

**FINANCIAL MONITORING CENTER
CENTRAL BANK OF ARMENIA**

ANNUAL REPORT

**On 2011 Activities in the Field of
Combating Money Laundering and Terrorism Financing
in the Republic of Armenia**

YEREVAN - 2012

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Introduction

This report introduces the works implemented and the outcomes achieved in the year 2011 in the field of combating money laundering and terrorism financing (hereinafter: AML/CFT) in the Republic of Armenia.

During 2011 the works aimed at attaining the objectives defined under the 2010-2013 National Strategy for Combating Money Laundering and Terrorism Financing in the Republic of Armenia have been continued. In particular, further efforts have been made towards implementing a legal framework largely compliant with the FATF recommendations, strengthening international and national cooperation, enhancing relevant knowledge of the reporting entities' compliance staff, training of personnel of the Financial Monitoring Center (hereinafter: the FMC) and of other agencies involved in the fight against ML/FT. Capacity building, as well as training and professional development initiatives for the involved law enforcement agencies have also had a positive impact on the investigation and prosecution of ML/FT cases in both quantitative and qualitative terms.

It is worth mentioning that in 2011 Armenia hosted the 19th Egmont Plenary meeting attended by more than 300 participants representing financial intelligence units (hereinafter: FIUs) of around 100 jurisdictions and a number of international structures.

1. Developments in Legislation

In 2011, works were continued to improve the required AML/CFT mechanisms and develop a legal framework largely compliant with international standards. Particularly, the package of draft laws introducing changes and amendments in the Law on Fighting Money Laundering and Terrorist Financing and in 14 other laws, which had been in the process of drafting since 2010, was fine-tuned on basis of the recommendations and comments from involved state authorities, assessed for consistency in terms of economic (including the aspects of small and medium entrepreneurship, competition and budgetary framework), environmental, health care, social protection and anti-corruption impact, and submitted to the Government. The draft legislative package proposes the following key improvements:

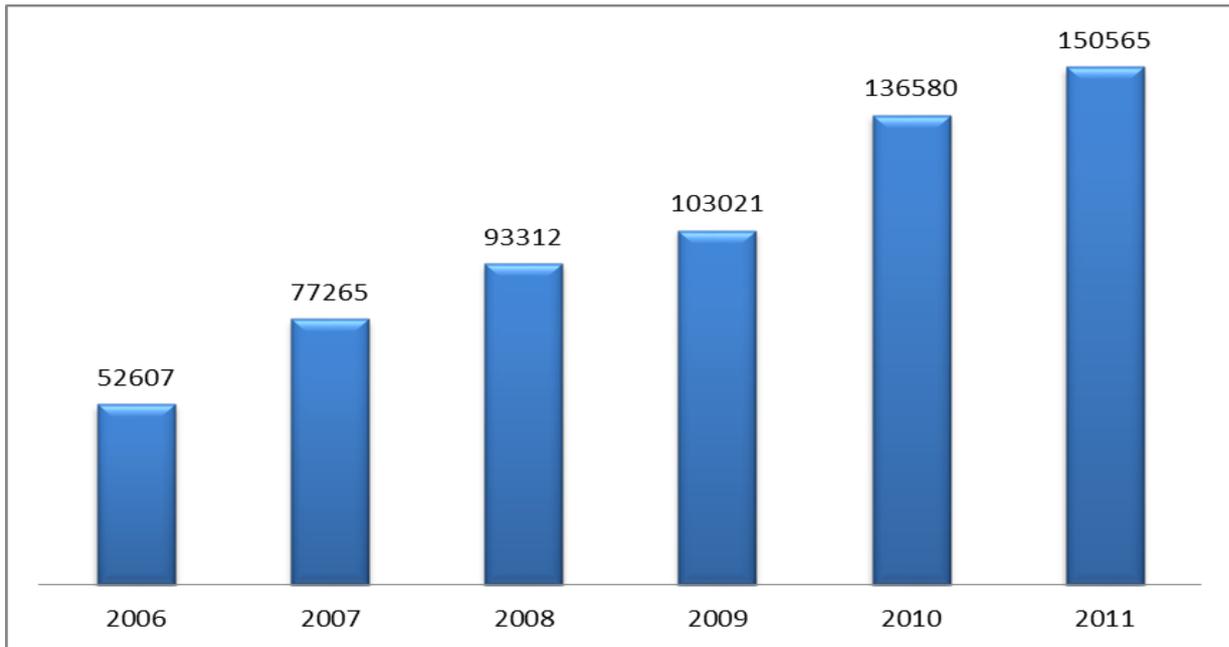
- Clarify the competencies of the FMC and supervisory bodies in relation to supervision over reporting entities and imposition of penal measures thereon;
- Provide the Central Bank with the authority to adopt legal statutes for the enforcement of legislative requirements in respect of designated non-financial businesses and professions that are reporting entities;
- Improve and clarify the requirements for conducting customer due diligence, qualifying a transaction or business relationship as suspicious, documenting and retaining the conducted analyses;
- Bring the mechanisms for freezing and confiscating terrorism-related funds and other assets into compliance with international standards;
- Introduce a new threshold for filing reports on cash transactions subject to mandatory reporting;
- Clarify the scope of predicate offences of money laundering, etc.

