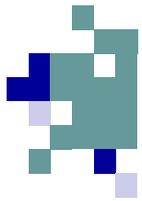




# **ANNUAL REPORT 2006**

**FINANCIAL INTELLIGENCE UNIT**



# **ANNUAL REPORT**

## **OVERVIEW OF THE ACTIVITIES OF THE FINANCIAL INTELLIGENCE UNIT IN 2006**

TALLINN 2007

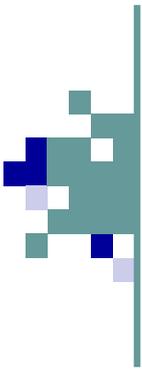


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**Dear reader,**

The main objective of the present annual report is to give the reader an overview of the activities of the Financial Intelligence Unit in 2006 and thereby to increase the overall awareness of money laundering and at the same time to give feedback to the people who have sent reports to the Financial Intelligence Unit. The annual report gives a comprehensive statistical overview of the activities of the Financial Intelligence Unit across the functions imposed on it by law. It also describes the cooperation in the field of national and international money laundering and terrorist financing and the money laundering trends in Estonia.

Looking at the results of 2006 we may say that the Financial Intelligence Unit has performed its tasks well. In the form of lectures and training sessions the unit was actively involved in improving the obligated persons' awareness of money laundering and terrorist financing prevention. We also continued to actively monitor money laundering and carried out 60 on-the-spot inspections. As a result, the number of reports concerning money laundering suspicions received by the Financial Intelligence Unit was as much as 53% higher than in 2005. This does not mean that the money laundering situation was 53% worse than in 2005, but rather that the awareness of obligated persons has increased and the adherence to the law has improved. For that I would like to express gratitude to all of those who have notified us of suspicious transactions and I encourage you to carry on doing that actively. One may only hope that transactions suspected of money laundering will be in the future also reported by the representatives of the specialties and business spheres which do not do it today. In 2007 we intend to pay greater attention to the monitoring of these sectors and by doing that we hope to contribute to an increase in awareness among these sectors.

The year 2006 was very important not only for the Financial Intelligence Unit, but for all of the agencies involved in preventing money laundering in Estonia. The twinning project EE04-IB-JH-03 "Integrated programme to strengthen the capacity of the Estonian anti-money laundering institutions" which lasted for 15 months was completed in September 2006. During this programme, in addition to the employees of the financial intelligence unit, investigators, judges, prosecutors and money laundering supervisory officials were also trained. In the framework of this programme the first annual report of the Financial Intelligence Unit was published which gives an overview of the activities in 1999-2005. Also, the Handbook for the Prevention of Money Laundering was completed.

Moreover, two seminars for improving general awareness of money laundering prevention were organised and in addition to senior state officials and private sector representatives the participants included the Minister of Internal Affairs, the Minister of Justice and a member of Riigikogu. For the Financial Intelligence Unit this meant a double effort as in addition to our everyday tasks we had to fulfil our everyday work tasks. We certainly would not have been able to cope with all of this without the help of our good partners. Hence I would like to thank the Ministry of Finance, the Ministry of Internal Affairs, the Bank of Estonia, Public Prosecutor's Office, Banking Association, Financial Supervision Authority, Hansapank, Police Board and many others whose help made the implementation of this project possible. I would especially like to express my gratitude to our Dutch partners – Jan Beens and Aat de Jong, who shouldered the main responsibility for organising the project activities.

International cooperation is of great importance for the Financial Intelligence Unit as it is one of the main tools in fighting this global type of crime. Our unit is a member of Egmont Group which enables us to exchange information quickly with the financial intelligence offices of all of the other countries. Our employees participate as experts in the Moneyval – the Council of Europe's Committee of Experts – and have participated as training providers in other countries. Following the invitations of several international organisations such as the World Bank and International Monetary Fund the officials of the Financial Intelligence Unit gave presentations in training seminars in Romania, Serbia and Cyprus in 2006. This is a sign of the high international level of expertise of our officials.

All those interested in having more comprehensive knowledge about money laundering, will certainly find additional information about various materials, current legal regulation and instructions on the public homepage of the Financial Intelligence Unit at [www.pol.ee/rab](http://www.pol.ee/rab).

Wishing you a good reading!



Raul Vahtra

Head of the Financial Intelligence Unit

## 1. MONEY LAUNDERING AND TERRORIST FINANCING PREVENTION IN ESTONIA

In Estonia the prevention of money laundering is regulated by the Money Laundering and Terrorist Financing Prevention Act (hereinafter Prevention Act), passed on 25 November 1998 and entered into force on 1 July 1999, which governs the activities of credit

and financial institutions and other persons subject to reporting obligation, also the Financial Intelligence Unit (hereinafter FIU) and other institutions and persons in the prevention of money laundering and terrorist financing.

### 1.1. System for the prevention of money laundering

#### 1.1.1. Financial Intelligence Unit

The central authority for money laundering and terrorist prevention in Estonia is the **Financial Intelligence Unit** (FIU) which was established under the Criminal Investigation Department of the Police Board on 1 July 1999 and which has since 1 January 2004 been an independent structural unit of the Central Criminal Police. The FIU is an agency which receives reports about transactions suspected of being related to money laundering and terrorist financing and analyses these reports. If elements of criminal offence are found, it refers the matter to the competent procedural authority.

**The FIU is the national central authority for the prevention of money laundering and terrorist financing which:**

- receives suspicious transaction reports;
- analyses the information contained in the reports and
- if necessary, forwards the materials for further investigation.

An overview of the work process of the FIU has been presented in Figure 1.

The FIU checks the information related to money laundering or terrorist financing, if necessary takes measures for the retention of property and if elements of criminal offence are detected forwards the matter to a competent authority in order to initiate criminal proceedings, because the unit itself does not have pre-trial procedure rights in surveillance matters. According to the Prevention Act the FIU has pursuant to procedure established by law the right to receive important data for the prevention of money laundering, including information gathered in the course of surveillance, from all agencies involved in surveillance activities.

In case of reasonable doubt of money laundering or terrorist financing the unit may suspend a transaction based on its precept or to establish a restriction on the use of an account for up to two working days

after the report concerning the suspicion of money laundering or terrorist financing has been received. In such case the transaction may be carried out or the restriction to use an account may be removed before the given deadline only based on the written permission of the Financial Intelligence Unit. During the validity of the restriction concerning the use of the account the credit or financial institution does not fulfil the orders of the account owner made for the use or disposal of finances on the account.



In addition, based on the precept of the Financial Intelligence Unit it is possible to seize the assets in order to ensure its preservation if, in the course of inspection of the origin of assets the possessor or owner of the assets does not in the case of money laundering suspicion submit within two working days since the suspension of the transaction or the establishment of the restriction to use the account evidence as regards the legal origin of the assets, or if elements of terrorist financing are established. Generally the FIU is entitled to seize assets for up to 10 working days. It is possible to seize assets for a longer period of time only if criminal procedure has been commenced. In such case the seizure of property takes place pursuant to the procedure stipulated in the act governing the criminal procedure.

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In connection with money laundering suspicion the number of transactions suspended by the FIU in 2006 (for up to two 24-hour periods) was **58** in a total amount of **65.6 million kroons** and assets were seized **46 times** (for up to ten 24-hour periods).

The Prosecutor's Office or an investigative body may apply to an administrative court for permission to transfer property to state ownership if, within a period of one year as of the property being seized, it has not proven possible to establish the owner of the property and if the possessor of the property declares that

the property does not belong to the possessor and relinquishes possession thereof. In the event where possession of movable property or immovable property is relinquished, the property shall be sold pursuant to the procedure provided in the Acts regulating enforcement procedure and the state shall receive the amount received from the sale. The owner of the property has the right to reclaim an amount equivalent to the value of the property within a period of three years as of the date on which the property is transferred to state ownership.

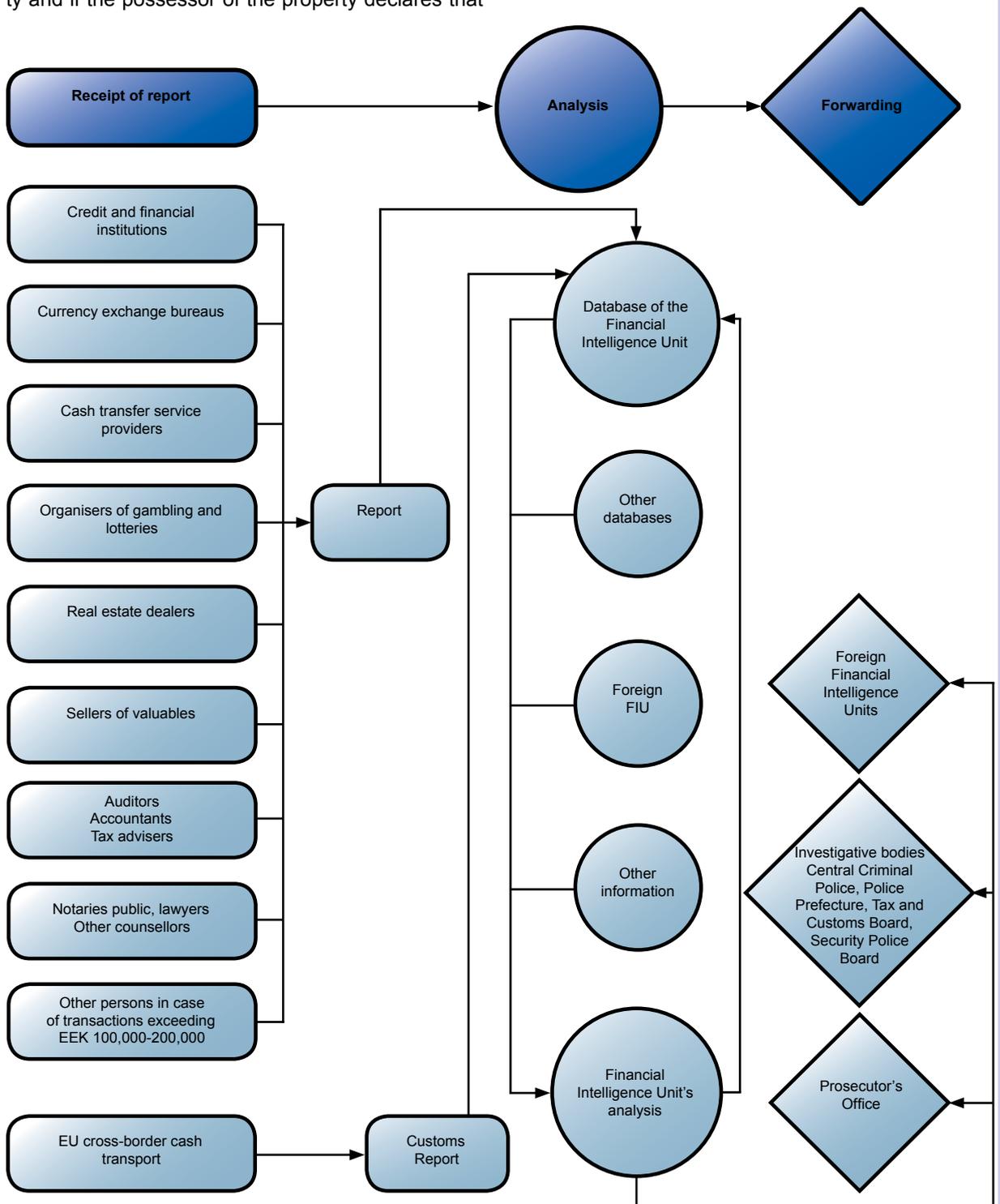


Figure 1: Work process of the Financial Intelligence Unit

### 1.1.2. Obligated persons

Anyone who suspects that a transaction could be related to either money laundering or terrorist financing is expected to notify the FIU of suspicious transactions. In case of certain persons such requirement has been made legally binding as in their case the danger of money laundering is relatively big. Such persons are in the given context called **obligated persons** and such persons have been defined in sections 4 and 5 of the Prevention Act.

