

FINANCIAL ANALYTICAL OFFICE



ANNUAL
REPORT
2019

Ladies and Gentlemen, Dear Readers,

In front of you is either a printed or an electronic version the Annual Report of the Financial Analytical Office (FAU), in which we present and evaluate our activities in the year 2019. The FAU was created on 1 January 2017, it is a successor to the Financial Analytical Unit – a Department of the Ministry of Finance, and continues to fulfil the role of the Czech financial Intelligence unit. The Report describes the functioning of the FAU in each area it deals with. In addition to the summary of information on its activities in the past year, the Report also contains information on current development in the area of anti-money laundering and countering terrorist financing (AML/CFT) and the prognosis of their further development in the Czech Republic. The point of view is both from the national as well as international level. The Report also contains an overview of statistical data that complements the information provided.

As the Director of the FAU, I would like to thank all employees of the Financial Analytical Office for the quality of their work and the enthusiasm for it, without which this type of work cannot be managed. The results achieved in 2019, which we present in this Annual Report, are the result of the work of the whole team at the FAU.

The Czech financial intelligence unit has been operating as an independent administrative authority for three years. That is also a point of view worth taken. I would very much like to thank all the so-called obliged entities, especially from the banking sector, for their professional, willing and necessary cooperation, without which the prevention of money laundering and the detection of terrorist financing could not be effectively guaranteed. The initial detection of possible illegal activities in the financial sector is mostly the task of these obliged entities. It is not only about reporting of suspicious transactions, but about qualified and effective cooperation, which has long been on a very high and professional level. The evidence of which is, for example, the significant contribution of the FAU to the preparation of the legislative solution of the so-called BankID project, which allows inter alia to register for online services of the state and regional and local authorities with Internet banking access data. The financial and customs administrations, law enforcement agencies and intelligence services also contributed significantly to the presented results. I hope that the new legislative measures enshrined in the AML Act that are currently being prepared will contribute to the very good results of the Czech AML/CFT system in the following years.

Finally, I would like to emphasize that the work of the Czech financial intelligence unit and the effective fight against money laundering and terrorist financing are virtually impossible without functioning international cooperation. Therefore, I would like to appreciate the very good and continually improving cooperation with our foreign counterparts.

*Libor Kazda
Director of the FAU*

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The Mandate and Role of the FAU

The FAU is one of the nodes of the global financial intelligence units' network.

The Financial Analytical Office (FAU) was established on 1 January 2017 and its activities follow on from its predecessor, the Financial Analytical Unit of the Ministry of Finance, which was established in 1996. As a financial intelligence unit of the Czech Republic, it is part of a network of financial intelligence units worldwide, that started to be established in the early 1990s and have been cooperating since 1997 within the Egmont Group.

Since its inception, the FAU has been the main administrator of measures aimed at preventing and combating money laundering, terrorist financing and the proliferation of weapons of mass destruction in the Czech Republic.

The mandate of the FAU is defined by Act No. 253/2008 Sb., on Selected Measures against the Legalization of Proceeds of Crime and the Financing of Terrorism, as amended (the AML Act) and Act No. 69/2006 Sb., on the Implementation of International Sanctions, as amended. In fulfilling its mandate, the FAU plays several different roles:

- it is a recipient of Suspicious Transactions Reports from so-called obliged entities, which represent a wide range of subjects – e.g. banks, financial institutions, real estate agencies, gambling operators or virtual assets service providers. It analyses the information provided and takes further steps based on the results of the analysis;
- it is responsible for and coordinates the implementation of international sanctions;
- it is a supervisory and administrative body for the fight against money laundering, terrorist financing and international sanctions;
- it is a coordinator of the National Money Laundering and Terrorist Financing Risk Assessment process.

Analytical Work

Financial intelligence would not be possible without a proper, responsible and detailed evaluation of financial transactions and other relevant information related to analysed cases.

The primary task of the FAU is to protect the Czech financial system from being systemically misused for money laundering and terrorist financing. As a regulator, the FAU is fully responsible for the correct setting of the anti-money laundering and counter terrorist financing system (AML/CFT), its efficiency and functionality. The basic pillar of the system is the detection and subsequent analysis of suspicious transactions. The legislator entrusted the area of detection to a wide range of so-called obliged entities, especially banks and other financial institutions, but also to a number of other entities defined by law. The actual analysis and investigation of suspicious transactions is subsequently carried out by the FAU which is, thus, in a position of a guarantor as well as an essential executive member of the entire Czech AML/CFT system. The investigation of reported suspicious transactions by the FAU is the pinnacle of analytical work in the AML/CFT area. The objective is to verify the initial suspicions of obliged entities or other entities, by gathering additional information necessary to decide on further steps. In addition to the basic source of information from obliged entities, provided in near real time, the FAU may further request information from the Czech Police, intelligence services and public authorities, from authorities responsible for tax administration and other legally defined sources. Given the global dimension of the issue entrusted, a large number of cases are also investigated in cooperation with partner foreign financial intelligence units.

3,954

motions for investigation were received by the FAU

471

cases were reported to the Czech Police

CZK

2,269

million was seized

The procedural outcome of the FAU's investigation is primarily a report to the Police, furthermore also the provision of information to the tax administrator or other institutions on the basis of legal authorization and, in the case of an international element, the dissemination of information to a partner financial intelligence unit. When searching for illegal proceeds, the FAU and obliged entities may use a temporary safeguard measure, the purpose of which is to prevent thwarting or substantially complicating the recovery of the proceeds of crime in case of a risk of delay. This legal institution, often referred to as the 'blocking by the FAU', is regulated by Section 20 of the AML Act and is often implemented in practice.

In 2019, the FAU received a total of 3,954 motions for investigation within the meaning of a suspicious transaction. This number, corresponding to the level of 2018, when the FAU received 4,028 motions, confirms the upward trend compared to the previous periods (2017: 3,524, 2016: 2,948).

Subsequent investigation of motions received resulted in 471 reports to the Police. In 299 cases, also the funds were blocked as proceeds of crime. The fact that two-thirds of criminal complaints were accompanied by blocking of funds confirms that efforts to effectively recover proceeds from crime are one of the FAU's priorities.

A total of CZK 2,269 million was seized, which corresponds to the amount seized in 2017 (CZK 2,146 million).

1,901

pieces of information
transferred to the
Financial
Administration

134

pieces of information
transferred to the
Customs
Administration

A very frequent result of the FAU's investigation has been the detection of information relevant to the tax administration. In 2019, a total of 2,035 pieces of information were submitted to the Financial Administration and the Customs Administration, based on suspicion of violating tax or customs regulations. This indicator shows significant contribution of the FAU to the successful tax collection by the tax administration.

In terms of typologies, trends and underlying crime, the most prevalent predictive crimes continue to be various forms of fraud from a simple general fraud to highly sophisticated fraud, characterized by a high degree of professionalism and organization of offenders, furthermore tax offenses, insolvency offenses, crime related to the corruption and drugs sale. The FAU is currently focusing on these trends: pass-through accounts, CEO fraud, investment fraud, virtual currencies, and bank accounts opened on false or stolen identity.

In particular, the issue of pass-through accounts associated with the so-called 'global laundromats', is very topical and complex. This issue does not concern only Czechia. Accounts, through which atypical foreign transfers are made, mostly consisting of forwarding funds as soon as they are credited, have been opening worldwide. Transactions are almost always incoming payments from abroad, which are usually swiftly transferred to other foreign accounts. In a minority of cases, the transfer abroad is made through another Czech account. Individual tranches range in the order of hundreds of thousands to millions of EUR or USD. The owner of the account is usually a company registered abroad or a purposefully established Czech company controlled by a foreigner. The common feature of all these cases is usually the absence of any link to the Czech Republic. However, it cannot be a priori stated that the purpose of each pass-through account is money laundering. Nevertheless, from the AML perspective, there is a certain degree of higher risk. Detection of this type of accounts is the most difficult.

