

# **ANNUAL REPORT**

**On 2008 Activities of the Financial Monitoring Center of the  
Republic of Armenia Central Bank in the Field of Combating  
Money Laundering and Terrorism Financing**

**Yerevan, 2009**

## Content

This report introduces the works implemented by the Financial Monitoring Center of the Republic of Armenia Central Bank (hereinafter the FMC) in the field of combating money laundering and terrorism financing (hereinafter AML/CFT).

This report has been made out in pursuance of Part 6 of Article 10 of the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing, as well as Paragraph 3 of Clause 4.1 of the FMC's Statute.

The report expounds the following works:

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### 1. Introduction of AML/CFT Legislation

2008 has been a turning point in the improvement of the legislation on combating ML/ FT. Thus, on May 26 the National Assembly adopted in the third reading the main legislative act regulating the field, that is the new Law on Combating Money Laundering and Terrorism Financing (hereinafter: the Law), which had been drafted by the FMC as early as in 2007, and the laws on changing and amending 15 other laws as necessitated by the adoption of the Law. The Law came into force on August 31, when the previous Law on Combating Legalization of Proceeds of Crime and Terrorism Financing was repealed.

The Law possibly sets down the requirements of the international standards in combating ML/ FT. It also expands the scope of the reporting entities by means of involving non-financial institutions and persons as stipulated by international standards. According to the Law reporting entities in the Republic of Armenia are the following:

- a. banks;
- b. credit organizations;
- c. persons engaged in dealer-broker foreign currency trading, foreign currency trading;
- d. licensed persons providing cash (money) transfers;
- e. persons rendering investment services in accordance with the Republic of Armenia Law on Securities Market ;
- f. central depository for regulated market securities in accordance with the Republic of Armenia Law on Securities Market;
- g. insurance (including reinsurance) companies and insurance (including reinsurance) brokers;
- h. pawnshops;
- i. realtors (real estate agents);
- j. notaries;
- k. attorneys, as well as independent lawyers and firms providing legal services;
- l. independent accountants and accounting firms;

- m. independent auditors and auditing firms;
- n. dealers in precious metals;
- o. dealers in precious stones;
- p. dealers in artworks;
- q. organizers of auctions;
- r. persons and casinos organizing prize games and lotteries, including the persons organizing internet prize games;
- s. trust and company service providers;
- t. credit bureaus;
- u. the Authorized Body responsible for maintaining the integrated state cadastre of real estate;
- v. the state body performing registration of legal persons (the State Registry),

Due to the implementation of the Law, the FMC drafted a number of legal acts during the reporting period, part of which were adopted during the same year of 2008, while the other are to be adopted in 2009. In particular:

- The Regulation on Minimal Requirements for the Financial Institutions in the Field of Combating Money Laundering and Terrorism Financing was approved by the Central Bank Board's Decision No 269-N of September 9, 2009 and entered into force on November 4; the Regulation provides systematic presentation of the details of ML/ FT prevention requirements in respect of financial institutions as prescribed by the Law;
- The Rules for Suspending a Suspicious Transaction or Business Relationship or Freezing Funds Linked to Terrorism was approved by the Central Bank Board's Decision No 302-N of November 4, 2008; these Rules set the procedure for performing the respective function stipulated by the Law;
- The Guidance on the Criteria for Suspicious Transactions was approved by the Central Bank Chairman's Order No 1/886A of September 3, 2008; the Guidance clarifies and expands the scope of suspicious transactions established by the Law, as well as describes practical situations for each criterion to ensure the ease of application;
- The Regulation on Conflicts of Interests within the employees of the Financial Monitoring Center of the Central Bank of the Republic of Armenia was approved by the Central Bank Chairman's Order No 1/802 of September 11, 2008; in accordance with this Regulation, all FMC employees are obligated to file a declaration on the possible conflicts of interests in relation with them;
- The Guidance on Money Laundering and Terrorism Financing Typologies was approved by the Central Bank Chairman's Order No 1/913A of September 11, 2008; the Guidance establishes 6 money laundering typologies identified in the financial system of the Republic of Armenia;
- The Guidance for Financial Institutions on Adopting the Risk-Based Approach for Combating Money Laundering and Terrorism Financing was approved by the Central Bank Chairman's Order No 1/1154A of November 11, 2008; pursuant to the requirements of the Law and the above Regulation, the Guidance recommends financial institutions to classify their clients into high, medium, and low risk groups, based on certain criteria.

From among the legal acts listed above, those related with the activities of reporting entities were publicized in the established manner, provided to the reporting entities, as well as posted on the FMC's website.

