

CENTRAL BANK OF ARMENIA
FINANCIAL MONITORING CENTER

2013-2015 NATIONAL STRATEGY

FOR COMBATING

MONEY LAUNDERING AND TERRORISM FINANCING¹

YEREVAN 2012

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Introduction

This strategy has been developed in implementation of the requirement established by the FATF 40 recommendations to have a national strategy for combating money laundering and terrorism financing (hereinafter: ML/FT). The findings of the Strategic Analysis on Money Laundering and Terrorism Financing Risk in the Republic of Armenia, published in 2010, have also been considered for developing this strategy. The national strategy has been elaborated for the period of 2013-2015.

The document reflects on general provisions, vision, mission, values and principles of the strategy, the defined objectives and the actions necessary for attaining thereof, the expected outcomes and the involved agencies, as well as the rules for revising the strategy and controlling its implementation.

The strategy will guide the activities of the national financial intelligence unit – the Financial Monitoring Center (hereinafter: the FMC) of the Central Bank of Armenia (hereinafter: the CBA) – pursuant to the provisions of Part 3, Article 10 of the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing and Clause 13 of the FMC Statute.

General Provisions

In pursuit of attaining a sustainable and advanced system for combating ML/FT, Armenia has taken a number of substantial steps to provide for the implementation of the international instruments in this area, including the FATF 40 recommendations, in the local framework. The text below presents the legislative and institutional systems for fighting ML/FT, as well as the way that the country has traversed to that end.

1. Legislative Framework

Formation of the legislative framework for combating ML/FT started with the criminalization of money laundering and terrorism financing offences in 2003 and 2004, respectively. Later on, certain changes were made in the *corpus delicti* of ML/FT offences to bring them into compliance with the definitions provided by relevant international conventions.

The first law in Armenia on combating ML/FT was adopted in 2004 and entered into force in 2005. Following the adoption of the first law, a number of by-laws aimed at the implementation of its provisions were endorsed. Particularly, the institute of reporting suspicious transactions/business relationships by banks was introduced with relevant decisions of the Board of the Central Bank of Armenia.

The dynamically developing system needed to deal with certain deficiencies and gaps as identified by international assessments of Armenia's compliance with the FATF recommendations, as well as by the practical experience in the field. Hence, certain amendments were made to the AML/CFT legislation in force.

Due to on-going development processes, the second Law on Combating Money Laundering and Terrorism Financing (hereinafter: the Law) was adopted in 2008. Adoption of the Law marked the passage to a legislation comprising acts at various levels of the legal hierarchy.

In order to ensure introduction and implementation of AML/CFT requirements, the Regulation on Establishing Minimum Requirements with Respect to Financial Institutions in the Area of Combating Money Laundering and Terrorism Financing was approved, and new reporting forms for filing reports on above-threshold and suspicious transaction/business relationship as prescribed under the Law were endorsed.

Guidelines on the application of the risk-based approach in combating money laundering and terrorism financing were adopted for financial institutions and DNFBPs to ensure the passage from uniform introduction of AML/CFT mechanisms to their risk-based implementation.

To ensure appropriate recognition of ML/FT suspicious transactions in practice, the Guideline on the Criteria of Suspicious Transactions was adopted. Moreover, the Rules for the Suspension of Suspicious Transactions or Business Relationships and for the Freezing of Terrorism-Related Funds were endorsed to specify the procedure for carrying out the relevant functions defined under the Law.

Twelve money laundering typologies were developed based on the strategic analyses regularly conducted by the FMC on ML/FT trends and potential schemes, as well as on international typologies.

The development of the AML/CFT legislation entered a new phase in 2009 with the implementing the recommendations of the third-round assessment of Armenia's AML/CFT system. Particularly, the package of 15 draft laws proposing changes and amendments in AML/CFT legislation was developed by the FMC and other stakeholder agencies, and submitted to the Government for further processing as defined under the law.

