

UNIVERSITY OF FINANCE, BUSINESS AND ENTREPRENEURSHIP -SOFIA

DEPARTMENT OF ACCOUNTING AND AUDITING

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MONEY LAUNDERING IN THE NON-FINANCIAL SECTOR.

(MECHANISMS. DIAGNOSIS. PREVENTIVE MEASURES.)

ANNOTATION OF THE DISSERTATION

for awarding the educational and scientific degree "Doctor" in the doctoral program "Accounting, Auditing and Analysis" in the professional field 3.8. Economics

PhD student: Supervisors:

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SOFIA

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The development contains: an introduction, an exposition in three chapters, a conclusion, a list of references and 1 appendix. The main text covers 177 pages and contains 2 tables, 7 figures, 1 survey, 3 applications. The used literature covers: a total of 247 sources, of which: 61 Bulgarian literary sources, 20 foreign literary sources, 59 normative sources, 28 sources such as reports, transcripts and others related to the topic and 79 Internet sources.

The materials on the protection are available to the interested persons in the library of VUZF - Sofia.

I. GENERAL CHARACTERISTICS OF THE DISSERTATION

1. Relevance of the researched topic

The risks of money laundering raise significant concerns about the security of citizens and the financial system in the countries, including Bulgaria. The need to reduce the damage to the economy from money laundering requires diagnosing the problem by studying it and on this basis preparing proposals for preventive measures to make more effective and efficient control against money laundering in the non-financial sector. The choice of the dissertation topic is dictated by the fact that the reduced control of the non-financial sector over the money laundering process does not contribute to reducing the volume of covert money laundering, which is a serious problem for the national economy. In the research studies on money laundering, the mechanisms of action related to the non-financial sector have not yet been thoroughly studied. They need to be more accurately diagnosed, leading to their easier individualisation and the application of adequate preventive measures to prevent vicious practices. The globalization of the world economy and the expansion of trade relations in the Internet environment are factors that create appropriate conditions for erasing the traces of money laundering. It is a known fact that a significant proportion of all criminal benefits are laundered through the direct or indirect involvement of the non-financial sector, which includes various non-financial institutions, including tax consultants, auditors, freelance accountants, notaries, freelance practitioners, real estate brokers.

It has also been indisputably established that money laundering is increasingly threatening the economies of the state and global financial security in general. It is known that significant amounts of money acquired illegally are invested in criminal activities. This leads to the enrichment of those who carry out these activities and to new investments in illegal activities. The vicious circle that is forming helps to increase economic power and to penetrate into all spheres of society of criminal groups that seek to gain political power.

The topicality and significance of the topic are also dictated by the existing negative macroeconomic consequences on the economy. These adverse outcomes include unreasonable increases in demand for property, risks to tax collection, distortions in legitimate trade, volatility in international capital flows, frequent changes in exchange rates due to unforeseen and unexpected cross-border transfers of assets, and etc. Successful money laundering attempts to

promote corruption and crime and undermine democracy and the rule of law. To prevent these effects at national and supranational level, anti-money laundering measures are being taken to activate the controls to be exercised.

Object of the study

The object of research is the prevention of money laundering at European and national level in the non-financial sector.

Subject of the research

The subject of research are the problems and difficulties before a certain circle of persons from the non-financial sector, which include: registered auditors; licensed appraisers of movables and real estate; notaries, private bailiffs; persons engaged in real estate transactions by occupation; freelancers; lawyers; legal and tax advisers who are obliged to implement measures to prevent money laundering.

Aim and tasks of the research

The aim of the work is to outline the possibilities for their improvement and increase the efficiency of their implementation on the basis of the existing practices and measures for prevention of money laundering at European and national level, applied by the above-defined circle of persons from the non-financial sector. In order to achieve this goal, we set ourselves the following tasks:

1. Discovering the nature and mechanisms of the money laundering process.
2. Study of current European and national legislation, identifying the essential processes, models and mechanisms of the European and national system for the prevention and prevention of money laundering and terrorist financing, which are subject to constant monitoring and timely and flexible legislative solutions aimed at maintaining at satisfactory levels of efficiency and adequacy of the system, operating in a dynamic and challenging environment.
3. Proposing indicators for diagnostics and analysis of money laundering to be applied strictly by a certain circle of persons from the non-financial sector: registered auditors; licensed

appraisers of movables and real estate; notaries, private bailiffs; persons engaged in real estate transactions by occupation; freelancers; lawyers; legal and tax consultants.

4. Conducting a comprehensive survey of non-financial, financial, students, etc., to establish the perception and attitude of debtors and society regarding money laundering, the effectiveness of measures, and confidence in institutions, responsible for the prevention and prevention of money laundering and terrorist financing.

Research thesis

Based on the outlined object, subject, goal and tasks, the thesis is that despite the constant changes in order to improve the legal framework at European and national level, satisfactory levels of efficiency and security of the system are not created, functioning in a dynamic and challenging an environment whose development continues to outpace that of the regulatory framework. Money laundering will continue to exist, despite ongoing legislative changes. It is very difficult, almost impossible, to carry out high-efficiency prevention in an area where it is unknown what new money laundering schemes will arise as a result of various factors (scientific, technical, economic, political, legislative, social, etc.). Criminal organizations will continue to generate newer and newer money laundering schemes, and hence the need for legislative change and preventive action will continue to follow and catch up with these new trends.

Limitation in the scope of the study

The study has certain limitations, which stem from both the frequently changing regulatory framework and the difficult access to data. The study is limited to a small group of non-financial professionals who are required to implement anti-money laundering prevention measures. The dissertation does not study the applicable methods and mechanisms for money laundering in the individual phases, because the indication of specific methods used for money laundering requires the disclosure of details related to the implementation of criminal schemes. Due to the high degree of public danger of these acts, we assume that they should not be the subject of research in this dissertation due to the need to access classified information classified "top secret", which is not owned by the author. Casinos, the model of money laundering, the powers of control bodies and their interactions with similar structures, as well as the consideration of simplified and extended complex inspections are excluded from the study,

because these are topics that will greatly expand the dissertation and therefore we accept that they should be the subject of independent scientific research. Research methodology.

The following scientific methods were used in the research: comparative analysis, historical and systematic approach, deduction, induction, logical analysis, using the following tools: observation and derivation of trends; analysis of the normative acts regulating the public relations in this sphere; review of existing theoretical developments on the topic.

The dissertation is in compliance with the legislation as of November 1, 2021.

II. STRUCTURE AND CONTENT OF THE DISSERTATION

The present dissertation consists of: introduction, presentation in three chapters, conclusion, list of used literature. The dissertation has a total volume of 177 pages and contains 2 tables, 7 figures, 1 questionnaire, 1 appendix. The literary sources are a total of 247 sources, of which: 61 Bulgarian literary sources, 20 foreign literary sources, 59 normative sources, 28 sources such as reports, transcripts and others related to the topic and 79 Internet sources and 1 application.

The structure of the research is consistent with the subject, object, purpose and objectives of the dissertation and consists of:

Introduction

Chapter One: Money Laundering Mechanisms.

1. Nature of the money laundering process.
2. Crimes related to money laundering.
3. Results of the actions taken.

Chapter Two: Organizing Anti-Money Laundering.

1. Sources of the legal framework.
2. Bodies set up to combat money laundering.
3. Conclusions and recommendations.

Chapter three: Diagnosis and preventive measures of money laundering in the non-financial sector.

1. Obligated persons and applicable measures.
2. Diagnosing money laundering.
3. Measures for protection of persons submitting signals for money laundering.
4. Analysis of the results of a survey.

Conclusion, Bibliography, Appendices.

III. SUMMARY EXHIBITION OF THE DISSERTATION

In the introduction of the dissertation the topicality of the topic, the object and the subject of research is considered. The research goal and tasks are formulated, and the topicality and significance of the topic are indicated.

In the introduction *Chapter One "Money Laundering Mechanisms"* examines the nature and mechanisms of money laundering, outlines the stages of the process, explores ways to generate funds through the money laundering process and examines the effects of money laundering. on the economy.

In item 1 "The essence of the process of money laundering" is a brief historical overview of the emergence and development of the phenomenon of "money laundering" from ancient China to the present day. The views of a number of prominent researchers on the nature and content of the phenomenon of "money laundering" and their definitions are discussed. Among the researched authors are the names of foreign scientists Peter Reuters and Edwin Truman, James Richards, Franz Bilo, Gerald Mobius, as well as Bulgarian scientists who have contributed to clarifying the nature of the money laundering process, such as Prof. Dr. Georgi Petrunov. , Prof. Dr. Plamen Panayotov, Prof. Dr. Nikola Filchev, Assoc. Prof. Dr. Iva Pushkarova and in recent years Petar Petrov has been identified as a specialist in the field of financial analysis. On the basis of the conducted in-depth research and analysis of the given definitions, **a proposal was made for a new definition** of the term "money laundering", which defines "money laundering as a conscious, targeted and deliberate activity aimed at converting

funds of dubious origin in legal income through the use of legal mechanisms, as well as gaps in legislation".

The three phases of the money laundering process are considered: placement, layering, integration and their characteristics are indicated.

It is stated that **the placement phase** is the first stage in which actions are taken to include the funds acquired from criminal activity in the civil turnover, through the most commonly used techniques, such as: gambling, surfing, smuggling, hawala, as well as the possibility for legal entry of assets into the financial system through the free purchase of financial instruments offered by authorized financial institutions. It is pointed out that all the listed techniques aim to complicate the process of establishing the origin of the funds and their real owner, and therefore the measures taken to prevent money laundering in this phase are the most effective.

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Chapter One, "Money Laundering Mechanisms", examines the mechanism of money laundering and the means to combat this process.

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The essence, mechanisms, characteristics and sequence of the three phases of money laundering are considered: placement, layering and integration.

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The phase layering is defined as the main one in the process of "money laundering", because it carries out multi-year, usually cross-border financial and other economic operations, and the transfer of money, money and money. cash flow originating from lawful activities. The money laundering techniques used in this phase are: electronic banking, loans, bogus transactions, bank transfers, currency exchange and others that facilitate the passage of funds through offshore zones, free financial zones, hollow companies, electronic payments, sham self-financing and other forms, which make it very difficult to identify the origin of the funds and to trace them.

The integration phase is the third and final phase of the money laundering process, in which illicit funds that have already acquired legal origin are invested in the legal economy through various means such as: the purchase of goods for business purposes; purchase of real estate; purchase of expensive and luxurious items; investment in construction of buildings, etc. In this phase, it is most difficult to establish "money laundering" because it ends the process.

