

A black and white photograph showing the silhouette of a person in a suit, likely a woman, looking out of a window. The person's hand is near their face, possibly holding glasses. The background shows a window with a grid pattern, suggesting an office or corporate environment. The overall mood is professional and contemplative.

FINANCIAL MONITORING SERVICE OF
THE REPUBLIC OF AZERBAIJAN

2019 ANNUAL
REPORT



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ACRONYMS

- Egmont Group** ● Specialized entity of Financial Intelligence Units
- FATF** ● Financial Action Task Force of the Organization for Economic Cooperation and Development
- GoAML** ● Special analytical module system
- GUAM** ● Georgia, Ukraine, Azerbaijan and Moldova – Organization for Democracy and Economic Development
- IT** ● Information technologies
- MONEYVAL** ● The Committee of Experts on the Evaluation of Anti-Money Laundering Measures of the Council of Europe
- FMS** ● Financial Monitoring Service of the Republic of Azerbaijan
- AML/CFT** ● Anti-Money Laundering and Combating the Financing of Terrorism
- ML/TF** ● Anti-Money Laundering and Financing of Terrorism



The previous year of 2019 can be characterized by the organizational, institutional development and strengthening of the international image of the Financial Monitoring Service (FMS) of the Republic of Azerbaijan which is one of the main participants in the fight against money laundering and terrorist financing of the Republic of Azerbaijan (AML/CFT).

The participation of FMS employees in events held domestically and abroad was provided in order to support their professional development, draft internal rules were developed and approved, and measures have been taken to improve the financial and human resources system.

Meanwhile, FMS conducted several trainings on relevant topics during the previous year in order to ensure transparency and efficiency, compliance with the requirements of national legislation, coordination of activities of monitoring participants, other persons participating in monitoring, control and other state bodies in the field of AML/CFT as well.

In addition, systematic work has been done to expand the international cooperation and promote the reputation of the FMS in 2019. In this regard, the active participation of FMS staff in the work of the Egmont Group, an international organization of financial intelligence units, in particular, elevating level of representation in the "Membership, Support and Compliance" working group as well as a number of initiatives by FMS staff could be noted.

A number of steps have been taken to intensify cooperation within the MONEYVAL Committee of the Council of Europe. Active participation in the plenary meetings of the Committee, ensuring the participation of an FMS employee as an evaluator-expert in the V Round mutual evaluation of the Republic of Moldova, as well as representation of the FMS at the management level in the activities of the high-level working group in order to discuss the MONEYVAL Strategy for 2020-2022 should also be mentioned.

Nevertheless, the format of bilateral international cooperation was also paid attention to, meetings with financial intelligence units of foreign countries were organized, future joint cooperation measures were discussed, as well as business trips to Ukraine and the Russian Federation were made for the exchange of experience.

Finally, it should also be noted that measures envisaged in the "National Action Plan for 2017-2019 on Combating Money Laundering and Terrorist Financing in 2019" have been successfully executed by FMS.

Rovshan Najaf

Chairman of the Executive Board

ANALYTICAL ACTIVITY



Suspicious transaction reports at the FMS are analyzed by GoAML software in accordance with the “Guideline on Information Analysis Department's research and analysis activities”.

Analytical activity at FMS includes tactical and strategic analysis. Within the framework of tactical analysis, information received from the reporting entities is compared with other operational information as a part of the data collection process necessary for an accurate representation of the facts about natural and legal persons or various events proving the case.

Information aggregated in the FMS's analytical information system, open source data (company registers, audit reports, telephone directories, Internet, etc.), the state agencies' databases (tax, justice, police, migration, customs, moveable and immovable property registers, etc.), additional information collected from the initial reporting entity and information received from the financial Intelligence units of other countries make up the main sources for tactical analysis.