2. Collection of Information and FMC Database

In 2011, the FMC Case Management System was put into operation, and works aimed at its further development in 2012 were provided for. The system is intended to significantly increase the effectiveness of analyses conducted by the FMC.

Over the reporting period, approximately 150.000 reports on transactions subject to mandatory reporting and on suspicious transactions were filed with the FMC (see Annex 1), thus increasing the total number of reports contained in the FMC database to approximately 625.000 items as of the end of 2011. The reporting dynamics within the period of 2006-2011 is shown below.

Dynamics of reporting on above-threshold and suspicious transactions (2006-2011)



3. ML/ FT Analyses and Outcomes

In implementation of the competencies defined by the law, the FMC as the state body coordinating the fight against money laundering and terrorist financing at national level receives and analyses first-hand signals on potential ML/FT cases, and disseminates the results of analysis to relevant domestic and foreign counterparts in the cases and manner established under the law.

Particularly, information is received from reporting entities, domestic and foreign counterparts, as well as from mass media and other sources. Inquiries to the FMC from law enforcement agencies are an important source of information, which can be seen in the comparative analysis of the statistical data in the tables below. In the course of analysis, the FMC makes inquiries to law enforcement and other state bodies. The results of analysis, as appropriate, are disseminated to relevant domestic supervisory and law enforcement authorities, as well as to foreign counterparts for them to take respective measures.

Tables 1 and 2 below illustrate the statistical data describing performance of the FMC and other competent authorities involved in the fight against money laundering over the period of 2006-2011.

In 2011, the following predicate offences were the ones to most often become the subject of conducted analysis, instigated criminal cases, and passed convictions:

- Embezzlement through the use of computers;

- Crimes through the use of new and developing technologies;
- Deliberate tax evasion;
- Smuggling;
- Embezzlement by fraud;
- Illegal drug turnover etc.

In 2011, 5 convictions were passed to sentence 7 persons for the legalization of criminal proceeds. The convictions were determined on charges of embezzlement and legalization of funds through fake loans, production of counterfeit bank cards with subsequent theft and legalization of criminal proceeds, embezzlement of large funds from a legal entity by means of counterfeiting documents with subsequent legalization of criminal proceeds.

Table 1

	2007	2008	2009	2010	2011	Total
Requests made to FMC by foreign FIUs	18	17	25	25	36	121
Requests made to foreign FIUs by FMC	17	20	16	28	30	111

Table 2

	2006	2007	2008	2009	2010	2011	Total
References made by FMC to law enforcement authorities	2	11	11	9	23	17	73
Criminal cases instigated on basis of the references from FMC	2	2	2	1	5	1	13
Requests made by FMC to law enforcement authorities	-	12	23	13	15	33	96
Requests made to FMC by law enforcement authorities	-	13	19	39	53	58	182
Criminal cases instigated on initiative of law enforcement authorities	2	2	5	9	8	9	35
Total of criminal cases instigated	4	4	7	10	13	10	48
Convictions	1	0	0	6	4	5	16
Funds involved in transactions/business relationships suspended by CBA Board	0	0	802 thousand US dollars	1.1 million US dollars	345 thousand drams, 290 thousand US dollars	0	
Funds subject to confiscation	0.3 million drams	0	0	53.8 million drams and 25.2 thousand euros	514.0 million drams	415.5 million drams	