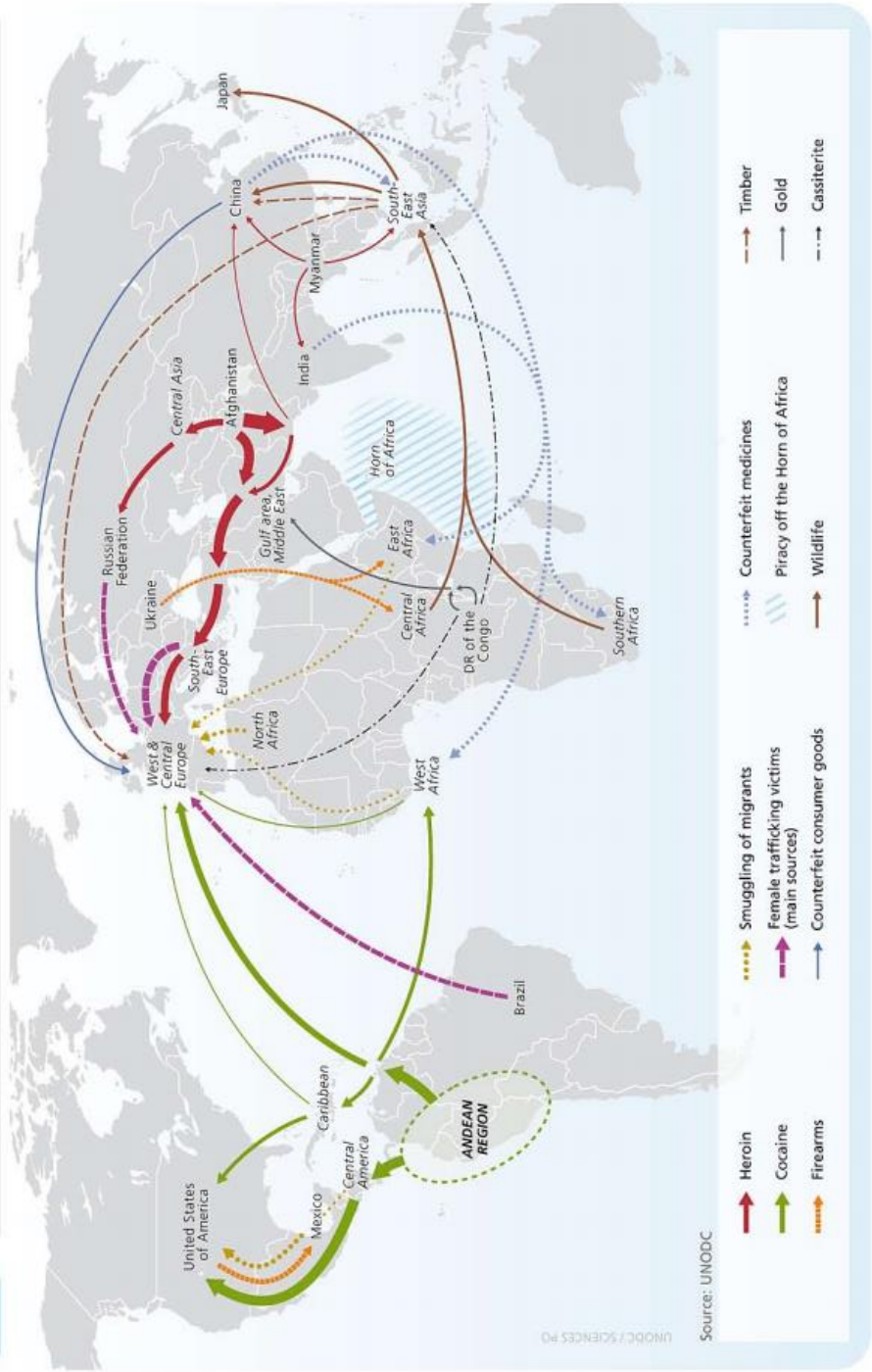
As a result of the study, it is concluded that preventing the process of money laundering is very difficult, because at each stage of the movement of illegally acquired funds can be applied legal ways to legalize them.

¹ For more details, see "Sectoral assessment of the risk of money laundering and terrorist financing in the activities of lawyers, in cases where they are obliged to apply measures to prevent money laundering and terrorist financing"; <https://p.vas.bg/s/e/sektorna-otsenka-na-riska-9860-527.pdf>

The main criminal acts through which money is generated and money laundered are also mentioned, such as: drug trafficking (cocaine, heroin and other modern variants of narcotic substances or those with the effect of narcotic substances); trafficking in human beings from one country to another for the purpose of sexual and labor exploitation; illegal migration; arms trafficking; trafficking in natural resources, including wildlife; the spread of counterfeits of luxury goods; maritime piracy; cybercrime; various forms of pressure, corruption and fraud. Attached is a figure that contains information about the movement of money and the scale of the crime process worldwide². Information on the movement of money and the scale of the global crime process can be traced in the following figure.

² See: https://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf

FIG. 1: MAIN GLOBAL TRANSNATIONAL ORGANIZED CRIME FLOWS DISCUSSED IN THIS REPORT



The figure shows that the whole world is covered by the process of criminal money flows originating from trafficking in heroin, cocaine, firearms and human trafficking. The main lines along which the individual criminal activities move are shown. For example: human trafficking follows the line of movement from Africa and Asia to Western Europe and from South America to the United States; heroin trafficking travels from Afghanistan through Russia and the Middle East to Central and Western Europe; cocaine trafficking from South America to the United States and Western Europe; arms trafficking is moving from Ukraine to Central and East Africa; the trafficking of counterfeit goods from China is directed to Western Europe; the trafficking of counterfeit drugs is moving from China and Hong Kong to Asia and South Africa.

As a result of the research, it **is concluded** that most illegally obtained funds are generated by human trafficking and corruption, which play a key role in the functioning of the "gray" economy³. The thesis is maintained that in all cross-border crimes and schemes there is an intent and developed action plan that takes into account the weaknesses in the financial and judicial systems of the country. The reason is that there is no unified understanding of the weaknesses of the established financial and legal protections, which aim to ensure the cessation of the money laundering process. *A recommendation* was made on the need to introduce more measures to strengthen control over roads and money laundering methods.

The short-term and long-term effects of money laundering have been studied. It is clarified that **the short-term effects** of money laundering are losses for victims and gains for perpetrators; distortion of consumption and savings; distortion of investments; artificial increase in prices; unfair competition; changes in imports and exports; impact on productivity, income and employment; influence on income in the public sector; changes in the paperwork; Continuation of instability of interest rates and foreign exchange rates; increasing the possibility for granting loans difficult to repay; settlement of river flows; distortion of economic indicators. It is stated that **the long-term effects** of money laundering are expressed in the fear of privatization; changes in foreign investments; risk for the financial sector; fictitious profits for the financial sector; influence on the reliability of the financial sector; penetration of the illegal business into the legal one; development of corruption; influence on the level of pasture;

³ For more details, see Smedovska-Toneva, R. (2017). Development of institutional policies for counteraction to organized crime in Bulgaria 2002-2015 - problems and prospects. Abstract; Petrunov, G. (2015). Social-network analysis of criminal structures. Scientific works of UNWE. Sofia: University Publishing House "Economy", Vol. 55, item 2/3, part 1, pp. 326 - 360.

undermining of political institutions; undermining the foreign policy goals; increase in crime; increase in wages from theological attacks.

It is concluded that taking measures against money laundering is delayed due to the fact that a number of economic interests are intertwined in the process of money laundering. It is stated that this conclusion is valid both for Bulgaria and for the countries that "belong to the former socialist bloc, whose transition economies have created and are still creating favorable conditions for money laundering"⁴ and **support the idea** of creating mechanisms to combat these phenomena and to criminalize acts⁵.

Item 2 "Crimes related to money laundering" examines and analyzes the need in society at the end of the 20th and the beginning of the 21st century to take regulatory measures aimed at tackling the process of money laundering. money laundering. To this end, the legal systems of individual countries are gradually beginning to introduce factual structures, which are defined as crimes, the commission of certain acts related to money laundering.

The act of money laundering was first defined as a crime in the 1990 Council of Europe Convention⁶. The Convention also introduces the notion of "predicate offenses" as a generalizing term for any crime from which benefits are derived that may be the subject of the crime of "money laundering"⁷. It is stated that after studying the Bulgarian criminal legislation it was found that instead of the term "predicate crimes" the term "original crime" is used. Under this name, these crimes are considered and analyzed in a number of studies of the legal and economic literature⁸.

Points out that in our country "money laundering" has been criminalized as a criminal act since August 1997, when the Penal Code (CC) introduced three components related to money laundering (Articles 253-253 b)⁹. These compositions have undergone a number of changes over the years in order to reflect both the best world practices and the national normative and judicial standards in this matter. The criminal groups are formulated in such a

⁴ See Raichev, V. (1995). Transition economies attract dirty money: Draft national legislation to protect the financial system from money laundering. S. : 1995

⁵ See Yanev, R. (2002). Criminalization of the act "money laundering". Mr. Lawyer's review. Supreme Bar Council. 8, pp. 25-30.

⁶ For more details, see Gramatikova, K., (2007). Interstate Cooperation in the Prevention of Money Laundering under the 1990 Council of Europe Convention, Lawyer's Review, ed. On YOU, issue 7.

⁷ Ibid

⁸ See Aldimirov, N. (2017). The process of money laundering and its prevention in commercial banks. Sofia: UNWE Publishing House, p. 23, p. 35.

⁹ Art. 253, para. 1 of the Penal Code (as amended on October 8, 2021)

way as to cover as much as possible the acts aimed at legalizing illicit income. This is evident from the provision of Art. 253 of the Penal Code, which defines as "a crime related to money laundering any act aimed at carrying out a financial transaction or transaction involving the use of funds or property that have been found to have been acquired in a criminal manner"¹⁰. In other texts, the legislator equates any form of money laundering with a crime related to money laundering, finding accomplices, harassing people in order to carry out actions related to money laundering.

It is stated that the view expressed in the theory that "the object of money laundering are the relations arising in the field of money circulation and lending" **is not shared**.¹¹. Support was expressed for the thesis that in these cases we are talking about "economic crimes affecting the monetary and credit systems", which precede money laundering¹².

The FATF's recommendations¹³ to states to treat the crime of money laundering as a particularly serious crime are also reflected, as well as to introduce new penalties such as: freezing the funds of persons in bank accounts and confiscating them in favor of the state. **Support is expressed** for the FATF's recommendation that national law provide for the right of the judiciary to confiscate the property of individuals without a conviction, by introducing the facts: "**confiscation based on no criminal record**". It is pointed out that the Criminal Code of Bulgaria does not currently provide for a hypothesis based on "confiscation based on no criminal record" and points out that its introduction will lead to significant changes in the criminal law of the country.