It is almost impossible to reveal this type of account 'in advance'. Although banks fulfil one of their statutory obligations before entering into a business relationship, i.e. they perform customer due diligence (Section 9 of the AML Act), which includes, inter alia, obtaining information on the purpose and intended nature of the business relationship, it is not realistic to expect a client would declare that his/her purpose is to open a pass-through account to execute possibly suspicious transactions. Therefore, the identification of these types of accounts, is in most cases, based on an analysis of their transaction history, which quite logically causes a certain delay.

In terms of efficiency of the system, the most important is to shorten the delay as much as possible. Real-time transaction monitoring would be ideal. However, even the current set-up of the Czech AML/CFT system is able to detect this transaction model very effectively. Thanks to the increased outreach to the banking sector, the FAU receives dozens of suspicious transactions reports related to pass-through accounts including blocking of the transferred funds annually. In many cases, it has also led to the termination of a business relationship.

Last year, the FAU reported to the Police a number of cases (with high-volume of seized funds) with suspected money laundering through pass-through accounts. The creation of a legalization structure has been documented quite clearly and conclusively in these cases. However, it is not always possible to prove the so-called predicate crime, the existence of which is presumed by the Czech Criminal Code for the crime of money laundering. In the course of criminal proceedings, there is often a stalemate in which the law enforcement authorities fail to trace the predicate crime, thus failing to meet all the facts of the crime, and the case must be dropped. A problematic aspect of the money laundering offense is also the low penalty, due to which these cases are unfortunately often referred away from specialized police forces, and also the fact that preparation is not punishable.

CEO Fraud

The fraudster pretends, e.g. in an e-mail message, to be a company's senior manager and requests a payment, or notifies of a future payment request and authorizes it in advance. He/she explains the unusual situation properly so that everything seems credible. Requested payments are often to an account outside Europe which is managed by the fraudster.

Romance Scam

Scammers often use information from dating portals and social networks. Thanks to this information, they precisely target their victims. The scammer pretends to be interested in a love affair. After gaining some trust, the scammer asks for financial support in a currently difficult life situation with a promise of an early reunion or even a life together.

Along with the CEO fraud or investment fraud, which has been a long-standing evergreen, the FAU is currently increasingly investigating a new way of fraudulent behaviour, the so-called 'romance scam' or 'love scam'. This phenomenon does not primarily fall within the scope of anti-money laundering. Nevertheless, since funds are fraudulently drawn abroad from Czech bank accounts, certain cases have also been dealt with by the FAU. Dozens of cases with total damage amounting to tens of millions of CZK are detected every year. Taking into account the probable embarrassment of the injured party, the actual number of cases and the amount of the damage caused will be much higher. The common element of the scam 'story' is usually a temporary grievous situation, mostly of a soldier on a foreign mission (due to medical treatment, tuition for children, etc.), in which he asks for financial assistance from the future victim.

The story is always accentuated by the vision of a common future. A common feature on the other 'side' is the often futile effort by a bank and other people to convince the affected individuals that they are the victims of fraud. Unfortunately, in many cases, recurring payments occur until all lifetime savings are sent. Unfortunately, not only the savings of the injured are sent abroad, but in many cases also funds obtained by a criminal activity to which the people blinded by love resort. The crime usually takes the form of credit fraud in arranging bank or non-bank loans, embezzlement, etc. For example, the FAU dealt with a case where a woman stole funds from accounts of dozens of people to which she had access as their guardian and sent these funds to her fictitious fiancé.



Terrorist Financing

Detection of this, in terms of its potential impact, very serious crime is difficult, because it often involves small amounts of money from a legal source.

In 2019, the FAU analysed 93 reports concerning suspected terrorist financing, coming from both obliged entities and partner organizations active in the field of counter-terrorism. The FAU participated in media-known cases. Based on our analysis, the increase compared to the number of cases in 2018 cannot be attributed to an increasing number of suspicious activities domestically, but rather to a growing number of entities actively participating in the

detection of this behaviour, as well as to better-aimed reporting by actively cooperating obliged entities. In terms of the composition of cases, most of them were related to religious (jihadist) terrorism. However, there have also been cases of right-wing terrorism. As far as entities are concerned, cases involving individuals and fragmentary payments predominated over cases involving legal entities and sophisticated transaction schemes.

In 2019, the FAU also noted an increasing trend in international cooperation and information exchange in the field of countering terrorist financing.



International Cooperation

The crime does not recognize borders. If we do not want to lag behind, borders should not be an obstacle for us.

In 2019 as well as in previous years, most cases of money laundering included an international element, which very often consisted of cross-border transactions. Perpetrators have been using the modern banking system or other payment systems for rapid transfers of funds abroad, or have been transferring criminally acquired assets in another similar way abroad, especially to countries applying insufficient anti-money laundering measures.

There have also been a number of cases where perpetrators involved in this type of crime were foreigners or established foreign legal entities that were subsequently involved in money laundering.

From the point of view of the operational exchange of information with foreign financial intelligence units, 2019 was a year of significant improvement in the quality of disseminated information. This is mainly the result of legislative pressure within the European Union and also the result of long-term efforts of international groups active in the international cooperation in the area of AML (Egmont Group of Financial Intelligence Units, FATF, Moneyval and others).

Foreign FIUs sent

423

**requests for
information**

FAU sent

284

**requests for
information to
foreign FIUs**

At the international level, there has been an increase in the number of FIUs which, according to their legislative framework, are able – as well as the FAU – to provide their foreign counterparts with the same range of information as they use for their own analysis, including financial and tax information. The information exchange primarily comprises financial information, data on beneficial owners, information from databases of law enforcement authorities, copies of documents obtained during the customer due diligence, information from the Commercial Register including links between legal persons and individuals, data on property ownership and others relevant information. During 2019, the temporary blocking of funds was used more frequently in the framework of international cooperation, both domestically at the request of a foreign financial intelligence unit and abroad, at the request of the FAU.

In 2019, the FAU participated in several major multilateral cases under the umbrella of a foreign financial intelligence unit or the Europol. This type of cooperation should become a common practice in the future.

The international cooperation in specific cases (operational international cooperation) can be regarded as very good and effective, which is also evidenced by the highly positive evaluation by the Council of Europe Moneyval Committee.

FAU received

379

**spontaneous
dissemination of
information from
foreign FIUs**

FAU made

488

**spontaneous
disseminations
to foreign FIUs**

Prognosis of Further Developments in the Area of Anti-Money Laundering and Countering Terrorist Financing

What can we expect, what should we prepare for? Based on the current knowledge and experience, the FAU introduces the trends in predicate crime.

The analysis of cases investigated by the FAU in 2019 has indicated that in 2020 important predicate crimes for subsequent money laundering will continue to be:

- **various forms of fraud, including in particular:**
 - CEO fraud – a sham bank account change in order to collect an invoiced amount, including unauthorized access to the victim’s IT resources;
 - fraud related to the sale of goods via the Internet on advertising portals and e-shops;
 - investment fraud (including investments in foreign currencies, virtual currencies and e.g. luxury alcohol) including corporate bond fraud;
 - so-called ‘romance scam’ – abusing methods of social engineering, typically abuse of trust and elicitation of funds under feigned interest in establishing a relationship, where the perpetrator pretends to be e.g. a soldier on a foreign mission, or a woman seeking a relationship with an individual from Czechia.