Persons bound by the reporting obligation, who have to inform the FIU of all money laundering or terrorist financing suspicions and, under a precept, to provide the unit with information related to money laundering or terrorist financing suspicion, are the following:

**ALL persons who suspect that a transaction may be connected with either money laundering or terrorist financing are encouraged to notify of suspicious transactions.**

◇ credit institutions in the meaning of Credit Institutions Act and a branch of a foreign credit institution entered into the commercial register in Estonia; the provisions regarding credit institutions shall be applicable to electronic money institutions provided in the Electronic

Money Institutions Act and the branches thereof entered into the commercial register in Estonia;

◇ financial institutions in the meaning of Credit Institutions Act, i.e. companies which are not credit institutions, but the main and continuous activity of which is to acquire holdings or to provide one or several subsequently listed services to third persons:

- \* borrowing and lending operations, including consumer credit, mortgage credit, factoring and other transactions for financing business transactions;
- \* leasing transactions;
- \* settlement, cash transfer and other money transmission transactions;
- \* issue and administration of non-cash means of payment (e.g. electronic payment instruments, traveller's cheques, bills of exchange);
- \* guarantees and commitments and other transactions creating binding obligations to persons;
- \* transactions for their own account or for the account of clients in traded securities provided in § 2 of Securities Market Act and in foreign ex-

change and other money market instruments, including transactions in cheques, exchange instruments, certificates of deposit and other such instruments;



- \* transactions and acts related to the issue and sale of securities;
- \* provision of advice to clients on issues concerning economic activities, and transactions and acts related to the merger or division of companies or participation therein;
- \* money brokering;
- \* portfolio management and consultation on investment issues;
- \* safekeeping and administration of securities;
- ◇ insurers and insurance intermediaries in the meaning of Insurance Activities Act;
- ◇ management companies in the meaning of Investment Funds Act;
- ◇ investment firms, operators of the regulated market and operators of securities settlement systems in the meaning of Securities Market Act;
- ◇ savings and loan associations in the meaning of Savings and Loan Associations Act.

- ◇ providers of currency exchange services;
- ◇ providers of cash transfer services;
- ◇ organisers of gambling or lottery;
- ◇ persons who conclude or intermediate immovable property transactions;
- ◇ intermediaries of precious metals, precious stones, works of artistic value and other highly valuable goods who are paid in amount exceeding EEK 100,000;
- ◇ auditors and persons providing consultation services in the field of accounting and taxing;
- ◇ notaries public, lawyers or other persons providing consultation services;
- ◇ other persons who for the purpose of making business conclude or intermediate cash transactions in the amount of at least EEK 100,000 or EEK 200,000 in book money.

If, upon carrying out a transaction, an obligated person identifies a situation the which shows the indications of money laundering, he/she is legally obligated to promptly notify the FIU thereof.<sup>1</sup>



The same applies to the officials of authorities of executive power or local government authorities or employees of foundations who verify the compliance of applications for irrecoverable financial aid<sup>2</sup> granted by the state or monitor the use of such aid. At the same time the law requires that the person concerning whom a suspicious transaction report is delivered, may not be informed of the report submitted about him/her to the FIU (excluding lawyers, notaries public and auditors who may notify their client about such report), unless the FIU has suspended the transaction or imposed a restriction on the use of the person's account.

As the law does not specifically define the word "suspicious," the other group of questions is related to the nature of the transactions in case of which there is a legal obligation to inform the FIU. In order to facilitate the identification of reports concerning money laundering suspicions, the Financial Intelligence Unit developed in 2004 pursuant to § 15 (6) of the Prevention Act guidelines regarding the characteristics of suspicious transactions. Part A of the list was prepared for credit and financial authorities and part B for other persons with a reporting obligation specified in the Prevention Act. The guidelines for credit and financial authorities included instructions for the identification of natural persons acting as fictitious persons, fictitious enterprises, unusual product contracts and other suspicious transactions. In addition, foreign currency exchange bureaus, gambling venues and persons carrying out immovable property transactions, etc., were given instructions for defining suspicious transactions.

<sup>(1)</sup> The reporting obligation does not apply to notaries public, auditors and lawyers when evaluating the client's legal position or representing the client in a court proceeding or challenge proceeding, or to legal disputes in any other type of proceeding, including consultations provided regarding the initiation or avoidance of a proceeding, regardless of whether the information is obtained prior to, in the course of or after the conclusion of the proceeding.

<sup>(2)</sup> Shared-cost aid financed from the Structural Funds of the European Union, from initiatives of the European Communities, from the Cohesion Fund or from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund is also deemed to be irrecoverable financial aid provided by the state.

## 2. OVERVIEW OF THE ACTIVITIES OF THE FINANCIAL INTELLIGENCE UNIT

### 2.1. Functions of the Financial Intelligence Unit and the effectiveness analysis thereof

In 2006 § 19 of the Prevention Act defined six main functions of the Financial Intelligence unit. Each of the functions is viewed separately below and by doing so an overview is given of how the FIU carried out its functions imposed by law in 2006.

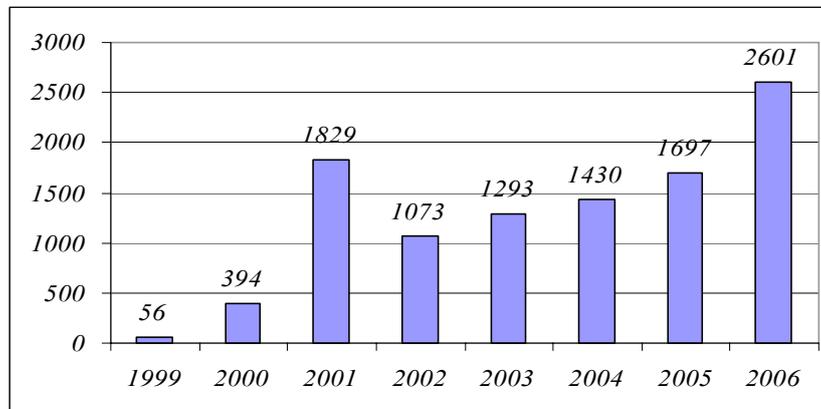
#### 2.1.1. Processing, analysis and forwarding of the data received

This is the main function of the FIU. The procedure for the collection, registration, processing and analysis of information by the FIU is governed by Regulation No. 43 of the Minister of Internal Affairs of 2005 "The procedure for the registration and processing of information collected by the Financial Intelligence Unit," but this document is for official purposes.

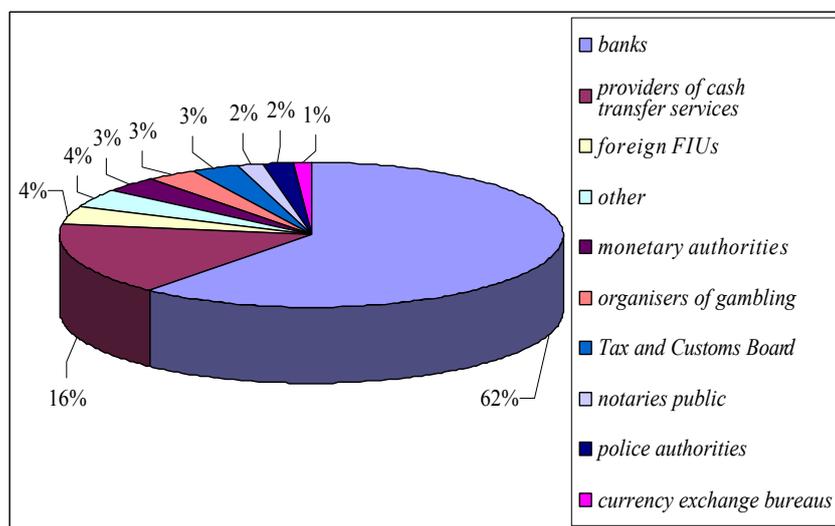
Figure 2 presents information about the number of reports received by the FIU in 1999-2006.

In 2006 the number of suspicious transaction reports registered by the FIU was 2601. Among the notifiers the highest number of reports were received from banks (almost 2/3 of reports) and from providers of cash transfer services (16% of reports). The weight of other persons was much more modest (see figure 3).

**The analysis of the information received is one of the main functions of the FIU.**



**Figure 2:**  
The number of reports received by the FIU by years



**Figure 3:**  
The division of reports concerning suspicious transactions received by the FIU in 2006 by reporting persons

The employees of the FIU with respective competence analyse all suspicious transaction reports in order to determine whether these may potentially be related to money laundering or terrorist financing. If it turns out that the report received may be connected to the crimes listed, the analysts will perform a comprehensive analysis with the objective of determining the possible necessary elements of a criminal offence. If the results of the analysis indicate that the information is important from the point of view of the prevention or detection of money laundering or terrorist financing, the materials are forwarded to competent bodies either for commencing proceedings or for using as additional information in an ongoing criminal matter.

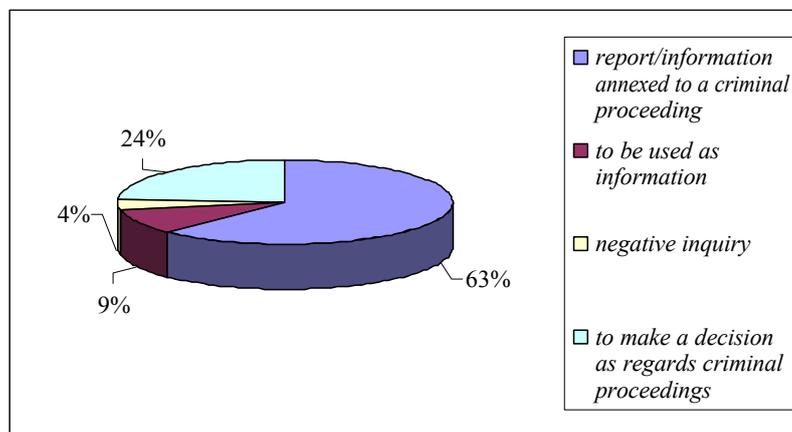
The materials sent for investigative bodies in 2006 for further proceeding or for informative purposes were formulated based on 360 suspicious transaction reports received by the FIU, i.e. in case of 13.8% of all received reports (based on which 111 files were opened) the employees of the FIU discovered in the course of analysis that the information contained in the report indicates money laundering. These reports involved 651 natural or legal persons and the amounts involved in the transactions amounted to almost 5 billion kroons. Figure 4 presents the in-

formation as regards the division of reports which formed the basis of forwarded materials by reasons for sending.

Almost 2/3 of the reports which formed the basis for the materials sent from the FIU contained information which was important in an ongoing criminal matter. A bit less than 1/10 was used as information by investigative bodies and 5% of the reports which formed the basis for the materials were in essence negative inquiries, i.e. the recipient of the report was informed that the investigators of the FIU did not find any confirmation for the suspicion or that the analysis of the report required additional time.

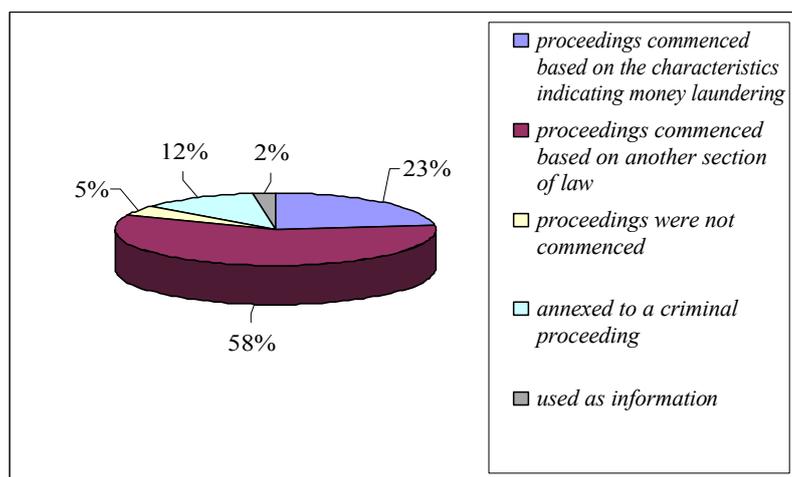
**In 2006 proceeding was commenced in case of 81% of materials forwarded from the FIU to the investigative bodies.**

In 25% of cases the materials were forwarded to investigative bodies so that they could make a decision as regards commencing criminal proceedings. In 81% of cases criminal proceeding was in fact commenced, in 5% of cases a decision was made not to commence proceedings, 12% of the materials sent for making a decision as regards commencing criminal proceedings were annexed to an ongoing criminal matter and 2% were used as information (see Figure 5).