4. Violations and Sanctions

In 2011, efforts aimed at ensuring equal and proportionate enforcement of the AML/CFT legislation have resulted in detecting violations and imposing relevant sanctions on both financial and non-financial reporting entities. Hence, off-site surveillance over financial institutions, as well as on-site inspections conducted jointly by the FMC and the Financial Supervision Department of the Central Bank of Armenia (hereinafter: the FSD) have disclosed cases of late reporting and submission of inaccurate data, failure to appropriately conduct due diligence with respect to high risk customers as prescribed by the law, failure to meet the requirements of applicable legal acts, with subsequent imposition of the following sanctions:

- 3 banks were provided a notification with assignment to take relevant measures so as to refrain from similar violations in future;
- 16 financial institutions (including 8 banks, 4 credit organizations and 4 investment companies) were provided warnings in 75 cases with assignment to take relevant measures so as to refrain from similar violations in future;
- 8 financial institutions (including 5 banks and 3 credit organizations) were imposed fines totaling AMD 1.120.000.

In addition, the FMC staff participated in on-site inspections of financial institutions to assist the examination of their internal AML/CFT systems.

As far as non-financial institutions are concerned, in 2011 sanctions were imposed on entities organizing games of chance, lotteries and casino. Particularly, for the first time these reporting entities were checked for meeting the requirement to have internal acts and an internal compliance function in place. Consequently, the following sanctions were imposed:

- 21 organizers of games of chance were provided warnings in 22 cases;
- 8 organizers of casino were provided warnings in 8 cases;
- 1 organizer of lottery was provided a warning in 1 case;
- 4 organizers of casino were imposed fines totaling AMD 1.400.000.

5. International Cooperation

In the reporting period, active international involvement facilitated furthering previously established relationships with foreign counterparts. Particularly, the FMC has made proposals in relation to a number of documents drafted by relevant international structures (FATF, MONEYVAL, Eurasian Group), including those on the revision and amendment of

the FATF Recommendations, as well as to the initiatives and projects implemented in relevant international forums.

Certain actions have been taken aimed at the implementation of restrictive measures imposed by international structures. Thus, the FATF statements on jurisdictions with significant deficiencies in their AML/CFT systems, as well as on those having committed to an action plan developed with the FATF to address such deficiencies have been posted on the FMC website and communicated to reporting entities.

Cooperation with Council of Europe's MONEYVAL Committee

The delegation of Armenia participated in the 35th, 36th and 37th plenary meetings of the Council of Europe's MONEYVAL Committee. During these meetings the following issues, *inter alia*, were considered:

- In relation to the envisaged works for typology development, the Armenian delegation proposed a draft tool for the assessment of regional AML/CFT risks and challenges of MONEYVAL countries;
- 4th round assessment reports, as well as 3rd round progress reports of a number of MONEYVAL member countries were adopted;
- Reports on measures taken by countries under compliance enhancement procedures were adopted.

At the 36th plenary meeting, the Deputy Head of the FMC reported in the capacity of the member of the assessment team for San Marino.

Cooperation with the Eurasian Group

The FMC has been actively participating in the initiatives of the Eurasian Group for Combating Money Laundering and Terrorist Financing (hereinafter: the EAG), particularly in the works of developing questionnaires and typologies.

Representatives of the FMC have attended working group and plenary meetings of the EAG. The following issues were considered at the meetings:

- Adoption of the mutual evaluation report of Kazakhstan, where the representative of the FMC acted in the capacity of financial evaluator;
- Current findings of the strategic analysis on identification of ML/FT risks related to cross-border flows of funds between EAG member and observer countries in the

context of international financial relations, where the FMC representative made a presentation on the analysis of cross-border flows between Armenia and Russia aimed at the detection of relevant ML/FT risks.