Item 3 "Results of the actions taken" examines the results of the actions taken to prevent the money laundering process.. Statistical data containing the results of the criminalization of the act of money laundering are analyzed and the process of increasing the applied criminal sanctions against persons involved in the process of money laundering in the

¹⁰ See Valkanov, N. (2012). Money laundering in the banking system: mechanisms, diagnostics, countermeasures. Abstract.

¹¹ See Vladimirova, A. (2010). Money laundering as a crime against the financial system, NBU, S., pp.152-154, law-journal1-2011-10.pdf .;

¹² See Pushkarova, I. (2015). Scope, objectives, substantive and procedural aspects of financial profiling, and Project Guide "Increasing the competence and professional qualification of judges, prosecutors and investigators, as well as the administrative heads of the judiciary by organizing and providing training by the SJC", implemented by the Supreme Judicial Council with the financial support of the Operational Program "Administrative Capacity" 2007-2013, co-financed by the European Union through the European Social Background"; http://www.vss.justice.bg/root/f/upload/7/Topic05_FinancialProfiling.pdf.

¹³ FATF / Financial Action Task Force on Money Laundering / The Financial Action Task Force established in 1989 in Paris with a decision of the G-7 to establish, maintain and enforce international standards for examiners

period from 2006 to 2018 is graphically presented¹⁴. The data are reflected in two tables and five figures.

Table 1

Вид действие	2008	2009	2010	2011	2012	2013	2014	2015
Наблюдавани досъдебни производства	142	190	228	263	293	291	294	318
Новообразувани досъдебни производства	56	94	85	66	87	65	64	73
Решени досъдебни производства	53	63	51	82	102	98	92	119
Внесени прокурорски актове	19	20	22	31	29	20	30	39
Преадени на съд лица	36	33	35	45	59	41	48	94
Осъдени и санкционирани лица с влязъл в сила съдебен акт	22	35	18	29	27	16	14	24
Оправдани лица с влязъл в сила съдебен акт	1	1	4	3	9	3	1	0

Източник: Прокуратурата на РБ, 2016.

In table 1 examines the applicable judicial indicators for the period 2008-2015 according to data from the Prosecutor's Office of the Republic of Bulgaria from 2016. The data show that there is an increase in the activity of the investigative bodies, the prosecution and the court for the period 2008 - 2015. The number of pre-trial proceedings monitored by the prosecution, initiated by the investigation authorities, increased from 142 in 2008 to 318 in 2015 d. The number of newly initiated pre-trial proceedings by the investigative bodies marked a slight increase from 56 in 2008 to 73 in 2015. The number of completed pre-trial proceedings with decisions on the investigation of predicate offenses shows an increase from 53 in 2008 to 119 in 2015 The indictments filed by the prosecutor's office on the basis of completed pre-trial proceedings with decisions to prosecute also show an upward trend from 19 in 2008 to 39 in 2015. The number of persons transferred to court increased from 36 in 2008 at 94 in 2015. There is little activity on the part of the court. During the period, the number of convictions issued to persons who committed predicate offenses is between 22 and 24. During the period, the number of acquitted persons with an effective act is on average between one and three per year.

Table 2

¹⁴ For more details, see interview of Alexander Nikolov - Chairman of the Association of the Administration in the Judiciary, <http://saosv.org/wps/portal/saosv/activities/news/interview%20-%20an!/ut/p/z1/pZPBbuIwEIZfhQtHy47txMkxsCjdCMq2VdjiS-U4TusVOJRYofTp6>

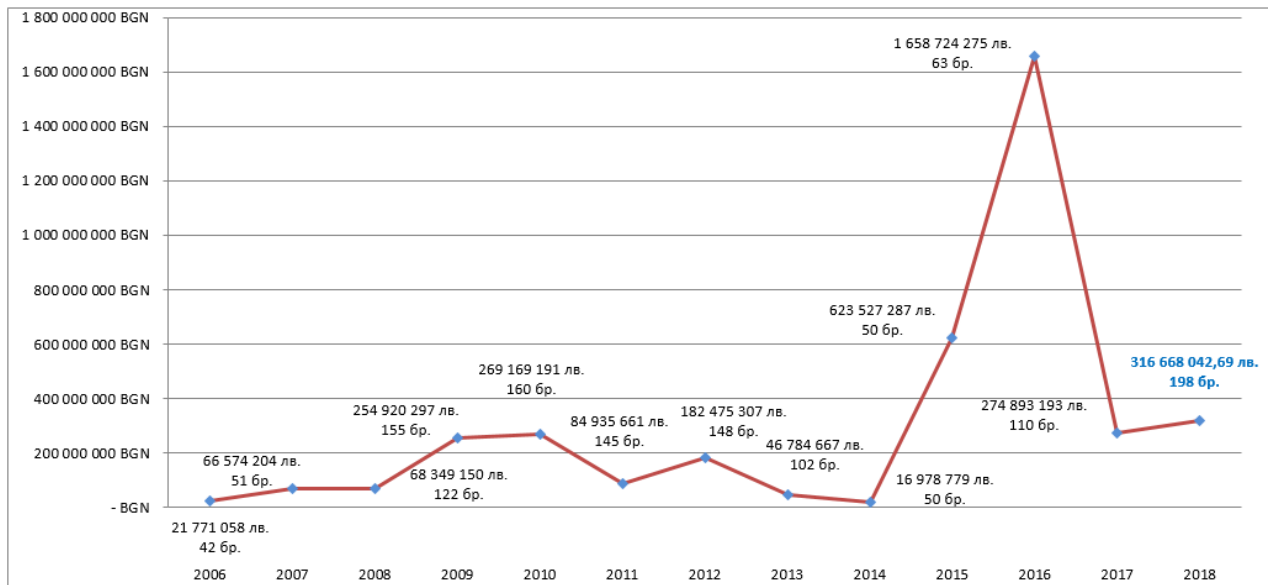
Тип престъпление	Вид на присъдата				
	Ефективна	Условна присъда	Пробация	Глоба	Други наказания
Общо	661	2268	239	1759	205
Корупция	17	183	87	198	69
Организирана престъпност	28	37	1	4	0
Трафик на хора	16	32	0	23	0
Трафик на наркотици	444	911	60	1201	85
Изпиране на пари	4	21	0	4	1
Данъчни престъпления	88	888	69	212	42
Фалшифициране на валути и платежни инструменти	62	170	10	57	6
Злоупотреба със средства на ЕС	2	26	12	60	2

Източник: Прокуратурата на РБ, 2016.

Table 2 presents comparative data on the number of crimes committed in 2015. The table shows that the most effective convictions for drug trafficking - 444, followed by effective convictions for tax crimes - 88, counterfeiting of currency and payment instruments, which are in third place with 62 convictions. The fewest convictions have been handed down for misuse of EU funds - only two. The most numerous are crimes punishable by suspended sentences - 2,268, followed by crimes punishable by a fine - 1,759, and the least number of cases ended in probation is 239. Therefore, there is high money laundering crime, followed by tax crimes and counterfeiting of currencies and payment instruments.

It is stated that the number of suspended sentences for drug trafficking, tax crimes, currency counterfeiting, and corruption remains too high. *It is argued* that more effective sentences with longer sentences (for example, more than 10 years) and confiscation of all property of the perpetrator in favor of the state will lead to a decline in financial crime, while suspended sentences, or those that are effective but with a short period of imprisonment, do not have a preventive effect on criminal groups. It is stated that changes in the Penal Code are needed in this direction.

Figure 3



In figure 3 data on the amount of the property offered for collateral for the period 2006-2018 have been exported. The data are from the Commission for Combating Corruption and Confiscation of Illegally Acquired Property regarding the amount of property offered as collateral. The graph shows that there is a sharp increase in the proposed property as collateral. In 2006 it was worth BGN 21,771,058, and in 2016 the amount of property offered as collateral was worth BGN 1,658,724,275. The graph shows that the total value of the property provided as collateral for the period is BGN 3,885,771,111 with a total number of requests for precautionary measures of 1,396 for the specified period. From the data shown in fig. 1.3., It can be concluded that while the amount of property offered for collateral is moving at almost the same growth rate for the period 2006 to 2012, ie. between BGN 66,574,204 and BGN 182,475,307, then a significant increase began in 2014 to reach BGN 1,658,724,275 in the period 2015-2016. After that, there was a decline again and in 2018 the amount of property offered as collateral was only BGN 316,668,042.69.

