ANNUAL REPORT

On activities of the Financial Monitoring Center in 2019

Yerevan 2020

FINANCIAL MONITORING CENTER
CENTRAL BANK OF ARMENIA

CONENTS

ACRONYMS 2

EXECUTIVE SUMMARY 3

STATISTICAL DATA 4

PREVENTIVE MEASURES 6

COOPERATION FRAMEWORK 10

Annex 1: Reporting entities and report submissions 15

Annex 2: Trainings for reporting entities 16

Annex 3: Memoranda of understanding with partners 17

ACRONYMS

AML/CFT	Anti-money laundering and counter-terrorism financing
AML/CFT Law	Republic of Armenia Law on Combating Money Laundering and Terrorism Financing
CIS	Commonwealth of Independent States
Egmont Group	Egmont Group of Financial Intelligence Units
Eurasian Group	Eurasian Group on Combating Money Laundering and Financing of Terrorism
FATF	Financial Action Task Force
FIU	Financial intelligence unit
FMC	Financial Monitoring Center of the Central Bank of Armenia
Interagency Committee	Interagency Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing in the Republic of Armenia
ML/FT	Money laundering and terrorism financing
MONEYVAL Committee	Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
PEP	Politically exposed person
STR	Suspicious transaction report
UN	United Nations

EXECUTIVE SUMMARY

This report provides a summary of the works performed by the FMC in the field of AML/CFT over the course of 2019. In particular, the following topics are covered in the corresponding chapters of the report:

- **Statistical data:** information is presented on transactions subject to mandatory reporting and STRs filed by reporting entities with the FMC;
- **Preventive measures:** information is presented on preventives measures implemented towards the mitigation of ML/FT risks, including on instructions (notifications) cascaded to reporting entities and works performed towards the enhancement of information systems;
- **Cooperation framework:** information is presented on the state of play and results of on-going cooperation with both domestic and international counterparts in the field of AML/CFT.

Statistical data is presented in the concluding Annexes of this report, covering the reporting entities registered with the FMC as of 31 December 2019 and reports filed thereby, trainings provided to reporting entities and memoranda of understanding signed with domestic and international counterparts.

This report is presented pursuant to Part 1(15) of Article 10 of the AML/CFT Law.

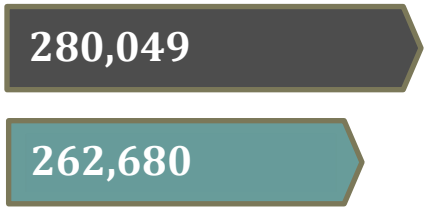
STATISTICAL DATA

The FMC collects reports from reporting entities, covering information on STRs, as well as on cash and non-cash transactions exceeding the minimum reporting threshold defined by the AML/CFT Law. Statistical data is presented below on reports collected over the course of 2019 and 2018.

REPORTS ON CASH TRANSACTIONS

Regulatory requirement

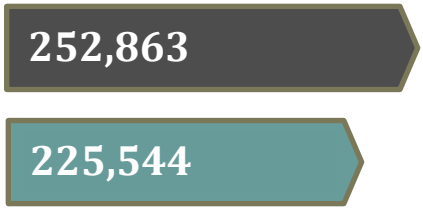
Transactions above AMD 5 million



REPORTS ON NON-CASH TRANSACTIONS

Regulatory requirement

Transactions above AMD 20 million and real estate transactions above AMD 50 million



SUSPICIOUS TRANSACTION REPORTS

Regulatory requirement

Suspicious transactions and business relationships

STRs were related to suspicions of money laundering and predicate offences

The FMC received in total of 294 and 264 STRs in 2018 and 2019, correspondingly, the majority of which (in total of 262 and 255 STRs in 2018 and 2019, correspondingly) where filed by banks. The STRs were related to suspicions of money laundering and predicate offences. No STRs were related to suspicions of terrorism financing.