The country has been making efforts to provide for the consistent development of the AML/CFT system, by implementing the following international instruments: the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (**Vienna Convention** from December 18, 1988); the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (**Strasbourg Convention** from November 8, 1990); the United Nations International Convention for the Suppression of the Financing of Terrorism (**New York Convention** from December 9, 1999); the United Nations Convention Against Transnational Organized Crime (**Palermo Convention** from December 12, 2000); and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (**Warsaw Convention** from May 16, 2005), which were ratified by Armenia in, respectively, May 24, 1993; October 8, 2003; March 3, 2004; March 25, 2003; and July 2, 2008.

2. Institutional Framework

Involved domestic agencies and institutions, particularly the Central Bank of Armenia, the General Prosecutor's Office, the Police, the National Security Service, the State Revenues Committee, the Ministry of Foreign Affairs, the Ministry of Justice, the Ministry of Finance, the Judicial Department, the Association of Banks, the Chamber of Notaries, the Bar Association, and the Association of Accountants and Auditors have had a key role in the functioning of the system of combating ML/FT. Active cooperation between them provides the basis for the continuous development of the system.

Among the bodies listed above, the Financial Monitoring Center of the Central Bank of Armenia performs the legislatively defined function of the national financial intelligence unit; it is a structure receiving, analyzing, and disseminating information on ML/FT suspicions. The FMC is also responsible for elaborating a uniform national policy on combating ML/FT, ensuring appropriate international cooperation, and representing the country at relevant international structures specialized in the fight against ML/FT.

Multilateral cooperation between domestic agencies and institutions is realized under the umbrella of the Interagency Committee on Combating Counterfeit Money, Fraud with Plastic Cards and Other Payment Instruments, and Money Laundering (hereinafter: the Interagency Committee) established by the Decree of the Republic of Armenia President. The basic task of the Committee is to elaborate and implement a uniform and coordinated national policy in combating ML/FT. This Committee chaired by the Governor of the Central Bank comprises representatives from all stakeholder agencies and institutions involved in the fight against ML/FT. Technical organization of the Committee works is carried out by the FMC, which also provides secretariat services to it.

To provide for effective cooperation and exchange of ML/FT information with law enforcement authorities, cooperation agreements have been signed between the FMC and the General Prosecutor's Office, the Police, the National Security Service, and the State Revenues Committee.

As to international relations, the FMC coordinates cooperation with the Council of Europe MONEYVAL Committee based on Armenia's membership in the Council of Europe, as well as with the Eurasian Group for Combating Money Laundering and Terrorism Financing based on the country's observer status in that structure.

Moreover, since 2007 the FMC is a member of the Egmont Group, which is the worldwide forum of financial intelligence units (hereinafter: FIU). Accession to this organization enabled the FMC to exchange information via a secure network with around 130 FIUs, which are members of the Egmont Group. In order to strengthen bilateral cooperation with foreign financial intelligence units, the FMC has concluded cooperation agreements with the FIUs of 26 jurisdictions.

3. The Way Traversed

The starting point for the development of the AML/CFT system in Armenia was the first assessment of the country by the Council of Europe MONEYVAL Committee in 2004. Following that assessment, a number of steps were taken for the improvement of AML/CFT legislation, as

well as for the formation of the institutional framework. Consequently, the national body for combating ML/FT was established, a legislative framework largely compliant with the international standards was developed, the bases were provided for establishing, expanding, and strengthening cooperation with involved domestic authorities, international structures, and foreign financial intelligence units.

The works carried out over the period of 2004-2009 were reflected in Armenia's third round assessment report of the joint evaluation team comprising experts from the Council of Europe MONEYVAL Committee and the International Monetary Fund. Particularly, the report stated that Armenia had a system for combating ML/FT largely compliant with the international standards; it also made a number of recommendations aimed at the further improvement of the system.