During the reporting year, the FMC elaborated and put forward for the consideration of concerned parties also the following legal acts:

- Draft Decision of the Board of the Central Bank on Approving the Reporting Form 008 for Provision of Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by the State Body Performing Registration of Legal Persons (the State Registry), the Guideline for Completion and Submission of the Reporting Form 008, the Rules for Submission of the Reporting Form 008;

- Draft Decision of the Board of the Central Bank on Approving the Reporting Form 009 for Provision of Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by the Central Depository, the Guideline for Completion and Submission of the Reporting Form 009, the Rules for Submission of the Reporting Form 009;
- Draft Decision of the Board of the Central Bank on Approving the Reporting Form 020 for Provision of Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by Attorneys, as well as by Independent Lawyers and Firms Providing Legal Services, the Guideline for Completion and Submission of the Reporting Form 020, the Rules for Submission of the Reporting Form 020;
- Draft Decision of the Board of the Central Bank on Approving the Reporting Form 024 for Provision of Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by Real Estate Agents, the Guideline for Completion and Submission of the Reporting Form 024, the Rules for Submission of the Reporting Form 024;
- Draft Decision of the Board of the Central Bank on Approving the Reporting Form 025 for Provision of Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by Independent Accountants and Accounting Firms, and by Independent Auditors and Auditing Firms, the Guideline for Completion and Submission of the Reporting Form 025, the Rules for Submission of the Reporting Form 025;
- Draft Decision of the Board of the Central Bank on Approving the Form for Declaration on Beneficial Owners Provided by Legal Entities to the State Body Performing Registration of Legal Persons, the Rules for Provision of the Declaration;
- Draft Decision of the Board of the Central Bank on Approving the Form, the Rules, and the Deadlines for Submission of Statistics to the Central Bank by the Police and the National Security Service Adjunct to the Republic of Armenia Government, by the Ministry of Finance, the Ministry of Justice, and by the State Committee of Real Estate Cadastre Adjunct to the Republic of Armenia Government;
- Draft Regulation on the Criteria for Qualification and Professional Eligibility of the Head and the Members of the Internal Monitoring Body in Banks.

## **2. Regulation of FMC's Internal Procedures**

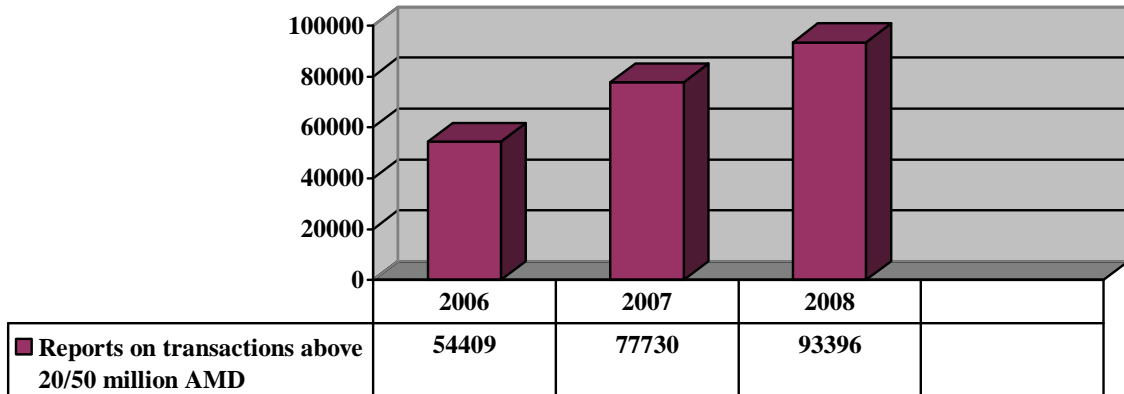
During the reporting period, the FMC's Internal Procedures Manual approved by the Central Bank Chairman's Decision of March 14, 2008 was improved and finalized. The Manual regulates relevant procedures pertaining to the collection and monitoring of data entered into the FMC database, case analysis, dissemination of information, strategic analysis of ML/ FT cases and trends, maintenance of information, running of statistics, as well as other works performed by the FMC.

