

STATE REGISTRARS IN THE CONTEXT OF FINANCIAL MONITORING IN UKRAINE

Krytiiev Anatolii

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Annotation. This research paper presents a comprehensive study of the institutional status and functional role of state registrars within the national system for preventing and combating the laundering of proceeds from criminal activities. The relevance of the topic stems from the need to transform the activities of registrars from a technical process of recording legal facts into an effective tool of preventive financial monitoring. The author highlights the existence of an ‘institutional vacuum’ whereby state registrars, whilst being on the ‘front line’ of control during the establishment of business entities, are not, de jure, granted the status of primary financial monitoring entities, which limits their ability to detect signs of fictitious business at the pre-transaction stage.

The paper provides a thorough analysis of the current regulatory framework, in particular the Law of Ukraine “On Prevention and Counteraction to Legalisation (Laundering) of Criminal Proceeds, Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction” and legislation in the field of state registration. A causal link has been established between the inadequacy of procedures for identifying high-risk individuals and the growth of the shadow economy. Based on an analysis of practical case studies and data from open sources (in particular, the Opendatobot platform), the paper highlights schemes involving the use of ‘nominee services’, the mass registration of business entities under a single individual, and ‘business fragmentation’ for the purpose of minimisation of the tax burden.

Particular attention has been paid to a critical analysis of the provisions of the National Revenue Strategy for 2024–2030, specifically regarding the potential introduction of value added tax for individual entrepreneurs. The risks that such changes would pose to small businesses have also been assessed. The academic novelty of the research lies in the development of specific proposals for amending Ukrainian legislation with the aim of granting state registrars the status of primary financial monitoring entities and integrating their activities with the databases of the State Tax Service and the National Bank of Ukraine.

The author argues that the introduction of a risk-based approach at the stage of state registration will shift the focus of control from the banking sector to the stage of establishing business operations, thereby ensuring transparency in the business environment and enhancing the country’s economic security. Recommendations have been formulated regarding the creation of a unified digital platform for interaction between the Ministry of Justice of Ukraine, tax authorities and the banking sector to enable the rapid identification of ‘shell companies’ and prevent the exploitation of vulnerable groups of population in unlawful financial schemes.

Key words: banking institution, state registrar, taxes, tax service, individual entrepreneur, financial monitoring, legal entity.

1. Introduction.

In Ukraine’s current legal landscape, the activities of state registrars constitute a fundamental element of the national system for preventing and combating the laundering of criminal proceeds. As they handle

most of the documentation related to the establishment of business entities, state registrars effectively serve as the 'front line' of control. However, a key problem is the significant limitation of the information and analytical tools available to registrars when carrying out registration activities. This prevents them from fully identifying priority risks and detecting signs of bogus businesses as early as they are established.

Experience in law enforcement indicates that professional intermediaries, such as experienced lawyers or consultancy firms, are typically engaged to set up legal entities that are subsequently integrated into 'money laundering' schemes. The use of qualified legal guidance ensures that documents formally comply with legal requirements, while concealing the true purpose of establishing the company and the beneficial owners. Under such circumstances, the state registrar, lacking access to advanced analytical systems and databases of high-risk entities and individuals, unwittingly facilitates the legalisation of structures with signs of fictitiousness.

Creation of the necessary legal and procedural framework for the implementation of a risk-based approach in the activities of registrars is a strategic objective. Enabling them to identify potential risks at an early stage will significantly reduce the size of the informal economy. Furthermore, this will shift the focus of control from the banking sector to the state registration stage, thereby reducing the administrative burden on bank employees. Therefore, modernising the functions of the state registrar in the context of financial monitoring is a necessary step towards ensuring transparency in the business environment in Ukraine.

2. Analysis of scientific publications.

The theoretical framework of this study is based on the work of Melnik S.I., Vinichuk M.V. and Gorban I.M., who justify the priority of a risk-based approach and a preventive focus within the financial monitoring system [1].

The criminological aspect of the problem is explored by Levchenko Yu.O. and Mykytchyk O.V., who emphasise the need to strengthen the powers of registrars regarding the analysis of suspicious activities to prevent document forgery [2].