Figure 4

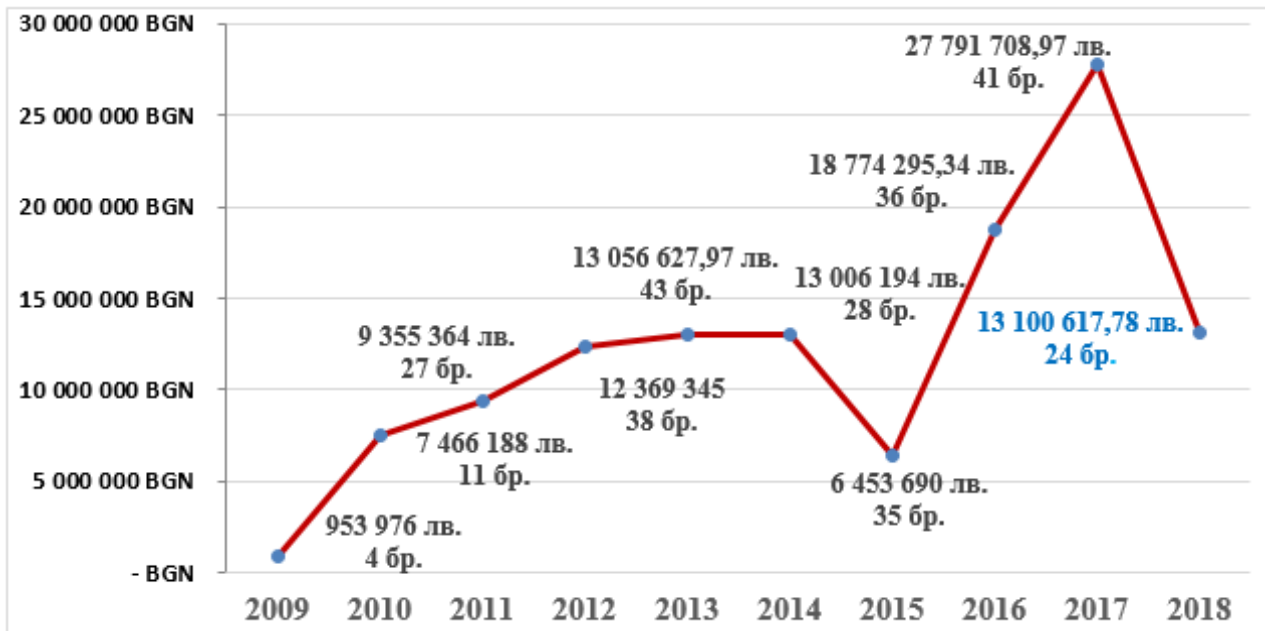
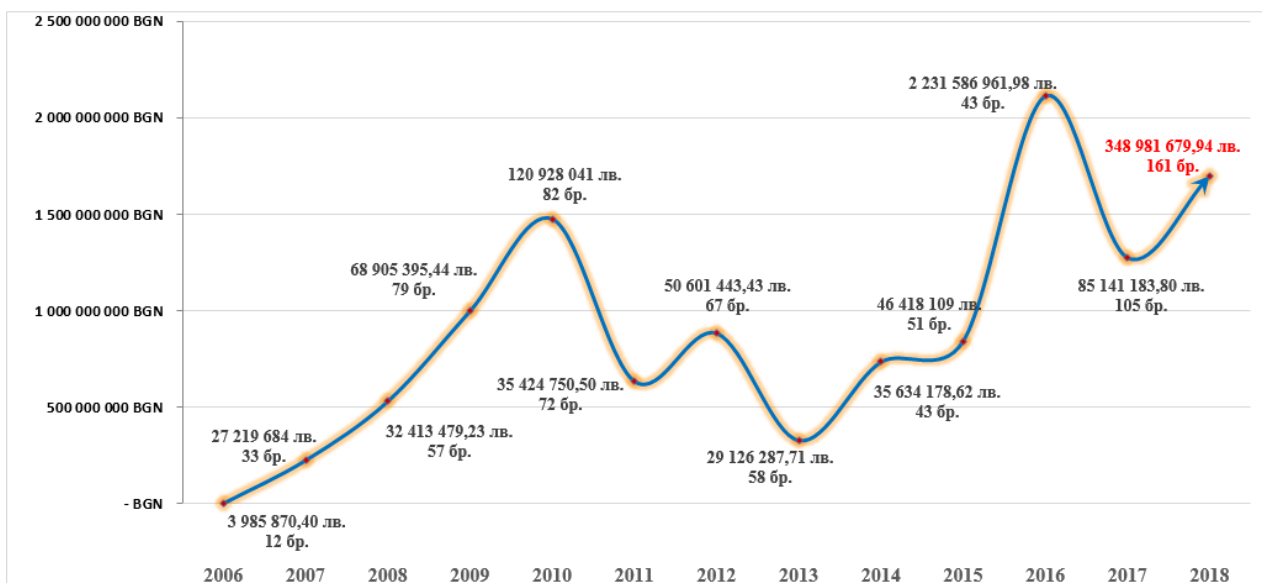


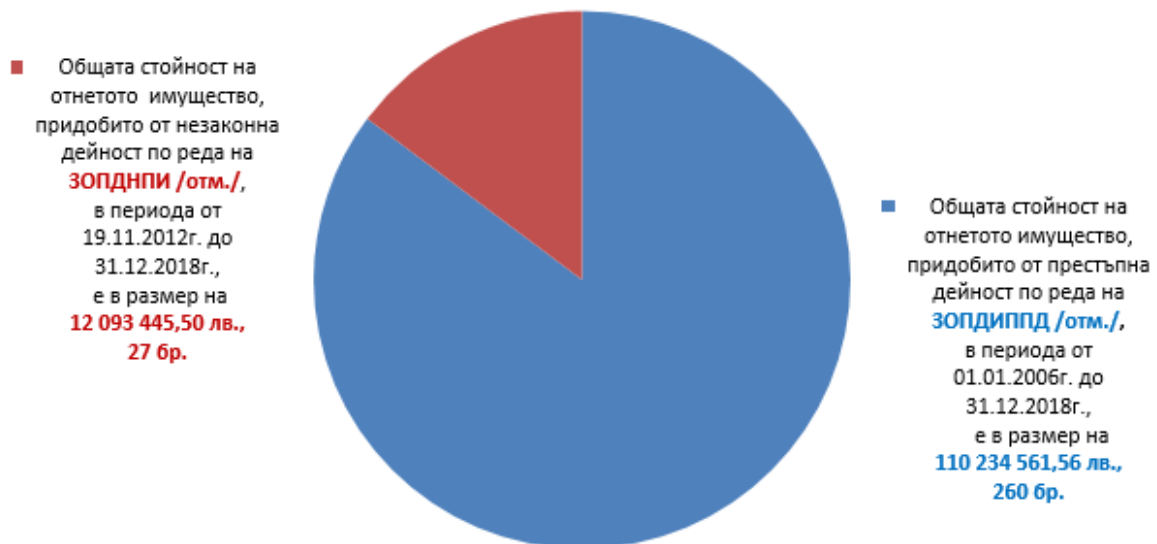
Figure 4 data on convictions and the amount of confiscated property for the period from 2009 to 2018 were presented. The data are provided by the Commission for Combating Corruption and Confiscation of Illegally Acquired Property, which shows that in the period from 2009 to 2018 there was a gradual increase in the number of convictions that came into force, from 4 in 2009 they reached 24 in 2018, which is the total number of effective sentences for the period is 287. The same tendency to increase is observed in the amount of confiscated property, from BGN 953,976 in 2009. it increased to BGN 27,791,708.97 in 2017 and decreased to BGN 13,100,617.78 in 2018, as the total confiscated property in favor of the state for the entire period amounted to BGN 122,328,007.

Figure 5



In figure 5 data on the number of filed claims for confiscation of property in favor of the state by the Commission for Combating Corruption and Confiscation of Illegally Acquired Property, as well as data on the amount of confiscated property for the period from 01.01.2006 to 31.12.2018. The graph shows that there has been a jump over the years in the number of submitted requests for confiscation of property in favor of the state and the amount of confiscated property. While in 2006 the submitted requests for confiscation of property were only 12 in total with a total value of BGN 3,985,870.40, then over the years there has been an increase, and in 2018 the submitted requests for confiscation of property are 161 in total value of BGN 348,981,679.94. In 2016 there was a kind of peak in the value of filed claims for confiscation of property in the amount of BGN 2,231,586,961.98 with 43 filed claims for confiscation in favor of the state of property acquired in a criminal way. For the entire period from 2006 to 2018, a total of 863 requests for confiscation of property were submitted in the total amount of BGN 3,116,367,065.

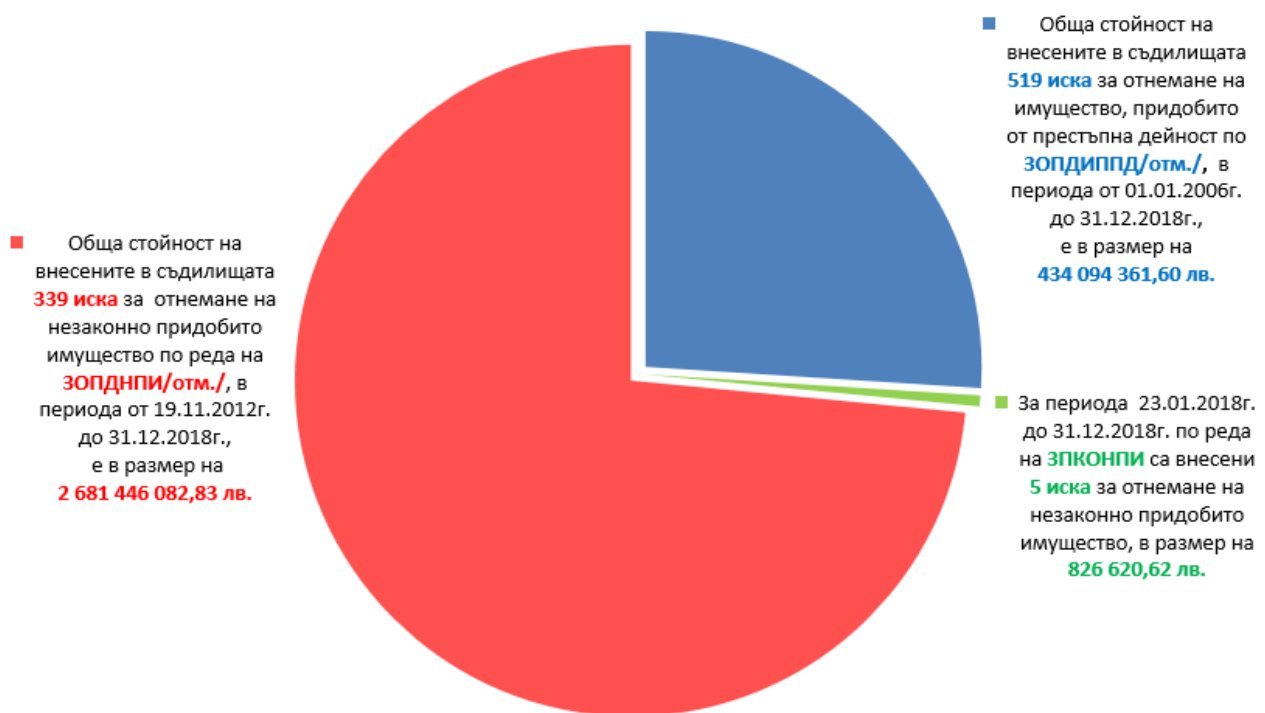
Figura 6



In figura 6 data of the Commission for Counteraction to Corruption and Confiscation of Illegally Acquired Property under the Law on Confiscation of Illegally Acquired Property in Favor of the State (repealed, SG No. 7/2018) and under the Law on Confiscation are reflected in

favor of the state of property acquired from criminal activity (repealed, SG No. 38/2018). From the data in red, it is evident that under the Law on Confiscation of Illegally Acquired Property in Favor of the State for the period 2011 to 2018, 27 cases have been resolved, and property in the amount of 12,093,445 has been confiscated. BGN 50. From the data in blue it is evident that by the order of the Law for confiscation in favor of the state of illegally acquired property for the period 2006 to 2018 260 cases have been resolved and property in the amount of 110 234 561, 56 BGN.