**Figure 4:**

The division of reports which formed the basis of sent materials by reasons for sending

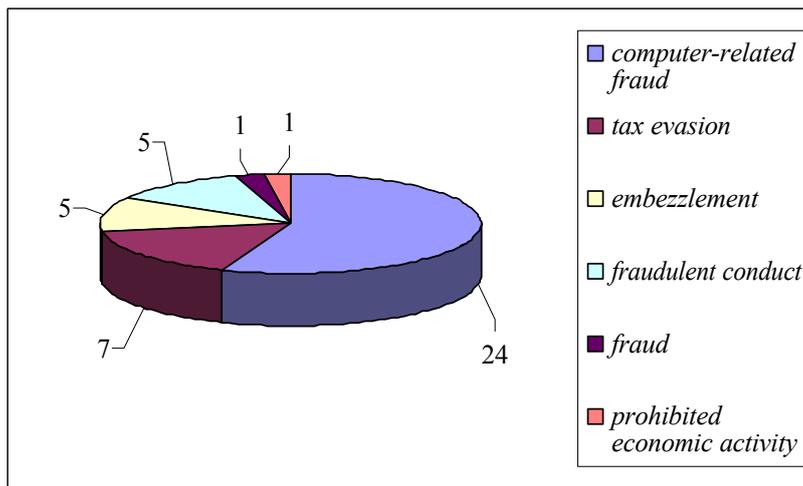


**Figure 5:**

Division of materials forwarded to investigative bodies in order to make a decision as regards commencing criminal proceedings by subsequent use

Money laundering is as a rule preceded by an offence and money laundering is used to “clean” the illegal assets acquired in the course of this offence so that the assets could be directed into economic activities. Figure 6 gives an overview of how the mate-

rials sent by the FIU to competent bodies in order for the latter to make a decision as regards commencing proceedings were divided by the presumable initial offences detected by the officials of the FIU.



**Figure 6:**

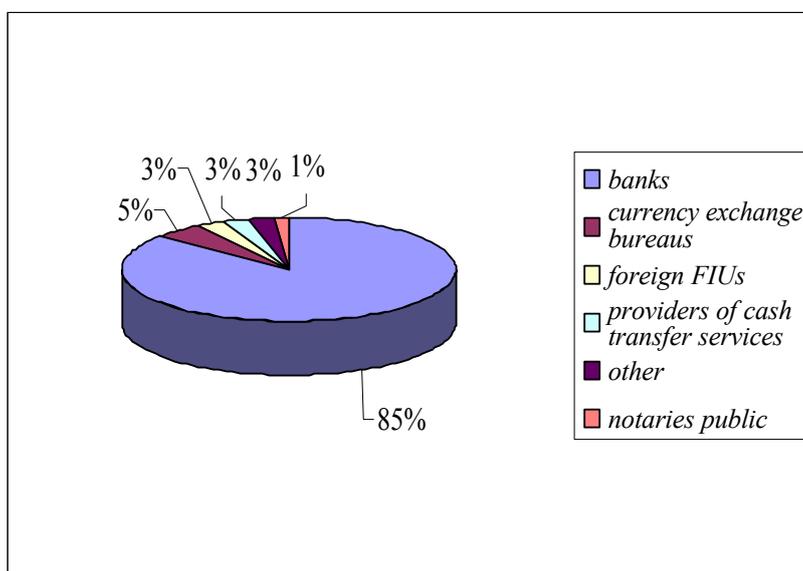
The division of materials sent from by the FIU in order to make a decision as regards commencing proceedings by presumable initial crimes

As evident, in case of more than half of the materials sent by the FIU to investigative bodies the main presumable initial crime was computer-related fraud. The weight of other types of crime was much more modest, but the share of tax evasion, embezzlement and fraudulent conduct was also quite big.

the materials included in the proceedings had initially been divided by persons.

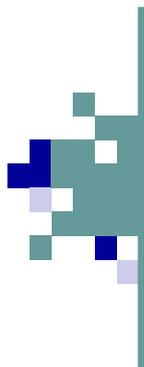
As stated, in 2006 proceedings were started as regards 35 reports received by the FIU which were after obtaining further information forwarded to investigative bodies for making a decision as regards commencing proceedings. Figure 7 gives an overview of how the reports which formed the basis for

The figure indicates that the suspicious transaction reports which formed the basis of the materials used in proceedings were received mainly from banks. While in case of the suspicious transaction reports received by the unit the share of banks was slightly more than 60% (see figure 3), then in case of the suspicious transaction reports which formed the basis of the materials used in proceedings the share of banks was 85%. The weight of other obligated persons was much more modest (altogether 15%).



**Figure 7:**

The division of materials included in criminal proceedings by reporting persons

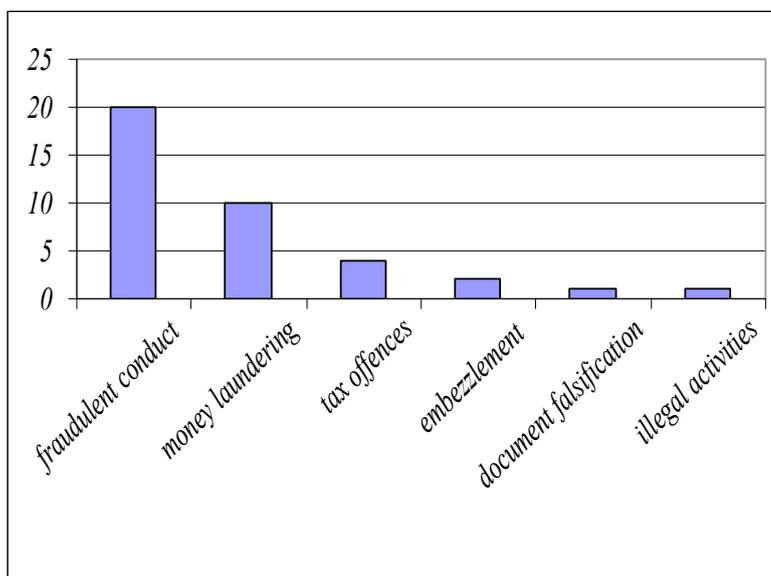


Almost one-third of the materials introduced to the proceeding were included on the indication of money laundering and two-thirds on other grounds. Among other grounds the most dominant offence is fraudulent conduct (see figure 8); the share of other types of offences was much more modest.

In recent years the FIU has introduced a system in which the person reporting a suspicious transaction

states in the report also the reason of reporting (so-called indicator) based on the list of characteristics of suspicious transactions drafted by the FIU.

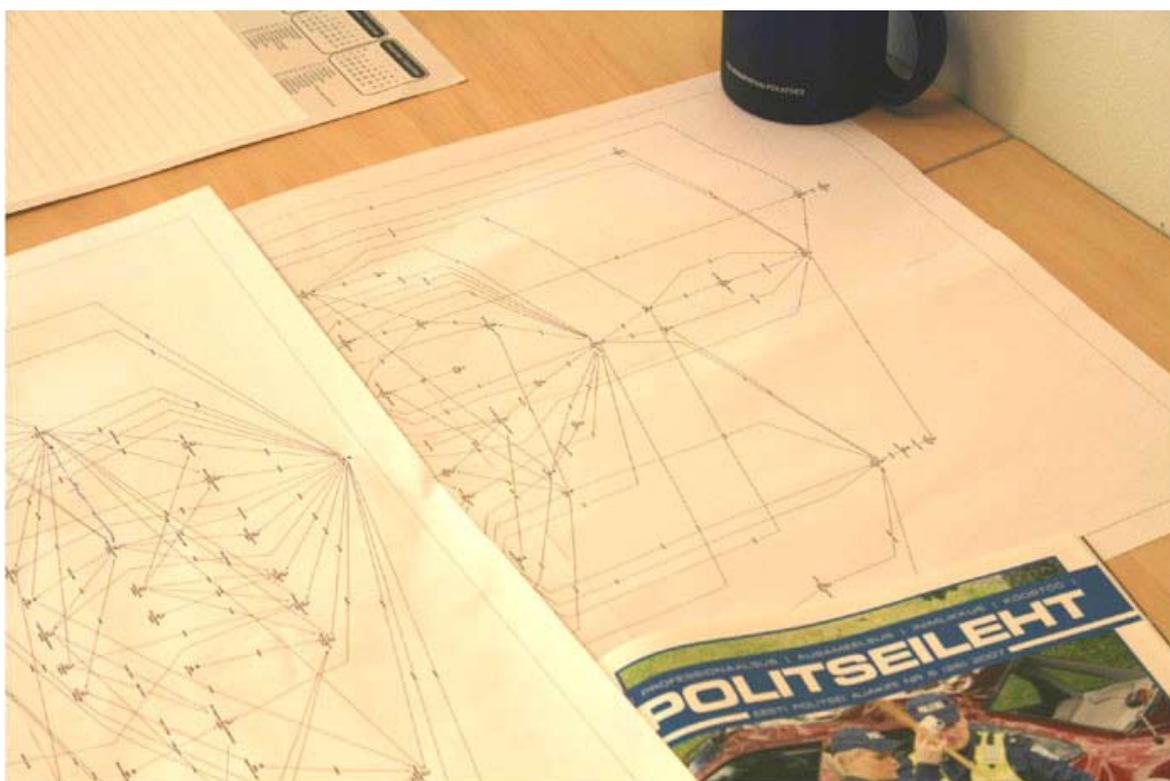
Figure 9 gives an overview of the most common reasons for reports received by the Unit and for reports which formed the basis for the materials forwarded by the Unit to investigative bodies in 2006.

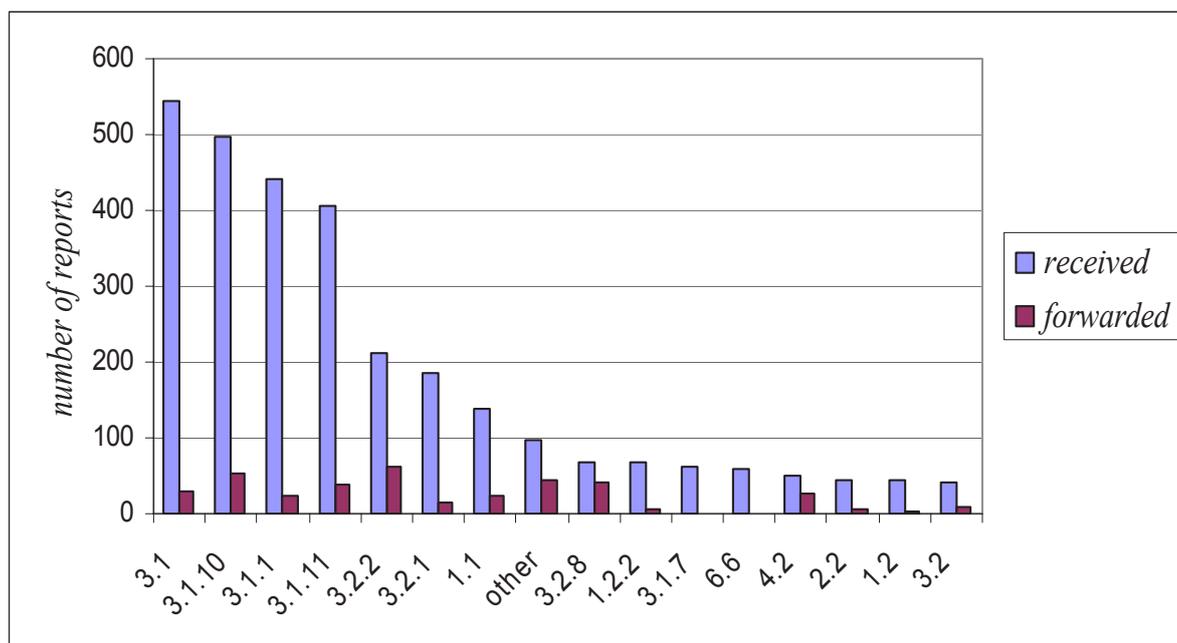


**Figure 8:**

The division of commenced criminal proceedings by types of crime.