- tax crime including foreign**
- unauthorized access to online banking with subsequent withdrawal of funds from the account**

In terms of the forms of legalization of proceeds of crime, the trends detected in previous years are expected to continue. The case most likely will be:

- misuse of Czech business bank accounts as pass-through accounts for cross-border transfers of funds obtained by crime domestically and abroad;**
- investment of proceeds of crime committed in Czechia and abroad into domestic real estate;**
- misuse of purchase of cryptocurrencies, e-payment gateways and e-wallets;**
- misuse of bank accounts based on a false or stolen identity, especially with respect to bank accounts opened online via so-called remote or non-face-to-face identification, such accounts also begin to show elements of sophisticated chaining of groups of linked fraudulent accounts;**
- abuse of services offered by small-scale payment services providers;**
- mingling the proceeds of crime with legal business;**
- misuse of cash transactions.**



Never-ending Stories

During analysis and investigation, we encounter different stories written by the life itself. We would like to present some of them as part of our outreach and awareness-raising.

Turkish Romance with 'an American Soldier'

The FAU received information that a female customer of a domestic bank had tried to send CZK 300,000 to an account owned by a man with an English name held with a Turkish bank. Subsequent investigation revealed that large incoming payments from dozens of individuals were credited to the Czech account. The woman, owner of the account, drew several loans totalling almost CZK 700,000 and sent larger sums of money to Turkey in the recent past.

A post at social networks was shared in which an eight-year-old boy with an English name asked for financial help for himself, his sister and his father, because they were all very ill and their mother had already succumbed to a serious illness. The boy stated an account number with the Czech bank, which was the same as the account under investigation.

Individuals who 'provided' money to the Czech account had one thing in common – they were all clients of a nursing home and their custodian was the woman, who owned the investigated Czech account. In order to eradicate the suspicion, she apparently submitted counterfeit documents to demonstrate to the bank her justification of the payments received.

The woman sent more than CZK 2 million abroad, of which more than CZK 1.5 million belonged to the nursing home's clients. Her reason would be for many people completely incomprehensible. The woman had met online an alleged American soldier. The remote romance was promising only until a 'mean general' appeared, who did not want to let the 'soldier' visit Czechia to merry until the soldier would pay all his obligations to the army. So the woman sent money to Turkey. But then the 'soldier' paused, and the woman was told by a US detective agency that she had been tricked by a fraudster, and that for only EUR 12,500 the agency could put things right and return her stolen money. The woman sent the requested amount, but of course, nothing happened. After some time the woman received further information, this time from the 'United Nations', that she had been tricked twice, but if she would pay another thousands of euros, everything would turn out well. The woman did not hesitate again and sent the money.

The FAU reported to the Police a suspected Embezzlement under Section 206 of the Penal Code, Fraud under Section 209 of the Penal Code and Credit Fraud under Section 211 of the Penal Code. The FAU managed to seize funds in the amount of CZK 388,740.

Perpetrators Collected Millions under the Cover of Foreign Development Projects

Two persons from the former Soviet Union bought each one limited liability company based in the Czech Republic and entered into a purpose-built business relationship. They offered for sale bonds with a yield of 20% to 30%, with an annual yield payment, advances of interest yield as agreed or the possibility of regular repayments during the investment. Their website tried to give a credible impression that the money would be invested in foreign development projects. Although the promised annual yield was unusually high and therefore suspicious, a number of individuals concluded contracts with the two companies and sent them about CZK 20 million. Some of the 'investors' initially received an 'advance on interest yield' which created the impression of adherence to the conditions under which the bonds were issued.

Company executives collected the money received in cash, paid one another for alleged loans and transferred funds to other accounts of individuals from the former Soviet Union. In this way they have drained all the funds received. The Financial Analytical Office reported to the Police a suspected Fraud under Section 209 of the Criminal Code.

Lawyers Organized Money Laundering

Professional money laundering is one of the most dangerous forms of this illegal activity. Individuals involved in such an activity may not know the predictive crime that generates dirty money, but their knowledge of the illegal origin of money is always evident. Their main task is 'just' to put the money through the wash cycle and at the end deliver it with a hallmark of legality.

The FAU analysed a case that was all the more serious because professional money laundering was provided by legal professionals who were part of an organized group. The laundering scheme in this case was used repeatedly and with some variations for a long time. The people involved cooperated at the international level and, as part of the services provided, participated in the establishment of the companies concerned, opening and operating bank accounts, acted as statutory representatives, and, last but not least, produced fictitious paper documentation that accompanied and justified money transfers. Accounts of different business corporations established in the Czechia and abroad (including offshore destinations) served for transfers of dirty money. The common feature of these entities was that they were 'shell' companies with fictitious seats that in fact did not carry out any economic activity and whose accounts served to legalize the proceeds of crime. Links among these entities were also obvious.

Funds in orders of millions of EUR were legalized during more than one year. The FAU seized funds amounting to CZK 8 million and reported a suspicion of committing the offense of Legalization of Proceeds of Crime under Section 216 of the Criminal Code.

Organized Group Made Cash Withdrawals of More than CZK 150 Million

Investigations of the Financial Analytical Office revealed that an entity, which was a commercial representative of a small-scale payment service provider, was controlled by an organized group of individuals, mainly from the former Soviet Union, who had carried out other extensive activities in Czechia through Czech business corporations. They were mainly running an employment agency focusing on the employment of foreigners in Czechia and related services through which the identities of workers were subsequently obtained and misused for criminal activity.

The money laundering process also involved the use of business corporations with a non-transparent ownership structure, which in fact did not carry out any economic activity, and their main task was to disguise the origin of the funds. The analysis revealed that this group made cash withdrawals totalling more than CZK 150 million. Funds gained from tax crime and fraud were used to purchase real estate, vehicles and for personal consumption.

The FAU reported a suspicion of crimes of Evasion of Taxes, Fees and Similar Compulsory Payments under Section 240 of the Penal Code, Fraud under Section 209 of the Penal Code, Distortion of Data on Status of Management and Assets under Section 254 of the Penal Code, Illicit Employment of Foreigners under Section 342 of the Criminal Code and Assisting in Unauthorised Stay in the Territory of the Czech Republic pursuant to Section 341 of the Criminal Code.

Money from Drugs Ended Up in a Czech Bank Account

The FAU received an urgent request from a foreign FIU regarding persons and companies being investigated as an organized group abroad in connection with the particularly serious crime of illicit medication distribution, drug production and distribution and money laundering. Psychotropic drugs were obtained illegally from pharmacies abroad. The drugs were distributed to other entities in different countries from where they were likely to reach end users. Based on these facts, funds of the entities were blocked in bank accounts abroad. A part of the proceeds of this crime was transferred to a bank account in the Czech Republic.

The Financial Analytical Office blocked the total amount of PLN 320 thousand (almost CZK 2 million) and reported a suspicion of a Legalization of Proceeds of Crime under Section 216 of the Criminal Code.

International Organized Group Lost More than EUR 1,200,000 in the Czech Republic

Investigations of the Financial Analytical Office revealed a chain of personally interconnected companies, both Czech and foreign, controlled exclusively by foreign nationals. The companies had accounts with a Czech bank and used only USD and EUR for transactions.

The companies declared that they were engaged in consulting, infrastructure support in various markets and other activities that had no real basis. Representatives of the companies substantiated these claims with documents that had elements of fictitious and purpose-built documents, e.g. declared goods did not exist, were not transported, etc. The submitted contracts were always signed by one person, for both contract parties. Furthermore, it was found that, apparently in order to disguise the origin of funds and to make tracing of assets more difficult, the company names were repeatedly given with altered identification data, e.g. a slightly altered company name, 'mistake' in a registration number or company address, etc.