Figure 7



In figure 7 the total value of the claims filed by the courts for confiscation of property according to the data of the Commission for Combating Corruption and for confiscation of illegally acquired property is indicated. From the data in red it is evident that by the order of the Law for confiscation in favor of the state of illegally acquired property for the period from 19.11.2012 to 31.12.2018 339 claims were filed and property in the amount of 2 681 446 was confiscated. 082.83 BGN. From the data in blue it is evident that by the order of the Law for confiscation in favor of the state of property acquired from criminal activity for the period 01.01.2006 to 31.12.2018 519 claims have been submitted to the courts and property in the amount of BGN 434,094,361.60 was confiscated. The data in green show that under the Anti-

Corruption and Confiscation of Illegally Acquired Property Act for the period January 23, 2018 to December 31. In 2018, 5 lawsuits were filed in the courts and property in the amount of BGN 826,620.62 was confiscated. As a result of summarizing the exported data, it can be concluded that the fight against money laundering is carried out in accordance with three laws, and the trend continues to develop in the direction of increasing intolerance to crimes related to money laundering, which is evident from the increasing number of lawsuits filed and the increase in the amount of confiscated property.

In conclusion, it is stated that Chapter One clarifies the concept of "money laundering" in a number of national and international sources and makes a proposal to define the concept of "money laundering". The three phases of money laundering are indicated - placement, layering and integration, as well as the specifics for which money laundering techniques each of them is applied. The main ways to generate funds through the money laundering process have been studied. Predicate crimes as a means of combating money laundering have been studied. A brief description of the results of the bodies of the investigation, the prosecution and the court for the prevention of predicate offenses has been made. The tendency to strengthen the control and intolerance to this type of acts is traced and data on the amount of confiscated property in favor of the state are indicated, which has been proven to have been acquired with funds from committed crimes. It was concluded that over the years there has been a tendency to increase convictions and increase the amount of confiscated property, which is a result of adequate measures taken by the state to combat the process of money laundering nationwide.

Chapter Two, "Anti-Money Laundering Organization", examines the development of legislation designed to prevent money laundering, methods and means at the level of EU law and at the level of the national legal system. The chapter also examines the organizational structure and powers of the bodies in charge of controlling money laundering measures.

In item 1 "Sources of the legal framework" is traced outlines in general the development of the legislation in the field of money laundering from the first known normative act, adopted in Great Britain in 1612 to the present day. The development of legislation at EU level, which contains anti-money laundering measures that Member States need to transpose into national law, is being monitored. These include: *Directive 2005/60 / EC* / known as the Third EU Directive / on money laundering and the financing of terrorism, which builds a substantial part

of the international anti-money market and EU law standards in the field of anti-money laundering; Directive 2006/70 / EU from the 01.08.2006 with koyato CE oppedelyat pazshipeni mepki charter ppilagane na dipektiva 2005/60 / EO in low otnoshenie na litsata that zaemat otgovopno sluzhebno polozhenie, ppedstavitelite na pakovodni and dpugi bodies team from the zakonodatelnata, izpalnitelnata, judicial and local authority in the Member States; *Directive (EU) 2015/849* / known as the Fourth EU Directive /, which deals with the fight against money laundering. The directive was adopted after the revelations in the "Panama Files" affair. It introduces common rules obliging certain persons and institutions in the Union to monitor the manifestations of money laundering and to report to the competent institutions; *Directive (EU) 2018/843* / known as the Fifth EU Directive / on combating money laundering, which introduces definitions of the terms "virtual currency" and "portfolio provider offering custody services". *Directive (EU) 2018/1673*, which lists the rules for combating money laundering; *Directive (EU) 2019/878*, which regulates in more detail the internal control and risk management systems in companies when issuing a permit to operate. It introduces new rules applicable to the financial sector on the exchange and dissemination of information. These rules are aimed at improving cooperation between prudential supervisors and anti-money laundering supervisors and aim to strengthen the role of the European Banking Authority as a guarantor of compliance with EU anti-money laundering rules. The directive also gives more rights to supervisors, who can now request the removal of board members if they have doubts about their suitability to carry out the activity, including from the point of view of combating money laundering; *Directive (EU) 2019/1153* introduces rules to facilitate the use of financial and other information to prevent money laundering, as well as its use to detect, investigate or prosecute certain crimes. The new rules are expected to strengthen criminal justice in the Member States by speeding up the access of law enforcement authorities to the financial information they need, by improving exchanges between them and Member States' financial intelligence units. The directive was supposed to be transposed into our domestic law by August 2021, but so far this has not been done; *Directive (EU) 2019/1937* on the protection of individuals who report infringements of Union law, which had to be transposed into our domestic law by 17 December 2021.

It also reflects **the package of four legislative proposals** of the European Commission of 20 July 2021, which is aimed at strengthening the EU legislative framework related to the fight against money laundering and terrorist financing. These include: New Regulation of the European Parliament and of the Council establishing an Anti-Money Laundering and Terrorist Financing Authority and amending Regulations (EU) № 1093/2010, (EU) 1094/2010 and (EU)

1095/2010¹⁵; New Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing¹⁶; New Regulation of the European Parliament and of the Council on information accompanying transfers of funds and certain cryptocurrencies¹⁷; New Directive of the European Parliament and of the Council on mechanisms to be put in place by Member States to prevent the use of the financial system for the purpose of money laundering and terrorist financing and repealing Directive (EU) 2015/849¹⁸.

The development of the **national legal framework** in the field of combating money laundering has been studied, which so far has three periods: The **first period** covers the period from 1998 to 2003, when Bulgaria is not yet a member of the EU, but has already stated its desire to join the Union by concluding an Association Agreement between the European Communities and their Member States, of the one part, and the Republic of Bulgaria, of the other part. In pursuance of the Agreement, our country is beginning a process of harmonization of domestic legislation with EU law. In this regard, the first Law on Measures against Money Laundering was adopted. After its adoption, the construction of the bodies to control money laundering begins and their powers are determined. **The second period** covers the period from 2003 to 2018 and is characterized by major changes in the legal framework for money laundering. The aim is, on the one hand, to comply with domestic legislation and the requirements of European acts regulating measures against money laundering, and on the other hand to implement the recommendations made by the European Commission to Bulgaria in the 2002 Regular Report on Cohesion Achievements. of the Bulgarian with the European legislation. **The third period** begins in 2018, when an entirely new law on anti-money laundering measures was adopted in response to the recommendations made in 2017 to Bulgaria in the Commission's Report to the European Parliament and the Council on Money Laundering and Funding Risk Assessment of terrorism affecting the internal market and related to cross-border activities. The 2018 law expands the range of persons who are obliged to notify the

¹⁵ Brussels, 20.7.2021, COM(2021) 421 final, 2021/0240(COD);

<https://eur-lex.europa.eu/legal-content/BG/TXT/HTML/?uri=CELEX:52021PC0421&from=EN>

¹⁶ Brussels, 20.7.2021, COM(2021) 420 final, 2021/0239(COD); <https://eur-lex.europa.eu/legal-content/BG/TXT/HTML/?uri=CELEX:52021PC0420&from=EN>

¹⁷ Brussels, 20.7.2021, COM(2021) 422 final, 2021/0241(COD); <https://eur-lex.europa.eu/legal-content/BG/TXT/HTML/?uri=CELEX:52021PC0422&from=EN>

¹⁸ Директива на Европейския парламент и на Съвета относно механизмите, които да бъдат въведени от държавите членки за предотвратяване на използването на финансовата система за целите на изпирането на пари и финансирането на тероризма, и за отмяна на Директива (ЕС) 2015/849, Brussels, 20.7.2021, COM(2021) 423 final, 2021/0250(COD); <https://eur-lex.europa.eu/legal-content/BG/TXT/HTML/?uri=CELEX:52021PC0423&from=EN>

Financial Intelligence Agency about their clients and their operations and transactions with credit and financial institutions; insurance companies and their branches; real estate agents; the persons organizing unofficial securities markets; the persons who by profession provide consultations in the field of taxation; persons who by occupation make transactions with items of high value, such as precious metals, precious stones, works of art, cultural and historical values; the persons who organize auctions for the sale of these items, when the payment is made in cash and the value or their equivalent in foreign currency is over BGN 30,000; Occupational legal advisers when they know that legal advice will be used for money laundering and / or that their client wishes to receive money laundering advice. With the last amendment of the law from March 2021, the following are excluded from the circle of persons who are obliged to apply the measures against money laundering: the privatization bodies; the persons organizing the award of public procurements; ministers and mayors of municipalities, as well as other contracting authorities and contracting authorities within the meaning of the Concessions Act when concluding concession contracts and other bodies.

Item 2. "Bodies established to combat money laundering" deals with the powers of the established international and national bodies to combat money laundering, such as: FATF - the working group on financial activities; Moneyval Committee; Egmont Group; Europol; OLAF - European Anti-Fraud Office; The Committee on the Prevention of Money Laundering and the Financing of Terrorism and Proliferation at the European Commission; EU FIUs Platform; FIU.Net; The World Bank and the International Monetary Fund; Basel Committee on Banking Supervision.

At national level, the bodies set up to control money laundering schemes and those obliged to apply anti-money laundering measures have been examined. These include: Specialized Administrative Directorate "Financial Intelligence" at SANS, General Directorate "Fight against Organized Crime" at the Ministry of Interior, Commission for Combating Corruption and Confiscation of Illegally Acquired Property, Commission for Financial Supervision, Bulgarian National Bank Customs", National Revenue Agency, Registry Agency, Prosecutor's Office.

A proposal has been made for a change in the structural affiliation of the Specialized Administrative Directorate "Financial Intelligence" at SANS, in order to improve the efficiency of this administrative unit.

In support of the proposal is the need to bring the Specialized Administrative Directorate "Financial Intelligence" to SANS in an independent body outside the State Agency

"National Security", which will make it equal to other bodies that also have powers in this area. will be independent in carrying out its activities following the example of the Commission for Combating Corruption and Confiscation of Illegally Acquired Property. Currently, the Specialized Administrative Directorate "Financial Intelligence" at SANS is designated as the leading structure in the field of money laundering, but in reality it is lower in the administrative hierarchy compared to other structures that have separate competencies in the field of money laundering. Despite the fact that the directorate occupies a lower administrative position, it is entrusted with being the coordinator of the processes related to the fight against money laundering among other bodies. The Directorate is also designated to give instructions to higher-level bodies with which instructions they must comply and apply.

In defense of the thesis about the need to separate the Specialized Administrative Directorate "Financial Intelligence" outside the SANS system, the fact is pointed out that initially the directorate was part of the Ministry of Finance until 2008, then moved to the State Agency security "(SANS). For its part, SANS is the legal successor of the National Security Service (NSS). In 2008, the NSS was transformed into a state agency. It includes the following directorates: Directorate for Protection of Communications, Security Service - Military Police and Military Counterintelligence and the Financial Intelligence Agency. At the moment, the Specialized Administrative Directorate "Financial Intelligence", as part of SANS, has a certain operational independence. It has its own office, different from the office of SANS, as well as its own seal, different from the seal of SANS. Unlike all other directorates in SANS, the Directorate it issues penal decrees on its own behalf in case of established violations under the LMML. It is stated that the directorate is not an operational directorate, ie. does not conduct intelligence activities, but is an administrative directorate, which is evident from its current name: Specialized Administrative Directorate "Financial Intelligence".

