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GUIDANCE

ON CRITERIA OF HIGH RISK

AND

INDICATORS OF SUSPICIOUS ACTIVITY

IN RELATION TO

MONEY LAUNDERING AND TERRORISM FINANCING

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Abbreviations

| | |
|------------|--|
| CDD | Customer due diligence |
| DNFBP | Designated Non-Financial Businesses and Professions |
| Law | Republic of Armenia Law on Combatting Money Laundering and Terrorism Financing |
| ML | Money laundering |
| NPO | Non-profit organization |
| Regulation | Regulation on Minimum Requirements to Reporting Entities in the Field of Preventing Money Laundering and Terrorism Financing |
| STR | Suspicious transaction report |
| TF | Terrorism financing |

Introduction

This guideline on the criteria of high risk and the indicators of suspicious activity in relation to money laundering and terrorist financing (hereinafter referred to as the Guideline) has been developed on the basis of the Law and applies to all types of reporting entities as defined in Part 1(4) of Article 3 thereof.

According to Part 1(21) of Article 3 of the Law, the criterion of high risk as defined by the Law, the legal statutes of the Authorized Body, as well as the internal legal statutes of the reporting entity is a circumstance indicating a high likelihood of money laundering or terrorism financing. According to Part 1(31) of the same article, the indicator of a suspicious transaction or business relationship (hereinafter also referred to as the indicator of suspicious activity) as defined by the legal statutes of the Authorized Body, as well as the internal legal statutes of the reporting entity is a situation or signal alerting to the possibility of money laundering or terrorism financing.

With regard to the interrelation, within the ML/TF context, between the **criteria of high risk** and the **indicators of suspicious activity** in relation to customers, business relationships and transactions, it should be noted that:

- The criteria of high risk, i.e. the circumstances indicating the high likelihood of ML/TF do not necessarily comprise indicators of suspicious activity, i.e. situations or signals alerting to the possibility of ML/TF. For example, if the customer is a family member¹ of a politically exposed person, this does not mean that all of his transactions by default should be considered as signals alerting to the possibility of money laundering²;
- The indicators of suspicious activity, i.e. the situations or signals alerting to the possibility of ML/TF often comprise also criteria of high risk, i.e. circumstances indicating the high likelihood of ML/TF. For example, if a customer does not disclose his being a family member of a politically exposed person³, this is already indicative of a high likelihood of the materialized risk of money laundering⁴.

It should be noted that the Law provides for a specific set of measures in the presence of both the criteria of high risk and the indicators of suspicious activity. In particular, reporting entities are required:

- In the presence of the criteria of high risk – to conduct enhanced due diligence in accordance with Part 2 of Article 18 of the Law; that is to apply an advanced procedure of

¹ Here being a family member of a politically exposed person comprises a criterion of high risk relating to customer status.

² Given that conducting a transaction does not necessarily comprise an indicator of suspicious activity relating to customer behavior.

³ Here non-disclosure comprises an indicator of suspicious activity relating to customer conduct.

⁴ Given that being a family member of a politically exposed person comprises a criterion of high risk relating to customer status.

- customer due diligence process⁵, which enables to achieve a more comprehensive understanding of the customer's identity and business profile;
- In the presence of the indicators of suspicious activity – to consider recognizing the transaction or business relationship as suspicious and filing with the Authorized Body a report in accordance with Part 2 of Article 7 of the Law; that is to perform comprehensive analysis⁶, which enables to prove or disprove ML/TF suspicions with regard to the transaction or business relationship.

Moreover, where the **enhanced due diligence** conducted in the presence of high risk criteria leads to the application of a more rigorous approach to the business relationship with the customer by means of, *inter alia*, obtaining senior management approval to commence the relationship, establishing the source of funds and wealth of the customer, and applying other measures, the **comprehensive analysis** performed in the presence of suspicious activity indicators leads to: a) forming substantiated ML/TF suspicions, to be followed by recognizing the transaction or business relationship as suspicious and filing a report with the Authorized Body⁷; or b) dispelling ML/TF suspicions, to be followed by documenting and maintaining the grounds for non-recognition of the transaction or business relationship as suspicious, the respective conclusions, the process of performed analysis and its findings⁸.

⁵ The minimum requirements with regard to applying the advanced procedure of customer due diligence process are set out in Clause 33 of the Regulation.

⁶ The minimum requirements with regard to performing the comprehensive analysis for identification of suspicious transactions and business relationships are set out in Clauses 44-50 of the Regulation.

⁷ As provided for in Parts 1 and 2 of Article 7 of the Law.

⁸ As provided for in Part 3 of Article 7 of the Law.

1. Criteria of high risk

According to Part 1(20) of Article 3 of the Law, risk is a circumstance indicating the threat and likelihood of money laundering and terrorism financing, which may be defined in terms of countries or geographic locations, types of customers, transactions or business relationships, services, or in terms of other parameters.

Each type of ML/TF risk is characterized by a set of unique criteria and features, and assessing the potential impact thereof enables arriving at conclusions on the presence of the given type of risk and on its level being either high, medium or low.