**\*Note:**  
 the present figure shows a bigger sum of types of crime than 35 as in many cases the proceeding was commenced based on more than one section of the Penal Code.





**Figure 9:** The most common indicators in case of reports received by the FIU (the figure also shows the information concerning the number of reports by respective indicator based on which materials were forwarded to investigative bodies)

Explanation:

3.1 – unusual transaction with cash

3.1.10 – one major or regular cash withdrawals in smaller amounts from an automatic teller machine;

3.1.1 – a few major or periodic cash deposits and withdrawals in smaller amounts if it does not conform to the person's economic activities or normal turnover;

3.1.11 – one major or regular cash deposits/withdrawals in smaller amounts from a bank office if it does not conform to the person's ordinary activities or normal turnover;

3.2.2 – single unusually large cross-border payment not conforming to normal turnover and/or not sufficiently justified;

3.2.1 – single unusually large national payment not conforming to normal turnover and/or not sufficiently justified;

1.1 – suspicion of a fictitious person in case of a natural person;

3.2.8 – single large or unusually frequent payments also in smaller amounts between the same partici-

pants, whereas other transactions indicating normal economic activities did not take place on the account;

1.2.2 – the person requests unusually high limits which do not conform to the persons presumed turnover and social appearance;

3.1.7 – one major or regular foreign currency exchange in large amounts for the client in question if it does not conform to the ordinary activities of the client;

6.6 – the person has insufficient knowledge of the beneficiary's address and contact information, the person is reluctant to disclose such information or demands bearer instruments for the beneficiary;

4.2 – the user of the account is suspected of being a fictitious person;

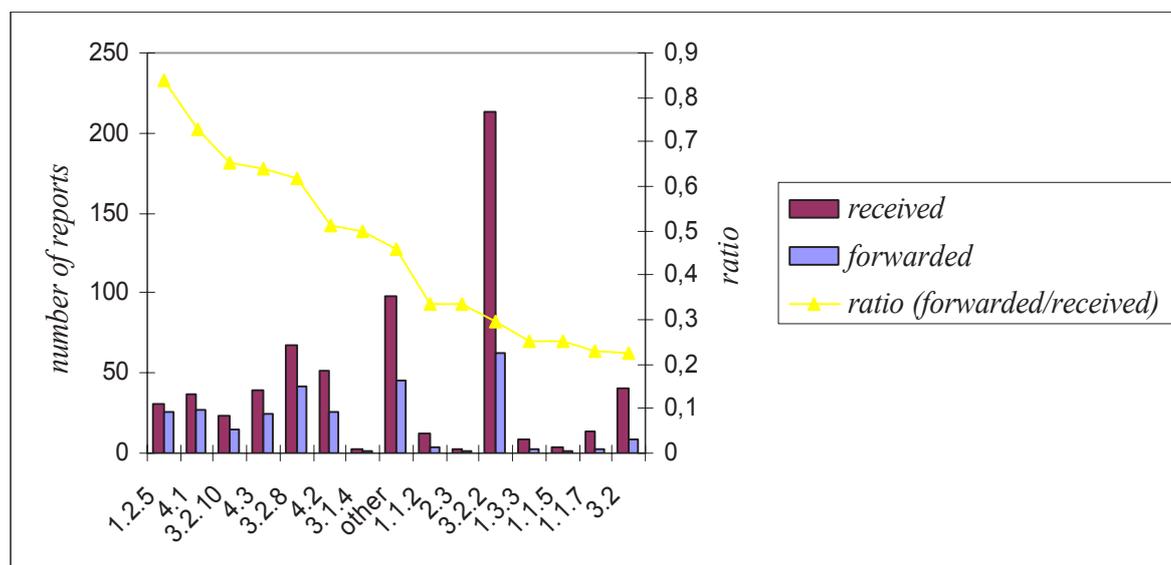
2.2 – the person requests unusually high limits which do not conform to the person's presumed turnover and social appearance;

1.2 – the legal person is suspected of being a fictitious person;

3.2 – unusual transaction in an account.

Additional analysis indicates clearly that reports received based on certain indicators are remarkably more often forwarded for further investigation than others. Information about the indicators with higher effectiveness (measured as a ratio of the number of

reports which formed the basis of materials forwarded to investigative bodies by the FIU and the number of reports received by the Unit) have been presented on the figure below.



**Figure 10:** The number of reports received by the FIU and forming the basis of materials issued by most effective indicators

Explanation:

- 1.2.5 – legal person has no contact phone number;
- 4.1 – debit card or credit card is used by an unauthorised person;
- 3.2.10 – single major or regular buying or selling of cheques which does conform to the person's usual economic activities;
- 4.3 – the client as a legal person is suspected of being a fictitious person;
- 3.2.8 – single large or unusually frequent deposits/withdrawals also in smaller amounts between the same participants, whereas other transactions indicating normal economic activities did not take place on the account;
- 4.2 – the user of the account is suspected of being a fictitious person;
- 3.1.4 – several cash payments into a single account within a short period which taken together constitute a large amount;
- 1.1.2 – the person uses assistance in filling documents or cannot fill them in;
- 2.3 – the person requests two or more bank cards which do not conform to the persons presumed turnover and social appearance;
- 3.2.2 – single unusually large cross-border payment not conforming to normal turnover and/or not sufficiently justified;

1.3.3 – there is a suspicion of counterfeiting in case of the documents submitted;

1.1.5 – the person cannot describe his/her possible partners and/or areas of activity;

1.1.7 – the bank knows that the person has been suspected of being a fictitious person;

3.2 – unusual transaction in an account.

The comparison of figures 9 and 10 indicates that the indicators with the highest effectiveness (measured as a ratio of the number of reports received by the FIU and the reports which formed the basis of materials forwarded to investigative bodies by the Unit) and the indicators most frequently stated in the reports submitted by the persons with reporting obligation to the FIU do not coincide to a large extent. As expected the greatest number of reports submitted to investigative bodies constitute reports in case of which the reason why the person with a reporting obligation notifies the FIU indicates in its nature that the person is quite probably associated with crime: bank card is used by an unauthorised person, the person carrying out the transaction is suspected of being a fictitious person, etc. However, in case of most suspicious transaction reports received the indicator is relatively general (unusual transaction with cash, large-scale cash deposits and withdrawals, etc.) and this explains the fact that in case of the majority of such transactions more comprehensive investigation did not prove a connection with money laundering.

### 2.1.2. National cooperation

The Financial Intelligence Unit has a legal obligation to cooperate with the persons with a reporting obligation, investigative bodies and other institutions, agencies and organisations. Persons bound by the reporting obligation have to inform the Financial Intelligence Unit of all money laundering or terrorism financing suspicions and, under a precept, to provide the unit with information related to money laundering or terrorist financing suspicion. Increased number of reports and the fact that the persons with a reporting obligation who had been passive have started to submit reports, shows that cooperation has improved and that confidence in the unit has increased among persons. Cooperation was certainly enhanced by the training carried out in the framework of the Twinning-project which helped considerably to create a more direct contact with persons.

In addition to the **Financial Intelligence Unit** many other institutions are involved in the anti-money laundering fight in Estonia. Since 2006 the overall responsibility for the legal context and the coordination of activities lies with the **Ministry of Finance**; previously it was the task of the Ministry of Internal Affairs. To promote and coordinate national cooperation in the field of money laundering and terrorist financing, a **government committee for the prevention of money laundering** was established in 2006 replacing the inter-agency coordination committee under the Ministry of Internal Affairs. The Committee includes the representatives of several ministries, the Tax and Customs Board, the Prosecutor's Office, police authorities, the Bank of Estonia and Financial Supervision Authority and the committee is chaired by the Minister of Finance of the Republic of Estonia. The main tasks of the committee include at present the coordination of the implementation of legislation concerning money laundering and terrorist financing prevention and the analysis of the competence and capabilities of the related institutions; the analysis of the implementation of the Money Laundering and Terrorist Financing Prevention Act and the coordination

of the drafting of the new draft act; submission of proposals as regards the enhancement of money laundering and terrorist financing prevention measures and the submission of amendments of the respective legislation to the Government of the Republic; coordination of the international cooperation in the field of money laundering and terrorist financing prevention in Estonia; the preparation of an evaluation visit of the Council of Europe Committee of Experts on the Evaluation of Anti Money Laundering Measures (Moneyval), the ensuring of the carrying out of the evaluation and the analysis of the results.

In addition to the committee a **market participants' council** was established in 2006 the main tasks of which include the improvement of the economic operators' awareness and enable them to make their voice heard in the drafting of legislation on money laundering and terrorist financing which affects them. Besides the representatives of several associations of businesses and other relevant agencies the council also includes the employees of the Ministry of Finance.

The FIU works actively with the **Estonian Banking Association** in which it participates in the working group for the prevention of money laundering. The **working group for the prevention of money laundering** is a cooperation body of Estonian banks, the Bank of Estonia and the FIU established with the Estonian Banking Association. The task of the working group is to be the body for the coordination and development of the communication and cooperation of Estonian banks, the Bank of Estonia and FIU; to monitor the activities concerning the development of the money laundering prevention in Estonia and abroad; to introduce and implement positive work experiences; to draft recommendations for the development of activities related to money laundering prevention; to monitor the dynamics and structure of money laundering as a type of crime and the detection of crime and to provide all members of the working group with possibilities for free expression of opinions, in-service training and cooperation. The working group is also a place where practical issues are discussed and where the FIU provides feedback for banks as regards money laundering trends, statistics, etc.

**National cooperation bodies active in money laundering prevention are the government committee for the prevention of money laundering, council of market participants and the working group for the prevention of money laundering. In addition to the FIU, several ministries, the Financial Supervision Authority and Estonian Banking Association are also involved in the prevention of money laundering and terrorist financing.**



While the FIU analyses the received suspicious transaction reports and, if necessary, forwards the important data to investigative bodies, the agencies involved in criminal proceedings are in addition to the Central Criminal Police and police prefectures the **Prosecutor's Office, Security Police Board, Tax and Customs Board** and **courts** pursuant to their respective competence. The **Financial Supervision Authority** is primarily responsible for the stability, reliability and transparency of the Estonian financial sector. Arising from the fact that money laundering and terrorist financing is directly connected to the latter, Financial Supervision Authority exercises supervision over credit and financial institutions as regards money laundering and terrorist financing. The supervision over other persons with a reporting obligation established in the Prevention Act is exercised by the FIU. The Unit exchanges information with the Financial Supervision Authority as regards infringements detected during supervision. Also, regular meetings are held in order to discuss money laundering problems.

The FIU carries out day-to-day cooperation with investigative bodies (Central Criminal Police, police prefectures, Security Police Board, Tax and Customs Board) and the Prosecutor's Office. In 2006 the Northern Circuit Prosecutor's Office appointed a prosecutor for money laundering cases; the prosecutor in question will receive materials concerning money laundering sent by the FIU in order for the prosecutor to make a decision as regards commencing criminal proceedings. The more direct coopera-

tion with investigative bodies and the Prosecutor's Office improved the quality of the materials forwarded by the FIU and as a result the number of criminal proceedings commenced increased compared with the previous years. At the same time the number refusals to commence proceedings and the number of proceedings terminated in an early stage decreased (see figure 1).

