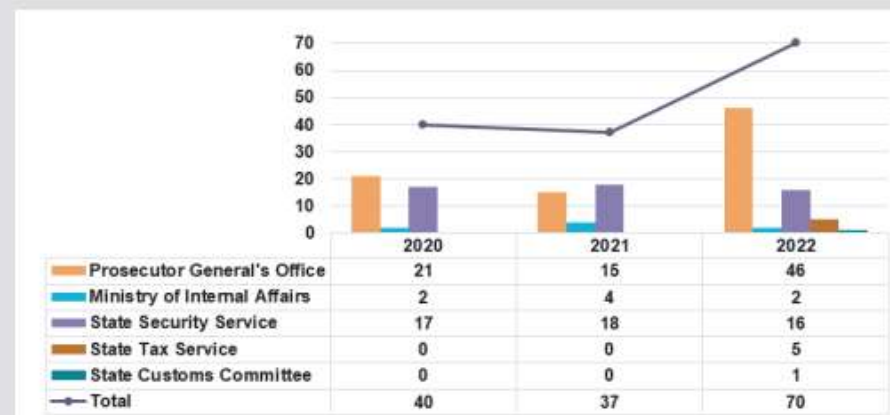


Diagram 2. Dynamics of Cases Reported by the FMS to Law Enforcement Bodies

Also, as a result of the analysis conducted in the FMS, a new typology was developed and provided to law enforcement bodies. The appropriate strategic analysis covered the practice of misappropriation of funds belonging to citizens by a group of individuals by arranging fake virtual currency trade, thereby abusing the trust of citizens. Also, statistical bulletins were prepared, reflecting quarterly trends in the data entered into the FMS database for the reporting period and intended for internal use.

In 2022, work was continued to improve the quality of information on suspicious transactions reported to the FMS by monitoring subjects and create a feedback mechanism. As part of this work, according to the rules for informing the monitoring subject, the FMS regularly informed the Central Bank of the Republic of Azerbaijan of the number of reports by the monitoring subjects on suspicious transactions, the quality of these reports, as well as the banks that failed to provide such reports.

Herewith, in the reporting year, strategic analysis reports on the following topics were prepared:

- Assessment of the compliance of the measures implemented in respect of the cash funds and unregistered securities physically crossing the customs border of the Republic of Azerbaijan with the requirements of international standards;
- Specifics of the real estate market and its weaknesses and risks regarding the legalization of criminally obtained property and the financing of terrorism;
- Operations conducted through Azerbaijan as part of international sanctions.



Domestic Cooperation

In 2022, FMS worked on strengthening cooperation with monitoring subjects, judicial and law enforcement bodies, various government institutions, and non-governmental organizations.

During 2022, measures have been taken to ensure preparation for the 5th evaluation round at the country level and arrange the required coordination in this field between government institutions, as well as with the MONEYVAL Committee Secretariat on behalf of the Republic of Azerbaijan.

In the reporting year, considering the increasing significance of social media platforms in recent years, to strengthen the FMS's activity communication to the public, the FMS opened official accounts on Facebook and LinkedIn platforms. Information to be disclosed to the public and press releases on events attended by the FMS and other relevant news were shared on the official website and social network accounts.

In 2022, the FMS arranged pieces of training both independently and jointly with the Central Bank, the State Tax Service, and the Council of Europe. The pieces of training covered topics such as AML/CFT risks of new technologies and virtual assets, terrorism financing risk assessment by financial flow analysis, customer profile data collection, risk degree, and ways to assess it.

Also, the FMS was represented in the working group created to ensure coordination as part of the Enhancing the Socioeconomic Benefits of Remittances in Azerbaijan project implemented in partnership with the State Migration Service of the Republic of Azerbaijan at the expense of the International Organization for Migration Development Fund.

Also, in 2022, the General List of Persons to be Sanctioned as Part of the Combating the Financing of Terrorism was updated 6 times while notifying appropriate supervisory bodies.



In 2022, the active participation of the Republic of Azerbaijan in various international events was ensured to further improve its international image, expand international cooperation and data exchange, and strengthen the human capital in the relevant field.