Cooperation with the Egmont Group

Over the reporting period, the FMC has been exchanging information with foreign counterpart FIUs through the Egmont Secure Web. Representatives of the FMC attended working group and plenary meetings of the Egmont Group and participated in relevant discussions. In particular, at the meetings of the Outreach Working Group the FMC presented the results of the works with sponsored jurisdictions (Iran, Tajikistan, and Turkmenistan). In the Operational Working Group, the actions taken under the project for the enhancement of information exchange between FIUs were presented. The FMC was also involved in the recently launched project for the revision of incorporation documents of the Egmont Group; this project would review the Egmont Charter and other reference documents to ensure harmonization of procedures with the current practices and developments.

19th Egmont Plenary Meeting

In 2011, the 19th Egmont Group plenary meeting was held in Yerevan. The meeting was co-chaired by Boudwijn Verhelst – the Deputy Director of the Belgian FIU, and Daniel Azatyan – the Head of the FMC. The meeting was attended by more than 300 participants from financial intelligence units of around 100 jurisdictions and 10 international structures (IMF, World Bank, FATF, MONEYVAL etc). Within the bounds of the plenary meeting, 55 memoranda of understanding were signed between member FIUs.

The staff of the FMC and other divisions of the Central Bank, as well as representatives of law enforcement authorities attended sessions of the working groups and various courses/seminars organized within the framework of the plenary meeting.

According to the rules of procedure of the plenary meeting, the FMC as the host country made a presentation titled “The Armenian AML/CFT System – a Glance from Within”.

During the meeting of the highest management body of the Egmont Group – the meeting of the Heads of FIU – among other decisions there was the endorsement of granting membership to the FIUs of Azerbaijan, Kazakhstan, Mali, Morocco, Samoa, Solomon Islands, and Uzbekistan.

In the seminar dedicated to operational issues, the Deputy Head of the FMC, who is also the Vice-Chair of the Operational Group, made a report on current issues of information exchange.

The session of the Operational Working Group in Yerevan summarized the findings of the Information Exchange and International Cooperation Project led by the FMC.

In the meeting of the Outreach Working Group, the actions taken within the reporting period by the FIUs of Iran, Tajikistan and Turkmenistan, for which the FMC is the co-sponsor for Egmont accession, were discussed.

The plenary meeting was preceded by a seminar for Egmont member and candidate FIUs on mutual assessments for compliance with FATF recommendations, held in July 8-10.

Memoranda of understanding signed between the FMC and foreign FIUs within the reporting period

Jurisdiction	Name of financial intelligence unit
Tajikistan	Financial Monitoring Department of the National Bank of Tajikistan
China	China Anti-Money Laundering and Analysis Center
Taiwan	Anti-Money Laundering Division, Investigation Bureau, Ministry of Justice
Serbia	Administration for the Prevention of Money Laundering
Montenegro	Administration for the Prevention of Money Laundering
Moldova	Center for Combating Economic Crimes and Corruption
Saudi Arabia	Saudi Arabian Financial Investigation Unit
Macedonia	The Office for Prevention of Money Laundering and Financing of Terrorism
Israel	Money Laundering and Terror Financing Prohibition Authority

Technical Assistance Provided to Foreign FIUs

In 2011 the FMC furthered its efforts aimed at providing technical assistance to foreign FIUs. Particularly, in the capacity of the sponsor for Egmont accession of the FIU of Tajikistan, representatives of the FMC paid a visit to that country to check the efficiency of implementation of the action plan for the provision of technical assistance, as well as to discuss the ways for its further enhancement.

The FMC proposed to organize a training course for the staff of the Financial Monitoring Department of the Ministry of Finance of Turkmenistan. Within the framework of technical assistance, the FMC assisted Turkmen FIU in the drafting of the legal acts regulating its activities.

Miscellaneous

In March 7 and 8, 2011 the representative of the FMC participated in the 3rd session of the Conference of Parties established under the Warsaw Convention and was elected into the bureau of the Conference. The session adopted the report on Albania's compliance with the convention, for which the FMC representative had acted in the capacity of legal evaluator.