It is argued that if the Specialized Administrative Directorate "Financial Intelligence" acquires the status of an independent administrative structure, then for those liable under the LMML will not change. These persons, as before, will address the signals submitted by them for suspicious operations to the Specialized Administrative Directorate "Financial Intelligence" and not to the Specialized Administrative Directorate "Financial Intelligence" at SANS, ie. and now there is a certain form of operational autonomy of the administrative structure. In support of the proposal are data from the annual reports of SADFR - SANS for 2017, 2018 and 2019 (published on the website of SANS), which shows that there is a relatively stable number of submitted initial reports over the years. For example, for 2017 they are 2416; for 2018 there are 2128 pieces. and for 2019 there are 2325 pcs. In connection with the presented data, there is an

opinion that the proposal to bring the Specialized Administrative Directorate "Financial Intelligence" as an independent structure with a higher administrative position in the hierarchy compared to the state structures controlled by it will significantly contribute to improving its activities.

Item 3. "Conclusions and recommendations" compares the data from the 2011 report on the activities of the Specialized Administrative Directorate "Financial Intelligence" with the annual report of the Commission for Personal Data Protection on its activities in 2016 (Annual_Report_2016_CPD .docx) and the report of the State Agency for National Security for 2019, published on April 14, 2020. The comparison shows that there is an increase in notifications of suspicious transactions from 1427 in 2011 they are increased to 2894 in 2019. It is stated that "in 2019 SANS bodies carried out 220 scheduled and incidental inspections, which gave 1282 prescriptions for taking organizational and technical measures to improve the protection of classified information." He points out that in 2019 violations of illegal absorption of EU funds were established and as a result there was "damage to the national budget and the European Structural and Investment Funds from the specific criminal activity, which amounts to about BGN 17 million". The established tax frauds in 2019 have damaged the budget by BGN 205 million. " As a result of operations, charges were brought against 13 people. It is **regrettable** that the 2019 report does not provide information on the distribution of the notifications received according to the type of obligated entities that have to report on such operations. **It is recommended** that anti-money laundering supervisors rely not only on remote sensing methods, but also carry out on-the-spot checks, especially when the risk is high. It is also recommended that when carrying out inspections at controlled sites, the control bodies should not rely solely on the documents submitted by the inspected persons, but should also carry out their own inspection to establish the accuracy of the submitted information.

A summary of the October 2020 FATF recommendations aimed at expanding the scope of predicate offenses dictated by the COVID crisis has been summarized. It is pointed out that the FATF recommendations draw the attention of Member States to the possibility of criminals benefiting from rising unemployment, increasing remote transactions and accelerating the implementation of incentive programs that create the conditions for new money laundering schemes.

The proposals made in the FATF recommendations addressed to the Member States regarding the elaboration of a number of documents at national level are supported: a plan to

combat money laundering; identifying risks and envisaging adequate countermeasures; strengthening coordinated actions for risk assessment and risk management; developing a risk-based approach to ensure that measures to prevent or mitigate the effects of money laundering are commensurate with the identified risks; raising awareness of the "risk of dissemination funding" provided for in FATF Recommendation 1 and Recommendation 7; introduction of digital (contactless) payments as soon as possible, through the use of Fintech, Regtech and Suptech financial technologies, in order to reduce the risk of money laundering and increase risk management capabilities; adopting effective anti-money laundering measures in response to the Covid 19 pandemic, such as tracking and punishing financial fraud; advertising and trafficking in counterfeit medicines; offering fraudulent investment products linked to phishing schemes related to virus treatment; malicious or fraudulent cybercrime; fundraising for fake charities; medical fraud against people in urgent need of care; dissemination of misinformation about COVID -19; insider trading in connection with COVID-19; counterfeiting of medical goods and documents; against investment fraud and cybercrime.

A recommendation was made to the competent authorities to make a proposal to the European Commission asking the Member States to designate their national supervisory authorities for money laundering with similar or similar names and powers in the field of money laundering supervision, which will support the relationship between them and will contribute to increasing the efficiency of their activities at EU level.

Chapter Three: "Preventive Measures in the Non-Financial Sector" sets out the indicators that non-financial sector entities should apply to diagnose and analyze their customers and their transactions. The chapter examines in more detail the complex inspection, as a preventive measure that combines all other preventive measures. The chapter contains the results of a survey of 252 people on the awareness of the general public about the measures taken at the national level in the fight against money laundering. Conclusions have been made.

Item 1 "Obligors and applicable measures" outlines the range of persons from the non-financial sector, referred to in Article 4 of the LMML, who are covered by this study. These include: registered auditors and persons who by profession provide accounting services and / or consultations in the field of taxation; licensed appraisers; lawyers; notaries and deputy notaries; private bailiffs and their assistants; the persons who, by occupation, mediate in real

estate transactions and / or real estate rental transactions; consultants who carry out their activity in the form of a freelance profession. Our considerations to include in our study the listed persons are: the proximity of the subject of their activity; the direct and immediate contact they make with their clients, which enables them to trace the origin of the funds that their clients use; as well as our personal experience and knowledge of their activities. For example: registered auditors certify the annual accounts of enterprises and thus have information about their turnover, profits and assets, which gives them reason to assume that the trader-client is involved in a money laundering scheme. Licensed appraisers of movables and real estate, notaries and private bailiffs, as well as persons who mediate in real estate transactions, have direct information about the assets owned by their clients and their actual value, and can make an assessment for the conformity of the actual value of these assets with that indicated in the title deed. Therefore, these individuals can identify any material discrepancy between the actual value of an asset and the value at which it is recorded in the balance sheet of an enterprise or which is stated in a notary deed or other document that can be considered as an indicator of possible laundering. of money. Also, freelancers, as well as consultants who provide various services, including the provision of a company registration address, may in practice assist or participate in the planning or execution of an operation, transaction or other legal or factual action for their client, which is why they have information that may indicate that the client participates in one form or another in a money laundering scheme and are therefore listed among the entities obliged to take measures under the LMML. Lawyers, legal advisers and tax advisers are often used to carry out a wide range of transactions aimed at money laundering, tax evasion, tax fraud and misappropriation of EU funds. In addition, these specialists play an important role in building complex corporate structures and schemes to provide access to offshore companies abroad. This group of specialists also provides services to foreigners for the acquisition of real estate in our country or in other countries, through their contacts. These specialists also create or use for this purpose already established Bulgarian companies "phantoms". A commonly used form of money laundering recommended by these specialists is the indication in official legal documents, such as notarial deeds at a lower price of real estate than actually paid, in order to avoid paying taxes by their clients.

Of the prevention measures, the study covers mainly the complex inspection as the most comprehensive preventive measure, which in its subject and content fulfills the most fully set goals of the legislator. It is stated that the purpose of the comprehensive inspection carried out by non-financial sector entities is to gather information and assess the objectives and nature

of the business relationships of their clients. This verification clarifies the origin of the funds invested in commercial transactions, as well as the intended results. If, as a result of the complex inspection, it is established that there is money laundering, the persons from the non-financial sector are obliged by law to report to the controlling bodies. The control indicators that the persons from the non-financial sector should monitor are: the amount and the type of payment by transactions; the reason for the payments made between the clients; the regularity of payments and their total amount and other indicators discussed in detail in the dissertation. It is **concluded** that through a comprehensive inspection the most complete, accurate and comprehensive information about the controlled persons is collected, which allows to assess whether money is laundered through the activity performed by them.

Item 2 "Diagnosis of money laundering" examines the indicators for money laundering, which are applied by persons from the non-financial sector in the complex inspection. It is stated that the development of indicators is complicated because it requires the joint efforts of many different specialists with knowledge and experience in different fields. The reason for the complexity in developing indicators for diagnosing money laundering is rooted in the variety of applied schemes and techniques for money laundering, which makes it difficult to develop generally applicable indicators. The Organization for Economic Cooperation and Development (OECD) has taken on the difficult task of developing indicators¹⁹. Due to the proximity of the subject of control activities performed by revenue authorities and non-financial sector entities such as: verification of contracts and transactions, their nature and method of payment, and due to the lack of other in-depth development on the topic, we **accept** that these indicators may be applicable with some adjustments in the course of the comprehensive inspection carried out by non-financial sector entities. For these reasons, the

¹⁹ See Money Laundering and Terrorist Financing Awareness Handbook for Tax Examiners and Tax Auditors, 2009, First launched in 2009 as a practical tool to assist tax authorities in identifying money laundering during the course of normal tax audits, this revised handbook includes updated money laundering indicators and new material to increase detection and reporting of terrorist financing; вж. Money Laundering and Terrorist Financing Awareness Handbook for Tax Examiners and Tax Auditors, 2019, <https://www.oecd.org/tax/crime/money-laundering-and-terrorist-financing-awareness-handbook-for-tax-examiners-and-tax-auditors.pdf>; вж. и Schott, P., Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism Second Edition and Supplement on Special Recommendation IX, the World Bank, p.1-291; 2006 г. <http://documents1.worldbank.org/curated/ar/558401468134391014/pdf/350520Referenc1Money01OFFICIAL0USE1.pdf>; вж. и сборник под наименованието „Commonwealth Secretariat Combating Money Laundering and Terrorist Financing“; a book about “Model of Best Practice for the Financial Sector, the Professions and Other Designated Businesses”; 01 Jan 2005; 184 pages; book number 70; <https://www.oecd-ilibrary.org/content/publication/9781848598607-en>

study is conducted **in two directions**. On the one hand, the actions that non-financial sector entities should take to identify their clients, natural or legal persons, are monitored, and on the other hand, the indicators whose manifestation may lead individuals from the non-financial sector to establish transactions are identified and clarified aimed at money laundering.

As a result of the analysis it is stated that persons from the non-financial sector, when they have **individuals as clients** before entering into business relations with them, must collect data about the person from an officially issued and valid identity document or a certified copy. When making transactions with individuals, individuals in the non-financial sector should apply the following indicators that point to money laundering, namely: unusual income; unusual increase in wealth; unusual possession or use of assets; unusual obligations; unusual transactions. The study traces the actions and indicators that are applicable to customers, individuals or legal entities.

An income is considered unusual when it is established that the person lives without income or with a low income compared to the normal cost of living and / or the person lives extravagantly.