It should be noted that the criteria of high risk are set out both in Part 1(21) of Article 3 of the Law and in Clause 27 of the Regulation. They include⁹:

Criteria of high risk defined by the Law

- Politically exposed persons, their family members or persons otherwise affiliated with them;
- Persons (including financial institutions), which are domiciled or reside in or are from non-compliant countries or territories¹⁰;
- All complex or unusual large transactions;
- Unusual patterns of transactions or business relationships, which have no apparent economic or other lawful purpose.

Criteria of high risk defined by the Regulation

- Legal persons or arrangements that are personal asset-holding vehicles;
- Companies that have nominee shareholders or shares in bearer form;
- Businesses and business relationships that are cash-intensive;
- Companies that have unusual or excessively complex ownership structure;
- Private banking activities;
- Non-face-to-face business transactions or relationships.

The criteria of high risk as set forth in the above legal acts are identified through the characteristics specific for any of the three internationally recognized types of ML/TF risk. They include:

- Country or geographical area risk;
- Customer, transaction or business relationship risk;
- Product, service or delivery channel risk.

⁹ Since the Law and the Regulation stipulate that the risk is determined by combination of the established criteria, a situation will be recognized as a high risk in the presence of even one criterion of high risk except for the case provided under Clause 24(3) of the Regulation.

¹⁰ Part 1(26) of Article 3 of the Law defines a non-compliant country or territory as the foreign country or territory that, according to the lists published by the Authorized Body, is in non-compliance or inadequate compliance with the international requirements on combating money laundering and terrorism financing.

Within the framework of the above-specified categorization, the below section of this Guideline aims to provide descriptive details of recommendatory nature on the criteria of high risk as established by the Law and the Regulation¹¹, to assist reporting entities in conducting enhanced due diligence required in the presence of such criteria¹².

1.1. Country¹³ or geographic area risk

To distinguish this type of ML/TF risk, reporting entities should answer the following questions – what geographic locations we operate in, and what are the countries of location and/ or operation of our customers' counterparties? To determine the presence and level of this type of risk, the following characteristics are to be considered as a priority:

1.1.1. Criteria relating to preventive system

- Countries identified by credible sources¹⁴ as:
 - Not having adequate AML/CTF systems; and/or
 - Having strategic gaps in their AML/CTF systems; and/or
 - Being a higher ML/TF risk for any other reasons;
- Countries subject to sanctions, embargos or similar measures issued by the United Nations;
- Countries designated under ML/TF-related lists published by relevant international organizations¹⁵ or competent national bodies¹⁶;
- Countries identified by credible sources¹⁷ as exposed to potential risks and/or having ascertained record of terrorism, financing of terrorism and supporting thereof.

1.1.2. Criteria relating to other contextual factors

- Countries identified by credible sources¹⁸ as having significant levels and/or ascertained record of corruption or other criminal activity;
- Countries where drug production and marketing, human trafficking and/or other serious criminality, including financial crimes, are prevalent;
- Countries considered to be an offshore financial center¹⁹, a "tax heaven"²⁰ or an offshore zone²¹;

¹¹ For the sake of integrity, this section also lists the criteria of high risk established by the Law and Regulation.

¹² As provided for in Part 2 of Article 18 of the Law.

¹³ For the purposes of this Guideline, all references to the term "country" equally refer to territories or jurisdictions.

¹⁴ For example, the FATF, the FATF-style regional bodies, the International Monetary Fund, the World Bank, the Egmont Group.

¹⁵ For example, the European Union.

¹⁶ For example, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury.

¹⁷ For example, security services of VARIOUS countries, media publications.

¹⁸ For example, Transparency International, GRECO, Doing Business, BEEPS etc.

¹⁹ Lists of "offshore financial centers" are published by the International Monetary Fund, the Financial Stability Forum, the International Bank for Settlements, the Tax Justice Network and the European Union (the latter on the so-called "non-cooperative tax jurisdictions").

²⁰ Lists of "tax heavens" or "tax shelters" are published by the Organization for Economic Cooperation and Development.

- Countries known for strict laws on banking, trade and other secrecy²².

1.2. Customer, transaction or business relationship risk

To distinguish this type of ML/TF risk, reporting entities should answer the following questions – who are our customers, and what kind of business relations do we have with them? To determine the presence and level of this type of risk, the following characteristics are to be considered as a priority:

1.2.1. Criteria relating to customer identity and status

- Non-resident natural and legal persons that lack an apparent economic or other legitimate rationale for using the Armenian financial or non-financial systems;
- Financial institutions²³ that are not subject to effective supervision for compliance with AML/CTF requirements;
- Natural and legal persons residing or operating in/ from high-risk countries²⁴;
- Politically exposed persons, their family members, persons otherwise affiliated with them²⁵;
- Organizations operating in various countries that do not have centralized control or mind and management in any country;
- Local and/or foreign non-governmental, charitable and similar organizations that are recognized as higher ML/TF risk²⁶ on the basis of relevant analyses²⁷;
- Individuals and organizations providing mediation services²⁸ that have no apparent business purpose or are problematic in terms of identification of beneficial owners;
- Legal persons or arrangements that are personal asset-holding vehicles²⁹,
- Customers that own large property or extensive wealth;
- Customers that utilize high-value services³⁰;

²¹ The list of offshore zones is defined by the Board of the Central Bank (referred to in Part 5 of Article 18 of the Law on Banks and Banking, and in Part 11 of Article 54 of the Law and the Securities Market).

