

FINANCIAL MONITORING
SERVICE OF THE
REPUBLIC OF AZERBAIJAN

ANNUAL REPORT

20
20





CONTENTS

Acronyms	3
Foreword	5
Legislative improvements	6
Regulative activity	8
Analytical activity	9
Statistics	10
Domestic cooperation	14
International cooperation	16
Information technologies	18

ACRONYMS



AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ATTF	Financial Technology Transfer Agency
CTR	Current Transactions Report
EGMONT GROUP	A united body of Financial Intelligence Units that provides a platform for the secure exchange of expertise and financial intelligence to combat ML/TF
FATF	Financial Action Task Force of the Organization for Economic Cooperation and Development
FMS	Financial Monitoring Service of the Republic of Azerbaijan
GoAML	Special Analytical Module System
GUAM	Georgia, Ukraine, Azerbaijan, and Moldova – Organization for Democracy and Economic Development
HRR	High Risk Reports
IT	Information Technologies
LEA	Law Enforcement Agency
MONEYVAL	The Committee of Experts on the Evaluation of Anti-Money Laundering Measures of the Council of Europe
ML/TF	Money Laundering and Terrorism Financing
NRA	National Risk Assessment
OTR	Other Transactions Report
STR	Suspected Transactions Report
UN	United Nations



FOREWORD

Every year gone by is engraved in our memory with various and unique events; nevertheless, 2020 has gone down in history with complicated, controversial events for the whole world, especially for our country. Undoubtedly, owing to the thoughtful and purposeful decisions of Mr. Ilham Aliyev, the Supreme Commander-in-Chief, and the heroism of the vigorous Azerbaijani Army, comeback of our lands, which have been under occupation for many years, has become a very important event for our country and people.

The Financial Monitoring Service of the Republic of Azerbaijan, one of the main authorities operating in the sphere of combating money laundering and financing of terrorism in the Republic of Azerbaijan, continued its activities as a government agency implementing coordination and policies of organizational, institutional development and strengthening its international reputation during 2020.

In order to increase the proficiency and skills of FMS employees, their participation in local and international events was ensured accordingly, several measures were taken to improve human resources system, access to new international databases was provided despite the limitations of the global COVID-19 pandemic.

It should be noted that efficient endeavours were carried out to expand the international cooperation and increase the authority of FMS. Subsequently, with the election of our team member to the position of Deputy Chairman of the Membership, Support and Compliance Subgroup of the Egmont Group, we were directly involved in coordinating issues carrying strategic importance and controlling the membership process in the Egmont Group. It should be worth emphasizing that this event is considered a great achievement for both the FMS and our country.

One of the achievements of the FMS in cooperation with international organizations and relevant authorities of other countries was the granting Department for Combating Money Laundering and Terrorist Financing - the FIU of Montenegro - a full membership of the Egmont Group with the sponsorship of our FIU.

As our country is expected to go through 5th Round MONEYVAL's mutual evaluation in the time to come, certainly, the FMS pays special attention to the work in this direction. Hence, several steps were taken to intensify cooperation within the MONEYVAL Committee. Staff members of the FMS actively participated in the Committee's plenary meetings, trainings, working group meetings representing our organization. It is worth noting that international experts were involved by the FMS to prepare for the forthcoming assessment.

Preparation of Draft Laws of the Republic of Azerbaijan "On Combating Money Laundering and Terrorist Financing" and "On Targeted Financial Sanctions" in 2020 in order to improve the national legislation on AML/CFT should be specially mentioned.

Finally, I would like to say that given the possibility that the scope and frequency of AML/CFT threats may increase as economic activity increases in our country, the FMS takes measures to implement public policy with caution and responsibility against such actions. I am confident that the FMS will continue to contribute to the full transparency of the AML/CFT system in our country in the upcoming years.