Summary information is presented below on the involvement of natural and legal persons in the STRs filed by banks.

	Natural persons		Legal persons	
	Armenian nationals	**Foreign nationals**	**Armenian registration**	**Foreign registration**
2019	134	60	84	64
2018	159	127	117	102

The analysis of STRs received demonstrates that, similar to two previous years, STRs filed on Armenian nationals and organizations with Armenia registration were mainly related to transactions around tax evasion and illegal entrepreneurship.

Compared to the two previous years, a similar situation holds for foreign nationals and organization with foreign registration: STRs filed on foreign nationals were mainly related to various fraud schemes (including illegal use of stolen bank card information, mass marketing schemes, etc.), while STRs filed on organizations with foreign registration were related to transit flows of funds through the banking system of Armenia.

PREVENTIVE MEASURES

Preventive measured implemented towards the mitigation of actual and potential ML/FT risks play an essential role in early identification and prevention of potential ML/FT cases. The FMC and other parties involved in AML/CFT, such as reporting entities and supervisory authorities, have a unique role to play in implementing AML/CFT preventive measures.

In this part of the report, information is presented on preventive measures implemented over the reporting period. In particular, the relevant sections of this report refer to the following topics:

- **Regulatory amendments:** amendments to laws and regulations were drafted in order to facilitate new technologies in collecting reports from reporting entities and implement effective preventive measures towards the mitigation of ML/FT risks; significant contribution was made to drafting regulatory amendments introducing the concept of non-conviction based confiscation of illicit proceeds;
- **Instructions (notifications) cascaded to reporting entities:** instructions were cascaded to reporting entities for implementing preventive measures towards the mitigation of ML/FT risks identified by the FMC, including measures to refuse certain transactions or terminate business relationships;
- **Enhancement of information systems:** works were performed towards the implementation of new AML/CFT effective systems by reporting entities, including a new report submission system for filing reports with the FMC;
- **Developing capabilities:** trainings were organized to develop AML/CFT capabilities among the employees of reporting entities, non-profit organizations, supervisory and law enforcement authorities (for details refer to the chapter on Cooperation Framework and to Annex 2 of this report).

Regulatory amendments

Continuous work was performed in the reporting period towards the further development of the AML/CFT regulatory framework. In particular, with a view to implement the online report submission system, new rules were drafted and shared for consultation with relevant stakeholders regarding report submission procedures for banks to file STRs and transactions subject to mandatory reporting with the FMC. The draft rules define a new reporting format, clarify the scope of transaction information required for reporting, amend the reporting timelines, as well as introduce new provisions to address various practical issues identified by reporting entities and the FMC. The online report submission system for banks to file reports with the FMC is scheduled to be launched in the second quarter of 2020.

The Board of the Central Bank of Armenia approved Decision No. 33-N dated 15 March 2019, which requires the use of payment cards issues by banks in the Republic of Armenia when identifying customers by means of bank cards as part of the customer due diligence exercise. These provisions will lead to a more effective implementation of regulatory requirements on obtaining, recordkeeping and providing customer due diligence information.

At the same time, with a view to ensure compliance with the FATF Recommendations, works were performed towards drafting regulatory amendments, widening the scope of PEP definition, encompassing domestic PEPs and members of senior management in international organizations. As part of these amendments, new provisions are expected to introduce additional requirements around the identification of beneficial owners. The consultation of these amendments with relevant stakeholders and approval of the final draft are scheduled to be completed in 2020.

The Prime Minister of the Republic of Armenia approved a Decision dated 1 March 2019, according to which a Working Group was established with the responsibility to implement a concept paper on Non-conviction Based Confiscation of Illicit Proceeds, which had received an initial approval of the Interagency Committee on 30 November 2018. As a member of the Working Group, the Central Bank of Armenia was actively engaged both in the research of international best practices and in the drafting of the amendments, which included research on decisions issued by the European Court of Human Rights, legal frameworks and judicial practices of countries having implemented the concept of non-conviction based confiscation of illicit proceeds, mechanisms for obtaining information constituting bank secrecy, implementation model for the concept and development of the list of relevant offences.