One of the effective ways of cooperation is training. In 2006 the officials of the FIU carried out **28** training courses for **1000** persons. The training courses were targeted at the persons with a reporting obligation (but not exclusively): training concerning the activities of the FIU was provided to auditors, notaries public, real estate agents, police officials, trustees in bankruptcy, accountants, bank officials, currency exchange workers and intermediaries of valuable goods; of the other target groups the employees of the FIU gave presentations also to students and the government committee for the prevention of money laundering. Presentations were also given in many foreign countries (Serbia, Cyprus and Romania).

Cooperation in the field of training in which the officials of the FIU themselves were in the role of trainees is equally important. In 2006 the officials of FIU participated in 32 training courses, including 14 courses abroad. The courses organised abroad concerned mainly the role of information technology in the enforcement of legislation, money laundering prevention in the non-financial sector, the fight against cross-border and national terrorism, etc.

	1999	2000	2001	2002	2003	2004	2005	2006
To make a decision as regards commencing proceedings	1	3	6	8	3	15	24	43
Proceedings commenced	1	3	6	8	3	12	19	35

**Table 1.** Materials forwarded to investigative bodies in 1999-2006



### 2.1.3. Feedback

The Financial Intelligence Bureau is obligated to give the persons who have submitted data feedback about how the submitted data was used. The main objective of this task is on the one hand to improve the quality of reports and on the other hand to improve the persons' awareness. The FIU has decided to give only **positive feedback**. This means that the unit gives the person who has notified it of a suspicious transaction feedback only if the employees of the unit determine that the report includes the elements of an offence and the report has been forwarded to investigative bodies in order to make a decision as regards the commencement of criminal proceedings or if the materials used in investigating the report were a valuable addition in the proceeding of an ongoing criminal matter. The person who has submitted a report is also informed about whether and on which grounds the proceeding was commenced and who proceeds the case. The FIU does not give negative feedback. If suspicions were not confirmed, the reporting person is not given feedback because we are of the opinion



that negative feedback may hinder reporting activity.

Arising from the fact that the analysis of reports may sometimes last for many years, it is often not possible to decide immediately after receiving the report whether it involves money laundering or terrorist financing and it is necessary to collect additional information

or continue monitoring the activities of the person. For example, in the end of 2006 positive feedback was given to a bank as regards the forwarding of their report received by the FIU in 2003 to the investigative body.

Also, the FIU gives feedback to the notifiers in the form of an annual report which describes statistics and money laundering trends which should help to improve the quality of reports.

### 2.1.4. Improvement of money laundering awareness

The task of the Financial Intelligence Unit is also to carry out research concerning money laundering and terrorist financing, to improve the prevention and detection of money laundering and terrorist financing and to inform the public thereof. The FIU has used various channels and possibilities for improving the awareness of the public as regards money laundering and terrorist financing. In 2006 several articles were published in the media targeted at increasing the public's awareness of the activities of the FIU and its role in the Estonian legal system. The articles were of informative nature and primarily aimed to notify people of the possible money laundering trends and of the activities and future plans of the FIU as an organisation.

The year 2006 saw the completion of the annual report of the FIU which gave an overview of the activities of the unit in the prevention of money laundering in Estonia in 1999-2005. **The Manual of Money Laundering Prevention** which was completed the same year gives a comprehensive overview of the definition of money laundering and the activities of the FIU. It also discusses the historic and legal framework of money laundering prevention both on an international and national level and analyses the role of credit and financial institutions and non-financial institutions in preventing money laundering. In addition, an overview is given of the money laundering trends detected by the FIU both on the local and European level and respective examples are given. These publications are electronically available on the homepage of the FIU.

**The annual report of the Financial Intelligence Unit is located at the following address:**

[http://www.pol.ee/failid/RAB\\_i\\_aastaraamat.pdf](http://www.pol.ee/failid/RAB_i_aastaraamat.pdf)

**The Manual of Money Laundering Prevention is located at the following address:**

[http://www.pol.ee/failid/Rahapesu\\_Kasiraamat.pdf](http://www.pol.ee/failid/Rahapesu_Kasiraamat.pdf)

### 2.1.5. Arrangement of foreign relations and information exchange

Pursuant to the Prevention Act the Financial Intelligence Unit has the right to exchange information with foreign agencies which perform the functions of a financial intelligence unit. Information exchange requirements and rules have been greatly standardised by international umbrella organisations (in the Estonian context primarily by the Egmont Group) making the work of FIUs in this regard quite easy and uniformly understood. The Estonian legislation allows the Financial Intelligence Unit to exchange information with the foreign agencies fulfilling respective functions without the need to enter into a mutual cooperation agreement. Nevertheless, the legislation of foreign countries does not enable such direct communication and thus the FIU entered into Memoranda of Understanding (MoU) with several countries in 1999-2006. Information about these memoranda has been presented in table 2.



A special secure Internet-based information exchange system **Egmont Secure Web** used by almost all FIUs belonging to the Egmont Group (more than 100 countries) is used for exchanging information with foreign FIUs. As another network the FIU uses the VPN information exchange system **FIU.NET** designed for the FIUs of the EU Member States. The volume of information exchange through that system is remarkably smaller due to the smaller number of countries who have joined the system compared to the Egmont Secure Web.

In 2006 the FIU received **113** external queries from altogether **35** countries and the unit itself sent **64** queries to altogether **16** countries. The information about the queries received from and sent to foreign countries has been summarised in table 3. The table shows that a considerable proportion of external queries was in 2006 received from Russia, Ukraine and Finland (altogether 40% of reports were received from these three countries). The main countries to which queries were sent were Russia and Latvia.

Country	Date when the MoU was entered into
Lithuania	7.10.1999
Latvia	5.06.2000
Belgium	20.11.2000
Czech Republic	June 2001
Poland	10.12.2001
Russia	1.04.2003
Israel	25.07.2003
Ukraine	20.10.2003
Italy	1.12.2003
Slovenia	11.06.2004
Australia	23.06.2004
Netherlands Antilles	24.06.2004
Albania	2.07.2004
Georgia	26.10.2004
Thailand	26.10.2004
Romania	30.06.2005
Moldova	29.09.2005
Ireland	16.06.2006

**Table 2.** List of countries with which the Estonian FIU has entered into memoranda of understanding

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Country	Received	Sent
Russia	30	25
Ukraine	13	2
Finland	12	
Latvia	7	14
Belgium	4	2
Bolivia	4	
Lithuania	4	4
Moldova	3	
Hungary	3	
Bosnia and Herze- govina	2	
Bulgaria	2	
Croatia	2	
Georgia	2	
Guernsey	2	
Czech Republic	2	
Venezuela	2	
Antigua and Barbuda	1	
Austria	1	1
USA (FBI)	1	
USA (FinCEN)	1	4
Spain	1	1
UK	1	1
Italy	1	4
Cyprus	1	
Lebanon	1	
Malta	1	
Norway	1	
Paraguay	1	
Poland	1	
Portugal	1	
Germany	1	
Slovakia	1	
Denmark	1	1
Chile	1	
New Zealand	1	
Arabia		1
Bermuda		1
British Virgin Islands		1
Canada		1
Switzerland		1
<b>TOTAL</b>	<b>113</b>	<b>64</b>

**Example case. International cooperation**

In September 2006 the FIU was informed that fraudulently obtained money has been sent from an Australian bank via Lithuania to Estonia. The FIU discovered a money laundering scheme and suspended the further movement of the illegally obtained money. The scheme itself was as follows.

In August a payment order was submitted to an Australian enterprise based on which the amount of AUD 1,250,000 was paid from company A to the account of company B in Lithuania a few days later. In the beginning of September the company A was informed that the payment order based on which the transfer had been made had probably been forged.

The defrauded money was moved from Australia to Lithuania to an account of an Estonian company which was engaged in e-money intermediation. From Lithuania the money was then transferred to the bank account of the same company in Estonia. The amount of money transferred to Estonia was AUD 650,000, i.e. more than 6 million EEK and more than AUD 160,000 of this money was converted into e-money.

The banks informed the Estonian FIU about these suspicious transactions and the FIU reacted promptly. The FIU coordinated the cooperation between the banks and the e-money intermediary and as a result no more transactions were carried out with the money in question. Due to effective and prompt cooperation it was possible to avoid major damage and the money was returned to the injured party. The Lithuanian law enforcement authorities commenced criminal proceedings for investigating the suspicious transactions and seized the bank accounts connected to the crime in question.

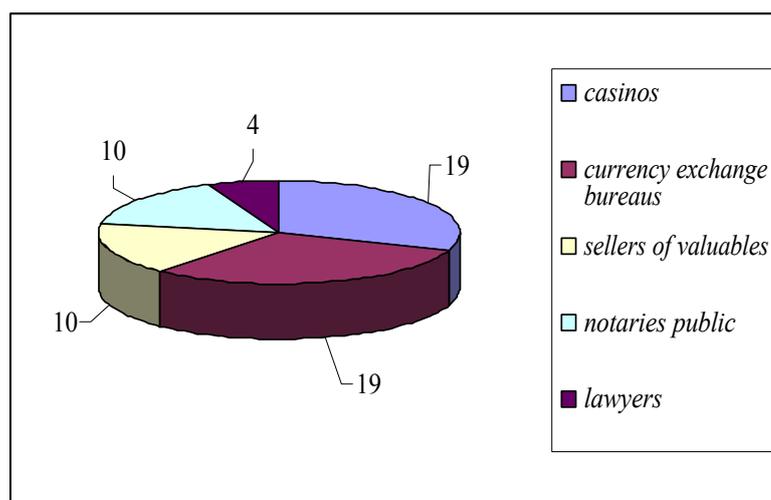
**Table 3.** The external queries received and sent by the FIU by countries

### 2.1.6. Exercise of supervision

Since 2005 the Financial Intelligence Unit has in the framework of supervision performed random on-the-spot inspections of persons with a reporting obligation. During the on-the-spot inspections it is checked whether the employees of the enterprise are aware of the requirements contained in the Prevention Act; also, it is determined how the enterprise has organised the implementation of the act and the storage of documents and whether the enterprise fulfils all the requirements arising from the Prevention Act. These inspections may be planned, they may be based on risk analysis or a suspicious transaction report. The pre-planned inspections are carried out by the FIU employees themselves and in cooperation with other inspection bodies. The planning of supervisory inspections based on risk analysis and the selection of enterprises to be inspected is based on sectoral

analysis, i.e. the greatest attention is directed to the sectors in which the risk of money laundering is the greatest. FIU also cooperates with other inspection bodies, mainly the Financial Supervision Authority, the Ministry of Justice and the Tax and Customs Board, but also with the Bar Association and Chamber of Notaries.

As human resources allocated for carrying out the supervisory function were insufficient, the fulfilment of this task was still relatively modest in 2006. During the year two officials of the FIU carried out 62 on-the-spot inspections of altogether 40 persons with a reporting obligation. In 2007 the FIU hopes to create additional positions for fulfilling the supervisory function and by doing that to increase the number of on-the-spot inspections carried out. Figure 11 shows aggregated information about the inspected persons by the type of enterprise.



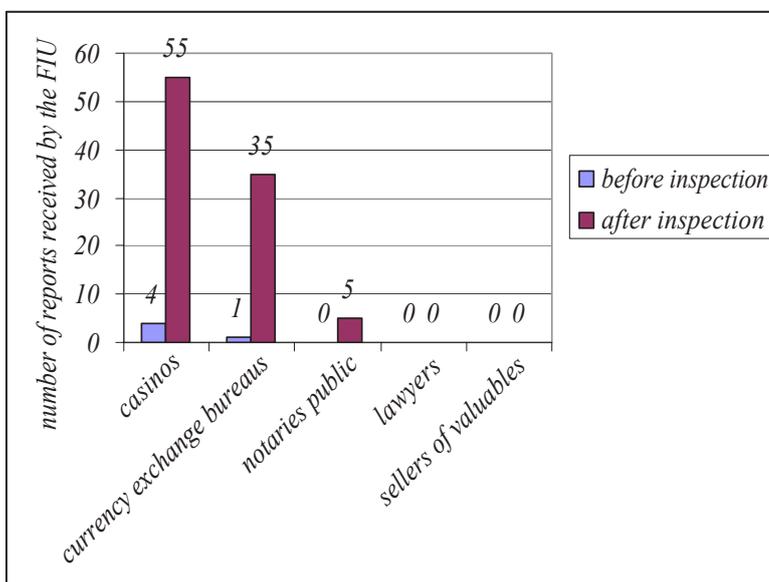
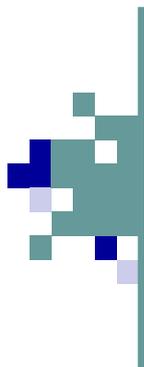
**Figure 11:**

The number of supervisory inspections carried out by type of persons with a reporting obligation

Both casinos and foreign currency exchange bureaus constituted almost a third of the inspected persons with a reporting obligation. About 80% of the last third was equally divided between the sellers of valuables and notaries public.