6. Trainings, Consultancy and Technical Assistance

6.1. Training for FMC, other CBA departments and competent authorities

Training program	Participants	Date
Seminar on specifics of AML/CFT supervision, delivered by IMF experts (under IMF technical assistance program)	FMC, other CBA departments	February 1
Seminar on combating insurance fraud, delivered by the National Association of Insurance Commissioners, USA (under the US Department of the Treasury's INL Program)	FMC, other CBA departments, other agencies	February 23-24
Course on combating money laundering and asset recovery, delivered by the Basel Institute on Governance (under IMF technical assistance program)	FMC, other agencies	March 17-24
Seminar on the experience of organizing works in combating money laundering and terrorist financing (under EurAsEs technical assistance program)	Central banks of Russian Federation, Kyrgyzstan, Belarus and Armenia	April 26-28
Joint seminar on tactical analysis, delivered by the World Bank and Egmont Group experts	Competent authorities involved in AML/CFT	May 3-6
MONEYVAL assessor training seminar	Competent authorities involved in AML/CFT	July 8-10
Joint regional seminar on combating terrorist financing, delivered by the UN Office on Drugs and Crime and by the EBRD	Competent authorities involved in AML/CFT	September 26-29

6.2. Training programs and events for reporting entities

Training program	Participants	Date
Seminar on the prevention of money laundering	Compliance officers of	September 13-

and terrorist financing in financial institutions, delivered by the FMC	Armenian banks	20
Seminar on AML/CFT and financial supervision, delivered by the FMC and the Financial Supervision Department of the Central Bank of Armenia	Managers, customer support and other responsible staff of the branches of Armenian banks operating in Nagorno Karabakh	October 13-14
Seminar on the fight against money laundering and terrorist financing, delivered by the EBRD	Compliance officers of Armenian banks, Financial Supervision Department of the Central Bank of Armenia, FMC	November 22-24
Meeting on proposed amendments in AML/CFT legislation, on reporting requirements, revision of terrorist lists and other issues, delivered by the FMC	FMC, compliance officers of Armenian banks	December 8
Series of seminars on AML/CFT regulation in Armenia, international experience and legislative developments, delivered by the FMC (under the US Department of the Treasury's INL Program)	Ministry of Finance, State Registry of Legal Entities, organizers of casino and games of chance, auditors, accountants and lawyers	December 19-22

Reporting entities	Registered as of December 31, 2011	Reports filed to FMC by reporting entities	
		<i>Over-threshold</i>	<i>Suspicious</i>
<i>Financial institutions</i>			
Banks	22	146577	184
Credit Organizations	31	145	-
Entities engaged in foreign currency broker-dealer transactions	1	-	-
Entities engaged in foreign currency exchange	227	-	-
Licensed entities engaged in money (currency) transfer services	9	-	-
Investment companies (entities providing investment services, as defined under the Law on Securities Market)	8	153	-
The central depository of regulated market securities (as defined under the Law on Securities Market)	1	144	-
Insurance (including re-insurance) companies	9	1590	-
Entities providing intermediary insurance (including re-insurance) services	4	38	-
Insurance agents	4429	-	-
Pawnshops	90	6	-
<i>Non-financial businesses and professions</i>			
Realtors	168	-	-
Notaries	82	983	-
Attorneys, independent lawyers and law firms	363	-	-
Independent accountants and accounting firms	8	-	-
Independent auditors and auditing firms	37	-	-
Dealers of precious metals	-	-	-
Dealers of precious stones	14	-	-
Dealers of precious art works	-	-	-
Organizers of auctions	-	-	-
Entities organizing games of chance and casino	73	-	-
Entities organizing lotteries	3	-	-
Entities organizing internet games of chance	1	-	-

Trust and company service providers	-	-	-
Credit bureaus	-	-	-
The authorized body in charge of the integrated state cadastre of real estate	49	610	-
The state authority in charge of registering legal persons (the State Registry)	49	133	2
Total	5678	150379	186