

ANNUAL REPORT

**On 2007 activities of the Financial Monitoring Center of the
Central Bank of Armenia**

Yerevan, 2008

Introduction

This report introduces the work of the Financial Monitoring Center of the Central Bank of Armenia (hereinafter the FMC) in the field of fight against money laundering and terrorist financing (hereinafter AML/CFT).

This has been made out in pursuance of Paragraph 3 of Item 4.1 of the FMC Charter and of the decision of the Central Bank's Board N 695-A dated December 1, 2006, aiming to comply with FATF 26th recommendation

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1. Introduction of AML/CFT legislation and secondary legislation

During 2007, the FMC developed a new Draft Law of the Republic of Armenia on Anti Money Laundering and Combating Financing of Terrorism and the respective draft amendments to other laws. The abovementioned legal package was circulated among relevant agencies and Central Bank departments. Received remarks and suggestions were discussed, summarized, and taken into consideration when finalizing the drafts. Then, the legislative package was also discussed and agreed with the Ministry of Justice. The legislative package was sent for international expertise by International Monetary Fund, which found the draft to provide broad coverage of the relevant FATF 40+9 Recommendations. The revised legislative package was presented to the Armenian government in September 2007. It was discussed in the Government's session on October 4 and, consequently, the amended drafts were presented to the National Assembly. The legislative package is expected to be discussed in and adopted by the National Assembly in the first half of 2008.

In 2007 the FMC initiated drafting a consolidated regulation for financial and non-financial institutions to cover their AML/CFT requirements. In this respect, a Regulation on Application of Internal Compliance Function by Reporting Entities in AML/CFT Field was drafted and presented to the Board of the Central Bank in first half of 2007. Nonetheless, it was decided to postpone the approval and registration of that regulation until adoption of the new AML/CFT law, which was deemed to ensure full implementation and integrity of the AML/CFT legislation.

Active works were undertaken for revision of reporting forms on above-threshold and suspicious transactions in 2007. Reviewed versions of all reporting forms (No 001-006) were approved, and a new No 007 reporting form on reporting requirements of territorial subdivisions of the State Cadastre Committee was endorsed in February 2007. In November

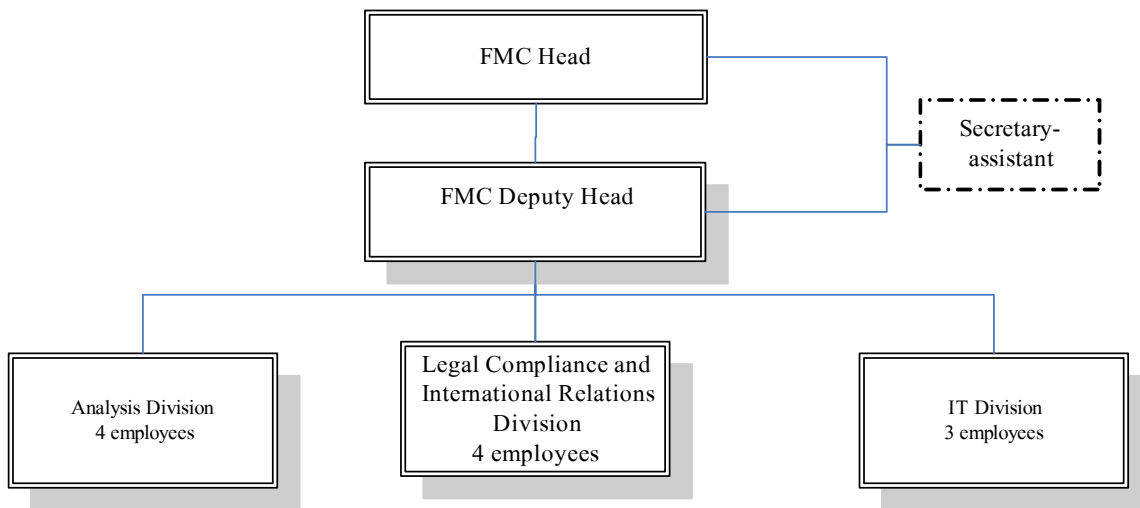
2007, the reporting forms No 001-007 were changed and amended to enable reports be filed with digital signature, as well as to clarify the procedures for amendment of the reports filed with errors or omissions. The abovementioned revisions resulted from long-continued consultations with reporting entities, which entailed clarification of the requirements for enhanced integrity and simplicity of the reports and of the rules for and timing of their submission, as well as for improved effectiveness of utilization of such reports for analysis purposes.