The funds were also transferred to accounts abroad, which were controlled by the same persons. Many of the payments credited to the investigated accounts were identified as fraudulent payments. The Financial Analytical Office suspected a possible legalization of proceeds of crime, for which an ex-ante prepared personally interconnected group of people overlapping abroad, was used. 'Shell' companies, created exclusively to disguise the origin of funds, were set up for this international group in Czechia. Due to serious suspicion of widespread organized crime with a strong international dimension, the Financial Analytical Office has seized funds exceeding EUR 1,200,000 and has reported the crime to the Police.

Luxury Vehicles Raced Along Croatian Roads

An organized group of Croatian citizens created a structure of Czech and foreign companies that traded in luxury cars. Luxury vehicles were acquired in EU countries, especially in Czechia, and were subsequently sold abroad, especially to Croatia.

The investigation revealed that Czech companies, which had almost no employees, registered a large number of luxury vehicles, mostly operating in Croatia.

The Financial Analytical Office forwarded the information to the Czech law enforcement authorities and to competent authorities in Croatia. By its activities the organized group evaded VAT in the amount of at least CZK 100 million. A joint action by Czech, Croatian and German authorities resulted in accusation of several people.

Hackers Moved EUR 1 Million from Abroad to Czechia

The FAU conducted an investigation in connection to a case where information provided by a foreign FIU showed that a hacker attack occurred on one of the EU banking houses resulting in the theft of funds. Some of the stolen money ended up in Czech bank accounts. These funds amounted to approximately EUR 1 million.

The analysis of these accounts revealed that the funds were further transferred among Czech bank accounts. Thanks to the rapid sharing of information between partner financial intelligence units, the

Financial Analytical Office was able to map individual flows and seize all funds transferred from the contested foreign accounts to Czech bank accounts.

Fictitious Invoices Were Supposed to Ensure Fabulous Wealth

The Financial Analytical Office conducted an investigation to detect the proceeds of crime following a suspicion of a crime of Harming the Financial Interests of the European Union pursuant to Section 260 of the Criminal Code with damage exceeding CZK 200 million. The perpetrators included fictitious invoices for the supply of machines in the costs of the beneficiary of a subsidy. The invoices were deliberately overestimated.

The FAU managed to track down large financial assets exceeding CZK 130 million which were seized in cooperation with the Czech Police.

Tens of Millions of Crowns Fraudulently Lured

The Financial Analytical Office detected suspicious practices of foreign individuals and companies in a long-term transaction activity on domestic accounts. The practices consisted in fraudulent luring of funds from Czech as well as foreign individuals through Internet-based investments in so-called forex trades. The providers did not have the relevant notification of the Czech National Bank to operate in the Czech Republic.

By purposeful manipulation, the perpetrators coerced investors to enter into risky investment contracts and related disadvantageous investments (using for example financial leverage, coercive calls and other unauthorized instruments). The perpetrators then lured in an organized and targeted way funds from the investors and subsequently deprived them of part or all of their funds.

To prevent this practice, the Financial Analytical Office reported to the Police a suspected Fraud under Section 209 of the Criminal Code and Legalization of Proceeds of Crime under Section 216 of the Criminal Code and seized funds in the accounts of potential perpetrators totalling CZK 182 million.

Russian Organized Group Wanted to 'Launder' Over CZK 3 Billion

The FAU investigated accounts of an individual of Russian nationality where high incoming payments were detected. The investigation revealed that the source of these funds were transactions taking place in chains of dozens of different domestic accounts of offshore companies trading in electronics and textiles. Payments were forwarded as loans to the account of the examined individual, who either used or forwarded the funds to foreign accounts within EU.

The predicate crime was identified in cooperation with the Russian FIU. In the long run, an organized group wanted to launder dirty money in Europe of up to CZK 3.5 billion, generated by tax evasion.

The FAU reported a suspicion of committing the crime of Legalization of Proceeds of Crime under Section 216 of the Criminal Code and seized funds in the amount of CZK 73 million.

The Islamic State Used Czech Accounts via Dummy Companies

The FAU participated in a large-scale international investigation to identify entities involved in the financing and support of terroristic activities of the Islamic State.

The typology under review included a model where the Islamic State conducted cash deposits to Turkish banks, either in the form of large amounts of cash smuggled across the border with Iraq or Syria, or through cash deposits to exchange offices in the United Arab Emirates. The funds were subsequently transferred to Turkish accounts of front companies. These funds were then disbursed through accounts of several other companies. In the last part of the chain, the funds went to accounts of companies that bought various electronics (including drones) in China or Hong Kong, which were subsequently delivered by land to areas controlled by the Islamic State in Syria.

This monitoring identified two Turkish companies established in 2016 by a Syrian citizen, as well as four entities holding bank accounts in Czechia.

The Czech accounts belonged to companies engaged in either international forex trading or international payment brokerage. In addition, for some of them, negative information regarding fraudulent business practices was found in open sources. The information obtained was provided to FIUs abroad and to domestic security forces.

Transaction Was Carried Out by a Suspected Terrorist

On the basis of information in the media concerning an individual who was detained and investigated by Italian security forces on the basis of suspicion of activities in favour of a local criminal group and cells supporting the financing of the Islamist terrorist organization al-Nusra Front, investigations were conducted of Czech financial market entities. As a result, it was established that the individual had previously made payments abroad using a domestic payment service provider.

Information was provided to foreign partners and domestic security forces.

Money Mule Transferred Funds to Vietnam and China

A company signed a contract with a banking institution on the use of currency conversion services and foreign payment services. Subsequently, the company's statutory representative deposited the relevant amount in cash and placed foreign currency payment orders in the volume of tens of thousands of USD directed to accounts of individuals and legal entities in Vietnam and China.

In the past, the statutory representative worked for two other companies that had VAT arrears and

records of distraint. Based on the results of further investigation, the Financial Analytical Office concluded that the statutory representative could be a so-called money mule appointed to troubled companies (they are in danger of distraint, have tax arrears, are in default, etc.)

The Financial Analytical Office seized funds in the company's account of approximately CZK 3 million and reported a suspicion of a Legalization of Proceeds of Crime under Section 216 of the Criminal Code.

Misuse of Cryptocurrency

The Financial Analytical Office noticed a continuing trend of so-called 'ICO fraud', i.e. publicly and privately offered new cryptocurrency issues based on fraudulent projects aimed at luring funds from investors.

Non-cash foreign payments in the order of tens of thousands of EUR were credited to the domestic foreign exchange bank account of a foreigner, denominated by the name of a project, an investment package in fact, which according to available sources was related to the issue of foreign cryptocurrency 'TwoCoin' and related products (services and goods).

In open sources, a link between the Czech account holder and responsible persons of the 'TwoCoin' project, who were facing criminal prosecution abroad, was detected. The account holder initially provided misleading information to clarify the source of funds on the account but subsequently de facto admitted the link to the project.

A negative piece of information in public sources both on the issued cryptocurrency and, in particular, on its unrealistic appreciation was another, although indirect, evidence of the fraudulent scheme. The project scheme is referred to as 'MLM', i.e. multi-level marketing, based on the Ponzi scheme.

Based on the ascertained facts, the Financial Analytical Office seized the balance of the foreign owner's foreign exchange account in the order of hundreds of thousands of EUR and reported a suspicion of Fraud under Section 209 of the Criminal Code and Legalization of Proceeds of Crime under Section 216 of the Criminal Code.