The effectiveness of the supervision carried out can be evaluated by analysing if after the on-the-spot inspection the enterprises started to submit more reports to the FIU concerning suspicious transactions than before. This information is presented in figure

12. The figure indicates that the inspections did not motivate the lawyers and the sellers of valuables to submit more suspicious transaction reports. But a positive effect was detected in case of notaries public, foreign currency exchange bureaus and casinos: if earlier the inspected agencies had (from January 2004 to the time of inspection) submitted, respectively, 0.1 and 4 reports, then after the inspection the respective numbers were 5.35 and 55.

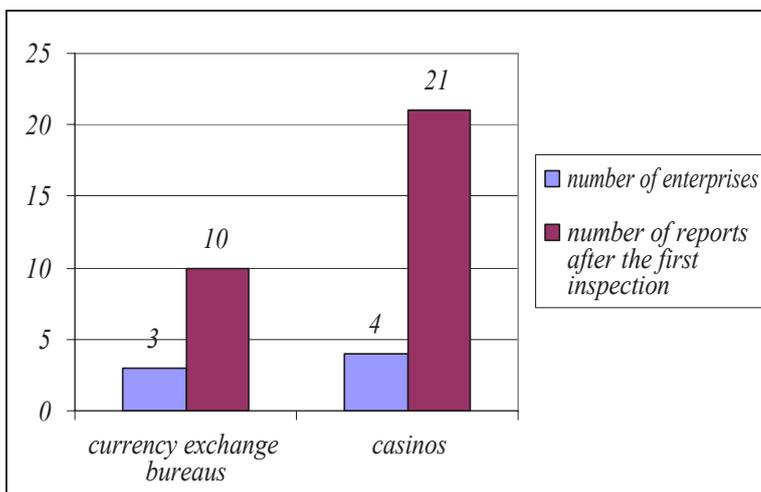


**Figure 12:**

The number of suspicious transaction reports received from the persons inspected in the framework of supervision before (from 01.01.2004 until time of inspection) and after (from the time of inspection until 31.12.2006) the on-the-spot inspection

In addition, follow-up inspection was carried out in 2006 in three foreign currency exchange bureaus and four casino enterprises which were first inspected in 2005 (see figure 13) which had not submitted any suspicious transaction reports to the FIU before the first inspection (i.e. from 1 January 2004 until the first inspection).

It turned out that in both groups the inspections had increased the reporting activity remarkably: the currency exchange bureaus had after the inspection in 2005 submitted 10 reports concerning suspicious transactions by the end of 2006 and in case of casinos the respective number was as high as 21.



**Figure 13:**

The shift in reporting activity changed in case of enterprises inspected for the first time in 2005 and in enterprises subject to follow-up inspection in 2006

•••••  
 • **Comment:**  
 • The number of reports after the first  
 • inspection – the suspicious transaction  
 • reports received since the first inspection  
 • carried out in 2005 until 31.12.2006.  
 •••••

### 2.1.7. Proceeding of misdemeanours

Based on the Prevention Act the Financial Intelligence Unit is in certain cases entitled to punish the illegal behaviour of persons with a reporting obligation pursuant to criminal procedure. The misdemeanours the proceeding of which is in the competence of the FIU based on title 7 of the act are:

- violation of requirement to register and preserve data,
- failure to submit and late submission of mandatory information,
- failure to apply internal security measures,
- unlawful reporting of information submitted to Financial Intelligence Unit,
- failure to comply with identification requirement,
- failure to report suspicion of money laundering or terrorist financing and submission of incorrect information,

- violation of registration obligation by provider of currency exchange services.

As in the first stage of inspection the main aim of the officials of the FIU was primarily to increase the awareness of the persons with a reporting obligation as regards the requirements introduced in the Prevention Act and to motivate them to cooperate, the detection of infringements did not necessarily always result in punishing the enterprises in error. Rather the enterprises are given some time to rectify the deficiencies and after the deadline a follow-up inspection is performed in order to determine whether the deficiencies have been rectified as required.

In 2006 misdemeanour procedure was commenced in case of three inspected enterprises engaged in currency exchange and these enterprises were fined in the total amount of EEK 10,300. In addition, two precepts to rectify deficiencies and three oral warnings were made.



## 2.2. Twinning project

From May 2005 to September 2006 a European Commission twinning project *An integrated programme to strengthen the capacity of the Estonian anti money laundering institutions* was carried out under the leadership of the Estonian Financial Intelligence Unit and in cooperation with the Dutch colleagues. The project was targeted at the enhancement of the effectiveness of the fight against money laundering both on the national and international levels. Hence the main objective of the programme was to educate on the one hand the employees of the institutions involved in the prevention of money laundering and on the other hand the persons with a reporting obligation (both financial and non-financial institutions, FIU, police, Prosecutor's Office and courts) in order to increase their effectiveness in the fight against and the supervision of money laundering.

The most important results of the project were the following:

1. A national strategy for the prevention of money laundering was developed. Analysing the current system in Estonia for the prevention of money laundering and the fight against it and based on the experience of other EU Member States, specific proposals and an action plan for the implementation of the national money laundering prevention strategy were drafted.
2. The competence in the prevention of money laundering of both the employees of the FIU and other related institutions was improved. For this reason the experts from the supervisory agency of the Dutch central bank, financial markets and casinos provided training for the employees of the FIU and Financial Supervision Authority and also for judges, prosecutors and investigators in the framework of the project. In the final stage of the

project the employees of the FIU visited their colleagues in the Netherlands in order to exchange experience and knowledge in the field of financial analysis. Training was also arranged for many professionals (notaries public, auditors, lawyers, currency exchange bureaus and money transfer enterprises and to one enterprise engaged mainly in real property intermediation) and the awareness of the higher state public servants in the field of money laundering prevention was increased. In addition, a manual for the money laundering prevention was drafted and training materials were prepared for the training providers.

3. A strategy was prepared for carrying out supervision of the new persons with a reporting obligation (currency exchange service providers, cash transfer service providers, professionals, auditors, notaries public, lawyers and other persons providing counselling service, intermediaries of precious metals, precious stones and other high-value goods) who were included in the Prevention Act by the *Act on Amendments to Money Laundering Prevention Act, Financial Supervision Authority Act, Credit Institutions Act, Police Act and Securities Market Act* adopted in December 2003 and enforced on 1 April 2004.
4. The feedback system was developed for the institutions involved in the prevention of money laundering.

**Under the leadership of the FIU a twinning project *Integrated Programme for the Improvement of the Capability of the Anti Money Laundering Institutions in Estonia* was carried out in 2005-2006 with the aim to increase the effectiveness of the fight against money laundering.**

Also, hardware procurement was conducted and a public procurement was announced in order to develop an information system for the FIU. The information system procurement was won by AS Medisoft OÜ with whom the FIU has started to develop and test the new system.



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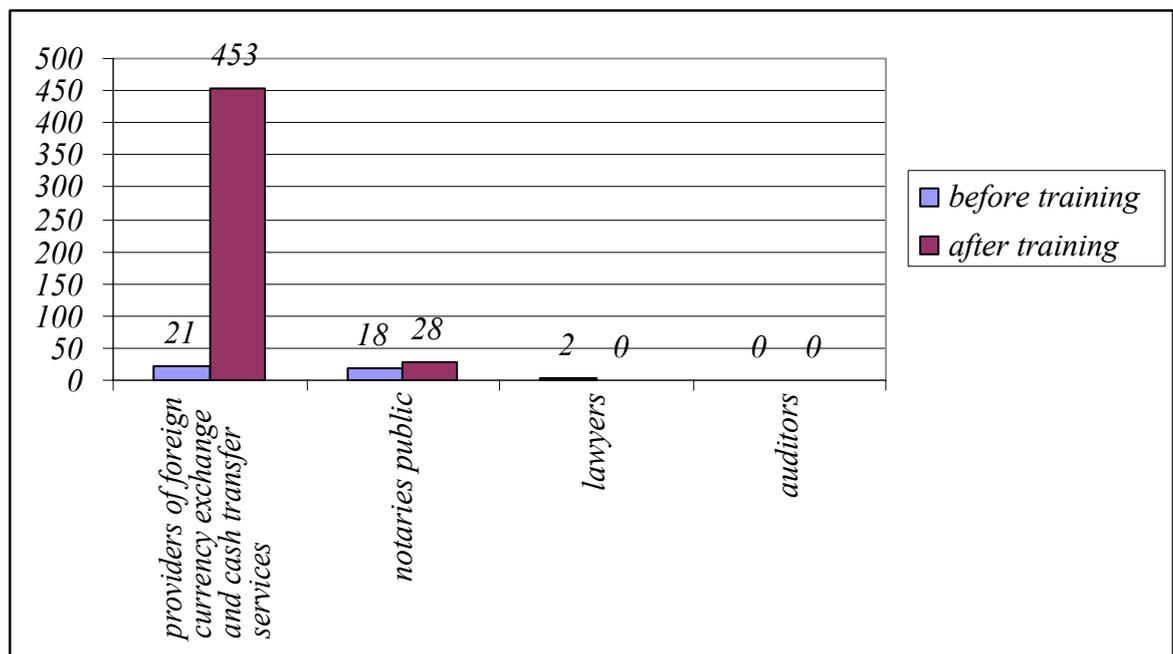
2006

The results show that the project achieved the objectives set and the Estonian system for the prevention of money laundering has become more effective. The feedback given by the project participants indicates that the training courses organised were highly valued and that the majority of trainees were satisfied with it. The police investigators, judges and the employees of various institutions engaged in the prevention of money laundering were of the opinion that both in-service training and information exchange with the Dutch colleagues was very useful and it is possible to use the knowledge acquired in practice in the future.

Also, the project improved the awareness of the persons with a reporting obligation of money laundering and terrorist financing prevention and the number of suspicious transaction reports increased. Moreover, as a result of the project more effective work methods have been employed in the management of the FIU and the cooperation with other institutions involved in guaranteeing public order has also improved.

Figure 14 shows the effectiveness of the training courses carried out in the framework of the twinning project measured before and after training by means of the number of suspicious transaction reports received from the participating enterprises.

As pursuant to § 15 of the Prevention Act the reporting obligation does not apply to notaries public, auditors and lawyers when evaluating the client's legal position or representing the client in a court proceeding or challenge proceeding (but they do have the respective right), it is expected that training did not affect the reporting activity of the latter group. Nevertheless, the number of suspicious transaction reports received from notaries public and providers of foreign currency exchange services who had taken part in training increased remarkably.



**Figure 14:** The number of suspicious transaction reports received by the FIU from the agencies participating in the training course organised by the FIU in the framework of the twinning project before (from 01.01.2004 until training) and after (from training until 31.12.2006) the training.

### 3. INTERNATIONAL COOPERATION

External cooperation with foreign financial intelligence units is generally organised through certain umbrella organisations which arrange regular meetings for its members. A brief overview of the organisations the work of which influences the Estonian FIU the most is given below. The list of organisations below is certainly not exhaustive, as on a global level there are many more international organisations which are in their everyday activities involved in the prevention of money laundering and terrorist financing. Information about the member states of the most important organisations targeted at the prevention of money laundering have been presented in annex 1.