²² Reports on comparative assessments and analyses of secrecy norms are published by the Tax Justice Network, in the form of financial secrecy indexes.

²³ In particular, foreign banks and financial service providers, including money transfer services, currency exchange offices, etc.

²⁴ I.e. all countries classified as high-risk by the present Guideline in terms of country or geographic area risk, which incorporates more than the non-compliant countries defined by the Law.

²⁵ Information on politically exposed persons can be obtained from various publicly available sources, such as websites of foreign government bodies (for example, the official website of the U.S. Central Intelligence Agency) and others. Besides, there are also various limited-access databases (e.g., World-check, Factiva), which provide comprehensive information on politically exposed persons.

²⁶ Non-profit or charitable organizations can be recognized as higher risk due to their involvement in a specific type of activity, operation in particular geographical areas, engagement with specific groups of beneficiaries.

²⁷ Analyses on the ML/TF risk profile of non-profit organizations are conducted by international organizations (such as the FATF), as well as by the relevant Armenian authorities (e.g. the Ministry of Justice that is responsible for the supervision of NGOs).

²⁸ For example, holding companies, anonymous companies, or trusts.

²⁹ In particular, legal persons or arrangements established by an individual for the management of investment assets.

³⁰ For example, the so-called personal secretary (the international term is "concierge banking") or personalized banking (the international term is "private banking") services.

- Cash (and cash equivalent) intensive businesses, including:
 - Money services businesses³¹,
 - Casinos, games of chance, lotteries;
 - Convenience stores, gas stations and other fast consumption sales outlets;
- Providers of intermediation and representation services that are not monitored or controlled for compliance with ML/TF requirements³².

1.2.2. Criteria relating to customer business profile and reputation

- Customers that have been (or are at any stage of being) subjected to criminal liability for corruption crimes³³, embezzlement of public funds and similar crimes, as well as for serious crimes committed deliberately³⁴;
- Customers that have been (or are at any stage of being) subjected to administrative or civil liability for economic offenses;
- Natural and legal persons associated³⁵ with persons having committed crimes and offenses;
- Persons that have been refused by other financial institutions/DNFBPs to carry out a transaction or establish a business relationship;
- Fictitious companies³⁶ and persons operating through them.

1.2.3. Other substantial and situational criteria

- The company's legal status and ownership structure³⁷ do not allow identification of the ultimate beneficial owners of the holders of significant or controlling shares;
- The customer is a corporate entity with: a) unreasonably complex structure of the governance bodies; b) unreasonably frequent changes in the composition or membership of the governing bodies; c) persons in the governance bodies with crime or offense record;
- The business relationship with the customer is established or the transactions are carried out in unusual circumstances with no reasonable explanation³⁸;
- The customer conducts transactions or establishes business relationships on unusual terms without any apparent economic or other legitimate rationale;
- The customer carries out complex or unusually large transactions.

³¹ For example, money transfer service providers, their agents, currency exchange offices, merchants of banknotes, funds transfer or similar courier service providers.

³² For example, mortgage and deposit agents, brokers.

³³ The list of corruption crimes was approved by the Order No. 82 of November 19, 2008 and amended by the Order No. 12 of March 19, 2013 of the Prosecutor General.

³⁴ Detailed data on criminal, administrative or civil liability measures applied by the judiciary are available at the [Judicial Information System](#). Reporting entities may also use other available sources, as well as obtain relevant information from the customer within the framework of CDD measures.

³⁵ For the purposes of this Guideline, more comprehensive definition of "associated person" is provided in Article 8 of the Law on Banks and Banking.

³⁶ Fictitious companies are those that, while officially registered in a jurisdiction, have no actual domicile, real assets, recorded activity or other features of meaningful existence.

³⁷ Including the existence of nominee shareholders and directors.

³⁸ For example, the customer's geographical distance from the financial institution/ DNFBP.

1.3. Product, service or delivery channel risk

To distinguish this type of ML/TF risk, reporting entities should answer the following questions – what products and services do we offer, and what are their delivery channels? To determine the presence and level of this type of risk, the following characteristics are to be considered as a priority:

1.3.1. Criteria relating to product or service type

- Bearer shares, share warrants and other securities;
- Bearer payment instruments, including bearer checkbooks;
- Products that permit receipt of payments from unknown third parties or those unconnected with any party³⁹;
- Products that ensure the anonymity of transaction parties⁴⁰;
- E-wallets, prepaid cards and similar products⁴¹, except for cases where the risk is effectively mitigated in the manner prescribed by the law⁴²;
- Products that enable the use of correspondent banking relations by customers of third parties⁴³;
- International correspondent banking services;
- Postal transfers and similar international payment services;
- Personalized banking services⁴⁴;
- Services related to the trade in and delivery of banknotes and precious metals⁴⁵.

1.3.2. Criteria relating to product or service delivery channel⁴⁶

- Non-face to face business relationships or transactions;
- Services provided exclusively through the Internet, telephone, email and other communication means;
- Online banking services, transactions via wireless communication, mobile banking services.

³⁹ For example, products that permit receipt of payments that lack the originator's forename and surname or company name, as well as the account number (or, in the absence thereof, the unique reference number accompanying the transfer).