Instructions cascaded to reporting entities:

In 2019, around 20 instructions were cascaded to reporting entities directed towards the mitigation of high ML/FT risks in a number of transactions and business relationships and the implementation of preventive measures. The instructions were predominantly related to inflows and outflows of funds from geographies associated with high risk of terrorism financing, cases with elements of fraud schemes, due diligence measures with regard to certain customers and provision of information on persons allegedly engaged in terrorism financing and extremist activity.

Besides the points above, feedback was provided to reporting entities on the progress and results of analyses conducted based on alerts provided by the latter.

Around 50 transactions and business relationships with high ML/FT risks were refused or terminated

It is worth mentioning that in the reporting period, around 50 transactions were refused and business relationships terminated by the banking sector, which has a significant share in the financial industry.

In order to prevent and mitigate terrorism financing risks arising from the increasing international threat of terrorism, continuous efforts were invested into the implementation of adequate and dynamic measures, including in the context of international cooperation, towards the identification of potential sources of funding, patterns, schemes and persons involved in terrorism financing. In particular, continuous works were performed towards the collection of information from reporting entities on inbound and outbound financial transactions with regard to geographies associated with high risk of terrorism financing, as well as the analysis of such information and provision of results to domestic and international counterparts.

In order to enforce targeted financial sanctions, continuous efforts were invested in the reporting period to implement restrictive measures imposed by international organizations and raise awareness among relevant stakeholders. In particular, the following information was published on the FMC website and notified to reporting entities:

- Updates in the lists published by or in accordance with the UN Security Council Resolutions that stipulate for the freezing of assets of persons under, *inter alia*, UN Security Council Resolutions 1267/1989/2253 designation on ISIL (DA'ESH) and Al-Qaeda, UN Security Council Resolution 1988 designations on Taliban and UN Security Council Resolution 1718 designations on North Korea;
- The FATF statements on countries with strategic deficiencies in their AML/CFT systems, as well as on countries with strategic deficiencies monitored by the FATF under its on-going global AML/CFT compliance process.

Reporting entities were also notified of other restrictions imposed by certain organizations and countries for the implementation of measures in avoidance of resulting potential financial sanctions.

In accordance with international efforts on mitigating terrorism financing risk, instructions were cascaded to reporting entities in order to implement preventive measures with regard to persons associated with terrorism, as designated within the CIS framework.

It is worth mentioning that in the reporting period, the Republic of Armenia continued to have a very low level of terrorism financing risk.

Enhancement of information systems

Continuous efforts towards the enhancement of information systems by the FMC and reporting entities are an important part of an effective AML/CFT system.

In the reporting period, among other related tasks, works were performed by the FMC to implement new information systems required to support its analytical function. In particular, the new report submission system for filing reports with the FMC and the FMC documentation management system were developed for pilot testing. Both systems will operate in a unified environment, which will ensure the configuration and management of constituent elements of two systems.

The development of these systems will enable the following:

- **Simplification of report submission processes:** report submission process will be automated to be filed within a few hours after transaction completion;
- **Revision of report formats and contents:** the scope of transaction information required for reporting will be clarified, new technology solutions will be integrated into the report submission process;
- **Improvement of information security:** information constituting bank secrecy will be removed from the information submission environment after the report is filed, eliminating the possibility of third party access to such information.

COOPERATION FRAMEWORK

DOMESTIC COOPERATION

Domestic cooperation for AML/CFT purposes can be conditionally divided into two frontiers:

- Strategic cooperation for policy development and coordination in the context of the Interagency Committee;
- Operational cooperation among the FMC, supervisory and law enforcement authorities in the context of information exchange, implementation of preventive measures and detection of potential ML/FT cases.