Rovshan Najaf
Chairman of the Board

LEGISLATIVE IMPROVEMENTS

In 2020 FMS worked consistently on the improvement of legislation and its harmonization with the existing international standards in the field of AML/CFT, as well as on forming the institutional basis for internal coordination as part of AML/CFT policy making within the framework of reforms implemented in this field in the Republic of Azerbaijan.

Steps taken to improve the legislation mainly covered the implementation of the commitments under the National Action Plan for the Promotion of Open Government 2020-2022 (hereinafter - the National Action Plan) approved by the Order of the President of the Republic of Azerbaijan dated February 27, 2020, No. 1859.

Laws of the Republic of Azerbaijan "On Combating Money Laundering and Terrorist Financing" and "On Targeted Financial Sanctions" were prepared in order to improve the national legislation on AML / CFT. Law of the Republic of Azerbaijan "On Amendments to the Law of the Republic of Azerbaijan" on Cashless Settlements ", "On Amendments to the Criminal Code of the Republic of Azerbaijan", "On Amendments to the Criminal Procedure Code of the Republic of Azerbaijan", "On Amendments to the Housing Code of the Republic of Azerbaijan" were also drafted by the FMS.

Besides, the experience of foreign countries and international standards in this field were analysed, draft amendments to the legislation were also prepared for the implementation of the beneficial ownership institution and determination of beneficial owner. Several draft laws were developed to implement the beneficial ownership concept into national legislation.

At the same time, discussions were held with relevant law enforcement agencies on the implementation of the institution of financial investigation.

During the reporting year, substantive and procedural laws on legalization of criminally obtained property or confiscation of property used in the financing of terrorism in the Republic of Azerbaijan were improved within the framework of cooperation with the United Nations Interregional Crime and Justice Research Institute, extended and civil confiscation procedures were applied work was done to ensure the diversification of ways to recover assets.



During 2020, several steps were taken towards the functional and institutional development of the national AML/CFT system. The steps taken in this context covered the implementation of the National Action Plan and the tasks arising from the Resolution of the Cabinet of Ministers of the Republic of Azerbaijan No. 404 of October 21, 2020. The Coordinating Council was established by the abovementioned Resolution to ensure the regular implementation of the National Risk Assessment (NRA) of the AML/CFT system, as well as to organize macro-level coordination in preparation for the 5th Round of the MONEYVAL Committee's evaluation of our country. Relevant state bodies, as well as public organizations were included in the Coordination Council. In addition to being a member of the Coordinating Council, the FMS is also entrusted to perform Secretariat function.

SUPERVISORY ACTIVITY

As part of the implementation of the obligations as a supervisory body, measures were continued to establish a risk-based control mechanism based on national legislation and international standards on AML/CFT in 2020. To that end, a risk-based control model in relation to individuals or legal entities providing pawnshops and real estate brokerage services as well as inspection questions were prepared for use in the course of supervisory measures to be carried out in relation to the mentioned monitoring subjects, where the FMS acts as a supervisory body according to the law. Besides, rules on key elements of AML/CFT compliance program (customer compliance measures, internal audit, transaction analysis) were updated during the reporting year.

Appropriate measures were taken by the FMS to inform the monitoring entities about the obligations arising from the AML/CFT legislation, as well as to benefit from successful international experience on AML/CFT.

At the same time, amendments were made to the "Requirements for the Development of Internal Control Systems of Monitoring Entities", provisions on customer compliance measures, risk mitigation and transaction analysis in transactions carried out without direct contact were included.

Finally, the "Consolidated List of Designated Persons in Combating Financing of Terrorism" were regularly updated and the AML/CFT supervisory bodies were informed about it over the past year.



ANALITICAL ACTIVITY

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

The Service's analytical activity includes tactical and strategic analyses. During tactical analysis such as the process of gathering the information necessary to present the facts about individuals and legal entities or events accurately and to form the case, other tactical data were compared with the data obtained from the monitoring subjects.

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.