2. Regulation of FMC’s internal procedures

In 2007, actions were taken for the formation of a new formal structure of the FMC, as necessitated by the increase of its workload, as well as of complying with similar structures of foreign FIU-s. Hence, the FMC’s new structure was established by the instructions No 3/74 of March 12, 2007 and 3/116 of March 21, 2001 of the Chairman of the Central Bank. Thus:

- The position of the FMC’s Deputy Head was added in the structure of the FMC;
- Three divisions were formed within the FMC.

Due to the above-mentioned changes, the FMC now has the following structure:



Based on the new structure a Manual on the FMC’s internal procedures was drafted. The manual described relevant business processes pertaining to the collection, analysis, dissemination, and preservation of information, running of statistics, as well as other vertical and horizontal business processes related to functional interrelations between the FMC’s management and structural divisions.

3. Collection, analysis, and dissemination of information

The FMC’s analysis is based on reports submitted by reporting entities, requests and disclosures received from national law enforcement authorities, foreign FIU-s and other departments of the Central Bank, as well as information collected by the FMC’s own initiative.

During 2007, the FMC has received 27¹ suspicious transaction reports from reporting entities, 13 disclosures and/or requests from national law enforcement authorities, 19 requests from foreign FIU-s, 7 requests and/or disclosures from other departments of the Central Bank's, as well as in 6 occasions it has analyzed information inquired by its own initiative.

Annex 1 reveals the summary of the works undertaken with regard to analysis of information/red flags received by the FMC.

The Manual on Actions to be Taken by the FMC in the Course and as a Result of the Analysis of Cases on Suspicious Transactions was approved by the Chairman of the Central Bank on December 4, 2007, with the aim to regulate tactical and operational analysis processes carried out by the FMC and to clarify actions taken as a result of such processes.

the FMC initiated translation into Armenian of ML/FT related typologies published by various international organizations, as well as development of the FMC's typologies based on its own strategic analysis, with the aim of enhancing analytical skills at reporting entities, as well as of integrating ML/TF schemes derived from international practice in the FMC's analysis. These typologies are to be presented to reporting entities, as well as to be widely applied in the FMC's analysis in 2008.

Information exchange with foreign financial intelligence units

Exchange of information with foreign FIU-s has become more active; the number of requests has grown, and timeframes for responses have been reduced since the FMC's accession to the Egmont group (see paragraph 6). Some 20 requests were made to FIU-s, 18 responses to the named requests were received in 2007. Moreover, 19 requests were received, which were all duly answered.

Exchange of information with foreign counterparts also included requests on sharing of experience in the field of various AML/CFT regulations.

4. Assisting to supervision over implementation of AML/CFT legislation

In 2007 requirements set forth on financial institutions' internal legal acts were outlined on basis of AML/CFT international standards and the Armenian legislation. AML/CFT internal legal acts of these institutions were reviewed against the mentioned requirements. As a result, a table illustrating outcomes of the review was made out, which was further delivered to respective institutions through the Financial Supervision Department of the Central Bank. The letters contained compulsory requirements and additional proposals, which were based on AML/CFT international standards and legal regulations. Most financial institutions have made appropriate changes in their internal legal acts based on the abovementioned letters and presented the reviewed acts to the FMC.

A manual on cooperation between the FMC and the Financial Supervision Department of the Central Bank was drafted and adopted in July, 2007 due to mutual efforts of both parties.

The FMC completed 33 references on legal violations with regard to errors and deficiencies disclosed in financial institutions' reports, which were filed to the Financial Supervision Department. The latter took appropriate actions with regard to those references, including initiation of proceedings and application of punishments.

¹ There are 27 STR-s in the FMC's database, three of which were received as a supplement to existing reports.

The FMC periodically completed and sent notes to the Ministry of Justice and the Ministry of Finance and Economy of the Republic of Armenia over misfiled or deficient reports submitted by entities supervised by those agencies.

5. Development of FMC database

During the reporting period, data entered into the FMC databases grew by more than 41% as compared with 2006. The number of reports contained in the FMC's database reached approximately 130 thousand as of December 31, 2007.

In 2007, several financial institutions, as well as non-financial institutions or entities were registered in the FMC's database. Overall figures on this issue are reflected in the Annex 2.