Multi-level Marketing (MLM)

Multi-level marketing, where sellers (distributors) are rewarded not only for the goods sold, but also for the sale of goods of the sellers they brought to the system. The primary source of finance is a service or product. The so-called pyramid or Ponzi scheme is based on a similar principle, but the difference is that the main source of funds is the entry fees of new members, sellers of this system.

Ponzi Scheme

Based on attractive advertisements, investors are presented with information on advantageous investments with unrivalled profits. But the fraudsters do not invest the collected money anywhere. They will keep most of them to themselves and to the lucky ones who came to the system first. The only source of income is therefore investors' deposits. The scheme is named after an Italian con man operating in the United States around 1920.

Theft of Cryptocurrency Worth Several Tens of Millions of Euros

A domestic company maintaining for its clients internal payment sub-accounts in its Core Banking System in both traditional fiat currencies and cryptocurrencies BitCoin (BTC) and Ether (ETH), detected inbound cryptocurrency transactions in BTC on its foreign clients' accounts. The client exchanged BTC to EUR through an internal application and remitted the funds to his other foreign bank accounts.

Using an internal BTC blockchain analysis tool, the company found that the BTC payments received are proceeds from crime and come from theft of cryptocurrency of several tens of millions of euros from a foreign cryptocurrency exchange.

Based on the ascertained facts, the Financial Analytical Office seized the balances of the client's internal payment sub-accounts in both BTC and EUR and reported to the Police a crime of Legalization of Proceeds of Crime under Section 216 of the Criminal Code.

Fiat Money

It is the type of money issued by the government of each state. The currency is regulated by a central body - the central bank. This currency also serves as legal tender. Nowadays, it is no longer necessarily backed by a physical good. Fiat currencies are referred to as 'money with forced circulation'.

International Activities and Legislative Work

Money laundering is an international phenomenon for the effective prevention of which the broadest possible consent on international standards is important. These standards should be widely accepted and respected.

In 2019, the main task of the Financial Analytical Office in the legislative area, as well as the main challenge, was to prepare an amendment to the AML Act and related legislation. The key impetus initiating the legislative work was the adoption of Directive (EU) 2018/843 of the

European Parliament and of the Council of 30 May 2018 amending Directive 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU ('the 5th AML Directive'). The amendment reflects both the requirements of the 5th and partly the 4th AML Directive as well as the Moneyval Committee recommendations set out in the Fifth Round Mutual Evaluation Report on the Czech Republic in the area of anti-money laundering and countering terrorist financing and last but not least, also requirements arising from the application of the AML Act in practice.

The most important changes that this amendment will bring, is the expansion of the range of obliged entities, especially in the area of real estate trade and trade of fine art. Furthermore, a trustee will be explicitly designated as an obliged entity. Changes affecting all obliged entities were made especially in the provisions related to the customer due diligence, namely the introduction of the legal institution of enhanced customer due diligence and extension of the possibility of non-face-to-face identification for all types of obliged entities. With regard to the ongoing computerization of state administration, the possibility of electronic identification of a customer will be introduced.

The Czech Republic has long been criticized for failing to impose sufficiently high and dissuasive penalties for violation of obligations under the AML Act. In response to this criticism, the amendment will significantly change the section on offenses. In addition to increasing financial penalties, new penalties will also be introduced.

Substantial change will also be a new law dedicated specifically to the beneficial ownership issue. Currently, all legal entities registered in one of the public registers and all trusts registered in the register of trusts are obliged to enter their beneficial owner in the register of beneficial owners. Given the fact that this obligation does not apply only to obliged entities under the AML Act, but to all the above mentioned legal entities and trusts, and thus exceeds the scope of the AML Act, a draft law on the register of beneficial owners was created under the responsibility of the Ministry of Justice. A novelty in this context is also the proposed 'opening' of the register of beneficial owners to the public, where, in accordance with the requirements of the 5th AML Directive, everyone will be able to consult this register and obtain information on the beneficial owners to the extent defined by law.

The amendment to the AML Act and related legislation, and the draft law on the register of beneficial owners were submitted to the Czech Government in December 2019. It is expected that they will become valid and effective in 2020.

Protection of personal data during performance of activities of an obliged entity was explicitly stipulated in the AML Act by Act No. 111/2019 Sb., amending certain acts in connection with the adoption of the Act on the Processing of Personal Data, dated 12 March 2019, effective since 24 April 2019. The AML Act thus newly establishes a clear legal title for the processing of personal data by obliged entities under this Act – the fulfilment of a statutory obligation. The AML Act states that the obliged entity processes personal data to the extent necessary for the fulfilment of obligations under this Act and provides its customer with relevant information about such processing before establishing a business relationship or carrying-out a one-off transaction. The adopted legislation also regulates the processing of personal data by the Financial Analytical Office.

In December 2019, the Czech Republic underwent an evaluation of its anti-money laundering and counter-terrorist financing measures by the European Commission. The evaluation took place in Prague on 11-13 December and focused on the assessment of the implementation of the Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC ('the 4th AML Directive') into Czech legal order. Furthermore, the evaluation focused on assessing the effective and efficient application of this Directive in practice, by public authorities and institutions involved in combating money laundering and terrorist financing, and by obliged entities. On the basis of the meetings held in Prague, members of the evaluation delegation drew up an evaluation report which, once finalized, will be submitted to the European Commission and will serve as a basis for a report to the European Parliament on the implementation of the 4th AML Directive by all Member States.

In 2019, representatives of the FAU participated in lectures in approximately five dozen workshops and seminars focused on legislative and practical issues of the system of combating money laundering and terrorist financing organized for various types of obliged entities.

Evaluation of the Czech Republic by the Moneyval Committee

*On the Way to Fulfil the Recommendations from the 5th Round
of the Moneyval Evaluation*

In February 2019, the Council of Europe Moneyval Committee published its Report from the 5th round of evaluation of the Czech Republic. The Report is the result of an assessment of measures in the area of fight against money laundering and terrorist financing to the extent defined in the 2012 Financial Action Task Force (FATF) Recommendations. The FAU is in charge of coordination of evaluation and heads the Czech delegation to the Committee. The work did not end with the adoption of the Report, but it has rather begun. The Committee made a number of recommendations to the Czech Republic which have had to be considered and which should be adequately met within the set deadlines. Czechia was included in an enhanced process of assessing the implementation of recommendations following its own evaluation.

In order to fully support all involved ministries and to set clear obligations and deadlines for meeting these recommendations, the FAU, in cooperation with other ministries, prepared an Action Plan for the Fulfilment of Recommendations from the 5th Round of Mutual Evaluation of the Czech Republic in the Area of Countering Money Laundering and Terrorist Financing. The aim of the Action Plan was to map shortcomings in selected areas, to determine how these shortcomings should be effectively remedied, and to propose a procedure, timeframe and department responsible for the actual implementation of remedial measures.

Mutual Evaluation Report of the Czech Republic

The Financial Analytical Office published a summary of the Mutual Evaluation Report on its website on 11 February 2019 with a [link to its full text](#).

The Action Plan contains concrete measures, both legislative and non-legislative, to be taken. Measures of a legislative nature can only be implemented in the form of an amendment to an Act; non-legislative measures involve a whole range of outputs, such as formalization of a

working group, development of a methodology or revision of a risk-based approach to supervision activities. The above-mentioned amendment to the AML Act addresses, in addition to the implementation of the 5th AML Directive, a number of shortcomings detected during the Moneyval evaluation. These include the introduction of enhanced customer due diligence, the introduction of an obligation to keep up-to-date information obtained during customer due diligence, an explicit requirement to understand the nature of the customer's business, but also an increase in fines that can be imposed for breaches of the AML Act.

In addition to the AML Act, changes will also affect the functioning of the register of beneficial owners. It was recommended to introduce penalties for non-compliance with the obligation to provide accurate and up-to-date information to the register.