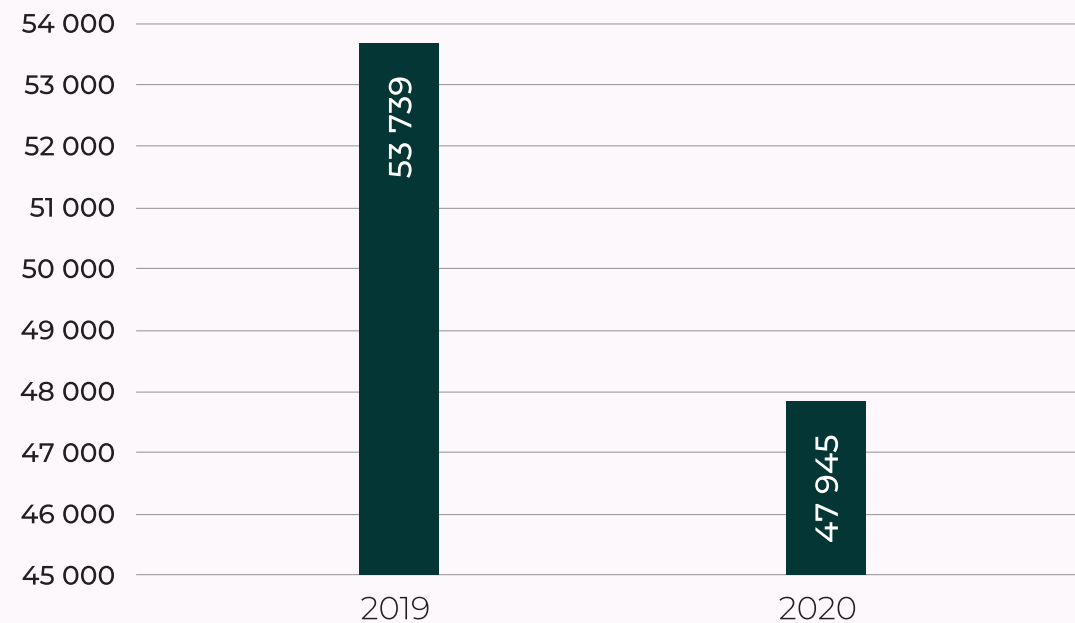
During strategic analysis, a knowledge base and strategic database that can be used in the activities of the FMS are being formed, which will help to determine the general directions of its future activities. Such information refers to new problems and trends, general trends, typologies, models, area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

STATISTICS



A total number of reports submitted to the FMS by reporting entities was 47 945 during 2020¹ (Figure 1).

Figure 1.
The number of transaction reports submitted to the FMS in 2019-2020



28 104 (59%) of the relevant information entered the electronic database of the FMS were currency transaction reports, 5 291 (11%) were transactions with countries included in the "black list", 4 275 (9%) were currency transactions of politically exposed persons of foreign countries, 8 507 (18%) were transactions of non-governmental and religious organizations, 496 (1%) were reports on suspicious transactions and 1 272 (3%) were reports on other types of transactions. (Table 1).