**Egmont Group** is an organisation which unites the FIUs of different countries from all over the world. The group was established in 1995 with the objective to promote international cooperation in the field of money laundering primarily by means of information exchange, training and exchange of experiences. At present the organisation unites 101 FIUs. The Estonian FIU has been a member of Egmont Group since 2000. The Egmont Group consists of sub-groups which discuss different questions. The Estonian FIU participates actively in the operational working group in which Estonia is with the American FIU (FinCEN) an initiator in the E-Money Laundering sub-working group. The experience of the Estonian FIU is one of the most extensive ones in this field and this is why our experience is interesting for other countries.

**The Financial Action Task Force (FATF)** which was established in 1989 by G-7 countries is an inter-governmental body which aims to develop national and international anti-money laundering and terrorist financing standards and methods. Since establishment the FATF has led the development and implementation of measures targeted at strengthening the financial system in order to prevent the use of the financial sector for money laundering and terrorist financing.

The sphere of responsibility of the task force is to map money laundering trends and typologies; to monitor the activities on the national and international levels and to coordinate the fight against money laundering. Since 2001 its task has also been to develop the standards for the prevention of terrorist financing. In order to achieve its objectives the FATF has developed 40 + 9 recommendations which the member states have to follow in their activities. At present the FATF has 33 members: 31 countries and governments and 2 international organisations (the European Commission and the Cooperation Council

for the Arab States of the Gulf). In addition the FATF has more than 20 observers. Estonia is not a member of the FATF. The Estonian FIU has as much as possible tried to contribute to the research of money laundering trends and typologies by completing various questionnaires. More active participation in the activities of the FATF would require additional financial resources.

**MONEYVAL** (*Committee of Experts on the Evaluation of Anti Money Laundering Measures, formerly PC-REV*) which was established in 1997 by the Council of Europe Committee of Ministers is an organisation which unites the Council of Europe member states not belonging to the FATF. The objective of the organisation is to carry out both self-assessment and assessment of others in the member states as regards the measures taken in the fight against terrorist financing introduced in the countries not belonging to the FATF. The objective of the activities of Moneyval is to promote international cooperation and to disseminate information about various measures for preventing money laundering, the implementation possibilities thereof and the money laundering trends in Europe. There are three fields: examination of the financial, legal protection related and legal situation, whereas both the content and legislative implementation are evaluated. The Moneyval plenary meetings which take place 2-4 times a year discuss the results of the evaluations carried out and approve the reports evaluating the fight against money laundering in member states.

At present MONEYVAL has 28 permanent members (including Estonia) and 2 temporary members. In addition, the members include 6 countries which have active or regular observer status, also countries belonging to the FATF, but not to MONEYVAL and several international organisations. Moneyval cooperates closely with the FATF, the International Monetary Fund and the World Bank. Two legal protection experts from the Estonian FIU participate in the work of Moneyval and these experts have assessed the measures for the prevention of money laundering used in Latvia, Lithuania and Malta.

**Among the organisations which coordinate the cooperation in the fight against money laundering and terrorist financing the most important organisations for Estonia are the Egmont Group, MONEYVAL, FATF, TAIEX and the International Monetary Fund.**

**TAIEX** (*Technical Assistance Information Unit*) is an organisation under the European Commission the objective of which is to provide short-term technical help conforming to the general policy objectives of the European Commission to the countries which have joined the EU since 2004 (so-called new member states), candidate countries, the Western Balkan administration's potential candidate countries and territories, European Neighbourhood Policy Partners, Turkish Cypriot Community in the north of Cyprus and Russia and to promote the information exchange between these parties. The TAIEX also helps its members in the approximation and enforcement of EU legislation. With the help of the TAIEX the Financial Intelligence Unit has been able to participate in several important training seminars. The TAIEX has also invited the officials of the Estonian FIU to participate as training providers.

The **International Monetary Fund** (IMF) adopted the role of a prevention of money laundering and terrorist financing in 2000 primarily due to the need to limit the abuse of offshore financial centres. After the 9/11/2001 terrorist attacks the IMF decided to extend and deepen its activities remarkably. In March 2004 the management of the IMF decided to start conducting regular assessments of money laundering and terrorist financing prevention as a part of its regular activities and to expand its activities so that it would completely conform to the recommendations made by the FATF.

The IMF operates as a forum by means of which the member states exchange information concerning money laundering and terrorist financing, try to find solutions for urgent issues together and promote recommended policies and standards. In its activities for the prevention of money laundering and terrorist financing the IMF concentrates especially on the way these crimes may potentially affect the economy and financial systems of its member states, endangering the quality and stability of financial institutions and systems, the volatility of international capital flow and the volume of external direct investments. As a result, the IMF offers technical assistance to the financial sectors of its member states and executes supervision over their economic systems.

At present the IMF has three basic areas of activity as regards money laundering:

- the assessment of the strengths and weaknesses of its member states' financial sectors based pri-

marily on the 40 recommendations introduced by the FATF;

- in cooperation with the World Bank the provision of technical assistance with the aim to strengthen the member states' legal, regulatory and financial supervision framework for the prevention of money laundering and terrorist financing;
- the development of policies by means of scientific studies and application of international practices. In this area the IMF cooperates closely with the World Bank, the FATF and regional organisations similar to the FATF.

The officials of the FIU have cooperated with the IMF both as trainees and training providers.

In addition, the FIU participates actively in the activities of the EU-US Financial Sanctions Workshop where best practices as regards the detection of persons and organisations listed in the EU and UN lists of terrorists and the freezing of their assets are exchanged.

**Cooperation of the FIUs of the Baltic States.** The FIUs of the Baltic States traditionally meet every year. The objective of the meetings is to give an overview of the changes in the area of money laundering prevention, also to exchange practical experiences on a case basis and exchange experiences as regards the various money laundering trends in the three countries.

Since 2006 the FIU also participates as the Estonian national contact point in the **Camden Asset Recovery Inter-agency Network** (CARIN). CARIN was established in 2004 by more than 30 countries with the aim of enhancing the capture of those criminals who place their illegally obtained money outside their home country. Through the network it is easy for the members to make contact with foreign colleagues during the process of asset reclamation and speed up the process thereof. At the same time the network does not deal only with individual cases, it also helps members in establishing national contact points, in developing asset recovery related legislation and in exchanging best practices.

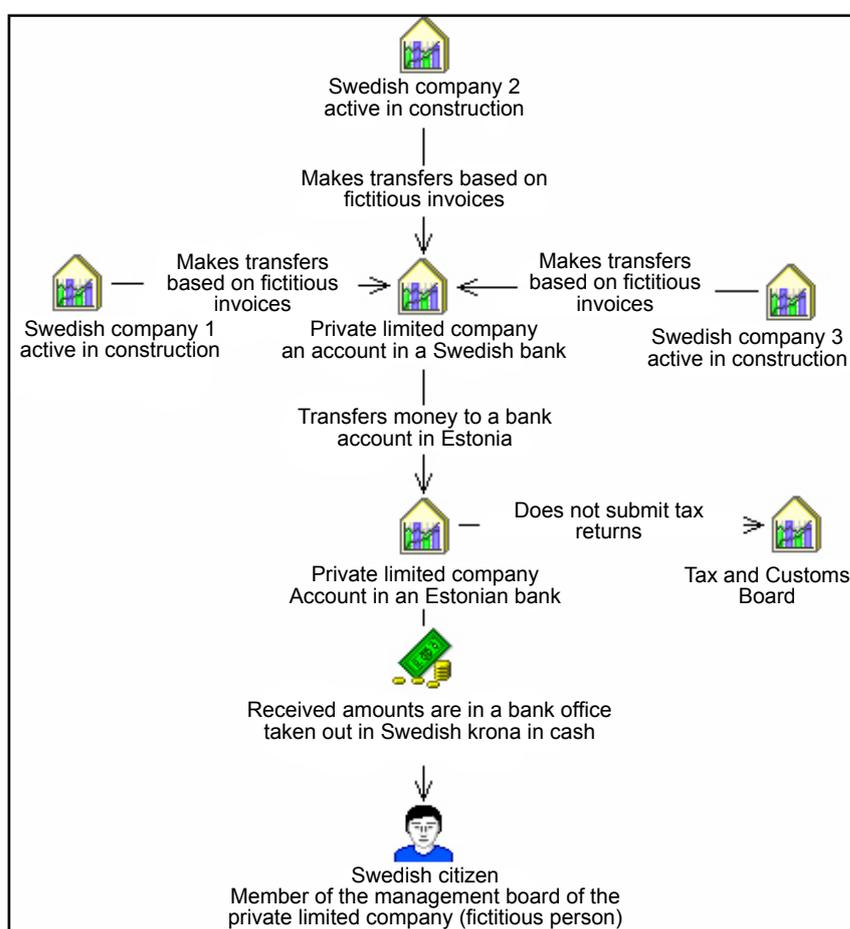
**The FIU also participates in the Camden asset recovery network and in the annual meetings of the FIUs of the Baltic States.**

## 4. MONEY LAUNDERING TYPOLOGIES IN ESTONIA

When mapping typologies in Estonia one must take into account the fact that the money laundering trends widespread in the world are not copied one-to-one into the Estonian context. This is undoubtedly partly due to the geographical location and history of Estonia – being a so-called bridge between the East and the West, transit plays an extremely important role in the Estonian economy. On the other hand the effects arising from globalisation must not be underestimated when analysing trends, as the persons involved in money laundering, trying to prevent the detection of their activities by the legislators, continuously improve the existing methods and at the same time develop new and more complex possibilities to launder money in the sectors in which the money laundering regulation is yet insufficient. This means that both the criminals and the people fighting against money laundering try constantly to adapt to the changing circumstances and to make as much use as possible of the other countries' experiences. The both sides aim to be a step ahead of the other.

The classical form of money laundering – where a certain enterprise is used for making the illegally obtained money seemingly legal – has been rarely

detected in Estonia. Rather it is so that money laundering has in Estonia taken the form of organised economic crime in which fictitious documents are used in order to create an illusion of a legal transaction. It means that money laundering is shown to be a proper economic transaction in every way, and to do so either documents or facts related to the transaction are forged. The role of document and fact fabrication in the framework of money laundering is particularly important in Estonia as it gives the criminals several possibilities for making the schemes more complex and more difficult to monitor. The connection with money laundering becomes apparent in such schemes in the stage of obtainment when so-called “dirty money” is used for paying for the goods. Also, fictitious documents and intermediaries are used to create an illusion that the item which has in reality been brought to the country illegally comes from a legal source. In that case only documents and not goods are moved between countries. For example such methods are used for increasing the price of the goods to be purchased, to decrease VAT or income tax liability. A scheme of income tax evasion has been outlined in the example below.



### Example case. Large-scale tax evasion

In August 2006 the FIU received a report from a bank that large amounts of Swedish krona were being transferred from a Swedish bank onto an account of a private limited company and these sums were being taken out in cash in Swedish krona in the bank office by a member of the board of the private limited company who is a Swedish citizen.

The FIU, while inspecting the economic transactions of the private limited company, detected the money laundering scheme in which Swedish building companies transferred large amounts of Swedish krona onto the Estonian private limited company's account in a Swedish bank based on fictitious invoices. The Estonian private limited company in turn transferred these amounts in Swedish krona onto its account in an Estonian bank from where a Swedish citizen who was also a member of the management board of the private limited company cashed them in a bank office.

It was also established that the private limited company did not submit tax returns to the Tax and Customs Board which it was legally obligated to do. The FIU seized the SEK 684,647 received by the private limited company and sent the file for making a decision as regards commencing procedures to a competent investigating body.