Interagency Committee

In the reporting period, the FMC coordinated the implementation of measures stipulated under the 2019-2021 National Strategy for Combating Money Laundering and Terrorism Financing, as well as the Financing of Proliferation of Weapons of Mass Destruction, followed by the results to be presented to the Interagency Committee.

The FMC was fully involved in the works performed towards enhancing the level of compliance with AML/CFT international standards, including in the efforts initiated by other agencies towards drafting regulatory amendments to ensure adequate access by law enforcement authorities to information constituting bank secrecy.

At the same time, a training was organized for representatives of non-profit organizations due to joints efforts by the FMC and the State Revenue Committee of the Republic of Armenia.

Cooperation with law enforcement authorities

Domestic cooperation between the FMC and law enforcement authorities is predominantly around information exchange on ML/FT hypotheses.

The table below presents statistical data on disseminations made to law enforcement authorities resulting from analyses with ML hypotheses, requests made and received between the FMC and law enforcement authorities, as well as criminal cases instigated for money laundering in the course of 2019 and 2018:

Statistics	2018	2019
Disseminations from FMC to law enforcement authorities	44	51
Requests from FMC to law enforcement authorities	1	3
Requests from law enforcement authorities to FMC	92	219
Criminal cases instigated for money laundering	8	8[1]

[1] One of the cases mentioned was instigated in 2018, however the criminal charge was supplemented with ML offence in 2019.

In the reporting period, disseminations made to law enforcement authorities with ML/FT hypotheses, carrying the results of FMC analyses, were predominantly related to the following cases:

- Attempts to legalize proceeds of crimes committed through the use of various mass marketing schemes;
- Transit flows of funds through the Armenian banking system, where the funds are originating from other countries with unknown (potentially illicit) sources;
- Transactions having characteristics of financial pyramids;
- Financial transactions potentially linked to crimes with elements of corruption;
- Financial transactions potentially aimed at tax evasion, illegal entrepreneurship and unreported economic activity;
- Other cases resembling the schemes described in typologies published by international organization and the Central Bank of Armenia.

The number of requests made by law enforcement authorities to the FMC in the course of 2019 and 2018 has dramatically increased compared to the 2017-2015 period; in particular, 202 and 84 requests were made in 2019 and 2018, accordingly, compared to 58, 36 and 36 requests recorded in the 2017-2015 period. The FMC conducted comprehensive analyses based upon the requests received from law enforcement authorities and shared the results accordingly.

When handling requests from law enforcement authorities, the FMC in turn makes requests not only to financial institutions in the Republic of Armenia, but also to foreign FIUs, where necessary.

8 ML cases were instigated

It is worth mentioning that that the increase in the number of requests made by law enforcement authorities to the FMC was predominantly driven by the higher number of cases detected involving potential legalization of proceeds derived from crimes with elements of corruption. Three ML cases were instigated in 2019, three of which were predicated by corruption related crimes (taking bribe, bribe mediation), three were predicated by theft committed by means of computer, and one was predicated by tax evasion and fake entrepreneurship. In one of the cases there was no indictment for the predicate offence. In the context of all criminal cases instigated with a money laundering offence in 2019, the FMC actively contributed to the examination of the financial elements of the criminal cases by way of disseminations made upon own initiative or provision of information upon the requests made by law enforcement authorities. Information exchange was paralleled with discussions around separate criminal cases.

In general, disseminations made to law enforcement authorities based on alerts received from the FMC and criminal cases instigated have comparable underlying

hypotheses, which is an important indicator of effective cooperation between the FMC and law enforcement authorities.

Conferences were held dedicated to the improvement of cooperation between the FMC and law enforcement authorities

A number of conferences were held in 2019 aimed at raising the effectiveness of ML/FT investigations. Issues related to improving the format and contents of requests made to the FMC and the effective use of information disseminated by the FMC to law enforcement authorities were on the agenda of these conferences.