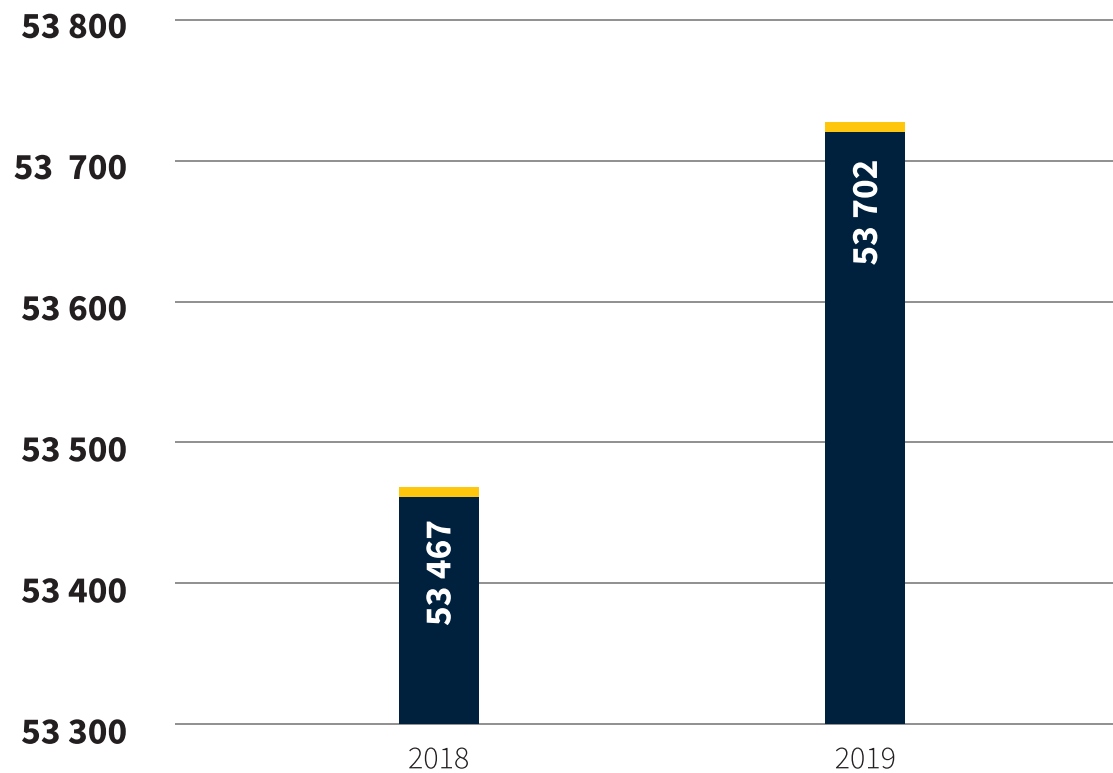
During strategic analysis, a knowledge base and strategic database that can be used in the activities of the FMS are being formed, which will help to determine the general directions of its future activities. Such information refers to new problems and trends, general trends, typologies, models, area studies, suspicion criteria, behavioral patterns, criminal activity models, criminal schemes, and other analytical products. The scope of strategic analysis includes identifying criminal schemes in any particular group, as well as developing a broad concept of new illegal activity models.

As a result of the work carried out in the direction of strategic analysis in the reporting year, new typologies on "Legalization of share funds misappropriated by the company's management", "Money laundering by transferring large amounts of criminally obtained funds to foreign countries, including offshore zones, through bank accounts of "shell" companies on the basis of fictitious import contracts" and were posted on the website of the FMS.

STATISTICS

A total number of reports submitted to the FMS by reporting entities was 53,702 during 2019. (Figure 1).

