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ANNEX

TPOLOGY 14

FINANCING OF TERRORISM THROUGH NON-PROFIT ORGANIZATIONS

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Chapter 1: Scope of Application¹

1. Money laundering schemes devised by means of the methods and instruments set forth in this typology may be relevant for the following types of reporting entities defined under the Republic of Armenia Law on Combating Money Laundering and Terrorist Financing:
 - 1) Banks, entities engaged in money (currency) transfer services;
 - 2) Notaries;
 - 3) Sole practitioner accountants and accounting firms;
 - 4) Auditing firms and auditors;
 - 5) Attorneys, as well as sole practitioner lawyers and legal firms;
 - 6) The state authority in charge of registering legal persons (the State Registry).

Chapter 2: General Provisions

2. Non-profit organizations (hereinafter referred to as NPOs) are organizations defined under and operating in accordance with the provisions of Part 4, Article 51 of the Republic of Armenia Civil Code; Part 1, Article 3 of the Republic of Armenia Law on Public Organizations; Part 1, Article 3 of the Republic of Armenia Law on Foundations; Part 1, Article 11 of the Republic of Armenia Law on Charity; other articles of the Republic of Armenia Civil Code and other laws of the Republic of Armenia. An NPO may be an organization registered in Armenia or in a foreign state and operating in the territory of Armenia in accordance with local legislation.
3. In modern world, NPOs are widely used for the financing of terrorism². According to the FATF Recommendation 8, non-profit organizations are particularly vulnerable to being abused for the financing of terrorism, and countries are required to adopt measures aimed at protecting the NPO sector from terrorist abuse, as well as to identify and take effective action against those NPOs that either are exploited by, or actively support, terrorists or terrorist organizations. Based on Clause 21 of Article 3 of the Republic of Armenia Law on Combating Money Laundering and Terrorist Financing, NPOs are defined as high risk in terms of ML/FT.
4. NPOs may be specifically vulnerable to the risk of being exploited for the financing of terrorism due to a variety of reasons. In particular, these organizations:
 - 1) Enjoy certain public trust;

¹ Reports for 2003-2004 and 2008 published by the FATF on terrorism financing typologies were used for developing this typology.

² For the purposes of this typology, “financing of terrorism” is defined pursuant to the Republic of Armenia Criminal Code, as the action of providing or collecting property by any means, directly or indirectly, with the knowledge that it is to be used or may be used, in full or in part, for committing terrorism or any of the acts specified under Article 218 of the Code, or by a terrorist organization or by an individual terrorist; or the action of providing financial services with the knowledge that such services are aimed at committing terrorism or any of the acts specified under Article 218 of the Code, or that the proceeds thereof are to be used by a terrorist organization or by an individual terrorist.

- 2) Engage in officially declared socially useful activities;
 - 3) Are subject to relatively lenient supervision and regulation regimes;
 - 4) Have access to a wide variety of funding sources; reach out a large number of beneficiaries;
 - 5) Carry out operations with broad geographical and social coverage;
 - 6) Often involve in cash-active transactions.
5. The scheme described in this typology has the following subject composition:
- 1) **Donors** are natural persons or legal entities, which make one-time or regular donations to NPOs, or pass other property to their ownership or possession³;
 - 2) **NPOs** are represented by their managers, officials and/or key decision-making functionaries, who are authorized to manage financial assets and other property of the organization;
 - 3) **Beneficiaries** are natural persons or legal entities, which receive one-time or regular contributions from NPOs, or receive other property passed to their ownership or possession.
6. It is worth of mentioning that an individual terrorist, terrorist organization or persons associated with them (hereinafter referred to as terrorism-related persons) may act in the role of donor, NPO or beneficiary.

Chapter 3: Description of Possible Terrorism Financing Scheme

7. The scheme of terrorism financing set out in this typology is implemented with the following sequence of possible steps:
- 1) **Step 1: Collection of funds**
Under this step, the NPO collects funds not only from natural persons and legal entities, including other NPOs, which are bona fide third parties⁴, but also from terrorism-related persons disguising their true identity and factual activity.
 - 2) **Step 2: Mingling and legalization of funds**
Under this step, collected funds are mingled with other assets, which have the appearance or in reality are of legitimate origin; this can be done through one or several transfers or financial assets or handovers of other property.
 - 3) **Step 3. Distribution of funds**

³ For the purposes of this typology, “property”, including “financial assets” or “funds” is defined pursuant to the Republic of Armenia Criminal Code, as material goods of every kind, moveable or immovable objects of civil rights, including monetary (financial) funds, securities and property rights, documents or other instruments evidencing title to or interest in property, any interest, dividends, or other income generated by or accruing from such property, as well as neighboring and patent rights.