Drawing on the findings of Ukrainian scholars, we consider it appropriate to further research into mechanisms for identifying the subjective aspect (intent) of future transactions subject to financial monitoring. Our analysis focuses on the activities of Ukraine's state registrars, as it is precisely at the stage of state registration that the conditions are created for the subsequent use of legal entities in shadow economy schemes, which requires the introduction of new analytical control filters.

3. The aim of the work is to conduct a comprehensive study of the functions of the state registrar in the context of preventing the laundering of proceeds of crime, as well as to formulate proposals for modernising the regulatory framework in order to enhance the information and analytical capabilities of registrars.

4. Review and discussion.

The process of business institutionalisation begins when an entity acquires the relevant civil-law status through the state registration of a legal entity or an individual entrepreneur.

In accordance with the provisions of the Law of Ukraine "On Prevention and Counteraction to Legalisation (Laundering) of Criminal Proceeds, Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction" (hereinafter referred to as the Law No. 361-IX) the entities responsible for primary financial monitoring in relation to business support and establishment are: notaries; business entities that provide legal services; persons who provide services on establishment, operation or management of legal entities, trusts and other entities without legal personality [3].

Supervision in the field of financial monitoring regulation of the aforementioned entities is carried out by the Ministry of Justice of Ukraine.

The regulatory framework governing the activities of specially designated primary financial monitoring entities in the field of state registration is characterised by its multi-tiered structure and sectoral diversity. The key piece of legislation in this area is Law No. 361-IX [3], which establishes the general principles for preventing and combating money laundering. The procedural aspects of the activities of these entities, which are subject to state regulation and supervision by the Ministry of Justice of Ukraine, are detailed in the Regulations on the Conduct of Financial Monitoring by Primary Financial Monitoring Entities, approved by Order of the Ministry of Justice of Ukraine No. 3201/5 of 10 September 2021 [4]. This document regulates the specific procedure for carrying out financial monitoring measures.

The state's control and supervisory function in this area is ensured through the Procedure for the Exercise of Supervision in the Field of Preventing and Combating the Legalisation (Laundering) of Proceeds of Crime, approved by Order of the Cabinet of Ministers of Ukraine No. 662 of 16 June 2023 [5]. This regulatory act standardises the approaches of Ukraine's ministries of finance, justice and digital transformation to verifying compliance by entities with the requirements of legislation in the field of preventing the legalisation of criminal proceeds.

A separate regulatory framework is constituted by specific legislation governing registration procedures. The legal procedure for establishing and legalising business entities is set out in the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organisations" [6]. It is precisely the correlation between the provisions of this Law and the requirements of financial monitoring legislation that creates the legal framework within which the state registrar must perform a preventive function to identify potential risks at the stage when the documents are submitted for business registration.

As a rule, the registration of a legal entity or an individual entrepreneur is carried out by a state registrar. As of 2026, the exact number of state registrars responsible for registering legal entities, individual entrepreneurs and public organisations in Ukraine has not been published in a standardised format, as their list is dynamically updated by the Ministry of Justice of Ukraine depending on martial law and cybersecurity considerations. Furthermore, public access to the list of state registrars is currently unavailable.

An analysis of publicly available information suggests that there is a widespread practice in Ukraine when a large number of companies are registered in the name of a single individual. These companies subsequently become involved in tax avoidance schemes and money laundering.

Such companies are usually established/registered with the state registrar as required by current legislation; however, state registrars are not designated as primary financial monitoring entities, and therefore have no obligation to verify whether an individual is involved in unlawful schemes.

Particular attention should be paid to the fact that the provisions of the Law No. 361-IX currently do not apply directly to state registrars in terms of granting them the status of primary financial monitoring entities. This creates a certain institutional vacuum, as the registrar, whilst having access to primary information about the business being established, lacks the actual powers to conduct a thorough check on individuals who may be seeking to facilitate tax evasion or the legalisation of shadow capital.

In order to provide state registrars with effective tools to thoroughly verify applicants and identify signs of fictitious business operations, it is considered appropriate to include them in the list of primary financial monitoring entities. This would give them a legal status requiring them to apply a risk-based approach when carrying out registration activities.