## **3. Collection, Analysis, and Dissemination of Information**

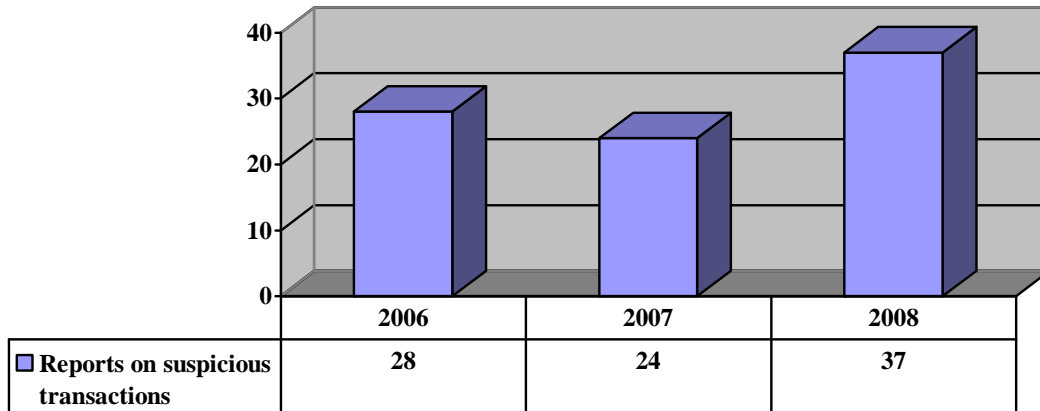
During 2008, some 93.396 reports on transactions subject to mandatory reporting and on suspicious transactions (37) were added into the FMC's database. Annex 1 contains detailed statistical information on the received reports. By the end of the reporting period, the number of reports contained in the FMC's database totaled approximately 224.5 thousand units.

The number of report received in 2008 demonstrates an increasing trend when compared with the respective statistics for 2006 and 2007. Below is the comparative schematic presentation of the mentioned statistical data:

### Reports on Transactions Subject to Mandatory Reporting



### Reports on Suspicious Transactions



During 2008, all reports on suspicious transactions were received from financial institutions; in particular, 36 reports were filed by banks, and one report by a currency exchange office.

Over the reporting period, the FMC analyzed 46 cases and episodes, and respectively 11 referrals were made to law enforcement authorities. The persons involved in 14 cases were put in the FMC's monitoring watch-list, and analysis of 30 cases was terminated.

In 2008, funds totaling approximately USD 800.000 were suspended within the framework of analysis of 6 suspicious transactions.

During the reporting period, the FMC received 17 requests from foreign financial intelligence units (hereinafter: FIU), 25 requests from the national counterparts, of which 19 – from law enforcement authorities.

In the same period, the FMC made 17 requests to its foreign counterparts via the Egmont Secure Web, and 59 requests to the national counterparts.

Below is presented data on the referrals made to law enforcement authorities on ML cases analyzed on basis of the signals (except for the requests mentioned above) received from other FIU-s, law enforcement authorities, departments of the Central Bank, and of suspicious transaction reports (hereinafter: STR-s), on initiated criminal cases, on cases referred to the court, and on the respective convictions.

<i>Received information/signals (from FIU-s, law enforcement)</i>	<i>STR-s</i>	<i>Referrals made to law</i>	<i>Initiated criminal</i>	<i>Cases referred to</i>	<i>Convictions</i>
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<i>authorities, CB's departments)</i>		<i>enforcement authorities</i>	<i>cases</i>	<i>the court</i>	
8	37	11	6 <sup>1</sup>	1	0

#### **4. Assisting to Supervision over Implementation of AML/CFT Legislation**

Clause 5 of the FMC's 2008 Work Program

The FMC completed 21 references on legal violations pertaining to the completion of reports by financial institutions, which were submitted to the Financial Supervision Department. These references were filed to the FSD and provided grounds for the latter to impose sanctions on 4 financial institutions.

Moreover, the FMC's employees participated in complex inspections conducted by the FSD both in banks and in other financial institutions, thus assisting the inspection teams in the examination of the reporting entities' internal systems of ML/ FT prevention and in the formulation of the inspection findings.

Corresponding statements were submitted to relevant supervisory state bodies on the infringements and other problems discovered in the process of report filing by other reporting entities.

#### **5. International Cooperation**

Clauses 1 and 2 of the FMC's 2008 Work Program

During 2008, the FMC was actively involved in activities aimed at international cooperation, thus maintaining formerly established relations with international counterparts, as well as concluding new agreements on cooperation (Memoranda of Understanding) with foreign FIU-s. Over the reporting period, the FMC cooperated with foreign FIU-s in the field of information exchange, as well as assisted in the research carried out by international organizations, through submitting the requested analysis on the legal system and law enforcement practices in the Republic of Armenia.

By means of providing the necessary technical assistance, the FMC actively assisted in the establishment of the financial intelligence unit in Nagorno Karabagh. In particular, the Law of the Republic of Nagorno Karabagh on Combating Money Laundering and Terrorism Financing was adopted due to the assistance provided by the FMC and, based on the said Law, the Financial Monitoring Division of the Ministry of Finance of Nagorno Karabagh was established as the national financial intelligence unit. Moreover, an Interagency Commission on Combating ML/ FT was set up and chaired by the Prime Minister of Nagorno Karabagh, with the head of the FMC taking part in the first meeting of the Commission.