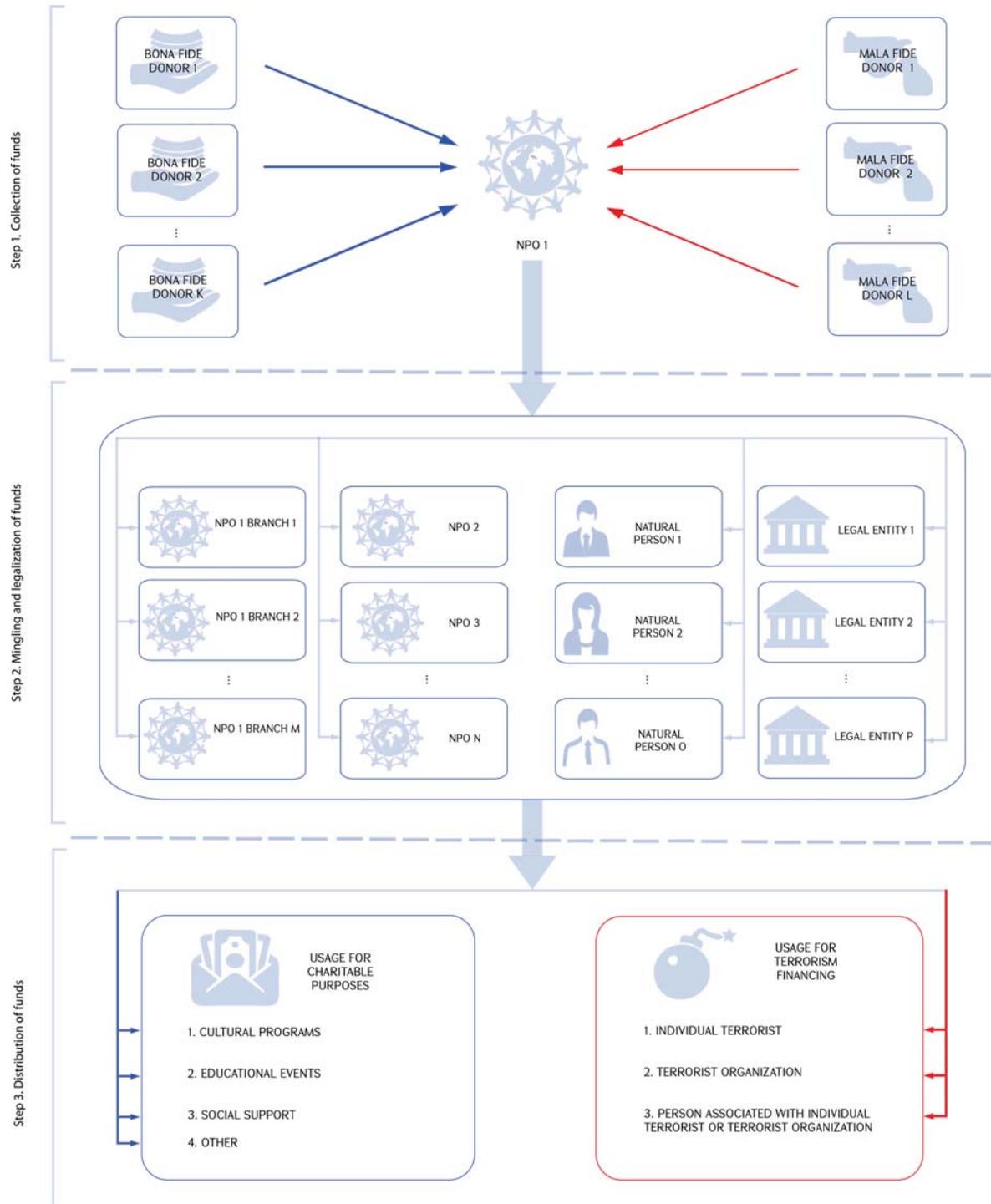
⁴ For the purposes of this typology, “bona fide third party” is defined pursuant to the Republic of Armenia Criminal Code, as the person who, when passing the property to another person, did not know or could not have known that it would be used or was intended for use in criminal purposes, as well as the person who, when acquiring the property from another person, did not know or could not have known that it was the proceeds of a criminal activity.

Under this step, the NPO distributes the mingled and legalized funds by channeling a certain part to legitimate purposes⁵ and passing the rest, directly or through intermediaries, to terrorism-related persons acting as beneficiaries of the funds.