Supervision and examinations

In the reporting period, the FMC continued cooperating with supervisory authorities of financial institutions and designated non-financial businesses and professions in order to promote adequate compliance with AML/CFT regulatory requirements, as well as to identify training needs among reporting entities and supervisory authorities.

Examinations and other supervisory measured resulted in sanctions imposed on reporting entities, a total of 14 financial institutions, in the form of warnings and fines.

The violations of AML/CFT regulatory requirements by financial institutions were predominantly related to inadequate practices in reporting of transactions subject to mandatory reporting, deficiencies in AML/CFT internal procedures and alike.

It is worth mentioning that trainings and conferences held for the purpose of developing AML/CFT capabilities and raising awareness on AML/CFT developments were attended not only by representatives of reporting entities, but also of their supervisory authorities.

INTERNATIONAL COOPERATION

In the context of AML/CFT, the FMC cooperates both with foreign FIUs and international organizations involved in AML/CFT in order to facilitate information exchange and implement various project tasks. The Republic of Armenia, represented by the FMC, participates in the works performed by international organizations and bodies involved in the development of AML/CFT international standards, as well as in the evaluation of implementation and enforcement achieved at individual country level, including the MONEYVAL Committee, Egmont Group, Eurasian Group and the Council of Heads of CIS FIUs.

MONEYVAL Committee

In the reporting period, the FMC participated in the implementation of MONEYVAL Committee's work plan as part of the Armenian delegation. In 2019, representatives of the FMC were designated as law enforcement and financial evaluators in the evaluation teams assigned to Malta, Russian Federation, Slovakia and San Marino.

During the 59th Plenary Session of the MONEYVAL Committee, the FMC, together with Jersey, a self-governing dependency of the United Kingdom, acted as a member in the special group of experts reviewing the evaluation report for Hungary.

Egmont Group

The FMC continued exchanging information with foreign FIUs through the Egmont Group's secure information network. Representatives of the FMC attended the meetings of the Working Groups and Committee of the Egmont Group, as well as in the meetings of the Heads of FIUs in Egmont Group, discussing a number of key issues, such as facilitation of bilateral and multi-later information exchange, raising the effectiveness of new cooperation platforms and FIU operations. Among other topics of the agenda, the meetings reflected on the important role played by FIUs in ensuring financial stability internationally.

Representatives of the FMC were involved in a number of projects initiated by the Egmont Group, including on the revision of accession and compliance requirements for membership to Egmont Group, definition of main concepts used in the Egmont Group and other tasks.

Eurasian Group

In the reporting period, representatives of the FMC attended the 31st Plenary Session of the Eurasian Group and the meetings of the Working Groups. As part of the Plenary Session agenda, the AML/CFT mutual evaluation report for Belarus was discussed, together with the progress reports on deficiencies identified in the AML/CFT mutual evaluation reports for Kyrgyzstan and Tajikistan, as well as topics related to strengthening the mutual cooperation between member and observer states in the framework of the Eurasian Group.

A representative of the FMC was involved in the Working Group established in the framework of the Eurasian Group, tasked with the assessment of regional money laundering risks.

Council of Heads of CIS FIUs

Representatives of the FMC attended the 14th Plenary Session of the Council of Heads of CIS FIUs, which resulted in approval of the expert opinion (as developed by the FMC) on national risk assessment in CIS states. Discussions led to a consensus on

presenting the expert opinion to the assessment of the Eurasian Group, seeking organization and implementation of further assessment of money laundering vulnerabilities.

Foreign FIUs

The FMC continued cooperating with foreign FIUs, leading to 38 information requests received and 27 requests sent in 2019. The full list of memoranda of understanding signed between the FMC and foreign FIUs is presented in Annex 3 of this report.