Figure 1.
The number of transaction reports submitted to the FMS in 2018-2019



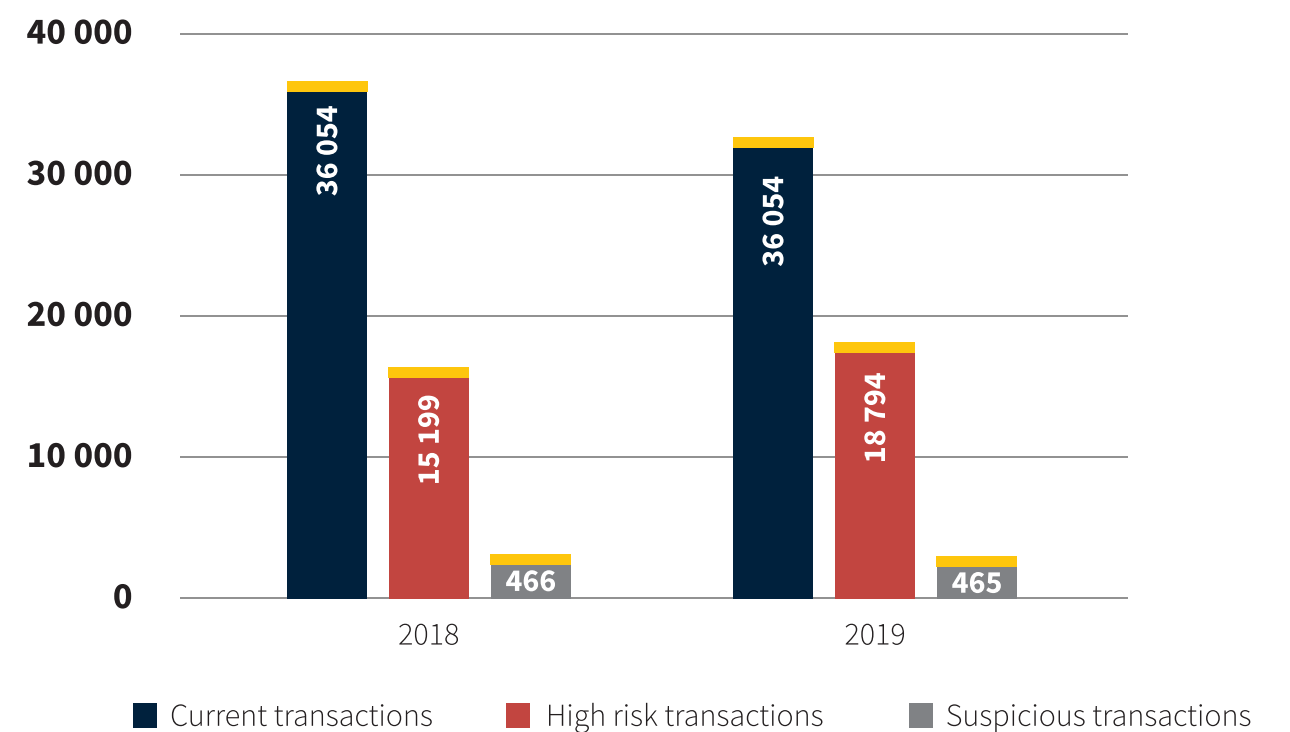
32,979 (61%) of the relevant information entered into the electronic database of the FMS were currency transaction reports, 18,794 (35%) of them were high-risk, 465 (1%) were suspicious, and 1,464 (3%) were other types of transaction reports (Table 1).

Table 1.
Structure of the reports submitted to the FMS in 2019

| Classification of transactions | Number of transactions |
|--------------------------------------|------------------------|
| Currency transaction reports (CTR) | 32 979 |
| High-risk Transaction reports (HRR) | 18 794 |
| Suspicious transaction reports (STR) | 465 |
| Reports on other transactions (OTR) | 1 464 |
| Overall | 53 702 |

While there was a 9% decrease in the number of CTRs in 2019 compared to 2018, there was a 24% increase in the number of HRRs. The number of STRs remained stable during the relevant period. (Figure 2).