8. The assumption in this scheme of terrorism financing with the use of NPOs is that the managers, officials and/or key decision-making functionaries of the NPO are immediately involved in the implementation of the scheme and control/ direct the process by taking specific actions, including by giving relevant instructions, directions and orders.
9. Within a scheme of terrorism financing, activities aimed at collection of funds from various sources, mingling and legalization of collected funds, as well as distribution of funds to terrorism-related persons may be organized by means of one or several NPOs, including their branches and representations within or outside the territory of the concerned country. At that, some of the branches or representations may be located in countries or territories with weak or no regulatory oversight.
10. For implementing a terrorism financing scheme, criminals may make use of an NPO, which:
 - 1) In reality has been created for socially useful purposes but, along with activities pursuant to its statutory purposes, is also exploited for the financing of terrorism; or
 - 2) Operates as a legitimate organization, but in reality is used as a front for concealing or obscuring redirection of raised funds to the financing of terrorism.
11. Funds channeled to the financing of terrorism may derive both from legitimate operations and from criminal activity.
12. In the stage of **collection of funds**, the NPO may receive donations (that is contributions to be used for undefined purposes) and endowments (that is contributions to be used for predefined purposes) from:
 - 1) Bona fide donors, who wish and expect that the funds allocated to the NPO would be used for charitable, socially useful and other legitimate purposes; or
 - 2) Mala fide donors, who know or suppose that that the funds allocated to the NPO will or may be used for criminal purposes, including for terrorism financing.
13. In the stage of **mingling and legalization of funds**, the NPO arranges movement of collected funds through bank accounts (in case of financial assets) or on behalf (in case of other property) of the NPO or of persons associated with it, in order to conceal redirection of legitimately collected funds to criminal purposes on one hand, and to introduce proceeds of criminal activity as legitimate assets on the other hand.
14. In the stage of **distribution of funds**, the NPO organizes their handover directly to terrorism-related persons or to their authorized representatives, by means of:

⁵ For example, to cultural programs, educational events and social assistance initiatives to create and reinforce the appearance of an organization involved in legitimate activities.

- 1) Wire transfers to bank accounts or personal remittance (through a money transfer system), or provision of cash – in case of financial assets; or
 - 2) Immediate handover of property for ownership or possession – in case of other property.
15. Schematic presentation of the above-articulated transactions aimed at the financing of terrorism is as follows:



Chapter 4: Conclusions

16. Transactions, which are carried out through the above-illustrated scheme and sequence of actions, are aimed at concealing the origin, movement and beneficiaries of the funds.
17. In order to arrive at a conclusion on the existence of potential terrorism financing schemes, the persons specified in Chapter 1 of this typology should pay attention to the characteristics and circumstances, which are essential in terms of uncovering such schemes, particularly whether:
 - 1) Donors, managers, officials and/or key decision-making functionaries, as well as beneficiaries of the NPO are terrorism-related persons (including those designated under the lists of terrorism-related persons);
 - 2) Donors, managers, officials and/or key decision-making functionaries, as well as beneficiaries of the NPO are foreign residents, especially when they live (reside) or are active in countries/territories with ineffective AML/CFT systems⁶, or with an unfavorable situation in terms of political stability, security and (or) crime prevention;
 - 3) Different NPOs have the same or similar identification data (registration/ business address, phone number, e-mail, etc.);
 - 4) The same person acts as the manager, official and/or key decision-making functionary of different NPOs;
 - 5) Transactions conducted by NPOs have no apparent economic or other lawful purpose, or the transactions (the counterparty (counterparties)) do not match the organization's business profile;
 - 6) NPO accounts are used to conduct suspicious or large, complex or unusual transactions;
 - 7) NPO accounts are used in an irregular manner, i.e. periods of low or no activity are followed by unprecedented active usage of the accounts, or vice versa;
 - 8) Deposits on and withdrawals from NPO accounts (including cash transactions) in amounts just below the customer identification or mandatory reporting threshold;
 - 9) Receipt of funds on NPO accounts for various purposes, from different countries and multiple natural persons and legal entities (including other NPOs);
 - 10) NPOs with non-resident founders providing funds to non-resident beneficiaries;
 - 11) NPOs operating a large number of bank accounts (including in foreign financial institutions).

⁶ See the FATF statements (www.fatf-gafi.org) and the official website of the Financial Monitoring Center of the Central Bank of Armenia (www.cba.am/Financial_Monitoring_Center).