The FMC engaged in sponsoring activities aimed at the establishment of foreign FIU-s. In particular:

- The FMC provided support to the Egmont Group accession of the FIU to be established in the Islamic Republic of Iran. To this end, at the 16<sup>th</sup> plenary meeting of the Egmont Group held in May 2008, the FMC was recognized as Iran's sponsor in Egmont accession. In this relation, agreements were reached in the course of mutual visits of both Armenian and Iranian officials on the assistance to be provided for the Iranian FIU to meet the accession requirements.

<sup>1</sup> Two of the criminal cases were initiated on basis of the referrals made by the FMC to law enforcement authorities.

- Within a mission of the International Monetary Fund (hereinafter: the IMF), the Deputy Head of the FMC participated in the visit to Turkmenistan aimed at assisting in the formation of an AML/ CFT system and the establishment of a financial intelligence unit in that country.

Within the reporting period, Memoranda of Understanding were signed with FIU-s of 4 countries, based on the model MoU designed for Egmont Group members. In particular:

- During the visit of representatives of the Federal Service of Financial Monitoring of the Russian Federation (Rosfinmonitoring), which took place in January 21-24, 2008 and was hosted by the Armenian Financial Monitoring Center, a Memorandum of Understanding was concluded between Rosfinmonitoring and the FMC on January 22;
- On February 4, 2008 a Memorandum of Understanding was concluded between the Department of Financial Monitoring of the State Supervision Committee of Belarus and the FMC;
- On February 26, 2008 a Memorandum of Understanding was concluded between the Financial Monitoring Service of Georgia and the FMC;
- On March 13, 2008 a Memorandum of Understanding was concluded between the State Committee of Financial Monitoring of Ukraine and the FMC.

Within the framework of the Egmont Group activities, the FMC's delegation participated in the 16<sup>th</sup> plenary meeting and the meetings of working groups of the Egmont Group of financial intelligence units.

During the Plenary meeting, held in May 25-29, 2008 in Seoul, the FMC was recognized as the sponsor in Egmont accession of the FIU-s to be established in the Islamic Republic of Iran<sup>2</sup>. The FMC's delegation also initiated discussions with the Egmont Group Secretariat on organizing the 2001 plenary meeting in Armenia. This initiative was considered and approved by the Egmont Secretariat and Committee.

Within the framework of cooperation with the Eurasian Group on Combating Money Laundering and Terrorism Financing, the FMC's representatives participated in the 8<sup>th</sup> and 9<sup>th</sup> plenary meetings of the Eurasian Group during 2008. Moreover, as requested by the Eurasian Group, the FMC also passed to the Group's Secretariat questionnaires for compilation of a number of typologies and various studies concerning prevention of ML/ FT.

Within the framework of the Council of Europe's MONEYVAL Committee activities, the delegations of the Republic of Armenia headed by the FMC's representatives participated in 26<sup>th</sup>, 27<sup>th</sup> and 28<sup>th</sup> plenary meetings of MONEYVAL. During these meetings, the Armenian delegation presented its position in respect of organizational and routine issues, of 3<sup>rd</sup> round evaluations, progress reports, and compliance enhancing procedure reports of various member states at MONEYVAL. The Armenian delegation, *inter alia*, acted as the rapporteur country for Liechtenstein's progress report.

In the scope of MONEYVAL assessments, the FMC also took part in the assessment of AML/ CFT arrangements in other countries. Thus, during 2008 the FMC's representative was included in the evaluators' team for MONEYVAL assessment of the Ukraine's AML/ CFT system, visiting the country in the capacity of a legal evaluator. In 2009 the FMC will further engage in assessment processes; particularly the FMC's representatives will take part in the 3<sup>rd</sup> round evaluation of Bosnia and Herzegovina, and in that of Serbia, in both cases in the capacity of financial evaluators.

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<sup>2</sup> In the Egmont Group, Iran is sponsored also by the Ukrainian FIU.

## **6. Training and Consultancy Activities**

In 2008, due to the FMC's efforts training activities were organized both within and outside the Republic of Armenia.

The FMC arranged seminars interpreting provisions of the Law. Particularly, series of seminars were held for the employees of the Central Bank, banks, insurance companies, currency dealers/brokers, money transfer businesses, attorneys, notaries, independent lawyers and firms providing legal services, independent accountants and accounting firms, persons organizing prize games and lotteries, as well as casinos.

