

EXECUTIVE SUMMARY

On Analytical Update of the 2014 Report on National Assessment of Money Laundering and Terrorism Financing Risks in the Republic of Armenia

For the purposes of developing a comprehensive understanding of money laundering and terrorism financing (ML/FT) risks in the Republic of Armenia in 2010 and 2014 stakeholder agencies involved in the system of combating ML/FT in Armenia conducted a national assessment of ML/FT risks (NRA) in line with the methodology approved by the Standing Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing in the Republic of Armenia (Interagency Committee).

Given the dynamic and developing nature of the fight against ML/FT, and in order to manage ML/FT risks in a timely and efficient manner, NRAs are conducted regularly with intervals of 3 years. Accordingly, by the end of 2016, while making the necessary arrangements for the preparation and conduction of the next round of NRA, the Working Group under the Interagency Committee suggested and in June 2017, during the 33rd session, the Interagency Committee approved the approach for updating the national ML/FT risk assessment in sectors a) where significant developments were observed, and b) in which recommendations were provided by evaluators in the scope of the 5th Round Mutual Evaluation of Armenia's AML/CFT system conducted by the Council of Europe MONEYVAL Committee.

Subsequently, the following areas have been selected for further assessment in terms of ML/FT risk:

- Money laundering threats;
- Money laundering trends;
- Latent criminality;
- Cross border flows;
- Shadow economy;
- Corruption;
- Vulnerability of ML and predicate offences;
- Risk of abuse of non-profit organizations for FT.

Key findings in the NRA Analytical Update, over the period covering 2014-2016, are presented below in order to facilitate the development and implementation of measures aimed at enhancing the effectiveness of the fight against ML/FT.

For the purposes of assessing ML threats, over the period covering 2014-2016, criminal cases instigated for ML predicate offenses, convictions achieved and suspicious transaction reports submitted by reporting entities to the Financial Monitoring Center of the Central Bank of Armenia (FMC) have been analyzed. According to the results of the analysis, the top five offenses considered to pose a high risk of ML are fraud (Article 178 of the Criminal Code); theft (Article 177 of the Criminal Code), misappropriation or squandering (Article 179 of the Criminal Code); smuggling (Article 215 of the Criminal Code); and evasion of taxes, duties or other mandatory payments (Article 205 of the Criminal Code).

It should be noted that the hypotheses regarding the predicate offenses underlying the STRs and the disclosures to the law enforcement authorities are commensurate with the subject matter of the criminal cases investigated and convictions passed during the period under review for ML.

In relation to ML trends, analysis shows tendencies in the growing use of new products and delivery mechanisms (such as online POS terminals, e-banking, mobile banking, digital wallets and etc.) in establishing business relationships or carrying out complex or unusual transactions, which have no apparent economic or other lawful purpose, or are inconsistent with the institution's knowledge of the customer, their business, risk profile, and the sources of the funds.

In respect of emerging trends of ML with the use of new technologies, the FMC conducted an overview of the risks associated with virtual currencies and disseminated its findings to the financial institutions. Presently, despite the absence of risks associated with virtual currencies in Armenia, this field is kept under constant monitoring.

In relation to latent criminality, objectively, there is higher latency of corruption offenses in the structure of criminality in Armenia. Higher latency is also typical for tax and customs offenses, offenses against property and illegal circulation of drugs and arms. In light of said considerations, ML risks cannot be treated as low. Meanwhile, in the context of the analysis, juxtaposition of the conclusions on the considered types of offenses in terms of the registered crime rate on one hand and the expert estimates based on opinion surveys on the other hand, points to a steady decline in latent criminality over the recent years in Armenia.

In relation to possible ML/FT risks associated with cross-border flows, there are almost no risks associated with cross-border movements of humans. Additionally, analysis demonstrates that Armenia is not characterized by any features of an international or regional financial center, while the monetary expression of foreign trade turnover and the volume of bilateral cross-border transfers with the respective countries are comparable. Whenever the FMC identifies inconsistencies with the client's business profile, the objectives or amounts of the transactions, as well as whenever there are suspicions about the legitimacy of the transactions, the FMC takes preventive measures, including, giving assignments to the reporting entities for the conduction of enhanced due diligence, refusal and suspension of transactions or termination of business relationships.

The analysis also reflects on the definition of the shadow economy, the magnitude of the shadow economy and circulation of cash in Armenia. Statistical data was analyzed to determine the potential significance of offenses underlying in the shadow economy, including money laundering, as well as, by taking into account the latency of these offenses. The outcomes of the cooperation between the competent authorities in the fight against money laundering, as well as measures – both the implemented ones and those to be implemented in future – aimed at combating the shadow economy, including through the reduction of cash circulation were elaborated upon.

The analysis reflects on sectors of high risk in terms of the shadow economy and circulation of cash, and on the measures implemented for the management of those risks. In particular, the scale of the circulation of cash in real estate transactions are found to be of relatively higher risk in cases of major transactions. In this respect, the Republic of Armenia Law on Money Laundering and Terrorism Financing was amended prohibiting the execution of cash transactions above AMD 50 million. Pursuant to the analysis, in general the scale of the circulation of cash is gradually decreasing every year

According to the analysis on the vulnerability of legal persons to misuse for money laundering and predicate offences, limited liability companies and closed joint-stock companies are found to be relatively more susceptible to criminal abuse and may be used to conceal beneficial ownership. The said entities are characterized by a strict separation between the natural person investing in the entity and the legal personality of the entity itself. Some shortcomings in relation to beneficial ownership information create additional impediments for combating ML threats. In particular, there is no formal mechanism for checking whether changes to basic or

beneficial ownership information have been notified to the Company Register, and there is no responsibility for the failure to file beneficial ownership declarations.

Non-profit organizations registered and operating in Armenia were analyzed in view of identifying the risk of being misused for FT purposes. In particular, the analysis covers the legislative framework governing the latter's operation as well as possible interrelation with the countries that are characterized as high risk in terms of FT. The results of the analysis show that among NPOs registered and operating in Armenia, the ones that meet the FATF definition are non-governmental organizations (hereinafter referred to as NGOs) and foundations comprising a majority within the total number of NPOs, as well as religious organizations based on the nature of their activities. Other organizations (such as trade organizations, condominiums, consumer cooperatives, etc.) are by no means exposed to the risk of being abused for terrorism financing due to their legal-organizational form and legislative arrangements regarding the direction and nature of their activities.

At the same time, NPOs that meet the FATF definition are considered to be exposed to low risk of FT abuse, taking into account their key characteristics, the current regulations on their state registration, accountability and supervision, the outcomes of the analysis of their interrelations with high risk countries, as well as the absence of favorable conditions for terrorist activities and terrorist financing in Armenia.