The following actions were taken in order to increase effectiveness and coordinate analysis according to the FMC's internal instructions:

1. Forms, timeframes, and procedures for generating various reports, information notes, and citations from the database were developed;
2. Mechanisms of running the lists of entities under the FMC monitoring and the "Black Lists"² were regulated, and algorithms for checking the FMC's database against those lists were prepared.
3. "World-Check" and Central Bank's Credit Registry were connected to the FMC's database with the aim of ensuring access to external databases.

Moreover, the FMC was connected to the Inter-Agency Corporate Network of the Republic of Armenia. This enabled submission of above-threshold transaction and suspicious transaction reports by State Committee of Cadastre in secured electronic format.

6. International cooperation

Over the reporting period, the FMC continued interactions with its international counterparts.

In the scope of Council of Europe's MONEYVAL committee activities, the delegation of the Republic of Armenia led by the Head of the FMC participated in 23rd, 24th and 25th Plenary Sessions of MONEYVAL. During these sessions, the Armenian delegation presented relevant notes on Armenia's AML/CFT framework progress, as well as its standpoints on various issues under discussion. Preparation of Armenia's 3-rd round evaluation was highlighted in delegation's activities. MONEYVAL discussed and approved postponing the 3-rd round evaluation from October 2008 to the first half of 2009 following the initiative of Armenian delegation, led by the need to enhance its compliance status by adopting and implementing the new AML/CFT law. Pursuant to the Armenian delegation's proposal, it was decided to conduct the evaluation together with the IMF experts.

In the scope of Egmont Group activities, the process of the FMC's accession to Egmont having been initiated in 2006 was successfully finalized. In June, 2007 at the Egmont 15th Plenary, the FMC was accepted as an Egmont member. The FMC was connected to the Egmont restricted access web and secure network, which enabled activating information exchange with foreign FIU-s (for more details see paragraph 3). The FMC also participated in the Egmont Committee and Working Group sessions in October 2007.

² Comprises persons and entities included in the UN Security Council's Consolidated List

In the scope of cooperation with the Eurasian Group on Combating Money Laundering and Financing of Terrorism, based on Armenia's observer status at that organization, the FMC's representatives participated in the 6th and 7th Plenary Meetings of the Eurasian Group, as well as in its working groups' meetings. The FMC also organized completion, review, and provision of various documents and questionnaires requested by or received from the Group's Secretariat.

In the scope of cooperation with the UN, the FMC participated in the meetings arranged in the framework UN Security Council's Counter-Terrorism Committee mission to Armenia. During these meetings, the current AML/CFT framework was introduced to the mission, and the mission's preliminary report was discussed and agreed at the end of the visit.

In the scope of the US Treasury's technical assistance, the program of financial assistance to the FMC was approved. During the US experts visit in November 2007, the following directions of the program were identified: a) on-the-job visits for studying AML/CFT regimes of foreign countries, b) assistance to the development of the FMC's IT systems, c) assistance to the elaboration of AML/CFT regulations in Armenia. Action plans for each of the mentioned directions were developed, which are expected to be launched in 2008.

7. Training, guidance, and public awareness activities

In 2007 the FMC prepared and initiated various training programs, which were addressed to financial institutions, as well as to supervisory and law enforcement authorities.

1. In March 2007 the FMC carried out AML/CFT related training needs assessment of the respective staff at the Central Bank, Prosecutors' Office and Police. The results of that assessment were taken into consideration for the arrangement of further trainings and guidance.
2. In June 2007 a regional seminar on anti-money laundering was organized in Yerevan with the assistance of the FMC and in cooperation with the US Federal Reserve System.
3. During the reporting period (September-November) the FMC made a request to all banks operating in Armenia for identifying issues raised while performing their AML/CFT functions. These issues were summarized, and meetings with various banks were organized on basis of them. During the meetings the FMC clarified the raised issues, as well as introduced its principles, future plans and further requirements on banks. A sum-up seminar was held in November 2007 aiming to jointly discuss all relevant issues.
4. In November 2007, pursuant to the FMC's request the European Bank for Reconstruction and Development organized a seminar on AML/CFT effective mechanisms for internal compliance staff of the Armenian banks. The participants were granted certificates at the end of that seminar.

During the reporting period, as per the assessed training gaps the FMC staff members participated in various AML/CFT training programs in Armenia and abroad.

News pertaining to the FMC activities, as well as all important developments of country's AML/CFT framework were posted on the FMC's official web-site (www.cba.am/fmc/index.htm).