The FMS employees attended the Egmont Group events as both participants and experts. Thus, at the Egmont Group's Membership, Support, and Compliance Working Group meeting held online on February 3, 2022, an FMS employee was elected vice-chairman of this working group for the second time. Along with the events arranged as part of the said working group, the participation of an FMS employee was ensured at the Egmont Group plenary session held in Riga, the Republic of Latvia, on July 10-15, 2022. Also, the FMS employee assessed the compliance of the Financial Intelligence Authority of the Republic of Guinea-Bissau with the Egmont Group membership principles.

In the reporting year, the important field of the FMS's international cooperation was related to the MONEYVAL Committee. The FMS employees actively participated in the 14th Plenary Session of the CETS 198 Convention held on November 15-16, 2022, and the 63rd and 64th MONEYVAL Committee Plenary Sessions held in a hybrid format on May 16-17 and December 5-9, 2022, respectively, in the course of which, they made written and verbal comments on the mutual evaluation reports prepared relating different countries. Also, an FMS employee, who was elected as a member of the Bureau of the Conference of the Parties to the CETS 198 Convention, actively participated in the Bureau's activity and made a presentation on the Convention provisions at the Plenary Session. Also, an FMS employee was elected by the Conference of the Parties and the Secretariat of the CETS 198 Convention as a speaker in the Convention's vertical evaluation for 2022, actively participated in the preparation of the thematic analytical report, and made a presentation on the analytical report at the Plenary Session.

Also, at the country training on the 5th evaluation round, arranged by the MONEYVAL Committee in an online format on April 19-23, 2022, the MONEYVAL Committee experts provided the participants with extensive information on the mutual evaluation, its procedures, and scope, as well as the country's risk assessment, best practices, and principles in the field.



Also, to increase the efficiency of confiscation procedures in the Republic of Azerbaijan, discussions with experts of the UN Interregional Crime and Justice Research Institute (UNICRI) were continued, concerning the improvement of substantive and procedural law related to the confiscation of the property used in the legalization of criminally obtained property or the financing of terrorism, particularly, the implementation of expanded and civil forfeiture procedures, and to study advanced practices in this field, the responsible officials of the General Prosecutor's Office and the FMS were delegated to Hague, the Kingdom of the Netherlands, on April 4-8, 2022.

In the past year, the Baku office of the Council of Europe held several pieces of training and workshops as part of the project 'Strengthening the Activity in the Field of Combating Money Laundering and Asset Recovery in Azerbaijan'. The FMS employees attended events dedicated to the topics 'Forfeiture Methods - Challenges and Recommendations', 'The Risks of Money Laundering and the Financing of Terrorism in the Non-Commercial Sector', 'Transparency in Beneficial Ownership', 'Best Practices in International Cooperation on Asset Recovery', and 'Identifying Criminal Proceeds'.

Also, on September 21 - October 4, 2022, an FMS employee visited the Republic of North Macedonia as part of the 5th evaluation round of the country in question in the composition of the MONEYVAL Committee's evaluation mission. The evaluation mission collected and analyzed data on technical compliance and efficiency parameters of the country's AML/CFT system, and prepared a report based on FATF's evaluation methodology. Also, an FMS employee conducted an assessment as a progress reporter of the 5th evaluation round of the Republic of Lithuania, and the said document was discussed and adopted at the MONEYVAL Committee's 64th Plenary Session.

As part of strengthening international cooperation, the FMS employees attended workshops on topics 'Empowering Women Leaders in the International Anti-Money Laundering/Countering Financing of Terrorism', arranged by the United Nations Office on Drugs and Crime on December 13-15, 2022, in Vienna, Austria, and 'Fight Against Corruption, Money Laundering, and the Financing of Terrorism for Government Institutions and Civil Society Organizations' arranged by the Council of Europe in Strasbourg, France, on December 20-21. Also, an online meeting was held with the State Assets Management Agency of the Republic of Uzbekistan to discuss issues related to the fulfillment of obligations of realtors in the field of AML/CFT.

Note also that special importance was given to various international pieces of training to strengthen the potential of the FMS employees. Thus, on November 21-25, the FMS employees participated in the FATF Standards Training Course, arranged for trainers by the FATF Training

Institute located in Busan, Republic of Korea, passed the appropriate exam, and obtained the FATF Trainer Certificate.