Annex 1: Reporting entities and report submissions

Reporting entities	Registered with FMC	Reports	
		Mandatory reports	*Suspicious reports*
Financial institutions			
Banks	17	540,330	255
Credit organizations	42	2,942	2
Traders in foreign exchange	180	425	-
Broker-dealers in foreign exchange	1	117	-
Licensed money (currency) transfer services	8	136	1
Investment firms	13	705	2
Investment fund managers	4	15	-
Central Depositary	1	-	4
Insurance (reinsurance) companies	8	-	-
Insurance (reinsurance) agents	3	-	-
Corporate investment funds	2	37	-
Non-public contractual investment funds without a licensed manager	20	-	-
Pawn shops	112	544	-
Non-financial institutions			
Realtors	205	-	-
Notaries	118	11,218	-
Attorneys, independent lawyers and law firms	1,489	-	-
Independent accountants and accounting firms	10	-	-
Independent auditors and audit firms	31	-	-
Dealers in precious metals	-	-	-
Dealers in precious stones	22	-	-
Dealers in art work	-	-	-
Auction houses	-	-	-
Organizers of games of chance and casinos	5	12	-
Organizers of lotteries	4	196	-
Organizers of internet games of chance	3	710	-
Trust and company service providers	-	-	-
Others			
Credit bureaus	1	-	-
TOTAL	**2,299**	**557,387**	**264**

Annex 2: Trainings for reporting entities

Financial institutions	
Topic	***Reporting entity***
• Current ML/FT risks, risk related obligations • Money laundering typology with virtual assets (except for pawn shops and insurance firms) • Case studies • STR samples • New technologies for report submission	All non-bank financial institutions
• Electronic wallets. AML/CFT regulatory requirements	Money transfer services
• Money laundering typologies with insurance transactions	Insurance companies
• AML/CFT key regulatory requirements for investment service providers, investment fund managers, corporate investment funds and Central Depositary	Investment service providers
• Assessment of ML/FT risks by banks • Risks associated with products assuming non face-to-face business relationships • Summary of STRs received in 2018 • Transit flows through mediated transactions	Banks
Non-financial institutions	
• Results of ML/FT national risk assessment • ML/FT risk related obligations • Targeted financial sanctions • Suspicious transaction criteria • Case studies • New technologies for report submission	Attorneys Notaries Audit firms Organizers of casinos, games of change and lotteries

Annex 3: Memoranda of understanding with partners

Memoranda of understanding with domestic competent authorities

Law enforcement authorities

- General Prosecutor's Office (updated on 28.11.2016)
- National Security Service (signed on 24.01.2017)
- Police (updated on 18.11.2016)
- State Revenue Committee (updated on 25.09.2017)
- Investigative Committee (signed on 16.11.2016)
- Special Investigation Service (signed on 14.03.2019)

Other competent authorities

- Academy of Justice (signed on 12.11.2016)
- Ministry of Economic Development and Investments (signed on 19.01.2017)
- Ministry of Finance (signed on 10.10.2017)

Memoranda of understanding with foreign FIUs

	Country	Date		Country	Date
	Australia	26.08.2009		Montenegro	12.07.2011
	Belarus	04.02.2008		Panama	03.07.2013
	Bermuda	21.10.2009		Poland	22.09.2009
	Canada	21.12.2009		Romania	27.05.2009
	China	08.06.2011		Russia	09.06.2015
	Croatia	11.07.2012		San Marino	15.03.2010
	Cyprus	11.07.2012		Saudi Arabia	12.07.2011
	Georgia	26.02.2008		Serbia	12.07.2011
	Israel	03.11.2011		South Africa	22.05.2009
	Iran	26.05.2010		Taiwan	12.07.2011
	Japan	29.10.2012		Tajikistan	19.05.2011
	Kazakhstan	11.11.2015		Thailand	29.11.2010
	Kyrgyzstan	19.02.2014		Turkmenistan	24.10.2017
	Latvia	28.10.2017		Ukraine	13.03.2008
	Lichtenstein	04.06.2014		United Arab Emirates	28.05.2009
	Macedonia	13.07.2011		United Kingdom	27.09.2012
	Moldova	12.07.2011		Vatican	14.04.2017