One year later, in 2010, the plenary meeting of the Council of Europe MONEYVAL Committee considered and adopted the Progress Report on Armenia reflecting on the progress made by the country within one year, particularly highlighting the fact of having developed a package of 15 draft laws introducing changes and amendments in relevant laws related to the fight against ML/FT. Currently, active works are underway for finalization of the draft laws and for their endorsement as prescribed by the law.

Analysis of the way that Armenia has traversed to combat money laundering and terrorism financing is indicative of the commitment and consistency of the country's authorities to attain the basic goal, which is the passage from an AML/CFT system largely compliant with international standards to a one fully in compliance with the said standards.

National Strategy

1. Vision

The vision of the national strategy for combating ML/FT is the following:

- Enhancing the national AML/CFT legislation in compliance with international standards and providing flexible mechanisms for its application;
- Attaining an economy and a transparent financial system protected from ML/FT risks;
- Ensuring punishability of ML/FT crimes and promoting social intolerance towards them.

2. Mission

The above-defined vision of the national strategy for combating ML/FT shall be realized through the effective application of the domestic AML/CFT legislation and international standards, by means of bringing together and expanding domestic, regional, and international efforts and initiatives.

3. Values

For the successful implementation of this national strategy, all stakeholders of the AML/CFT system should strictly follow and adhere to the following values:

- Professionalism;
- Justice;
- Cooperation;
- Mutual respect;
- Trust;
- Initiative;
- Confidentiality as required in routine works;
- Publicity of programs and outcomes.

4. Principles and Objectives

The national strategy for combating ML/FT shall be based on two principles:

1. The principle of developing legislative and institutions frameworks, while the following strategic objectives are to be attained in order to realize that principle:
 - 1) Develop a legal system compliant with international AML/CFT standards;
 - 2) Implement a coordinated national AML/CFT policy;
 - 3) Build up domestic cooperation for combating ML/FT;
 - 4) Build up international cooperation for combating ML/FT;
2. The principle of developing capacities of the stakeholders in combating ML/FT, while the following strategic objectives are to be attained in order to realize that principle:
 - 1) Develop capacities for operative intelligence, criminal prosecution, and judicial inquiry of ML/FT cases;
 - 2) Develop capacities of supervisory authorities for combating ML/FT;
 - 3) Develop capacities of the FMC as the national financial intelligence unit;
 - 4) Develop capacities of reporting entities for the prevention of ML/FT.

Implementation of the strategic objectives defined under the above-specified principles shall be in the permanent focus of attention of relevant agencies as a part of their regular activities. These objectives shall be implemented in an on-going manner, through continuous and consistent steps taken by relevant agencies, and shall be subject to substantive recapitulation before developing and adopting the next strategy or as necessary.

Based on peculiarities related to the implementation of the strategic objectives, including those regarding the urgency and sequence of the steps to be taken, Measure 1 under Objective 1 of Principle 1, as well as Measure 2 under Objective 1, Measures 1 and 2 under Objective 2, Measure 1 under Objective 3, and Measures 1 to 5 under Objective 4 of Principle 2 shall be considered as high priority. All other measures shall be given regular (equal) priority in terms of implementation.

5. Implementation

The actions to be taken for attaining the objectives of this strategy, their expected outcomes, as well as the involved agencies and institutions are presented below.

Findings of the Strategic Analysis of Money Laundering and Terrorism Financing Risks in the Republic of Armenia (2010) have been used to prioritize implementation of individual measures, particularly having regard to the constituents of ML/FT risks, the identified risk level, the types of involved stakeholders (including the reporting entities) etc.