The experience of the banking sector could serve as the methodological basis for developing the criteria for such checks. In particular, it would be advisable to adapt the provisions of Resolution No. 65 of the Board of the National Bank of Ukraine dated 19 May 2020 "On the Approval of the Regulations on the Conduct of Financial Monitoring by Banks". Annex 19 "Criteria for the risk of legalisation (laundering) of criminal proceeds, terrorist financing and financing of proliferation of weapons of mass destruction, terrorist

financing and/or the financing of the proliferation of weapons of mass destruction” to the aforementioned Regulations is of particular importance in this context. Adapting these criteria to the specific nature of registration activities will enable state registrars to carry out preventive analysis of atypical behaviour by founders, identify signs of nominal ownership among management, and block attempts to establish shell companies even before they commence active financial operations [7].

An important step towards modernising the preventive function is to enhance the information and analytical capabilities of state registrars. Granting them access to the databases of the State Tax Service of Ukraine, even with restricted functionality, will significantly facilitate the process of verifying individuals who act as founders of new enterprises. This will enable the identification of individuals who are frequently involved in tax minimisation schemes without their actual knowledge, or so-called ‘nominee’ owners.

Thanks to such data integration, the state registrar will be able to promptly analyse an individual’s tax history and their links to other business entities where they hold the position of a director, accountant or are a founder. In our view, the list of information required for verification should include, in particular: the individual’s current status within the structure of other legal entities; the presence of established taxpayer risk criteria; key indicators from income declarations and the level of taxes and duties paid; the existence of any arrears to the budget; information regarding the individual’s involvement in criminal proceedings related to economic crimes.

Furthermore, it seems scientifically justified to introduce a mechanism limiting the number of legal entities registered by one individual, provided that such an individual meets specific risk criteria. To prevent abuse of powers by officials of state registration bodies and ensure the oversight is objective, the level of taxes and duties paid by enterprises controlled by the individual should serve as the key indicator for such a restriction. The introduction of such safeguards will make it possible to block the establishment of ‘shell companies’ at the registration stage, which is crucial for the stability of the state’s financial system.

The civil law aspect of the disposal of shares in the authorised capital is governed by Article 21 of the Law of Ukraine “On Limited Liability and Additional Liability Companies”, which provides for the right of a shareholder to dispose of their share, either for consideration or free of charge, to other shareholders or third parties [8]. However, the current procedure for the unhindered change of owners and managers of legal entities creates significant corruption risks and opportunities for abuse in the area of financial monitoring.

In our view, the introduction of amendments aimed at establishing certain restrictive measures regarding the re-registration of corporate rights is a pressing issue today. It would be advisable to introduce a mechanism whereby changes to the shareholders or management of a legal entity are only permitted after confirmation that there is no tax debt, and after the entity has undergone a relevant check by the state tax authorities.

The implementation of such an initiative would have a number of positive effects on the country’s economic security, in particular: a significant reduction in tax avoidance and evasion schemes; the prevention of embezzlement of state budget funds through fictitious transactions; a reduction in the administrative burden on tax and law enforcement officials by eliminating the consequences of the activities of ‘transit’ companies.

The most significant outcome of these changes will be the elimination of the main mechanism for conducting dubious financial transactions and the subsequent laundering of funds. As a result, it is anticipated that the artificially created institution of ‘nominee services’, i.e. the use of nominal persons as founders and directors, will gradually disappear from Ukraine’s legal framework. This category usually involves socially vulnerable groups (students, pensioners, low-income citizens), who, in return for financial remuneration or through the use of their lost documents, become the nominal owners of a large number of companies. Legislative reform in this area will create an effective barrier to the use of such individuals in illegal schemes, a practice that remains widespread to this day.

The practical aspect of the study confirms that the fictitious registration of legal entities has a number of destructive consequences. They include the accumulation of irrecoverable tax debt, the imposition of penalties, the initiation of criminal proceedings, the freezing of assets in banking institutions, and irreversible reputational and legal consequences [9].