Among the non-legislative measures, it was necessary to establish a formal group for the implementation of international sanctions at national level, to prepare a methodology for listing on and de-listing from a sanction list and also to assess risks of money-laundering and terrorist financing of the non-profit sector. This and a number of other measures contained in the Action Plan were submitted to the Government for discussion and adopted as Resolution No. 488 on 8 July 2019. By the end of 2019, the Czech Republic received questionnaires on the progress made in the year following the adoption of the evaluation Report. The evaluation of our efforts will be the subject of the Moneyval plenary session in June 2020.

MONEYVAL Committee of the Council of Europe

An independent monitoring and evaluation body of the Council of Europe, established in 1997. Its members are non-FATF member states of the Council of Europe, Russia (which is also a member of the FATF), the Vatican City State, Guernsey, Jersey, the Isle of Man and Gibraltar and two FATF member states appointed by the FATF Bureau.

The Czech delegation to Moneyval has three permanent members, one each from the Financial Analytical Office, the Ministry of Justice and the Czech National Bank. The head of the Czech delegation is a representative of the Financial Analytical Office. Moneyval, in accordance with the FATF Methodology, conducts so-called Mutual Evaluations of its member states. During the Mutual Evaluation, experts from five countries evaluate the AML/CFT system of the selected country to the extent defined by the FATF Recommendations, especially the effectiveness of the system in practice. The evaluators visit, within two weeks, all public authorities and institutions involved in the AML/CFT area, non-profit organizations and selected entities obliged to report suspicious transactions to the FIU. The Czech Republic has already completed five rounds of such evaluation.



Money Laundering and Terrorist Financing Risk Assessment

Nemo Solus Satis Sapit. (Titus Maccius Plautus)
No person can be wise enough on his or her own

The national assessment of the risks of money laundering and terrorist financing is an extensive and periodic process that covers all relevant aspects of preventing and combating money laundering and terrorist financing, from customer due diligence to criminal conviction. The objective of the national risk assessment process, in cooperation with all stakeholders, is to identify and evaluate the risks of money laundering and terrorist financing and to draft a report on it.

The process is coordinated by the Financial Analytical Office and is governed by the applicable FATF Methodology, the AML Directive and the AML Act. All relevant public authorities are involved in the process, including AML supervisors, law enforcement authorities, the Financial Administration, the Customs Administration and relevant sectoral and substantive regulators, ministries, etc. The extent to which stakeholders are involved reflects the scale of the process itself. Furthermore, representatives of private sector, i.e. obliged entities and their associations, and newly also non-governmental organizations will take part in the process.

During 2019, the FAU, in cooperation with relevant ministries, identified sixty-six sub-processes that need to be addressed in the national risk assessment. Initial consultations with contact persons (a hundred and forty public and private contact persons in total) were carried out on all sub-processes and agreement was reached on the objectives and specific methodologies. Work has already begun on most sub-processes. The FAU has been collaborating most intensively with law enforcement authorities on the flagship sub-process regarding threats. Outputs from the threat identification and assessment must be reflected in other ongoing sub-processes.

The second round of national risk assessment also builds on the reflection of the international Moneyval evaluation. Moneyval described the first round as a transparent and realistic analysis, but highlighted some other topics that need further work. The second round must therefore be enriched with other topics that emerged from the Moneyval evaluation, the supra-national risk assessment (carried out by the European Commission) as well as the amendment to the 4th AML Directive.

The FAU also strives to make the second round NRA report better arranged and thus more beneficial, especially for obliged entities.



International Sanctions

Restrictive measures are used by the international community as a tool to maintain or restore international peace and security, to protect fundamental human rights and to fight terrorism. It is not a punishment, but rather a set of various tools aimed at discouraging the originator of an undesirable situation from the actions that led to the initial introduction of restrictive measures.

The year 2019 did not bring fundamental changes to the agenda of national implementation of international sanctions. While the most severe sanctions against North Korea, the Russian Federation, Syria and Iran were renewed without major updates, more fundamental changes were made in less complex sanction measures. In June 2019, the European Union, after less than a year, lifted its autonomous sanctions against the Maldives. On the other hand, in October 2019, the EU introduced completely new sanctions against Nicaragua due to the deterioration of the human rights situation in this Central American state. In November 2019, EU sanctions were imposed on Turkey in respect of its unauthorized drilling operations in the Eastern Mediterranean. For the rest of 2019, the annexes of the two new regimes which should list persons, entities and bodies against which the sanctions were to be applied, remained empty, thus having no one to impose sanctions on. The FAU regularly informed on its website of all important changes in relation to the national implementation of international sanctions.

During 2019, as part of international activities in the area of international sanctions, representatives of the FAU participated in four meetings of the Sanctions formation of the EU RELEX Council Working Group in Brussels. The so-called RELEX/Sanction deals with specific problems in the national implementation of international sanctions in individual Member States.

Last year, the FAU issued a total of 44 written opinions on the practical implementation of international sanctions and, as part of cooperation with other public authorities, provided 22 statements on specific cases of business cooperation with persons and entities in territories affected by international sanctions. In addition, the FAU's employees provided countless telephone consultations, usually to companies and other business entities on their upcoming or ongoing business cases related to potentially problematic areas of the world. Representatives of the FAU also regularly attended meetings with other state bodies responsible for monitoring compliance with the international obligations of the Czech Republic in the area of export of controlled items of goods and technologies under international control regimes.

In 2019, in the area of administrative agenda in the field of international sanctions, the FAU did not conduct any proceedings for granting an exemption from international sanctions, as it did not receive any request for exemption and the FAU itself did not find it necessary to decide on any exemption from international sanctions. Nor did the FAU conduct any proceedings or impose any fine for breach of international sanctions. Measures taken in the past relating to the assets of two listed natural persons, citizen of the Russian Federation and Ukraine, in connection with the misappropriation of Ukrainian state funds and with activities that undermine or threaten the territorial integrity, sovereignty and independence of Ukraine continued to be in effect in the form of freezing of assets located in Czechia.

In 2019, as in previous years, representatives of the FAU also lectured on events organized primarily for the professional public and focused on the possibilities of business cooperation with territories affected by international sanctions. At the end of 2019, on the recommendation of the Moneyval evaluation mission, the FAU, together with the Ministry of Foreign Affairs, undertook organizational steps towards the establishment of a new Inter-Agency Coordination Group for the Implementation of International Sanctions in the Czech Republic at the beginning of 2020.



Supervisory Activity

The essence and purpose of supervision is not just to wait for a misdemeanour and then apply sanctions. The FAU also works as a coach who alerts to mistakes and shows the right direction.

The FAU's supervisory activity is performed pursuant to Section 35 of the AML Act by the Supervisory Department which is a part of the Legal Division. The basic pillars of the supervision are the oversight of obliged entities and the conduct of administrative proceedings. An important part of our activities is also the evaluation of Systems of Internal Principles of obliged entities, which must be sent to the FAU pursuant to Section 21 (6) of the AML Act. The supervisory activities are guided, in particular, by provisions of the AML Act, the Inspection Code, the Act on Transgressions Liability and Proceedings thereon, the Administrative Code, the Act on Implementation of International Sanctions and the Judicial Administrative Code.