Also, the FMS employees attended the National Workshop on the Cybercrime Report (Assessment) and the Report on the Use and Coordinated IOCTA (Internet Organized Crime Threat Assessment) of Cyber Taxonomies held on September 26-27, 2022, as part of the CyberEast project implemented during the last year by the European Union and the Council of Europe, and the course on the topic 'Analyzing Risk Related to International Sanctions' held jointly with the Pacific Northwest National Laboratory as part of the US Government's Export Control and Related Border Security Program in Baku on December 1-2.

In the reporting year, as part of international data exchange, 37 requests and 21 spontaneous reports were sent to the FMS by foreign FMBs while FMS sent 25 requests and 19 spontaneous reports to foreign partners (Diagram 3).

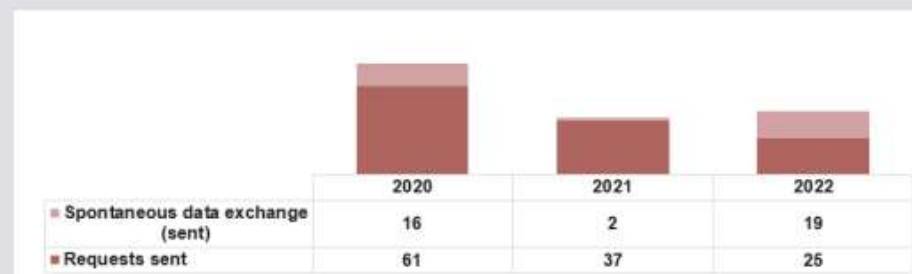
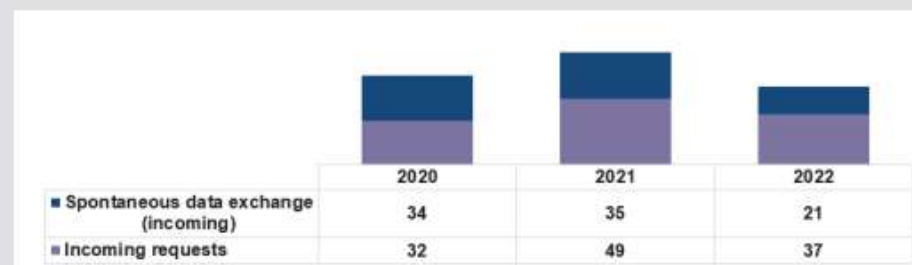


Diagram 3. International Data Exchange of the FMS with Foreign Partners

Capacity-Building and Organizational Issues

In 2022, the FMS continued the capacity-building activity; the work was done on expanding knowledge in the field of AML/CFT and strengthening human capital, as well as the automation of the labor law administration.

The current expansion of ICT possibilities and educational approaches based on the improvement of knowledge and skills necessitates the creation of electronic learning platforms. To improve the knowledge, skills, performance, and professionalism of persons acting in the AML/CFT field, the FMS completed creating an electronic learning platform covering innovative teaching techniques and approaches and presented it to the general public in September 2022.

In September-December 2022, 200 persons registered on the e-learning platform, of which 144 were obligors (banks, investment and insurance companies, auditors, notaries, and lawyers) and their employees, and the rest were employees of various government institutions, researchers, students, etc. Currently, the e-learning platform has 3 modules: Fundamentals of AML/CFT, Supervision and Regulation, and Prosecution in AML/CFT. During the evaluation period, users received 22 certificates in different modules based on the examination results.

During 2022, no complaints have been received by the Appellate Board operating in the FMS according to Decree No. 681 of the President of the Republic of Azerbaijan On Establishment of Appeal Boards in State-Owned Legal Entities dated May 6, 2019.



Information Technologies



In 2022, some measures were taken to improve the FMS's IT infrastructure and provide appropriate e-services.

In this connection, the FMS's official website has been updated. Appropriate safe internet channels were configured to receive data from certain government bodies.

Also, the FMS's information resources and system were copied, and the software was regularly updated. During the reporting year, the server equipment system and audit logs were monitored, and server and administrator passwords were regularly updated to protect privacy and limit unauthorized access.

During the past year, the FMS has registered 34 appropriate monitoring subjects and 46 new obligors in the GoAML system.

Google Analytics software, widely used in international practice, has been installed to conduct detailed monitoring of the FMS's official website indicators and the number of users. The website monitoring results for 2022 are given below.

Table 1. Report on the Website Indicators for 2022

Session number	User number	View number	New users	Returning users
41,776	16,207	134,640	15,969	3,785