In January 2008, representatives of the Russian delegation hosted by the FMC conducted a seminar for the Armenian law enforcement authorities (the Prosecutor's Office, the Police, the National Security Service, the State Customs Committee, and the State Tax Service) and for the respective departments of the Central Bank on issues such as the international system of AML/CFT, the role of FIU-s, the general description of the AML/ CFT system in Russia, the arrangement of financial intelligence, and the cooperation between law enforcement authorities.

In January 2008 a course titled Training for Trainers in Combating Money Laundering and Terrorism Financing was organized at the premises of the Serious Organized Crime Agency (SOCA) of Great Britain, sponsored by the United Nations Office of Drug Control (UNODC) and the Organization for Security and Cooperation in Europe (OSCE). Representatives of the General Prosecutor's Office, the Central National Bureau of Interpol of the Police, the State Tax Service, and the Law Department of Yerevan State University, the Court of Cassation, and the Central Bank participated in the course. Based on the new training methodology, the participants of the course arranged training on combating ML/ FT in various agencies and institutions in Armenia during 2008.

With joint efforts of the FMC and the US Embassy in Armenia, a seminar on financial analysis methods was organized in November 2008 for the representatives of law enforcement authorities, the banking industry, and the FMC's employees.

In 2008, the FMC conducted a training needs assessment (TNA) for the improvement of the AML/ CFT function in banks, and a training course was organized for the employees of the banks' internal monitoring units in June and July based on the results of the TNA.

## **7. Arrangement of Works of the Interagency Commission on the Fight against Counterfeiting of Money, Fraud in Plastic Cards and Other Payment Instruments, Money Laundering and Terrorism Financing (the Interagency Commission)**

In 2008, the FMC initiated 2 meetings of the Interagency Commission, during which a number of AML/CFT-related issues were considered. The following are the key issues considered by the Committee:

- Consideration, reconciliation, and coordination of the process of applying the Law;
- Consideration of strategic works performed in the field of combating ML/ FT;
- Coordination of the works for preparing assessment of Armenia's AML/ CFT system by MONEYVAL;
- Conclusion of the revised Memoranda of Understanding between the FMC and law enforcement authorities;
- Determination of the status of referrals on suspicious transactions made by the FMC to criminal investigation bodies, and of the investigative subordination of money laundering cases.

At the same time, agreement was reached on the issue of forming the new, *ex officio* composition of the Committee and submitting a respective proposal to the President. According to the new order of the President, positions of the Chairman of the Court of Cassation and of the Head of the



FMC – as the Secretary of the Committee – were included into the composition of the Committee<sup>3</sup>.

## **8. Preparing Assessment of Armenia's AML/ CFT System by IMF and MONEYVAL**

During the reporting period, in June 2008 the FMC initiated establishment of working groups for preparing assessment of Armenia's AML/ CFT system by the IMF and MONEYVAL in 2009. In line with the assessment methodology, 4 working groups were formed appurtenant to financial, non-financial, legal, and law enforcement sections, and representatives of the respective agencies were included into the working groups. The works of these groups were coordinated by the FMC's officials. The groups met 4 times, and during the meetings each member of the group presented the respective predetermined section of the assessment questionnaire prepared by him/her, followed by discussions on the topic. The FMC summarized the responses to the assessment questionnaire.

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<sup>3</sup> The new, *ex officio* composition of the Committee was approved by the President's Order No NK-60-A of April 2, 2008.

Annex 1

<i>Reporting entities</i>	<i>Registered during 2008</i>	<i>Total registered</i>	<i>Reports filed to FMC by reporting entities in 2008</i>	
			<i>Mandatory reporting</i>	<i>Suspicious</i>
Banks	1	22	89588	36
Credit organizations	3	25	498	
Persons engaged in foreign currency trading	54	241	-	1
Persons engaged in dealer-broker foreign currency trading	-	2	84	
Licensed persons providing cash (money) transfers	6	10	-	-
Persons rendering investment services in accordance with the Republic of Armenia Law on Securities Market	-	10	200	-
Insurance (including reinsurance) companies	3	11	204	-
Insurance brokers	3	5		-
Insurance agents	32	47		-
Pawnshops	19	66	-	-
Notaries	-	73	1232	-
Persons and casinos organizing prize games	37	75	-	-
Persons organizing lotteries	1	4	-	-
Authorized Body responsible for maintaining the integrated state cadastre of real estate	-	49	1546	-
<b>Total</b>	<b>159</b>	<b>640</b>	<b>93352</b>	<b>37</b>