Suspicious of an unusual increase in the property status of a natural person arise when there is evidence that the person has inherited a family member who has been proven to have engaged in criminal activity; there is evidence of unexplained, unexplained or undocumented inheritance; when known criminals or their relatives have been voluntarily identified; when there is evidence of unexplained or undocumented winnings from gambling and lotteries²⁰.

Unusual possession or use of assets is observed when a person with a proven low income owns or uses expensive assets such as a car, boat, real estate, a large amount of cryptocurrency, etc.; or when it is established that the person holds assets abroad for which he cannot prove that they are indicated as a source of income in his tax return.

Data on **unusual transactions** can be found in registers or reports provided by the financial intelligence unit of the respective country; in property registers, which show the person's purchase of high value assets (eg housing) at a relatively low income or without a loan or mortgage; from data on the purchase of assets of high value but paid at a price much lower than their market value; from data for obtaining a disproportionately large mortgage loan for

²⁰ See Article 53 of the LMML, in connection with Article 16 of the LMML

the purchase of property at a relatively low income; from data for participation in a transaction for quick resale of a property without previous experience in the field of real estate; from data on a cash transaction with an unknown person (fictitious sale); in the presence of information obtained from external sources (for example from law enforcement agencies, the media, social networks and other sources) that a person has purchased an item or property of high value²¹.

An indicator of the presence of illegally acquired funds are data on **unusual obligations of the client**. This is evident in cases where there is evidence that the person receives a disproportionately large mortgage loan at a relatively low income; or when a person receives a loan or loans from other unidentified persons in significant amounts.

It is common practice for some individuals using income such as those described above to try to conceal the illicit origin of their funds by presenting them as having been acquired from a seemingly legitimate source. The presentation of the origin of funds as such, acquired from a legal source, is often disguised in the form of legal transactions that the client makes with himself or with third parties who provide professional services. Despite the fact that the form and content of the transactions are legal, there is money laundering, because the funds used to carry out these transactions have a criminal origin and through the execution of transactions is aimed at their laundering, ie. turning them into legally acquired funds.

As a result of the analysis it is stated that the persons from the non-financial sector, when they have **clients legal entities**, before entering into business relations with them, must identify the client - legal entity, by collecting data for: name; legal organizational form; registered office in the country where the person is registered; management address; mailing address; current condition of the person; data on management bodies and control bodies; data on the persons representing the person, data on the purpose and nature of the business relationship that the person wishes to establish with a person from the non-financial sector, as well as other information at his discretion. In order to collect the data, the persons from the non-financial sector may perform an inspection in the public register - BULSTAT or require the natural person, who is the owner of a legal entity, to provide the necessary documents and declarations, which will show who the owners are. For legal entities whose shares are traded

²¹ See cit. cf. "Money Laundering and Terrorist Financing ..."

on a regulated market, information is collected in accordance with the Law on the Public Offering of Securities, as well as from other sources²².

To the indicators applicable to **clients - legal entities registered in Bulgaria**, the persons from the non-financial sector should pay attention to: unusual transactions and partners; unusual off-balance sheet items; unusual balance sheet items; unusual elements in the income statement; unusual cash flows; unusual turnover or sales; existence of inequality between the received income and the property owned by the legal entity; availability of data on unreported sales, personal loans provided by the company, undeclared personal capital gain on the sale of an asset acquired by the owner of the company with funds of dubious origin, etc.²³

Indicators of **unusual transactions and partners** are most often present when the legal entity is managed in a way that shows poor knowledge of the managed business; or transactions are made with goods or services that do not correspond to the company's profile; or transactions are carried out without a clear commercial basis; or transactions or agreements are established for which there are no relevant supporting and justifying legal and accounting documents; or transactions are made with offshore companies; or transactions are made with persons or their partners who are suspected of committing crimes; or opaque customers or those who cannot be identified as creditors or lenders have been identified; or transactions with business partners or clients with the same address have been established; or transactions for the sale of assets have been established, but this cannot be confirmed by the available documents due to the lack of data that the assets have been paid for and handed over to a buyer.

Indicators of **unusual off-balance sheet items are manifested** in the presence of non-transparent ownership of a company or other form of association that is used to carry out commercial activities; or where the partners are persons who are partners or participants in a criminal group or are connected with such persons; or when a company is established that participates in an international structure without clear commercial, legal or tax benefits; or when

²² For more details, see and Art. 59 of the LMML in connection with instructions for filling in Appendix № 3 to Art. 38 of the PPZMIP.

²³ For more details, see and cit. Money Laundering and Terrorist Financing Awareness Handbook for Tax Examiners and Tax Auditors, 2009, First launched in 2009 as a practical tool to assist tax authorities in identifying money laundering during the course of normal tax audits, this revised handbook includes updated money laundering indicators and new material to increase detection and reporting of terrorist financing; вж. Money Laundering and Terrorist Financing Awareness Handbook for Tax Examiners and Tax Auditors, 2019, <https://www.oecd.org/tax/crime/money-laundering-and-terrorist-financing-awareness-handbook-for-tax-examiners-and-tax-auditors.pdf>;

there is evidence of buying or selling shares of another company at a price significantly above or below the estimated value; or there is a registration of the owners or directors of the company at the address of a foreign provider of company management services; or the presence of unfavorable information for the client from public sources is established; or there is information about the client from sources with limited access (eg from a financial intelligence unit, police, etc.).

Indicators of **unusual balance sheet** items appear when it is claimed that contributions have been made by the owners to the company's capital, but this is not reported in tax returns or financial statements. There are also unusual balance sheet items when data on the accumulation of interest on loans received or granted by the owner or directors of the company or when there are cash balances that are excessive for the company's activities.

Indicators for **unusual elements in the income statement** are available when there is a strong increase in turnover or sales compared to the cost of sales; or when there is a significant increase in the company's profit margin, without any reason in view of the activity performed; or when it is found that the cost-to-sales ratio of the company does not correspond to the industry in which it operates.

Indicators of **abnormal cash flows are observed for payments to or from third parties** not involved in transactions; or in the case of payments to or from unrelated offshore companies or accounts; or when using a company bank account as a transit cash flow account; or in case of non-transparent or unverifiable origin of funds (eg cash contributions, loans or sales); or when it is established that the nominal values and the currency are not specific to the industry in which the company operates; or there are bank deposits that are not declared as turnover, respectively no sales are established; or there is cash flow for no apparent economic reason or without appropriate accounting documentation, and other unusual actions that are discussed in detail in the dissertation.

Indicators of **unusual turnover or sales are observed** with a significant increase in the so-called anonymous turnover or cash sales; or significant cash payments have been received for luxury goods sold; or significant cash payments have been received for goods that have never been delivered, ie. are intended for a fictitious buyer; or there are transactions without an obvious commercial basis or supporting documentation, ie. without contracts, agreements, etc.

Frequently used money laundering schemes by legal entities are **fraudulently transparent and fictitious sales**. In this scheme, proceeds of crime are recorded as sales.

Persons in the non-financial sector should carefully and thoroughly review and examine the accounting and tax documentation of clients - legal entities, in order not to be misled by seemingly accurate and accurate documentation, which, however, may contain data that may give rise to reasonable suspected money laundering.

Individuals in the non-financial sector must monitor money laundering by making **fictitious sales** when illegal funds are deposited in a company bank account together with funds from real (legal) sales. Illegal funds are accounted for and reported as money received from the legal turnover of the company. The more funds paid in are indicated in the tax return of the person as income for which he pays the due taxes. In some cases, the company may not pay corporate tax on this increased income if the company has existing commercial losses or if it indicates and deducts expenses that it did not actually incur. The same result is obtained when the salary of the director is fictitiously increased.

In our opinion, these indicators can be useful to registered auditors and to persons who by profession provide accounting services and / or consulting in the field of taxation; of lawyers and freelancers to determine whether certain transactions or financial transactions use funds obtained from criminal activity or those obtained from drugs, extortion, human trafficking, or non-taxable income.

In the dissertation work are examined indicators for **unusual parties** to the transaction, when there is evidence that the foreign legal entity is managed by a provider of trust or company management. The indicators to be monitored by non-financial sector entities are: **indicators of unusual transactions; abnormal cash flow indicators; non-transparent ownership indicators.**

The actions and indicators that non-financial sector entities need to take to identify **the financial channels of their clients** to which a chain check relates are clarified: source, funds transfer, consumer. The indicators and techniques for identifying financial channels in real estate transactions have been studied; in the presence of cash; when importing goods, which are discussed in detail in the dissertation.

Item 3 "Measures for the protection of whistleblowers" deals with **Directive (EU) 2019/1937**, which introduces rules for the protection of whistleblowers, including in the reporting of offenses related to money laundering. The directive is mandatory for transposition by the Member States by 17 December 2021.

It has been clarified for years that the EU has been discussing the need to address the fears of those concerned about improving the effectiveness of anti-money laundering measures which must be transposed by the Member States by 17 December 2021. It has been clarified for years that the EU has been discussing the need to address concerns about improving the effectiveness of anti-money laundering measures. the fear of persons designated by law to report established violations or suspicious transactions. It is stated that the EU acts regulating this matter, including the legislation at the level of national legislation, do not provide protection for persons who are obliged to report suspicious transactions or transactions²⁴.

It is clarified that the emphasis is only on the obligations of individuals to report on what they have found in the course of their activities, without ensuring that their reporting does not reach the persons for whom this information is provided. This large gap in the legislation on safeguards leads to a low level of reporting on suspicious transactions and transactions or to persons involved, as well as to a low level of disclosure of money laundering actions. The reasons, grounds and protection provided by the directive are stated.

It is stated that in Bulgaria on the initiative of the Ministry of Justice in 2021 a working group was established to propose a draft legislative act to transpose Directive (EU) 2019/1937 into our domestic legislation. The Working Party has expressed the view that **a separate Law on the Protection of Persons Reporting or Publicly Disclosing Information** is needed, which we support.

There are disputes in the Working Group regarding the recognition of **anonymous signals** as a basis for inspections. We express the view, **which we support**, that signals submitted anonymously should also be considered, because those who submit them are concerned about revealing their identities as well as retaliating against them. **We also support the thesis** that the most important part of protecting whistleblowers is the confidentiality of the information they provide, as well as maintaining the confidentiality of their identity. **We maintain** that the obligation of confidentiality will work effectively as a protection tool, depending on the number of officials who will be involved in the processing of signals and the specific responsibility they will bear in case of non-compliance.