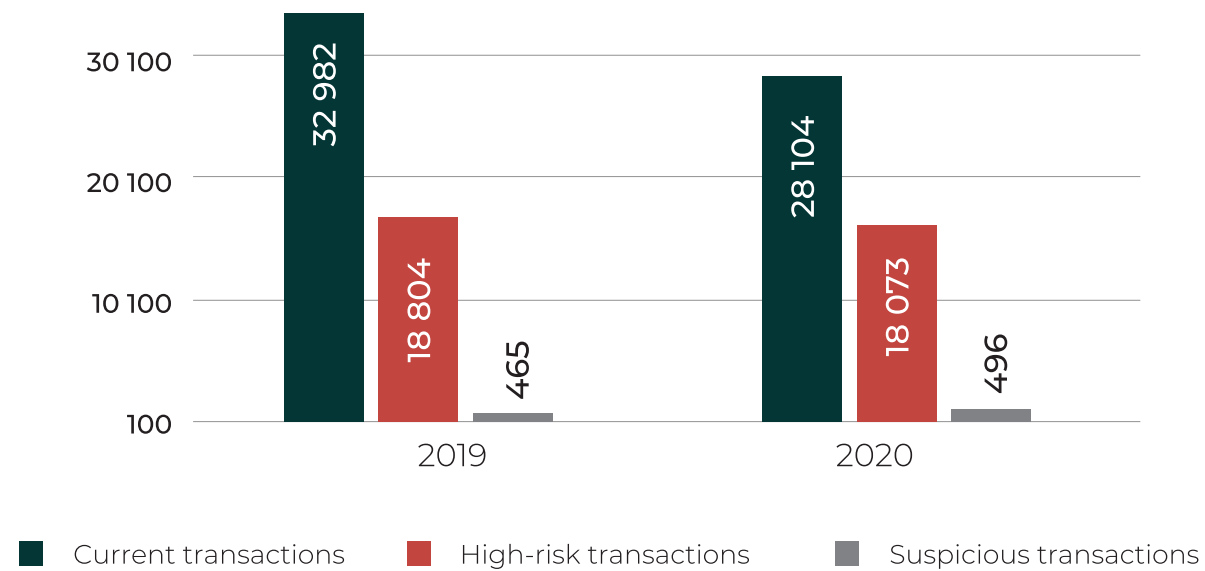
Table 1.
Structure of the reports submitted to the FMS in 2020

Classification of transactions	Number of transactions	Percentage
Currency transaction reports (CTR)	28 104	58%
"Black list" countries	5 291	11%
Currency transactions of politically exposed persons of foreign countries	4 275	9%
Transactions of non-governmental and religious organizations (NGO/RO)	8 507	18%
Suspicious transaction reports (STR)	496	1%
Reports on other transactions (OTR)	1 272	3%
TOTAL	47 945	

While the number of reports on currency transactions decreased by 15% and the number of reports on transactions with "black list" countries decreased by 28% in 2020 compared to 2019, there was 7% increase in the number of reports on suspicious transactions and 45% increase in the number of reports on currency transactions of politically exposed persons of foreign countries. The number of NGOs / ROs remained unchanged compared to 2019. 52% of the transactions added to the reports submitted for 2020 were legal entities and 48% were transactions of individuals. (Figure 2).

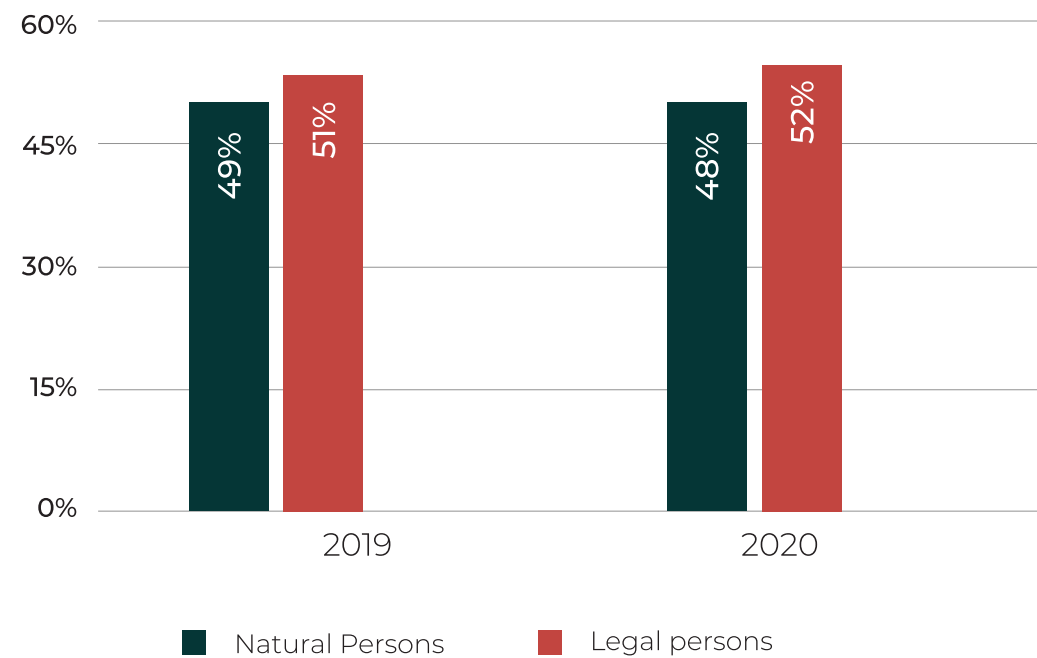
¹ FMS receives information as reports. One or more related transactions can be added to one report.