Principle 1: Developing Legislative and Institutions Frameworks

Objective

1) Develop a legal system compliant with international AML/CFT standards

- **Action (1)**
Further improve the AML/CFT legal system in compliance with the FATF 40 recommendations as revised in 2012
- **Expected Outcome**
Adoption of acts at various levels of the legal hierarchy complying with the FATF recommendations and taking into account peculiarities of different sectors; publication of clarifications and methodological guidance on their implementation;
- **Involved Agencies**
Interagency Committee member agencies and institutions, self-regulated organizations of DNFBPs

- **Action (2)**
 - a. Organize and conduct a self-assessment of the Armenian AML/CFT system
 - b. Prepare and arrange the fourth round assessment by the Council of Europe MONEYVAL Committee
- **Expected Outcome**
 - a. Findings of the self-assessment of the Armenian AML/CFT system summarized; shortcomings and gaps remedied
 - b. Materials and documents prepared for the fourth round assessment; other organizational measures taken in a coordinated manner
 - c. The fourth round assessment questionnaire completed; provisions made for the unhindered conduction of the assessment (work of the assessment team)
 - d. Progress reflected in the fourth round assessment report as compared with that of the third round assessment
- **Involved Agencies**
Interagency Committee member agencies and institutions, self-regulated organizations of DNFBPs

Objective

2) Implement a coordinated national AML/CFT policy

- **Action (1)**
Discuss and coordinate positions within the Interagency Committee on all important strategic issues and on the measures to be taken for dealing with them
- **Expected Outcome**
Coordinated positions on strategic issues and on the measures to be taken for dealing with them
- **Involved Agencies**
Interagency Committee member agencies and institutions
- **Action (2)**
Improve the mechanisms for the agencies and institutions involved in the fight against ML/FT to regularly report to the Interagency Committee on the works done and results attained

- **Expected Outcome**
Proper reporting and performance assessment with regard to the works done and results attained in the fight against ML/FT
- **Involved Agencies**
Interagency Committee member agencies and institutions, Secretariat of the Interagency Committee

Objective

3) Build up domestic cooperation for combating ML/FT

- **Action (1)**
Improve mechanisms for strengthening bilateral and multilateral (inter-institutional) cooperation between authorized domestic agencies and institutions and self-regulated organizations of DNFBPs by means of mutual consultations, establishment of joint working groups, signing of new cooperation agreements/ revising the existing ones etc.
- **Expected Outcome**
Effective institutional and functional mechanisms integrated into the framework of domestic cooperation for combating ML/FT
- **Involved Agencies**
Interagency Committee member agencies and institutions, self-regulated organizations of DNFBPs
- **Action (2)**
Establish a unified information area between authorized domestic agencies (General Prosecutor's Office, Police, National Security Service, Central National Bureau of Interpol, State Revenues Committee, State Registry of Legal Entities, Ministry of Finance, and Judicial Department) and the FMC to securely exchange information and to provide (direct or indirect) access to each other's databases with predetermined volumes and scopes
- **Expected Outcome**
 - a. Bilateral and multilateral exchange of information in a secure environment enabled for authorized domestic agencies and the FMC
 - b. Improved quality and efficiency of ML/FT analyses through access to possibly comprehensive information resources
- **Involved Agencies**

Objective

4) Build up international cooperation for combating ML/FT

- **Action (1)**
Actively participate in the works of the Council of Europe MONEYVAL Committee and the Eurasian Group for Combating Money Laundering and Terrorism Financing
- **Expected Outcome**
Appropriate presentation of the progress in improving Armenia's AML/CFT system; establishment and enhancement of bilateral and multilateral relations with member countries
- **Involved Agencies**
Interagency Committee member agencies

- **Action (2)**
Broaden the cooperation with foreign financial intelligence units within the framework of the Egmont Group, by means of sponsoring candidate FIUs, signing new cooperation agreements with member FIUs, providing for the effective exchange of information, and actively participating in the group initiatives
- **Expected Outcome**
Internationally strengthened status and enhanced professional rating of the FMC as the national financial intelligence unit; involvement in actions aimed at the realization of the group's common goals
- **Involved Agencies**
FMC

- **Action (3)**
Implement works with other international structures involved in the fight against ML/FT, by means of participating in their activities and implementing technical assistance programs
- **Expected Outcome**

Appropriate presentation of the Armenian AML/CFT system at other international structures; involvement of international resources for the further improvement of the system

- **Involved Agencies**

Interagency Committee member agencies

- **Action (4)**

Expand bilateral relations between domestic law enforcement and supervisory bodies and their foreign counterparts involved in the fight against ML/FT, by means of signing new cooperation agreements, establishing bilateral contacts, exchanging information etc.