One common scheme involves the purchase of certain assets (for example real property, car or goods for an enterprise) either personally or with the help of a professional, by formally receiving a loan for that purpose (often from another enterprise or company registered in an off-shore region). A similar trend is noticed in other countries as well and the objective of this scheme is to make an impression that assets are being obtained by using legal money. In reality this enables the money launderers to get rid of the so-called dirty money, for example the enterprise

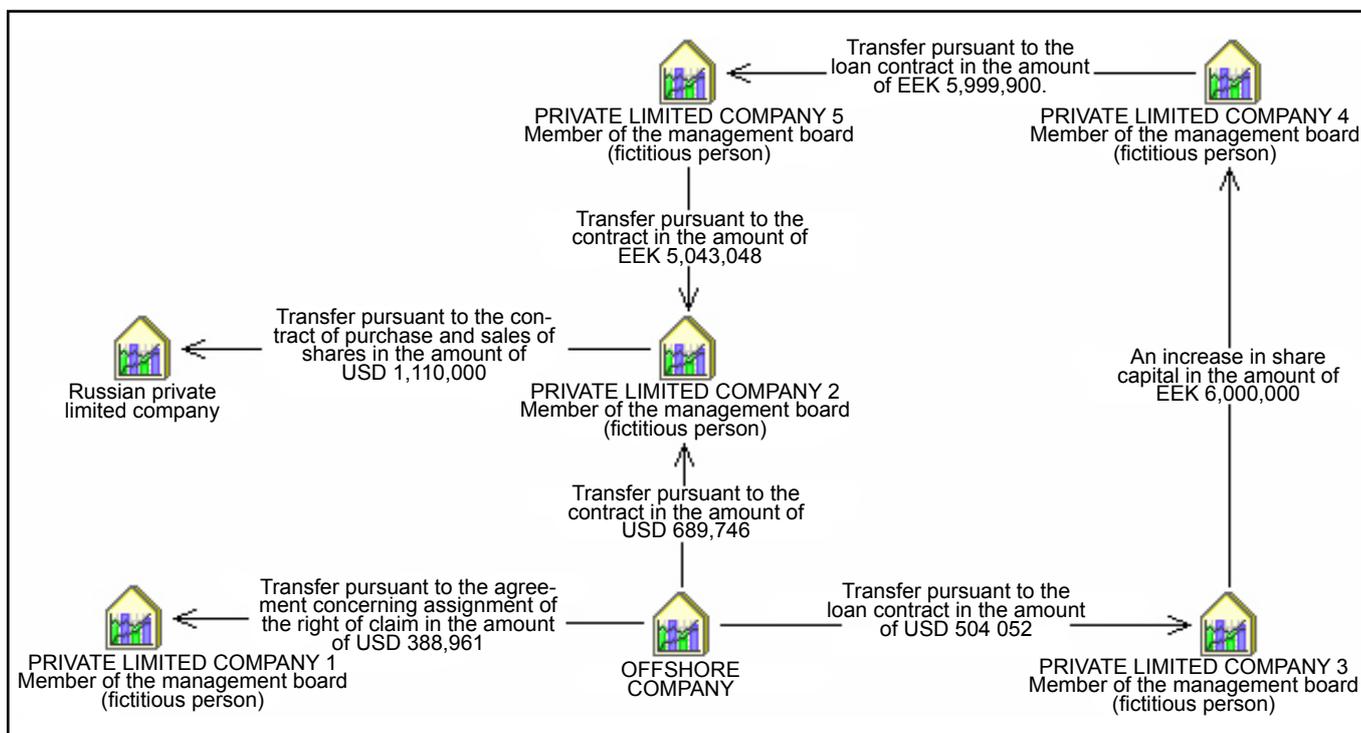
giving the loan may actually be directly or indirectly connected to the money laundering loan taker. At the same time additional possibilities for money laundering evolve in case of bank loans as it is possible to use dirty money for paying back the loan.

In this case Estonia is often only a transit country for money laundering schemes – it is the country where the money is only during the intermediary stage on its way from country A to country B (see the example case below).

#### **Example case. The use of Estonia as a transit country in money laundering schemes**

In February 2006 the FIU received a notice from a bank that private limited companies 1, 2 and 3 had received unusually large amounts of money in USD via their accounts from an off-shore company abroad. The representatives of these private limited companies could not explain the origin of the money nor to submit documents proving the legal origin of the money. As a result the FIU seized the money received by company 1 in the amount of USD 388,961.

By inspecting the economic transactions of companies 1, 2 and 3 the FIU ascertained the following money laundering scheme in which Russian citizens used fictitious persons and companies in order to hide the origin of money and the actual investors who invested USD 1,110,000 in a Russian private limited company. Proceedings were commenced based on the file submitted by the unit.



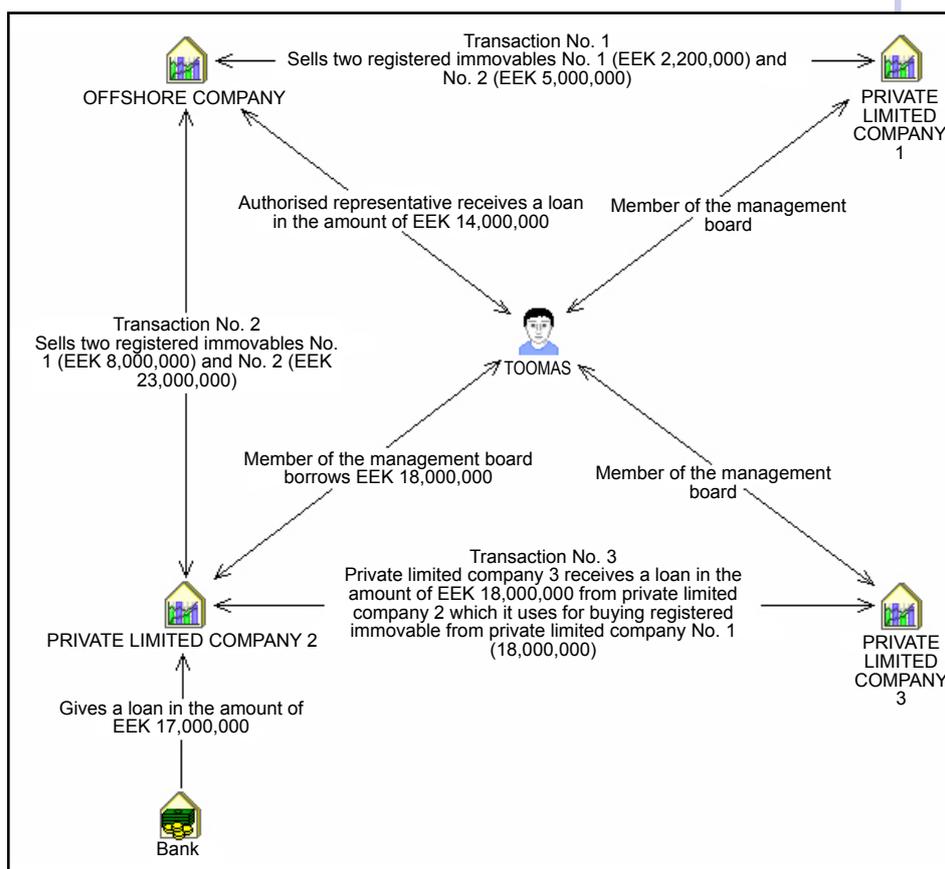
The schemes in which money is after certain transaction transferred to the state of arrival are also not rare. In these cases the aim of transactions carried out in Estonia is predominantly to change the form of

money (e.g. currency) and create confusion in order to make the discovery of money laundering schemes for bystanders as difficult as possible.

#### **Example case. Embezzlement of the property of a private limited company to a great extent**

In the end of October 2005 the FIU received information that private limited company 1 is conducting unusual economic transactions with an off-shore company. The FIU of the Central Criminal Police detected the following money laundering scheme depicted in the figure below when inspecting the economic transactions between private limited company 1 and the offshore company.

Toomas, an Estonian national, was a member of the board of private limited companies 1, 2 and 3 and an authorised representative of the off-shore company. He concluded fictitious transactions shown on the following scheme by using the private limited companies. The objective of the transactions was to embezzle the actual profit obtained from the sale of registered immovable No. 1 and No. 2 through the off-shore company and by doing that to turn the claim of EEK 18,000,000 against private limited company No. 2 (being a member of its management board) in his favour.



In addition, the transaction in question provides possibilities for money laundering in certain cases. For example, in real estate development it is possible to use additionally funds originating from an illegal source. The same possibility opens up when acquiring office buildings, hotels and many other cash intensive enterprises in case of which it is difficult for the regulators to detect whether the tenants, hotel guests, etc., actually exist or if the owners of the building have created an illusion of high level of use by, in fact, directing their own illegally obtained resources into their business.

The second important type of transactions in Estonia used for laundering criminal money is transactions in securities. Although the objective of the majority of transactions in securities concluded is not criminal,

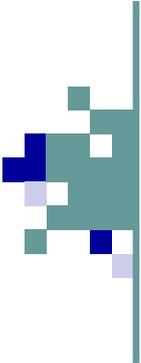
these schemes provide the criminals with seemingly unexpected possibilities for laundering illegally obtained money both from the perspective of the seller and the buyer. For example in case of an issue of securities the seller and buyer may either be directly (e.g. via ownership) or indirectly connected and in such case it is possible that the buyer uses illegally obtained money which in fact owned by the issuer for the purchase of securities. The issuer in turn acquires seemingly legal money for his/her use which can then be channelled into future economic activities. Such schemes are at the same time characterised by the fact that the rights of claim of securities quite often change owners before redemption and that is why it is later difficult to get an overview of such schemes.

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## Member states of international cooperation organisations

TAIEX	MONEYVAL	FATF
<u>Members</u>	<u>Members</u>	<u>Members</u>
Bulgaria	Albania	Argentina
Cyprus	Andorra	Australia
Czech Republic	Armenia	Austria
Estonia	Azerbaijan	Belgium
Hungary	Bosnia and Herzegovina	Brazil
Latvia	Bulgaria	Canada
Lithuania	Croatia	Denmark
Malta	Cyprus	European Commission
Poland	Czech Republic	Finland
Romania	Estonia	France
Slovakia	Georgia	Germany
Slovenia	Hungary	Greece
<u>Applicant countries</u>	Latvia	The Gulf Cooperation Council
Croatia	Liechtenstein	Hong Kong, China
The Former Yugoslav Republic of Macedonia		
Turkey	Lithuania	Iceland
<u>Potential candidate states and territories</u>	Moldova	Ireland
Albania	Malta	Italy
Bosnia and Herzegovina	Monaco	Japan
Kosovo	Montenegro	The Netherlands
Montenegro	Poland	Luxembourg
Serbia	Romania	Mexico
<u>European Neighbourhood Policy partners</u>	Russia	New Zealand
Armenia	San Marino	Norway
Azerbaijan	Serbia	Portugal
Egypt	Slovakia	Russia
Georgia	Slovenia	Singapore
Israel	The Former Yugoslav Republic of Macedonia	Republic of South Africa
Jordan	Ukraine	Spain
Lebanon	France	Sweden
Libya	The Netherlands	Switzerland
Moldova	<u>Active observer</u>	Turkey
Morocco	Israel (since January 2006)	United Kingdom
Palestine	<u>Regular observer</u>	USA
Tunisia	Canada	<u>Observers</u>
Ukraine	Vatican	China
<u>Other</u>	Japan	India
Turkish Cypriot community	Mexico	Republic of Korea
Russia	USA	<u>FATF Associate Members</u>
	Members of the FATF other than those referred to as members	APG
	FATF	MONEYVAL
	The Secretariat General of the Council of the European Union and the Commission of the European Communities	GAFISUD
	Interpol	
	Federation secretariat	
	IMF	
	UNDCP	
	CTC	
	UN	
	The World Bank	
	EBRD	
	OGBS	
	Egmont Group	
	EAG	



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### Important links

The Ministry of Finance homepage of money laundering: [www.fin.ee/eirahapesule](http://www.fin.ee/eirahapesule)

Financial Supervision Authority: [www.fi.ee](http://www.fi.ee)

The Bank of Estonia: <http://www.bankofestonia.info/pub/et/yldine/pank/eestipank/>

Egmont Group: <http://www.egmontgroup.org/>

FATF: <http://www.fatf-gafi.org>

Moneyval: [www.coe.int/moneyval](http://www.coe.int/moneyval)