⁴⁰ For example, products that permit obtaining CDD data by third parties and do not require authentication of such data.

⁴¹ For example, products that enable relatively easy and quick deposit, accumulation and withdrawal of cash and cash-equivalent instruments.

⁴² In particular, the cases where the risk is effectively mitigated by the internal procedures of the reporting entity established in accordance with Article 23 of the Law.

⁴³ For example, the "payable-through" accounts stipulated in letter "e" of the first paragraph of FATF Recommendation 13.

⁴⁴ The international term is "private banking".

⁴⁵ For example, gold bullions, bank gold.

⁴⁶ The criteria set out in this subsection apply to cases when the entire process of establishing business relationships and conducting transactions, including execution of payments, takes place in non-face to face mode, using online platforms. That is, the cases where prior to establishing the business relationship or carrying out the transaction specific actions (e.g., customer identification and verification of identity) are taken by means of face to face communication and, as a result, the minimum CDD measures defined by the AML/CTF legislation are undertaken, would not be considered to comprise a criterion of higher ML/TF risk.

2. Indicators of suspicious activity

According to Part 2 of Article 7 of the Law, reporting entities should consider recognizing a transaction or business relationship as suspicious and filing with the Authorized Body a report on suspicious transaction or business relationship, if the circumstances of the case under consideration fully or partially match the criteria or typologies of suspicious transactions or business relationships.

Part 1(30) of Article 3 of the Law defines as suspicious the transactions or business relationships whereby it is suspected or there are reasonable grounds to suspect that the property involved is the proceeds of a criminal activity or is related to terrorists and terrorist activity. Part 1(31) of the same article defines the indicator of a suspicious transaction or business as a situation or signal alerting to the possibility of money laundering or terrorism financing, as defined by the legal statutes of the Authorized Body, as well as the internal legal statutes of the reporting entity.

The indicators set out in the below section of this Guideline are not a comprehensive and exhaustive description of possible ML/TF suspicions in relation to transactions or business relationships; hence, they should not be understood in literal meaning. Moreover, in practice it is possible that suspicions arise in relation to any other situation which does not match with or derive from the indicators established in this Guideline, in which case reporting entities must also consider recognizing the transaction or business relationship as suspicious and filing an STR.

In particular, according to Part 2 of Article 7 of the Law, reporting entities may, as a result of the relevant analysis, recognize of a transaction as suspicious if the logic, pattern (dynamics) of implementation or other characteristics of the performed or attempted transaction provide the grounds to assume that it might be carried out for the purpose of money laundering or terrorism financing. Hence, the indicators established in this Guideline by no means predetermine or restrict the reporting entities' discretion or opportunity to conduct analysis and to recognize a transaction or business relationship as suspicious based on their expert judgment and own decision.

The process for determining whether a transaction or business relationship is suspicious can be initiated not only with regard to established business relationships and completed transactions, but also to attempted ones. At that, completed transactions and established business relationships are characterized by the full accomplishment of the chain of actions taken by the customers towards achieving their purposes and provide for the relevant legal consequences to come into effect. In case of attempted transactions or business relationships, the customers again take certain actions towards achieving their purposes; however, the relevant legal consequences do not come into effect, which may occur on the customers' initiative or regardless of their intentions⁴⁷.

⁴⁷ For example: a) the customer takes certain actions aimed at establishing a business relationship; however, before signing of the agreement for opening an account he gives up establishment of such relationship on his

In practice, it is possible that the analysis performed in the presence of any single indicator of suspicious activity does not lead to the formation of reasonable ML/TF suspicions. Accordingly, suspicions in relation to a transaction or business relationship have a better chance to materialize if there is a combination of more than one indicator.

The below section of this Guideline presents indicators of suspicious activity by means of a conventional grouping that firstly reflects on the characteristics of the customers, in particular their identity and status, as well as conduct and behavior, then on the characteristics of the transactions and business relationships, in particular their nature, type and pattern of implementation. Additionally, indicators of suspicious activity specific for the operations of DNFBPs such as advocates and lawyers, accountants and auditors, organizers of casinos and games of chance, as well as indicators of suspicious activity specific for the relationships with non-profit organizations are presented in this Guideline.

2.1. Suspicions with regard to customer characteristics

This section presents indicators of suspicious activity that are identified through substantial or situational descriptions specific for the customers' identity and status, their conduct and behavior.

2.1.1. Indicators relating to customer identity and status

- Authenticity or reliability of the identification data presented by the customer when establishing the business relationship or carrying out the transaction are questionable and need additional inquiries;
- The customer wants to remain anonymous or to possibly reduce the scope and depth of the identification data to be provided⁴⁸ when establishing the business relationship or carrying out the transaction,;
- The customer pursues to obtain unconditional guarantees to ensure the secrecy of the transaction or business relationship⁴⁹;
- The customer presents copies of the identification documents only and refers to different circumstances to explain the absence of the originals;
- The customer uses identification documents that bear signs of alteration or falsification, or otherwise do not appear to be trustworthy;
- The customer occasionally presents different identification documents⁵⁰;
- The customer presents different types of identification documents⁵¹ issued by the relevant authorities in various countries;

own initiative, realizing that he cannot meet all requirements of the bank for customer due diligence; or b) the customer approaches to originate a transfer, but fails to present a valid identification document or correctly fill in the payment order, resulting in the bank's rejection of the transaction and the failure of the attempted transaction regardless of the customer's intentions.