Figure 2.
Number of transaction reports for 2019-2020 according to transactions classification



In 2020 the FMS received 199 transactions per working day on average. 52% of the transactions added to the reports submitted for 2020 were of legal entities, and 48% were transactions of individuals. (Figure 3).

Figure 3.
Distribution by type of subjects that carried out operations in the structure of the reports received by FMS for 2019-2020



3 187 internal inquiries were made this year in connection with the analysis of suspicious transactions. 98% of the inquiries (3 127) related to reporting entities (Table 2). During the current year, 15 reports on the suspicious cases were submitted to the Prosecutor General's Office and to the State Security Service.

Table 2.
Local entities requested by the FMS in 2020

Requested local entities	Number of requests
Requests to reporting entities ²	3 127
Requests to LEAs	36
Requests to other local institutions	24
TOTAL	3 187

During the reporting year, as a result of the examination of the information received from monitoring entities by FMS, 6 reports on suspicious cases were submitted to the Prosecutor General's Office of the Republic of Azerbaijan and 9 cases to the State Security Service. In addition, during 2020, 19 inquiries from law enforcement agencies related to ML and 7 inquiries related to TF were investigated and submitted to the relevant law enforcement agency.

Table 3.
Information received from foreign financial intelligence units in 2020

Number of reports submitted to the FMS	Spontaneous reports	Number of requests	Number of responses to the requests
136	32	32	72

Table 4.
Information provided from the FMS to foreign financial intelligence units in 2020

Information provided from the FMS	Spontaneous reports	Number of requests	Number of responses to the requests
115	16	64	35

In addition to these activities, which cover tactical analysis, in 2020, the FMS continued its activities on strategic analysis. During 2020, 4 typologies were developed on the basis of cases submitted to LEAs.

² Reporting entities receive requests through GoAML software electronically.

DOMESTIC COOPERATION



The FMS continued to cooperate with reporting entities, supervision, law enforcement and judicial authorities, as well as other governmental and non-governmental organizations during the reporting year. Although the FMS's trainings for reporting entities, supervisory and law enforcement agencies were postponed for some period due to the restrictions caused by the COVID-19 pandemic, regular online meetings were organized with the employees of these organizations during the year, and close collaboration with them was maintained.

Potential risks arising from the COVID-19 pandemic and best international practices in this field were analysed, necessary information was shared with monitoring entities, supervisory and law enforcement agencies, also information on possible financial crimes was posted on the website of the FMS to inform and warn the public, and that information was also sent to relevant government agencies and institutions.

Press releases were written on the events held with the participation of the FMS during the year and posted on the official website of the FMS accordingly. In addition to that, consolidated list of natural and legal persons designated in relation to countering the financing of terrorism was regularly updated on the official webpage of the FMS by following information on persons subject to sanctions on the UN Security Council and relevant authorities were informed.

In July, the Council of Europe held a video conference on "Data Analysis Tools: Microsoft Power BI" with representatives of the FMS, the General Directorate for Combating Corruption under the Prosecutor General's Office, the Prosecutor General's Office, the Central Bank, State Tax Service under the Ministry of Economy, and the State Security Service. The purpose of the training was to provide relevant staff with the knowledge and skills to effectively analyse data and prepare interactive reports using Microsoft Power BI.