The principal document for the performance of supervision of obliged entities was the 2019 Inspection Plan. The Plan is based on the Instruction of the Director of the FAU dated 13 October 2017 on the Performance of Supervisory Activities and Compilation of the Yearly Inspection Plan (hereinafter 'the Instruction') and a risk-based approach that takes into account sectoral and product risks, distribution channel risks, risks specific for certain obliged entities and security-related risks. Furthermore, specific knowledge in the area of the fight against money laundering and terrorist financing gained from motions to perform an inspection was taken into account. The 2019 Inspection Plan included, in particular, banks, payment institutions, small-scale payment service providers, small-scale e-money issuers, persons authorized to trade in used goods, persons authorized to trade in items of cultural heritage, accountants, exchange offices and gambling operators. In accordance with the aforementioned Instruction, systemic inspections (i.e. inspections performed on a larger number of obliged entities of the same type) were included. For the year 2019, the FAU

selected virtual assets services providers, because, since 1 January 2017, they have newly become obliged entities.

In order to ensure that obliged entities are not burdened by more inspections at a time, the FAU cooperates on the compilation of the Inspection Plan with other supervisory authorities referred to in Section 35 of the AML Act. Information on planned and ad hoc inspections is regularly shared especially with the Czech National Bank. Findings from inspections that can be useful to other supervisory authorities are routinely transmitted.

In 2019, 15 inspections and 12 inspection purchases were planned. The number of inspections is planned taking into account other obligations of inspectors, in particular, the assessment of Systems of Internal Principles and transgression proceedings which are initiated when violations of obligations under the AML Act are detected. It was not possible to carry out all the inspections planned for 2019, because of the increase in the number of motions to perform an inspection that the Supervisory Department received during the year, and on which inspectors have been focusing primarily.

In 2019, 15 inspections were initiated. One inspections of a bank was carried out in cooperation with the Czech National Bank and was very comprehensive and time-consuming. This might be the reason why the number of inspections decreased compared to 2018. However, this decrease is acceptable. The most frequently audited entities in 2019 were obliged entities referred to in Section 2 (b) 5 of the AML Act (payment institutions, small-scale payment service providers and e-money issuers), which were 7 in total.

As in previous years, exchange offices were checked in the form of inspection purchases, with 12 inspections carried out last year. The number of inspection purchases made in 2019 corresponds to the number of inspection purchases made in 2018. Compared to 2016 and 2017, the number is reduced, nevertheless, it was a targeted reduction. In 2016 and 2017, exchange offices were inspected across the whole country, while in 2018 and 2019 only those obliged entities were included in the sample of audited exchange offices, where, in the past, supervisory authorities found a lack of compliance with the obligations stipulated by the AML Act. The aim of the subsequent inspection purchases was thus to verify the functionality of the measures taken by the obliged entities after preceding inspections and transgression proceedings. In terms compliance with AML obligations, there was a significant progress. Errors were detected in only three cases out of the 12 inspection purchases.

27

inspections of obliged entities were performed

91

Systems of Internal Principles were checked

Fines amounting to

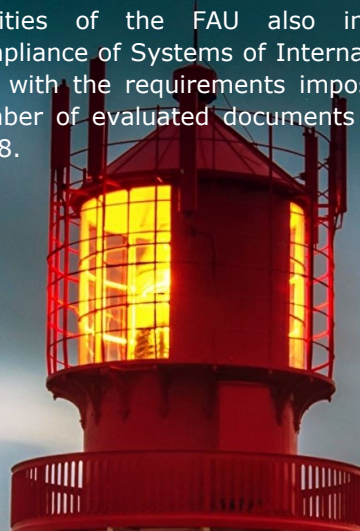
CZK 1.950

million were imposed

Although the number of inspections was lower than in previous years, the number of administrative proceedings remained almost unchanged. In 2019, the highest fine was imposed to a virtual assets service provider and amounted to CZK 300,000. There were two cases of breach of notification obligations under Section 46 of the AML Act which the FAU considers as the most serious breach of obligations in the field of prevention of legalization of proceeds of crime and terrorist financing. However, the most frequent offense remains the failure to fulfil the customer due diligence obligations pursuant to Section 44 of the AML Act, which was detected in 9 cases.

In the course of 2019, the Supervisory Department also submitted one motion to perform an inspection to a foreign FIU and two motions were transferred to the FAU Analytical Department for investigation.

Supervisory activities of the FAU also include the assessment of compliance of Systems of Internal Principles of obliged entities with the requirements imposed by the AML Act. The number of evaluated documents in 2019 is comparable to 2018.





On the Same Frequency

Through various media tools, the FAU ensures that all those who are interested receive information relevant for their activities.

Fighting money laundering and terrorist financing, domestic co-ordination of implementation of international sanctions, legislative work, supervision and other related activities of the FAU. The success of the whole group of these activities is conditioned by the cooperation with professional as well as general public. For this reason, the FAU has always paid a lot of attention to outreach activities. At the heart of our prevention activities towards, in particular, obliged entities and their professional associations are daily consultations, issuing opinions, methodological instructions and extensive lecturing activities.

In the past year, the FAU traditionally focused on banks and other financial institutions, but considerable attention was also paid to other, smaller obliged entities, such as real estate agencies, auditors and accountants. Several expert discussions on virtual assets and AML/CFT were also held, attended by representatives of obliged entities active in this area, representatives of the banking sector, law enforcement authorities and academia.

The FAU also published, in collaboration with the Banking® portal, four expert articles on money laundering in relation to cryptocurrencies. For a professional journal for accountants, the FAU prepared a methodology on the obligations of accountants under the AML Act. On the website www.financnianalytickurad.cz, the FAU regularly provides fresh information on international sanctions and the current situation in the area of AML/CFT.

The group of those actively seeking current information on the FAU website which consists mainly of representatives of obliged entities, slightly expanded to 580 from 500 individuals last year. In 2019, almost 43,000 users visited the FAU website, which is a 72% increase compared to 2018. 166,000 article views were performed. With the growing popularity of obtaining information from the Internet using mobile phones, web traffic from mobile phones

and tablets grew in 2019 and accounted for 11%. Compared to 2018, it is a significant 175% increase.

Visitors were mostly interested in international sanctions. Opinions of the FAU, Legislation and News took the second place. Career, Contacts and Press Releases were third.

During the year, the FAU published on its website some examples of successful collaboration:

- With the Tax Cobra (joint team comprising of the Unit for Combating Corruption and Financial Crimes, the General Financial Directorate and the General Directorate of Customs), where the FAU contributed significantly to the detection of tax fraud in the acquisition of luxury cars with a VAT evasion of more than CZK 50 million. The perpetrators did not include these transactions in their tax returns, or did not file tax returns at all.
- With the National Organized Crime Agency, where the FAU, throughout the investigation, participated by transaction analysis and localization of illegal proceeds in the detection of a large-scale case concerning a particularly serious crime – damage to the financial interests of the European Union and subsidies fraud with estimated damage amounting to approximately CZK 300 million.
- In connection with an ongoing court trial, the FAU recalled on its website one of its most serious cases, where over one billion crowns leaked from a credit union by using fictitious loans. The FAU detected suspicious transactions as early as 2013.

The FAU welcomed its first Twitter readers on 22 July 2019 on the @FAU_CZ profile. The average number of views of a tweet on our profile was 1073.