⁴⁸ For example, does not advice on having more than one passport, having a foreign nationality.

⁴⁹ For example, proposes to include a clause into the contract on opening the account that the information on his transactions under no circumstances would be made accessible to third parties, including public authorities.

⁵⁰ For example, a passport, ID card, military card.

- The customer has one or more times changed his forename and/or surname and does not have a reasonable explanation for that⁵²;
- The customer's home, work or cell phone does not respond, is disabled, out of reach, or does not exist;
- The customer uses a personal mailbox, general mailing or other correspondence addresses instead of a home or office address, in places where this is not a common practice;
- The information available on the customer misses some important details such as the actual place of residence, the active phone number, the email address;
- Usually available general information on the customer, including data on education and career is too scarce or unavailable⁵³;
- The information provided by the customer is certified exclusively by foreign sources, and its reliability cannot be verified for certain reasons;
- All documents on the customer's identity and status are newly produced or recently issued;
- Information on the customer's identity and status is unrealistic or not supported by relevant documents⁵⁴,
- The customer's status⁵⁵ is inconsistent with the substantiations submitted for establishing the business relationship or carrying out the transaction⁵⁶;
- The information obtained on the customer confirms or discloses his past or current involvement in criminal activity.

2.1.2. Indicators relating to customer conduct and behavior

2.1.2.1. Actions aimed at circumvention of CDD and other preventive measures

- The customer demonstrates special interest in the reporting entity's internal management and control systems, policies and procedures;
- The customer asks questions that indicate advanced awareness of the regulations on and thresholds for mandatory and suspicious transaction reporting;
- The customer carries out fragmented or structured transactions to stay below the reporting thresholds;
- The customer reduces the originally intended amount of the transaction to avoid becoming subject to CDD measures, including identification and verification of identity;

⁵¹ For example, a passport of the Armenian citizen; a temporary residence permit in a foreign country; a return certificate issued by an Armenian embassy abroad.

⁵² For example, taking the surname of the husband is a reasonable explanation for the change of surname.

⁵³ Examples of usually available information include the person's forename, surname, patronymic, date of birth, registration address (e.g. available in the Republic of Armenia Voters Registry), data on secondary and higher education (e.g. available through different social networks and websites).

⁵⁴ For example, a customer introduces himself as the authorized representative of a foreign wealthy individual or major investment firm, or as a successful business person, but does not present any facts other than unconfirmed statements to support his statements.

⁵⁵ For example, a student, unemployed, self-employed, etc.

⁵⁶ For example, activities related to the large scale import/export of goods, major transactions in the real estate market, charity, etc.

- The customer carries out two or more transactions with a total sum just below to exceeding the CDD threshold established for linked occasional transactions⁵⁷;
- The customer cooperates with other persons for the purpose staying below the identification and mandatory reporting thresholds⁵⁸;
- The customer is an authorized person acting on behalf of several legal entities at the same time;
- The customer that is a natural person provides for CDD purposes an address, phone number or other contact information, which coincide with the corresponding data of one or more commercial entities;
- The customer has changed his residence (registration) address, location or place of business many times;
- The customer does not advise that there is a beneficial owner in the transaction or business relationship, whereas there are data or suggestions about the existence of the beneficial owner⁵⁹;
- The customer refuses to provide information on the beneficial owner of the transaction or business relationship, or provides misleading or false information⁶⁰;
- The customer does not disclose the circumstance that he is a politically exposed person, or a family member of or another person affiliated with a politically exposed person;
- The customer attempts to convince the staff to refrain from performing the documentation necessary for establishing the business relationship or carrying out the transaction;
- The customer repetitively and with no good reason delays the filing of the corporate documents that ascertain the legal status and financial situation of the organization;
- The customer submits documents to substantiate its operations, which have the features of feint and fictitious transactions (contracts)⁶¹.

2.1.2.2. Unusual and suspicious actions

- The customer is accompanied and watched by other persons when establishing the business relationship or carrying out the transaction⁶²;
- The customer is nervous and irritable when communicating with the customer service staff;
- The customer is obviously reluctant to answer questions about his identity and business profile, about the purpose of the transaction or business relationship;

⁵⁷ Linked occasional transactions are defined in Part 1(11) of Article 3 of the Law.

⁵⁸ For example, instead of executing the exchange of 5.3 million Armenian drams in one transaction, he comes to the bank with two relatives and carries out two transactions of 2.6 and 2.7 million Armenian drams.

⁵⁹ For example, the driver of a well-known businessman attempts to open an account to be used for carrying out large scale operations.

⁶⁰ For example, the driver of a well-known businessman claims that the funds in the large scale operations transacted through his account come from the non-refundable assistance provided by his distant relatives.

⁶¹ The definition of feint and fictitious transactions (contracts) is provided under Article 306 of the Civil Code, and the relevant features are set out in the typology No. 11, "*Money Laundering by Means of Feint and Fictitious Transactions (Contracts)*" published by the Financial Monitoring Center of the Central Bank.