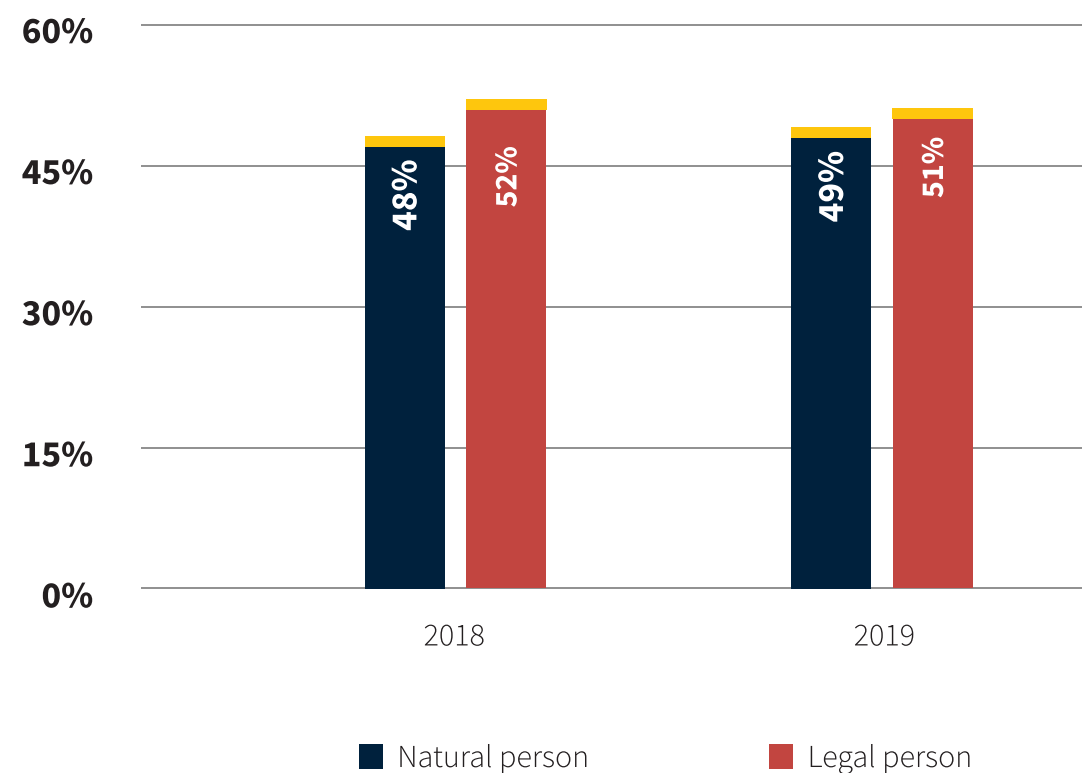
Diagram 2.
Number of transaction reports for 2018-2019 according to transactions classification



¹ FMS receives information as reports. One or more related transactions can be added to one report.

In 2019 FMS received about 222 transactions per working day on average. 51% of the transactions added to the reports submitted for 2019 were legal entities, and 49% were transactions of individuals. (Figure 3).

Figure 3.
Distribution by type of entities that carried out operations in the structure of the reports received by FMS for 2018-2019



1791 internal inquiries were made this year in connection with the analysis of suspicious transactions. 97% of the inquiries (1,744) fell to the share of reporting entities (Table 2). During the current year, 1 information on the suspicious case was submitted to the Prosecutor General's Office and 7 to the State Security Service.



Table 2.
Domestic entities requested by the FMS in 2019

| Requested domestic subjects | Number of requests |
|------------------------------------------|--------------------|
| Inquiries to reporting entities | 1 744 |
| Inquiries to LEAs | 26 |
| Inquiries to other domestic institutions | 21 |
| Overall | 1 791 |

Table 3.
Information received from foreign financial intelligence units in 2019

| Number of data submitted to the FMS | Spontaneous information | | Requests | | Responses to Requests | |
|-------------------------------------|-------------------------|---------------------|----------------|---------------------|-----------------------|---------------------|
| | Number of data | Number of countries | Number of data | Number of countries | Number of data | Number of countries |
| 119 | 43 | 19 | 51 | 31 | 24 | 17 |

Table 4.
Information sent from the FMS to foreign financial intelligence units in 2019

| Requests | | Responses to requests | |
|----------------|-------------------|-----------------------|-------------------|
| Number of data | Number of country | Number of data | Number of country |
| 33 | 23 | 55 | 28 |

² Reporting entities receive requests through goAML software electronically.



DOMESTIC COOPERATION

Domestic Cooperation During the reporting year, FMS continued to cooperate with reporting entities, regulatory, law-enforcement and judicial authorities, as well as cooperation with other governmental and non-governmental organizations. In accordance with the approved training plan of the FMS for 2019, 14 trainings on 11 topics were conducted for reporting entities, regulatory authorities and law enforcement agencies during the year, a total of 321 participants were involved in these trainings.

Trainings held in 2019 for officials of reporting entities and employees of other relevant departments covered topics such as requirements of AML/CFT legislation, national and world typologies of AML/CFT, criteria and methodology of analysis of suspicious transactions, application of risk-based approach and implementation of internal risk assessments, as well as submission of information to the financial monitoring unit, use of analytical tools for processing and analysis of large amounts of data. In total, 240 participants were involved in 9 trainings held for reporting entities.