²⁴ For more details, see the following studies :M Worth et al, “Safe or Sorry: Whistleblower Protection Laws in Europe Deliver Mixed Results“ (Report, Blueprint for Free Speech 2018) <<https://www.changeofdirection.eu/assets/uploads/BLUEPRINT%20-%20Safe%20or%20Sorry%20-%20Whistleblower%20Protection%20Laws%20in%20Europe%20Deliver%20Mixed%20Results.pdf>> (last accessed 1 June 2020); See *Guja v Moldova* App no 14277/04 (ECtHR, 12 February 2008), the first judgment on this form of protection. For a description and analysis of the subsequent case law, see V Junod, “Lancer l’alerte: quoi de neuf depuis Guja?” (2014) 98 *Revue trimestrielle des droits de l’homme* 459 and E Cobbaut, “Les Lanceurs d’alerte: Un Objet Juridique Non Identifié?” (2018) 1 *Auteurs et Média*;

In view of the forthcoming implementation of the provisions of Directive (EU) 2019/1937 in our domestic legislation, it is advisable to express **support from VUZF to the working group on the bill.**

Item 4 "Analysis of the results of a survey" reflects the results of a survey on "Money laundering in the non-financial sector".

The survey was conducted online, and the questionnaire was distributed through various communication channels such as email, telephone and various social networks such as Facebook. The survey is anonymous and does not collect personal information. It covers 252 people. Of these, 131 people or 52% are economists. Of the 131 who indicated that they have an economic education, only 112 indicated the type of their economic education, and 42.86% of them or 48 have completed accounting, auditing, banking, public or international finance, which shows special interest on the part of financial specialists in the field of money laundering. Just over half of the respondents - 50.4% or 127 people work in the non-financial sector.

There are no questions in the survey, from the answers of which only the answers of the individual respondents working only in the field of non-financial institutions can be extracted. We received consent for the participation of the surveyed group of persons from non-financial enterprises, provided that the specific profession and name of the non-financial enterprise in which they work is not indicated. We received the same condition from the persons working in financial and non-financial institutions.

The requirements and restrictions for anonymity set by the persons from the non-financial sphere, as well as from the financial sphere, are, in our opinion, caused by certain of their fears for retaliation against them. We also accept that these concerns lead them not to strictly carry out all checks and identifications for money laundering, as well as to report money laundering in the event of such an act. In our opinion, there are two reasons, the leading one being the lack of adequate legislative measures to protect them and ensure their safety and security from subsequent responses by criminal organizations and money launderers. The other reason, in our opinion, for the anonymity desired by the respondents is related to the fact that they do not sufficiently comply with the statutory procedures and references under the Money Laundering Act in order to preserve their clients. What is the leading reason, we can not give an unambiguous answer, not excluding any.

When conducting the survey, the respondents from the non-financial sector wished not to answer narrowly specialized and specific questions in the field of money laundering prevention, so we have included more general questions. This is further proof of our assumption that they are afraid for themselves and their business. Since there is no question about a profession, we cannot analyze only their answers (no one would like to admit that he does not comply with the Money Laundering Act because he fears for his life or losing a client).

For these reasons, **we accept** that the transposition of Directive (EU) 2019/1937 in local law and in a separate law on the protection of whistleblowers will largely solve this problem, in its part those who fear to strictly observe the measures due to the threat to their life and health. **We accept** that the adoption of such a law will increase the quality of preventive activities in the process of money laundering by persons in the non-financial sector, because they will have the necessary legislative protection to ensure their security in reporting suspicious transactions and attempts at laundering. of money.

Based on the analysis of the results obtained from the representative survey, the following **conclusions and recommendations** can be made:

1. Money laundering, among other major financial crimes, to be included in the curricula of students from specialized secondary schools (high schools, technical schools, high schools) and all other students studying basic economic disciplines in order to increase of their **economic culture and interest**;

2. Money laundering to be included in the **National Strategy for Financial Literacy** of the Republic of Bulgaria, which is aimed at society as a whole, and not only at young people²⁵;

3. Carry out a campaign aimed at people with **lower levels of education** (primary and lower secondary) in order to be aware of the many serious risks of money laundering and to be able to protect themselves and their loved ones from **unintentional involvement** in such illegal schemes and activities;

²⁵ For more details, see <https://www.strategy.bg/PublicConsultations/View.aspx?lang=bg-BG&Id=6354>.

4. The state should periodically conduct an adequate information program to help more people be aware of how to **identify the various forms of money laundering** and to which institutions **to report** in case of suspicion of such illegal activity.

5. Through the information program implemented by the State and through the implementation of measures in all forms of education, including through the National Strategy for Lifelong Learning²⁶ to acquaint all age groups of the population with the growing importance of illegal activities such as **cyber crime, human trafficking, terrorism and others**;

6. Increasing coordination and cooperation between the various state bodies, both at national and European level, in order to increase the confidence of the population in **the legislative**, executive and judicial branches, on the one hand, and in the adequacy, stability and security of **the financial system** our country, on the other hand.

7. Increasing the economic efficiency in **the field of public finances** - both at state and local level;

8. Problems related to financial crimes, including money laundering, to be more **widely publicized** through the media (television, radio, print and electronic media), social networks and other appropriate communication channels;

9. The state to conduct adequate and **timely research** in the field of **information security of citizens** in order to identify their **unmet information needs** and to take appropriate action to meet them.

10. Systematic updating of the legislative framework in the field of money laundering in order to prevent emerging mechanisms and schemes in this field.

11. Urgent need for the adoption of a law to ensure the safety of persons disclosing signals of money laundering. Proof of this is the fear of the respondents from non-financial enterprises to reveal their identity and the name of the company in which they work.

As a **general thesis** it can be concluded that **the higher the general economic and in particular the financial culture of the population, the stricter the rules for money**

²⁶ For more details, see The National Strategy for Lifelong Learning, https://eacea.ec.europa.eu/national-policies/eurydice/content/lifelong-learning-strategy-12_bg

laundering by all persons in the circle of the non-financial sector, the more timely the legislative framework reflects newly emerged money laundering schemes, the higher the control and the more effective the prevention of money laundering, resp. the share of this financial crime will be lower, as part of the total crime in the country, other things being equal.

CONCLUSION:

In conclusion, we point out that the topic of money laundering in the non-financial sector is of considerable interest from both a practical and a theoretical point of view.

The dissertation is developed in accordance with the goal and the tasks arising from it. The dissertation examines the nature and mechanisms of the process of money laundering from its inception in antiquity to the present day. Based on a study, its negative impact on the economic development of countries has been proven. The study proves that society is aware of the negative consequences of this process and therefore the countries have joined forces to create conditions for intolerance to acts and their perpetrators, which are aimed at money laundering. The research indicates the measures that countries are taking in the fight against money laundering. The dissertation argues that due to the introduction of predicate offenses in the national legal systems of countries, there is a reduction and significant reduction in actions aimed at money laundering in especially large amounts. It is stated that the system established at the interstate level for the rapid exchange of information between the competent authorities designated to control and implement measures against money laundering in individual countries has made a significant contribution to curbing the money laundering process. The dissertation presents the view that the developed general regulatory framework introduced by the EU member states, as well as the decisions, acts and recommendations of a number of international organizations such as the UN, OECD, FATF and others contribute to limiting money laundering. It is emphasized that informing the public and its commitment to intolerance towards perpetrators of predicate offenses is important in the fight against money laundering. The dissertation outlines the actions that lawyers, accountants, tax consultants, notaries, auditors, private bailiffs, licensed appraisers of movables and real estate, as well as persons who mediate in real estate transactions must perform, to identify customers, their owners and their financial channels in order to implement measures to prevent money laundering. It is proposed to group the indicators and the applicable techniques, the manifestation of which shows the persons from the non-financial sector that a process of money laundering is carried out by their clients.

It can be concluded that the issue of combating money laundering in the non-financial sector is very broad, addresses a number of important issues and its research needs to be continued.

IV. REFERENCE ON THE MAIN SCIENTIFIC CONTRIBUTIONS IN THE DISSERTATION

The dissertation contains the following scientific and applied scientific contributions:

1. The historical follow-up in the development of the legal framework regarding money laundering.

2. A substantiated proposal has been made for the transformation of the National Specialized Administrative Directorate "Financial Intelligence" into an independent body in the state administration, which would lead to improved efficiency of its work.

3. The need to establish in the Member States a harmonized structure of bodies supervising money laundering in order to facilitate interaction between them.

4. Systematization of the actions of a limited number of persons from the non-financial sector to be undertaken by them to identify customers, their owners and their financial channels. Specific indicators and techniques have been proposed to prevent the same groups of non-financial sector individuals from preventing money laundering.

5. The need to develop and adopt a strategy at national level to address public intolerance of money laundering is highlighted.

V. LIST OF PUBLICATIONS ON THE TOPIC OF THE DISSERTATION

1. Kavrakova, P., report on the topic: "Two current methods of paperwork", Sofia, UNWE, 15th International Scientific Conference of Young Scientists on "The Economy of Bulgaria and the European Union: Circular Economy and Corporate Social responsibility ", organized by the FSF of UNWE, on November 22, 2019, published published on disk.

2. Kavrakova, P., article, "On some measures against money laundering", Sofia, Aktiv magazine, accounting matrix, magazine for professionals in the field of accounting, finance and insurance. ISSN 1314-3484 / print /, ed. Dobi press, issue 12, 2019, pp.23-31.

3. Kavrakova, P., article "Models and schemes applied in money laundering in the non-financial sector", vol. XIII rd International Scientific Conference - Knowledge capital in the future, December -13-15 2019, Bansko, Bulgaria, International Journal, vol.35, p. 345-342.

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<https://ikm.mk/ojs/index.php/KIJ/article/view/2334>

4. Kavrakova, P., Report on the topic: "Indicators for control over money laundering by individuals and non-governmental organizations", requested for participation in the National Student and Doctoral Conference "Economic Challenges for Bulgaria (2021-2023) - Sustainability and risks ", VUZF held on April 23, 2021. The report was published in the edition of VUZF, ISBN 978-619-76-22-05-8, pp. 367-376.

https://vuzflab.eu/wp-content/uploads/2021/11/Sbornik-dokladi-studentPhD-Conference-2021_3.pdf

5. Kavrakova, P., article, "Money laundering - how well the society is informed", Sofia, Active Accounting Matrix magazine, a magazine for professionals in the field of accounting, finance and insurance. ISSN 1314-3484 / print /, ed. Dobi press, issue 5, 2021, pp.23-31.

6. Tzenova, L., Kavrakova, P., article: "Protective measures for persons reporting money laundering", vol. "Bulgaria's membership in the EU: 14 years later", Department of IIE and Business at the Faculty of International Economics and Politics, 2021, UNWE / published by UNWE Publishing House - *appendix: official note*