⁶² For example, the customer always comes with another person and obviously follows his instructions to carry out transactions.

- The customer obviously over-performs to give persuasive answers;
- The customer uses different spellings of his forename and surname in various documents; has more than one signature;
- The customer provides unreliable data about the circumstances and conditions of the transaction or the business relationship⁶³;
- The customer provides confusing details about the transaction or the business relationship⁶⁴;
- The customer has a limited understanding of the purpose of the transaction or the business relationship⁶⁵;
- The customer makes contradictory and mutually exclusive statements⁶⁶;
- The customer sets on proving that the funds derive from a legal origin and are no way connected with money laundering;
- The customer requires the services to be rendered with inexplicable urgency;
- The customer negotiates specifying in the transaction documents a price that is apparently lower or higher than the real or market value;
- The customer strives to establish friendly relations with the service staff, or offers money, assistance or other types of rewards for their services;
- The customer is engaged in an economic activity with unreasonable financial profitability or losses;
- The customer does not know the other party to the transaction and does not have information about the nature of its activities;
- The customer has no idea about the source of the transacted funds;
- The customer is involved in suspicious transactions and has no idea that there are indicia of money laundering in his operations⁶⁷;
- The customer's operations are typical for the victims of mass marketing fraud or financial pyramids⁶⁸;
- The customer's operations are typical for the victims of attractive business proposals' fraud scheme⁶⁹;
- The customer's operations comprise features articulated in ML/TF typologies;
- The customer that has not have any actual activity for a long time unexpectedly becomes active;

⁶³ For example, advises that the funds originate from the sale of an apartment, but presents a three-year old contract for apartment purchase and sale, where he is not the selling party.

⁶⁴ For example, advises that the sender of the money transferred to him is his male cousin living abroad, while the actual transfer has been received from a female of another nationality.

⁶⁵ For example, advises that the amount has been sent by his friend living abroad, who would give further instructions on its disposal.

⁶⁶ For example, argues that the purpose of the cross-border transfer is to arrange summer holidays, whereas the beneficiary of the transfer is a company involved in the trade of construction materials.

⁶⁷ For example, regularly receives funds from accounts in one foreign country and transfers them to another foreign country, while retaining a certain fee for his services.

⁶⁸ For example, attempts to transfer 1.000 US dollars to a distant African country as if for the completion of the documents on the "heritage received" from a distant relative.

⁶⁹ For example, attempts to transfer 10.000 US dollars to a Latin-American country as if for "profitable investment" in gold mine stocks.

- The customers that have come together simultaneously carry out similar transactions or establish business relationships⁷⁰;
- The customer concludes at the same branch a series of transactions on the same day apparently trying to use the services of different staff members.

2.2. Suspicions with regard to transaction or business relationship characteristics

This section presents indicators of suspicious activity that are identified through substantial or situational descriptions specific for the nature and type of the transactions or business relationships, the products used and the patterns applied therein.

2.2.1. Indicators relating to nature of transaction or business relationship

- The transaction or business relationship is inconsistent with the business relations/practices applicable in the given industry⁷¹;
- The transaction or business relationship obviously is not profitable or economically viable for the customer;
- The number and volume of the transactions lack rationale based on simple economic analysis;
- The transactions are inconsistent with the customer's status⁷² or business profile⁷³;
- The business relationship between the parties to the transaction lacks an apparent economic or other legitimate rationale⁷⁴;
- The subject of the transaction is advisory and similar services in large amounts and with uncertain parameters for measurement/assessment;
- The transactions are carried out with inexplicable involvement by intermediaries⁷⁵;
- The payment for the transaction is carried out by a person who has no relationship with the customer, and there is no reasonable explanation for this;
- The transaction price is apparently lower or higher than the real or market value of the transaction subject.

2.2.2. Indicators relating to type of transaction or business relationship

2.2.2.1. Transactions with use of cash

- The customer frequently carries out large cash transactions that are inconsistent with his business profile;

⁷⁰ For example, each of them converts 4.9 million Armenian drams into US dollars.

⁷¹ For example, an individual entrepreneur engaged in agricultural activity concludes a large contract to obtain consultant services.

⁷² For example, a customer with no known source of major income makes large cash deposits, buys expensive property.

⁷³ For example, an individual entrepreneur engaged in grocery retailers wants to make use of a letter of credit or other trade finance instrument for the import of a large batch of automobile spare parts.

⁷⁴ For example, a food importer concludes a deal with an automobile spare parts exporter.

⁷⁵ For example, Company A concludes a contract with Company B for the latter to engage Company C for facilitation of market research to sell its products in Country D.

- The customer frequently exchanges large denomination banknotes for small denomination ones;
- The customer regularly buys significant amounts of gold in cash;
- The customer performs successive cash transactions in "unrounded" amounts⁷⁶;
- The customer regularly carries out cash transactions at amounts slightly below than the mandatory reporting threshold;
- The customer carries out large currency conversion transactions in cash that lack an apparent economic or other legitimate rationale;
- The customer submits uncounted cash to fund a transaction and, after counting the banknotes, reduces the transaction amount as much as is necessary for staying below the mandatory reporting threshold;
- The customer that is a natural person submits a large amount of cash for depositing on his personal account, with obvious signs of skilled packing or factory marking on the banknote bundles;
- The corporate customer regularly performs cash (cashbox) transactions.