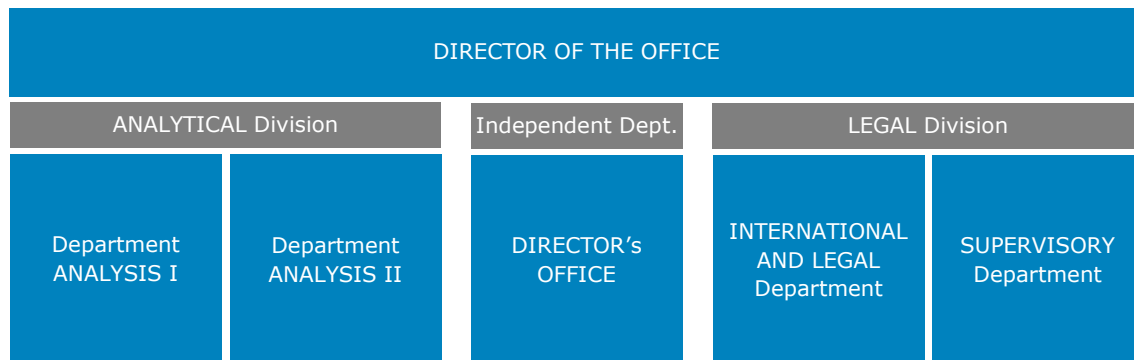
To its partners, the FAU will continue to provide timely and correct data in the ocean of information.

Personnel Situation

The FAU's staff is a well-coordinated and role-balanced team. Everyone contributes with their expertise and abilities to successful fulfilment of entrusted tasks.

For 2019, the systemization of the FAU, i.e. the number and ranking of posts, was approved based on a proposal submitted by the FAU and approved by its Superior Authority, the Ministry of Finance, in accordance with the Civil Service Act.

The FAU is internally divided into two Divisions and one Independent Department, namely the Analytical Division, the Legal Division and the Director's Office Independent Department. Total number of working positions for 2019 includes 61 function posts, of which 55 are so-called 'service posts' under the Civil Service Act (predominantly 14th grade) and 6 posts are under the Labour Code. Based on a decision of the Ministry of Finance, the total number of posts was reduced by 3 compared to 2018.



Organizational structure of the FAU

The current systemisation of individual organizational units

Pursuant to Section 29d of the AML Act, the head of the FAU is the Director.

The Analytical Division consists of 30 posts; it is headed by the Director and internally divided into two Departments, Analysis I and Analysis II. The Department Analysis I is made up of 15 posts, the Department Analysis II is made up of 14 posts, and the person in charge of each Department is the Head.

The Legal Division consists of 16 posts; it is headed by the Director and further divided into two Departments, the International and Legal Department and the Supervisory Department. The International and Legal Department consists of 8 posts, including the Head of the Department and the Supervisory Department consists of 7 posts, including its Head.

Independent Department the Director's Office consists of 14 posts, of which five are posts under the Labour Code. The Head of the Independent Department is in charge of this unit.

For 2020, the number of posts of the FAU was reduced by one and two posts are not covered by the budget, based on a decision of the Ministry of Finance as the Superior Authority. Thus, the total number of posts at the Financial Analytical Office in 2020 was adjusted to 60.

According to the Government Regulation No. 1/2019 Sb., on Branches of the Civil Service, the principal branch for all posts prescribed for the expert part of the Civil Service Exam, is No. 07 – Economic Protection of the State. However, this does not exclude other fields of service at individual posts.

During 2019, selection procedures for vacant posts in the FAU took place. The required staffing capacity necessary for the fulfilment of the agendas and tasks defined by the law was ensured.

As of 31 December 2019, the FAU had a total of 56 employees. The FAU values a stabilized personnel situation, which has so far been achieved. This has had a positive impact on the effective management and achieving excellent results.



The Economy

The FAU proceeds economically, with loyalty and intuition, with expert knowledge and the utmost care.

The year 2019 was the third year of independent functioning of the FAU, which replaced the former Financial Analytical Unit of the Ministry of Finance. The budget of the FAU, as a specific indicator of Chapter 312 – the budget of the Ministry of Finance, which was approved by Act No. 336/2018 Sb., on the State Budget of the Czech Republic for 2019, is the expenditure for securing activities of the Financial Analytical Office.

Expenditures

For 2019, the FAU's expenditures approved by the State Budget amounted to CZK 78.199 million of which capital expenditures (CpE) CZK 5.6 million and current expenditures (CrE) CZK 72.599 million. The adjusted budget was represented by the total expenditures of CZK 78.199 million. After the involvement of unused expenditures in the amount of CZK 25.931 million of which CpE CZK 6.677 million and CrE CZK 19.254 million the total budget was CZK 104.130 million, of which CpE CZK 12.277 million and CrE CZK 91.852 million. The actual expenditures as of 31 December 2019 was CZK 69.997 million; of which CZK 4.170 million and CrE CZK 65.827 million.

In the area of capital expenditures, investment expenditures were implemented by i.a. creating a secure area for the preservation and processing of classified information. Furthermore, the purchase of memory blocks for the central elements of ICT infrastructure was realized. Another investment expense was the acquisition of licensed software to support the analytical process (data structuring support), as well as regular annual remuneration for document management software, modification of the document management system in the form of technical improvements and licenses for the personnel information system.

The above actions are part of the approved program 012V51 – Development and Renewal of the Material and Technical Base of the FAU. In connection with the performance of its tasks, the required information need for the Analytical Division was provided in the form of an access to external information systems.

Current expenditures mostly comprise of salaries and wages of civil servants and employees, including accessories. In the financial year 2019, 3 civil service posts and a 1 working relationship were terminated. As of 31 December 2019 the FAU had 56 individual employees, of which 51 in service, and 5 under the Labour Code. In 2019, the percentage of funds draw in the area of salaries was 108.6% compared to 2018. The comparison of 2019 with 2018 is influenced by a change in systemisation, which resulted in a personnel decrease of 3 posts.

Business trips abroad were made to the extent necessary for the operation of the FAU and the fulfilment of its international obligations arising from the membership in European and international organizations, aimed at combating money laundering and terrorist financing and in the area of international sanctions. In 2019, 37 foreign business trips took place with a total cost of CZK 564,000. CZK 16,000 was spent on domestic business trips.

Revenues

In 2019, in terms of non-tax revenues, the FAU received a total of CZK 1.306 million. This includes fines in administrative proceedings totalling CZK 1.3 million which were imposed in the framework of supervisory activities (Budget Heading 2212) and costs of administrative proceedings in the amount of CZK 6,000 (Budget Heading 2324).

Numbers

A look at figures depicting any activity is either a reason for reflection, call for change, or reason to keep the status quo.

	2017	2018	2019
Number of received motions for investigation	3,524	4,028	3,954
Total number of reports to the Police	539	395	471
Number of reports to the Police with seized funds	377	268	299
Amount of seized funds [CZK mil.]	2,146	7,546	2,269
Number of information send to the General Financial Directorate	1,647	2,230	1,901
Number of information send to the Directorate General of Customs	106	132	134
Number of incoming foreign requests	384	404	423
Number of requests send abroad	277	232	284
Number of foreign spontaneous information	217	230	379
Number of spontaneous information abroad	800	641	488
Total number of inspections under the AML Act	48	33	27
Number of inspection purchases	26	12	12
Number of administrative proceedings for breach of the AML Act	16	15	16
Number of admin. proceedings initiated due to inspection purchases	11	4	1
Number of assessments of Systems of Internal Principles	251	92	91
Number of fines imposed for breach of the AML Act	14	13	15
Amount of fines for the breach of the AML Act [CZK mil.]	2.490*	2.114	1.950

* amount for fines on the FAU's income account in the given year



Contacts

Correspondence address

Financial Analytical Office
P.O. BOX 675
Jindřišská 14
111 21 Praha 1

E-mail

fau@mfcz.cz

IČO

05575389

DIČ

CZ05575389

Registered Office

Finanční analytický úřad
Washingtonova 1621/11
110 00 Praha 1

Data mail box ID

egi8zyh

Office Hours

Mon - Thu 8:00 – 15:00
Fri 8:00 – 14:00

Phone

+420 257 044 501

URL

www.financnianalytickyurad.cz

Twitter

[@FAU_CZ](https://twitter.com/FAU_CZ)

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