Trainings for supervisory authorities established by AML/CFT legislation were aimed at the formation of an effective risk-based control and regulation mechanism for AML/CFT in accordance with FATF recommendations and national legislation in the relevant structural units of these bodies, as well as to the sectoral AML/CFT risk assessment by regulatory authorities and to strengthening the capacity to implement appropriate preventive measures accordingly. In this context, trainings were conducted for supervisory staff to assess the implementation of commitments to establish internal control systems and identify beneficiary owners, as well as to establish risk-based control frameworks in reporting entities over the past year. A total of 36 participants were involved in 3 such trainings held for regulatory authorities.

During 2019, 2 trainings on AML/CFT case investigation technologies and evidence standards for these crimes were conducted for law enforcement officers. A total of 45 law enforcement officers participated in the trainings.

On September 3, FMS employees participated in the meetings held upon the invitation of the Working Group under the State Oil Fund of the Republic of Azerbaijan within the project "Supporting the Implementation of the Roadmap for Beneficial Ownership Disclosure for the Extractive Industries in Azerbaijan".

The employee of the FMS delivered a presentation at scientific-practical conference on "The fight against the shadow economy - as an important factor in economic development" on September 13 which was jointly organized by the Ministry of Taxes of the Republic of Azerbaijan, the Chamber of Auditors of the Republic of Azerbaijan and the Union of Economists of Azerbaijan as well as in October-December at the seminar "Caspian Basin Studies" at ADA University.

Also, on November 18, FMS organized a meeting with AML/CFT officials of banks operating in the country to improve the quality of reports submitted by monitoring participants, discuss technical problems and provide methodological support to improve existing systems. In addition, in 2019, working meetings and discussions were held with the Ministry of Justice of the Republic of Azerbaijan to develop bilateral services for the organization of sending suspicious information of notaries to the FMS online through the information system. In this context, FMS has already completed all preliminary preparations.

On December 18, with the support of the FMS and the Azerbaijan Open Government Platform, the International Center for Nonprofit Law and the US Agency for International Development's Civil Society Project for Transparency, an international conference on "Implementation of Financial Action Working Group (FATF) Standards for the Nonprofit Sector" was held.

Besides, employees of the FMS made presentations at the seminars on "Assignment of methodological support to ensure the access of auditors to the person responsible for the fight against AML/CFT identification, account and transaction information" held by the Chamber of Auditors on December 20 and "Promoting and Ensuring the Accession of the Chamber of Auditors and its member audit organizations and independent auditors to the FMS database", as well as at the event held at the Ministry of Taxes for reporting entities providing legal services, accounting and tax consulting services on December 27.



INTERNATIONAL COOPERATION

During 2019, in order to further promote the international prestige of the Republic of Azerbaijan, expand international cooperation and information exchange in the field of AML /CFT, as well as strengthen human resources, the participation of management and employees of the FMS in various international events was provided. Consistent steps have been taken to strengthen the FMS's capacity to cooperate with both formal and informal international organizations operating on AML /CFT, as well as with financial intelligence units of other countries.

Thus, FMS was represented at the meetings of various sub-working groups of the Egmont Group of Financial Intelligence Units (Jakarta, Indonesia) in January, at the seminar organized by the Central Asian Regional Information and Coordination Center on April 2-5 (Almaty, Kazakhstan), at meetings of various sub-working groups of GUAM -Organization for Democracy and Economic Development in April 23-26 (Kiev, Ukraine), at the event on "International and regional cooperation in the fight against terrorism and drug trafficking, as well as the financing of terrorism through organized crime" on May 15-18 (Dushanbe, Tajikistan), at the 26th plenary meeting of the Egmont Group (The Hague, The Netherlands) on July 1-4.

Active participation in Egmont Group's strategically important working group "Membership, Support and Compliance" was ensured during the year. It should be noted that the expert base of this working group includes 2 FMS employees. Another example of the intensification of cooperation with the Egmont Group was the initiative of the FMS to sponsor the membership application of Montenegro FIU to the organization.