2.2.2.2. Transaction with use of accounts

- The pattern of transactions carried out through the customer's account are inconsistent with his business profile⁷⁷;
- Funds are credited and debited on the customer's account without an apparent economic or other legitimate rationale;
- The customer's account is used to credit a large number of small amounts and subsequently to debit a small number of large amounts, or vice versa;
- The customer has a number of accounts opened with different statuses⁷⁸ and carries out transactions between them⁷⁹;
- The accounts of a natural person are used to make payments within the framework of the contractual obligations of a legal entity;
- Unexplained transactions are carried out between accounts opened for personal and business purposes;
- Funds from a company account are transferred to the account of a natural person who is a shareholder, director or employee of the company, or a person affiliated with them;
- The company receives transfers from the account of a natural person who is a shareholder, director or employee of the company, or a person affiliated with them;
- The company account is used to make regular payments, which are not salaries or fees for services, to individuals;

⁷⁶ For example, 4.915.610 Armenian drams, 8.971 US dollars etc.

⁷⁷ For example, a pensioner that has no declared source of income receives large amounts from persons apparently unrelated to him; a person registered as unemployed makes a transfer to buy an expensive car.

⁷⁸ For example, as a natural person, an individual entrepreneur, a legal entity's authorized representative.

⁷⁹ For example, deposits funds on the personal account, then transfers them as a loan to the account of the individual entrepreneur, then submits a payment order to transfer the funds to the account of the legal entity, then withdraws the amount in cash.

- The customer's accounts are used for frequent and unexplainable transfers of funds to various financial institutions;
- A number of deposits are made on a reactivated account with a negligible or zero balance, immediately followed by one or several withdrawals until disbursing the account balance;
- The customer opens accounts at different financial institutions within the same area without an apparent economic or other legitimate rationale;
- A small local company on the same day deposits funds on its accounts at different branches without an apparent economic or other legitimate rationale.

2.2.2.3. Wire transfers

- The customer sends and receives wire transfers to/ from accounts in non-compliant or high-risk countries;
- The customer makes personal or business wire transfers to areas that are associated with drugs and human trafficking, other types of criminal activity;
- The company that has no activity in the country of registration uses the Armenian financial institution to transfer funds from one foreign country to another;
- Payable-through accounts of the financial institution accounts enable the customers of foreign correspondent banks to carry out transactions directly with third parties; including sending and receiving funds;
- Funds transferred from a foreign country are returned to the country of origin for the benefit of the original sender or of a third party;
- A number of customers make wire transfers to the same beneficiary;
- A number of customers with the same beneficial owner receive wire transfers;
- A large number of small amount wire transfers are regularly made with obvious features of structuring;
- Wire transfers are made in a structured manner that cannot be reasonably explained⁸⁰;
- The company receives large wire transfers inconsistent with its account usage pattern and sends them to one or several (foreign) accounts;
- The company's account balances are regularly transferred to the accounts of offshore companies subsequent to receipts of comparable transfers from the same or other offshore companies;
- The company executives or employees immediately withdraw in cash wire transfers received from abroad;
- The number and volume of wire transfers by the customer are inconsistent with his regular activities.

2.2.2.4. Deposit and loan transactions

- The customer makes deposits into the bank accounts held with several banks with a large total amount;
- The customer makes frequent deposits presenting them as proceeds of the sale of assets;

⁸⁰ For example, payments within the scope of the same contract are made in several transfers without reasonable explanation.

- The customer makes deposits with different characteristics⁸¹ on various accounts, then transfers them regularly to an account at the same or another bank;
- The customer quickly withdraws in cash the funds of the major credit transferred to his account from abroad;
- The customer makes frequent premature repayments of loan liabilities;
- The customer makes a large loan repayment from an unknown source that is not consistent with the information available on the customer;
- The customer makes large repayments of a mortgage loan;
- The customer repays long-term liabilities; such as the mortgage loan, in a period of time significantly shorter than the one stipulated by the contract;
- The customer regularly receives funds as a repayment of previously provided loans or as a receipt of new loans;
- The source of the advance payment for the loan is inconsistent with available data on the customer's activity and income;
- The advance payment for the loan is received from various financial institutions by means of several transfers;
- The customer is not interested in loan terms or fees and related expenses;
- The customer acquires major assets to pledge as collateral for a loan with no apparent economic or other legitimate rationale;
- The customer makes few or no repayments for the loan secured by collateral of major assets, which uncovers his initial intention of not repaying the loan on one hand, and using the loan as evidence of legality of the funds on the other hand.

2.2.3. Indicators relating to use of product or pattern of transaction

- A letter of credit or another trade finance instrument is used in the transaction, which is not consistent with the customer's business profile;
- Payment instruments such as nominee or bearer securities, traveler's checks⁸² are used in the transaction⁸³;
- Checks issued on behalf of third parties, credit or debit cards owned by third parties are used in the transaction;
- Personal or corporate accounts/ cards with large usage limits are used in transactions for divergent purposes⁸⁴;
- Online transactions are carried out with parties whose IP address⁸⁵ is in a non-compliant or high-risk country;
- Online transactions with obscure and unclear purposes are carried out;
- Transactions in large numbers or amounts are carried through accounts of internet betting companies.