Particular attention should be paid to the practice of using 'nominee' individuals for identification and verification procedures at banks. Organised groups usually accompany these individuals to financial institutions to open accounts formally, after which full control over remote banking services ('client-bank') is transferred to the real beneficiaries to facilitate unhindered transactions. This model of account management clearly shows the fictitious nature of the legal capacity of the registered individual.

Analysis of data from the Opendatabot platform reveals clear risk indicators, in particular an unusual concentration of registration data. For example, cases have been identified where over a thousand individual entrepreneurs were registered to a single telephone number, which is a classic criterion of 'mass registration' and indicates the artificial nature of such entities [10].

In the corporate sector, it is common practice to 'fragment businesses' by creating an artificial pool of individual entrepreneurs. This enables large companies to minimise unlawfully their tax liability by remaining within the simplified taxation system. The importance of detecting such schemes is highlighted by checks carried out by the State Tax Service of Ukraine. For example, 10 large retail chains selling household appliances and electronics were revealed to use a mechanism to fragment their ownership structure in order to evade paying full taxes [11].

These facts highlight that the state registrar, having access to information on contact details and the connections of individuals, can act as a barrier to such schemes as early as the document submission stage, provided that appropriate analytical verification algorithms are in place.

The causal link for the above actions on the part of business representatives can be attributed to the high tax rates in Ukraine:

- value added tax (VAT) at 20%;
- income tax at 18%;
- single contribution to compulsory state social insurance at 22%;
- military levy of 5%;
- it should also be noted that the State Tax Service of Ukraine frequently blocks tax invoices (often without justification).

In accordance with the National Revenue Strategy for 2024–2030, the Ukrainian government intends to introduce a value-added tax on the business activities of individual entrepreneurs. Should a new VAT be introduced for individual entrepreneurs, there is a risk that a large number of them will go bankrupt, which would further impact the already poor standard of living of small businesses and the population of Ukraine.

5. Conclusions.

The research conducted has proven the need to modernise the legal status of the state registrar, with a view to strengthening the preventive function of financial monitoring. The following is proposed based on the results of the analysis:

1. To amend Part 2 of Article 6 of the Law of Ukraine "On State Registration of Legal Entities, Individual Entrepreneurs and Public Organisations", expanding the powers of the state registrar to verify applicants in the following areas:

- ensuring access to the 'Tax Block' automated information system to check individuals (founders/directors) for inclusion in high-risk categories and the presence of 'nominal' characteristics that may indicate an intention to set up 'shell companies';

- checking the individual's tax compliance status, as well as analysing tax compliance at other business entities where the individual is a beneficiary or director;
 - mandatory monitoring of data from the Unified State Register of Court Decisions regarding an individual's involvement in criminal proceedings related to tax offences, embezzlement of budget funds or money laundering;
 - introducing a mechanism for the prompt exchange of information with the National Bank of Ukraine to identify individuals with whom banks have already classified business relationships as unacceptably high risk, or who have been included in lists of persons refused service.
2. To introduce a legal mechanism for refusing state registration (establishment) of new legal entities of any organisational and legal form if critical risk indicators, as defined by the regulatory acts of the Ministry of Justice of Ukraine, are identified.
 3. To reform the institutional status of monitoring entities. We consider it appropriate to amend subparagraph 7 of paragraph 2 of Article 6 of the Law No. 361-IX to include state registrars in the list of primary financial monitoring entities. This will give them powers to identify and verify individuals on the basis of a risk-based approach.
 4. To create a single digital platform for interaction between the Ministry of Justice of Ukraine, the tax authorities and the banking sector, which will automate the verification process and ensure the rapid real-time exchange of information on high-risk individuals.

Based on the above, the implementation of the proposed changes will shift the focus towards preventing high-risk entities from commencing operations. We are convinced that this will not only reduce the size of the shadow economy but also significantly optimise the resources of tax and banking institutions dedicated to the administration and monitoring of suspicious transactions.

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Anatolii Krytiev,

*Postgraduate student of the Department of Sectoral Law
and General Legal Disciplines*

Higher Education Institution "Open International University of Human Development "Ukraine"

E-mail: baxtak@gmail.com

ORCID: 0009-0009-3920-7424