In addition to the above mentioned, an online training for non-governmental organizations (NGOs) was held on "Obligations of NGOs in the fight against money laundering and terrorist financing, application of risk-based approach in this area" with the support of the FMS, the initiative of the Ministry of Justice, the technical support of the Open Government National Platform and the US Agency for International Development's Civil Society Project (ECSOFT).

Furthermore, Coordination Council was established in accordance with the Resolution No. 404 of the Cabinet of Ministers of the Republic of Azerbaijan dated October 21, 2020 and in December, and the first meeting on the AML/CFT system was held under the chairmanship of Ali Ahmadov, Deputy Prime Minister and Chairman of the Coordination Council, to conduct a national risk assessment of the AML/CFT system and to prepare for the 5th Round mutual evaluation by the MONEYVAL Committee. The secretariat functions of the Council were transferred to the FMS, as well.

INTERNATIONAL COOPERATION



Decisive steps were taken to further consolidate the international reputation of our country, to expand international cooperation and information exchange in the field of AML/CFT, as well as the participation of the FMS management and employees in various international events was ensured to strengthen human resources in 2020.

During the reporting period, the FMS representative was elected Deputy Chair of the Egmont Group's Membership, Support and Compliance subgroup as a result of which direct involvement of the FMS in coordinating issues of strategic importance to the Egmont Group and monitoring the membership process was ensured. Thus, another achievement of the FMS in the field of international cooperation was achieved.

In cooperation with the MONEYVAL Committee, the participation of FMS management and employees in the plenary meetings and events organized by MONEYVAL was provided.

FMS employees attended high-level online meetings and other events on Prospects for cooperation within the Eastern Partnership program, multi-jurisdictional PL Cooperation, PGG medium-term results, implementation of the Warsaw Convention within the framework of the Council of Europe / EU Partnership for Good Governance (PGG) project to strengthen the fight against money laundering and asset recovery in Azerbaijan.

In addition, negotiations on signing Memorandums of Understanding with FIUs of Turkmenistan, Palestine, Saudi Arabia, and Japan were held in order to strengthen the international cooperation of the FMS and thorough preparations were made. Further, in March 2020 a transaction agreement was signed with a Montenegrin FIU, then not a member of the Egmont Group.

FMS staff participated in projects organized by Egmont Group, MONEYVAL, FATF, virtual conferences, as well as events and trainings organized this year in cooperation with the Training Centre of the Grand Duchy of Luxembourg (ATTF). "COVID-19 related AML/CFT Risks and Policies" webinar organized by FATF, training on "Money Laundering and Combating the Financing of Terrorism" in the format of video conference, training on "Analysis of International Financial Innovations", training on "Project Management for Managers", training on "Fighting Money Laundering: Bribery and Corruption", organized by ATTF 11th meeting of the GUAM Working Group on Legal Statistics held in video conference format and others can be noted among such events.

Also, an international expert was involved in cooperation for the purpose to prepare for the 5th Round mutual evaluation of the MONEYVAL Committee. As a part of cooperation meetings were organized with employees of relevant agencies related to AML / TF, and a "mock assessment" was conducted on the basis of these meetings last year.

INFORMATION TECHNOLOGIES



Several measures were taken in 2020 in order to improve the information technologies (IT) infrastructure of the FMS and provide relevant electronic services.

The FMS information resources, and system were stored 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 IT infrastructure of the FMS was updated. During the pandemic, remote connection to the corporate network was ensured. New generation computer equipment and peripherals were purchased.

During the past year, 13 relevant reporting entities and 22 new compliance officers were registered in goAML system by the FMS.

Google Analytics software, which is widely used in international practice, was installed to provide detailed monitoring of the indicators and the number of users on the official website of the FMS. The monitoring results of the website for 2020 are presented below.

Table 5.
Indicators of the website www.fiu.az for 2020

Number of sessions	Number of visitors	Page hits	New visitors	Returning visitors
34 395	18 162	84 600	17 680	3 422