⁸¹ For example, with different terms of maturity, in different currencies, through different deposit instruments etc.

⁸² Including the cases when the documents contain uncompleted fields, unusual marks or symbols.

⁸³ Including the cases of using them as a collateral.

⁸⁴ For example, a personal card is used for business purposes, or vice versa.

⁸⁵ The international term is "Internet Protocol address":

2.3. Suspicions specific for DNFBP operations

This section presents indicators of suspicious activity that are specific for the situations arising in the course of activities of designated non-financial businesses and professions stipulated by the AML/CTF Law, such as realtors and notaries, accountants and auditors, organizers of casinos and games of chance, when they involve in operations (including financial transactions) for or on behalf of their customers.

2.3.1. Realtors and notaries

- The customer buys back the real estate that was sold recently, or sells the real estate that was bought recently;
- The customer regularly buys and sells real estate, which is inconsistent with his business profile;
- The customer sells the real estate shortly after buying it for a significantly different price, when there are no substantial price changes in the market;
- The customer makes an advance cash payment in a real estate purchase transaction from unknown or unusual sources⁸⁶;
- The customer is not interested in the location, condition, possible renovation costs of the real estate that he buys;
- The customer is not interested in the transaction-related risks, brokerage fees and other costs in relation to the real estate that he buys;
- The customer provides unnecessarily detailed explanations and justifications on the purpose of buying the real estate, on the sources of financing the transaction and on other circumstances;
- The customer demonstrates unusually advanced awareness with regard to the AML/CTF legislative requirements in relation to real estate transactions;
- Payments within a large real estate transaction are made exclusively in cash;
- The customer acquires the real estate on behalf of a friend, relative or seemingly unrelated person;
- The customer avoids performing real estate transactions on his own behalf, or uses different names for signing contracts or making payments in such transactions;
- The customer presents unreasonable explanations as to the last-minute changes in the contract regarding the buyer's name, the transaction amount or other substantial details;
- The customer negotiates specifying in the real estate sales contract a price that is lower or higher than the real or market value;
- The real estate is bought or sold by legal entity that has no business activity, solely for the purpose of the transfer of ownership of the involved property.

⁸⁶ For example, from a third party or a private lender.

2.3.2. Accountants and auditors

- The customer makes payments to offshore companies for consulting or similar services, which is inconsistent with its business profile;
- The customer reports revenues that are significantly less than the costs of running the company; however, the company continues its non-profitable activity without a reasonable explanation;
- The customer purchases a number of assets used for personal or consumption purposes⁸⁷, where this is inconsistent with the business practice of the industry or the particular type of business activity;
- The customer has no employees; which is not typical for the particular type of business activity;
- The customer's invoices or expenditure documents contain obvious technical or substantive discrepancies;
- The amounts specified in sales bills do not match with the actual value of sold goods;
- The customer frequently changes the accounting ledgers or accountants;
- The customer is not aware of the whereabouts of its financial statements and supporting documents;
- The customer reports liabilities in its financial statements, which in fact do not exist or have been repaid;
- The customer's liabilities⁸⁸ are inconsistent with its entrepreneurial activities;
- There are significant discrepancies between the customer's factual activities and accounting documents.

2.3.3. Casinos and games of chance

- The customer carries out transactions in amounts just below the identification or mandatory reporting thresholds;
- The customer structures transactions of buying and redeeming chips to stay below identification or mandatory reporting thresholds;
- The customer carries out several transactions of buying and redeeming chips without making any bets;
- The customer buys a large amount of chips followed by insignificant gambling activity and trying to create the impression of active playing;
- The customer carries out multiple redemptions of chips, which is not consistent with his limited gambling activity;
- The customer makes bets with the assistance of third parties;
- The customer attempts to receive the certificate of winning on behalf of a third person;
- The customers acting in conspiracy with each other make bets intentionally losing to one of the players;

⁸⁷ For example, expensive yachts, cars, houses.

⁸⁸ For example, loans, borrowings, accounts payable.

- The customer exchanges small denomination banknotes to large denomination ones, certificates of winning, or checks.

2.4. Suspicions specific for relationships with NPOs

This section presents indicators of suspicious activity that are specific for the relationships with non-profit or non-commercial organizations, when they act as customers of financial institutions or DNFBPs.

- The NPO is not appropriately monitored and controlled;
- The NPO has no employees or has a very small staff;
- The NPO has no seat/offices and contact details⁸⁹;
- The NPO's factual activities are inconsistent with its declared goals and objectives;
- The NPO's financial flows are inconsistent with its factual activities;
- The NPO's founders and/or executive management are from another country, and the organization's international operations are mainly associated with that country;
- The NPO's founders and/or executive management regularly receive funds from the NPO in the form of payments that are not salaries;
- Financial contributions provided to the NPO exceed declared incomes of the contributors or are inconsistent with their known economic activities, financial and social status;
- The NPO makes expenditures, including for purchase of assets, that are inconsistent with its declared objectives;
- The NPO's activities target beneficiaries or their groups that are in non-compliant or high-risk countries.

⁸⁹ Including phone number, e-mail address.