- **Expected Outcome**

Effective cooperation established between domestic law enforcement and supervisory bodies and their foreign counterparts

- **Involved Agencies**

Interagency Committee member agencies

Principle 2: Developing Capacities of the Stakeholders in Combating ML/FT

Objective

1) **Develop capacities for operative intelligence, criminal prosecution, and judicial inquiry of ML/FT cases**

- **Action (1)**

Form dedicated units (task forces, experts) inside criminal prosecution bodies with specialization in operative intelligence and criminal prosecution of ML/FT cases

- **Expected Outcome**

Availability of dedicated units (task forces, experts) with specialization in operative intelligence and criminal prosecution of ML/FT cases

- **Involved Agencies**

General Prosecutor's Office, National Security Service, Police, State Revenues Committee

- **Action (2)**

Develop professional skills of criminal prosecution bodies and courts for operative intelligence, criminal prosecution, and judicial inquiry of ML/FT cases, by means of trainings and professional development

- **Expected Outcome**

- a. Improved efficiency of operative intelligence, criminal prosecution, and judicial inquiry of ML/FT cases
- b. Improved skills of ML/FT investigation tactics and methodology, better capacities for collection, verification, and assessment of evidence
- c. Investigation and prosecution of stand-alone ML cases

- **Involved Agencies**

General Prosecutor's Office, National Security Service, Police, State Revenues Committee, Judicial Department

Objective

2) Develop capacities of supervisory authorities for combating ML/FT

- **Action (1)**

Develop capacities for risk-based off-site surveillance and on-site inspections in financial institutions to check compliance with the requirements on the prevention of ML/FT, by means of providing guidance, trainings, professional development and other assistance

- **Expected Outcome**

Effective supervision for ML/FT compliance exercised and sanctions applied by the supervisor

- **Involved Agencies**

Central Bank of Armenia

- **Action (2)**

Introduce mechanisms for supervisory bodies to examine compliance with ML/FT prevention requirements through off-site surveillance and on-site inspections and apply sanctions on DNFBPs, by means of providing guidance, trainings, professional development and other assistance

- **Expected Outcome**

Appropriate supervision for compliance with ML/FT prevention requirements exercised through off-site surveillance and on-site inspections, and sanctions applied by supervisors of DNFBPs

- **Involved Agencies**

Central Bank of Armenia, FMC, Ministry of Justice, Ministry of Finance, self-regulated organizations of DNFBPs

Objective

3) Develop capacities of the FMC as the national financial intelligence unit

- **Action (1)**

Obtain/ develop and introduce up-to-date software solutions for the FMC to use in analytical process

- **Expected Outcome**

Improved quality and efficiency of ML/FT analyses

- **Involved Agencies**

FMC

- **Action (2)**

Improve the FMC Case Management System

- **Expected Outcome**

Optimized internal processes within the FMC, particularly application of up-to-date tools for the automation of processes and their effective management

- **Involved Agencies**

FMC

- **Action (3)**

Develop FMC capacities to assist supervision over reporting entities and, with regard to reporting entities for which there is no legally defined supervisory authority or a legislative regulatory framework for the supervisory authority to perform the functions assigned to it in the field of combating ML/FT, introduce supervisory arrangements and develop capacities of FMC to supervise compliance of such reporting entities with AML/CFT requirements