8. Arrangement of works of the Intergovernmental Commission “Against Fraud and Forgery in Plastic Cards and Other Payment Instruments and on Fight against Money Laundering and Terrorist Financing” (hereinafter the Intergovernmental Committee)

In 2007, the FMC initiated 4 sessions of the Intergovernmental Commission, during which the following AML/CFT-related issues, inter alia, were discussed:

1. The Intergovernmental Commission applied to the President of the Republic of Armenia for making amendments in its structure. Thus, the President of the Republic of Armenia issued the order No NK-38-A, dated February 22, 2007 which reaffirmed the following structure of the Commission:
 - 1) Chairman of the Central Bank (Chairman of the Intergovernmental Committee);
 - 2) Assistant to the President of the Republic of Armenia;
 - 3) Deputy General Prosecutor;
 - 4) Deputy Minister of Justice;
 - 5) Deputy Minister of Foreign Affairs;
 - 6) Deputy Director of National Security Service;
 - 7) Deputy Head of Police;
 - 8) Deputy President of State Customs Committee;
 - 9) Deputy Head of State Tax Service;
 - 10) Head of Department on Internal Audit and Financial Supervision of the Ministry of Finance and Economy;
 - 11) Head of National Bureau of Interpol;
 - 12) Chairman of the Union of Banks.
2. Reports of delegations (mostly with participation of the FMC staff) were introduced during the Commission’s Sessions with regard to participation at MONEYVAL, Eurasian Group, Egmont Group Plenary Meetings and working groups’ meetings.
3. The Intergovernmental Commission discussed the issue on imposing declaration requirement with regard to import/ export of cash and negotiable instruments. Based on the Commission’s decision, the FMC drafted and agreed with the stakeholders an amendment into the respective regulation on the declaration regime, which was approved by the Board of the Central Bank on November 16, 2007.
4. The Intergovernmental Commission also discussed a research prepared by the FMC on “Black Lists” of entities and persons connected to terrorist financing and its administration process. Thus, the Commission instructed the FMC to release the updated UN Security Council’s Consolidated List by inserting a link in its web-site along with the demand on immediate freezing of assets related to the persons in those lists.
5. The Intergovernmental Commission considered the issue of signing MoU-s between the FMC and foreign FIU-s. The Commission decided to take the Egmont model MoU as the basis for further MoU-s.
6. The Intergovernmental Commission had discussions on the compliance status of the Armenian AML/CFT legislation with the FATF recommendations. In this respect, the FMC presented a research paper on the self-evaluation results with regard to the compliance status. The Commission decided to consider those results when developing the new AML/CFT legislation.

NOTE**On the analysis of received information/disclosures by the FMC**

<i>Received information/disclosures (from FIU's, law enforcement authorities, CB's departments)</i>	<i>STR-s</i>	<i>Cases opened on basis of suspicious transactions</i>	<i>Including the cases opened on basis of FMC database monitoring</i>	<i>Disclosures filed to law enforcement authorities</i>	<i>Initiated criminal cases (investigations)</i>	<i>Cases referred to the court</i>	<i>Convictions</i>
39	27 ³	29	6	11	1	0	0

*The number of opened cases being less than the number of received disclosures reflects that fact that in some cases several STR-s were combined into one case or, as a result of preliminary analysis, a response to the requesting party was filed, but no case was initiated.

³ 3 of which were received as a supplement to STR-s.

REPORTING ENTITIES

<i>Reporting entities</i>	<i>During 2007 were registered</i>	<i>In total are registered</i>	<i>Reports filed to the FMC in 2007 by reporting entities</i>	
			<i>Total</i>	<i>Suspicious</i>
Banks	0	22	74054	27 ⁴
Credit organizations	7	20	400	0
Organizations dealing with monetary transfers	3	4	0	0
Dealers of currency sales and purchase	1	4	271	0
Persons specialized in securities market (broker companies)	3	15	912	0
Persons exercising securities management	0	5		
Persons engaged in professional activities of currency exchange	61	198	0	0
Pawn-shops	9	52	2	0
Persons engaged in insurance activities	1	14	74	0
Notaries	10	69	1205	0
Casinos and persons organizing games with prizes	24	52	0	0
Persons organizing lotteries	0	3	1	0
Organizations performing donation activities	0	2	4	0
Territorial Divisions of State Committee of Cadastre	44	44	556	0

⁴ 3 of the mentioned number were filed as a supplement to STR-s.