One of the important areas of FMS's international cooperation during the reporting year was associated with the Council of Europe's MONEYVAL Committee. Thus, on June 16-20 and December 3-5, the participation of the management and staff of the FMS in the 58th and 59th plenary meetings of the MONEYVAL Committee was provided, respectively. Participation of a FMS employee as an evaluator-expert in the V Round mutual evaluation of the Republic of Moldova, as well as the representation of the FMS at the leadership level in the activities of the high-level working group to discuss the MONEYVAL Strategy for 2020-2022 are among the important achievements of 2019.

On October 22-23, 2019, an employee of the FMS represented the Republic of Azerbaijan at the 11th Plenary Session of the Conference of the Parties to the Council of Europe Convention on "the Legalization, Search, Seizure and Confiscation of Proceeds from Crime, as well as the financing of terrorism".

FMS staff also made a presentation at the regional training on "Implementation of effective targeted financial sanctions" held by the Council of Europe and the European Union for the Eastern Partnership countries in Strasbourg on 9-10 December of the reporting year.

Meanwhile, employees of FMS participated in the seminar organized for relevant government agencies in order to establish a legal framework in accordance with the Budapest Convention on Cybercrime and to strengthen cooperation between cybercrime, electronic evidence, internet governance and criminal justice agencies as a part of the “CyberEast” project on combating cybercrime, organized by the Council of Europe and funded by the European Union on September 12-13. On September 13, the FMS organized a meeting with visiting foreign experts to discuss opportunities for cooperation with the FMS in capacity-building of law enforcement agencies to investigate cybercrime. In addition, the FMS was represented at a roundtable discussion on expanding public-private partnerships in the fight against cybercrime on 19 November within the same project.

Besides, FMS staff attended trainings on “Methods of data analysis on open sources” on November 25-29 and “Strategic analysis for financial intelligence unit” on December 18-19, "Mutual legal assistance in the investigation of money laundering and terrorist financing" on October 9-10 within the framework of the project "Strengthening the fight against money laundering and asset recovery in Azerbaijan" organized by the Baku Office of the Council of Europe implemented under the second phase of the EU-Council of Europe Good Governance Partnership Program.

Important steps have been taken over the past year to strengthen relations with the FATF, which plays a leading role in the field of AML / CFT. Thus, the Chairman of the Board of the FMS took part in the plenary meeting of the FATF on October 16-18, as well as other employees of the body participated in the meetings and trainings of various working groups of the FATF.

FMS employees participated in conferences, trainings and seminars organized by the financial intelligence units of Latvia, Luxembourg and Russia in the direction of strengthening international cooperation. Moreover, work has been done to strengthen direct cooperation between the FMS and the Luxembourg-based Financial Technology Transfer Agency (ATTF) over the past year.

In this context, the ATTF held initial negotiations to organize trainings to strengthen the capacity of the FMS, law enforcement agencies and judges on AML / CFT, and a preliminary agreement was reached on the funding of these trainings by the Luxembourg government.





INFORMATION TECHNOLOGIES

Several measures were taken in 2019 in order to improve the information technologies (IT) infrastructure of the FMS and provide relevant electronic services.

The FMS information resources and system were copied and the software was regularly updated in this context. Regular monitoring of system and audit logs on server equipment, as well as periodic updating of passwords for servers and administrators to protect confidentiality and limit outside interference were provided during the reporting year.

The existing material and technical base of the FMS IT infrastructure was assessed as a whole and separately, and proposals were prepared for the acquisition of the required equipment and software. Also, necessary technical measures were taken to ensure the completeness and accuracy of the relevant information during the electronic transmission and reception of relevant information to the FMS by the reporting entities through the GoAML system. During the year, 49 reporting entities were registered.

Obtaining a special security certificate for the organization of the submission of relevant information by reporting entities to the FMS through an encrypted channel is conducted by the Certification Center of the Central Bank of the Republic of Azerbaijan. During the past year, the FMS issued new certificates to the relevant reporting entities and updated them on the basis of requests for expired certificates. 91 electronic certificates were issued during the year in total.

According to the indicators of the official website of the FMS and the indicators of the Google Analytics software used to monitor the number of users, the results of the website monitoring for 2019 are presented in Table 5.

Table 5.
Indicators of the website www.fiu.az for 2019

| Number of sessions | Number of visitors | Page hits | New visitors | Returning visitors |
|--------------------|--------------------|-----------|--------------|--------------------|
| 83 490 | 54 777 | 183 719 | 54 311 | 9 396 |