- **Expected Outcome**
Improved supervisory capacities; enhanced effectiveness of supervisory arrangements
- **Involved Agencies**
FMC
- **Action (4)**
Conduct strategic analyses on ML/FT trends and potential schemes based on practical experience of the FMC, ML/FT court proceedings/ cases, and international typologies
- **Expected Outcome**
 - a. Regular recapitulation and publication of analyses on ML/FT trends and potential schemes, including ML/FT typologies
 - b. Improved skills and technics for the development of ML/FT typologies
- **Involved Agencies**
FMC
- **Action (5)**
Arrange on-job training/ outreach visits for the FMC staff at leading foreign financial intelligence units; organize workshops/ seminars delivered by international structures/ experts in Armenia
- **Expected Outcome**
The advanced foreign experience introduced in the works of the FMC
- **Involved Agencies**
FMC
- **Action (6)**
Take consistent measures to enhance public awareness aimed at preventing and combating ML/FT crimes
- **Expected Outcome**
Enhanced efficiency of public awareness
- **Involved Agencies**
FMC

Objective

4) Develop capacities of reporting entities for the prevention of ML/FT

- **Action (1)**
Improve professional skills of internal compliance staff of reporting entities by means of providing guidance, trainings, professional development, and qualification examinations
- **Expected Outcome**
Reporting entities have highly qualified professional staff for ML/FT prevention
- **Involved Agencies**
FMC, Ministry of Justice, Ministry of Finance, self-regulated organizations of DNFBPs

- **Action (2)**
Ensure compliance of reporting entities' internal acts on ML/FT prevention with legislative requirements and their practical implementation by means of regularly reviewing such acts and checking the efficiency of implementation during on-site inspections
- **Expected Outcome**
Reporting entities' internal acts on ML/FT prevention comply with the legislative requirements and are effectively implemented
- **Involved Agencies**
Central Bank of Armenia, Ministry of Justice, Ministry of Finance, self-regulated organizations of DNFBPs

- **Action (3)**
Reporting entities introduce and implement policies, procedures and controls for identification and assessment of potential or existing ML/FT risks, efficient management and mitigation of identified risks
- **Expected Outcome**
Reporting entities identify and assess potential and existing ML/FT, provide for development and application of appropriate counter-action instruments
- **Involved Agencies**
FMC, Ministry of Justice, Ministry of Finance, self-regulated organizations of DNFBPs

- **Action (4)**

Ensure appropriate implementation of the legislative requirements for the prevention of ML/FT by DNFBPs to reduce the risk of their misuse for ML/FT, by means of off-site surveillance and on-site inspections, providing guidance, trainings, professional development, and qualification examinations

- **Expected Outcome**

DNFBPs appropriately implement the requirements of the legislation on combating ML/FT

- **Involved Agencies**

Central Bank of Armenia, Ministry of Justice, Ministry of Finance, self-regulated organizations of DNFBPs

- **Action (5)**

Promote reporting of suspicious transactions/ business relationships by non-bank financial institutions u DNFBPs, by means of providing guidance, trainings, and consultations

- **Expected Outcome**

Improved performance of non-bank financial institutions u DNFBPs in terms of reporting suspicious transactions/ business relationships

- **Involved Agencies**

FMC, Ministry of Justice, Ministry of Finance, self-regulated organizations of DNFBPs

6. Revision and Control

The Interagency Committee shall control implementation of this strategy.

Based on the information and materials collected from member agencies, the Secretariat of the Interagency Committee shall regularly report to it on the actions aimed at attaining the objectives of the strategy and on the factual performance thereof.

Measures aimed at attaining the strategic objectives shall be included in the work plans of the Interagency Committee member agencies and self-regulated organizations of DNFBPs.

The strategy shall be revised at least once in three years subject to prior agreement that the FMC, which provides secretariat services to the Committee, shall attain with member agencies and with self-regulated organizations of DNFBPs.

Once the strategy is approved, and provided that a new strategic analysis is conducted on the ML/FT risk in the Republic of Armenia, the issue of reflecting the findings of the analysis in the strategy shall be considered by the Interagency Committee.