

SUMMARY NOTE

AML CFT Sectorial Risk Analysis for DNFBPs¹

The main objective of money laundering and terrorism financing sectorial risk assessment in the DNFBP sector is to identify threats and vulnerabilities and design an action plan for counteracting money laundering and terrorism financing tailor-made to the existing risks.

For the current analysis, the methodology provided by the International Monetary Fund was used.

The assessment was conducted for the following types of DNFBPs:

- Notaries
- Lawyers
- Accountants
- Auditors
- Real estate agents
- Persons and casinos organizing games of chance and lotteries, including the persons organizing internet games of chance
- Dealers in precious metals and stones.

The level of risk for every DNFBP is adjudged in comparison with other institutions considered under this analysis.

A. Threats

1. Perception

From the prospective of Armenian authorities, concentration of ML/TF threats is relatively higher in real estate sector due to different factors:

- Armenia mainly has a cash-based economy.
- Construction constitutes a part of the GDP of Armenia.

Though the present legislation provides limitations on cash volume, new measures have been undertaken by the draft Law on Combating Money Laundering and Terrorism Financing aimed at downsizing the volume of cash in circulation, as well.

As for the construction sector, since 2008 significant decrease in construction industry has been registered, which resulted in decrease of threats in real estate sector.

Abovementioned factors make the threat in real estate sector moderate.

Threats in other non-financial sectors are considered as low.

2. Estimate of ML/FT by sector

The FMC or competent authorities identified no cases of ML or TF with the involvement of DNFBPs. However taking into consideration the contribution of each type of entity to the Gross Domestic Product real estate agents and notaries, who are dealing with real estate transactions are considered of a relatively higher threat from the ML/TF prospective compared to other categories of DNFBPs.

However, it should be noted that none of the analyzed sectors contributes significantly to the GDP, while the part of other DNFBPs is insignificant, thus the overall level of risk in the sector is moderate.

B. Vulnerability to ML/FT

1. Legal Framework

Vulnerabilities arising from the legal system regulating DNFBP sector may impact the overall level of risk. Based on the inconsistencies identified in the legislative framework under the MONEYVAL 3rd round MER The following main categories of deficiencies are considered:

- Deficiencies related to the TF offence.
- Deficiencies concerning procedures applicable to high risk transactions.

¹ This assessment is preliminary, and the results have not yet been discussed with all the stakeholders and approved by the Interagency Commission on the Fight against Counterfeiting of Money, Fraud in Plastic Cards and Other Payment Instruments, Money Laundering and Terrorism Financing.

- Lack of direct requirement to examine, and document findings on the background and purpose of complex, unusual large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose.
- Disapplication of internal legal acts or external audit requirements for DNFBPs with less than 10 employees.

In addition to general legislative gaps, ambiguities of the confidentiality and privilege regime for notaries, advocates, persons providing legal services, independent auditors and auditing firms and accountants affect the overall risk level of the mentioned DNFBPs.

Risks in the legal framework regulating casino activities is rated as high, taking into consideration lack of following requirements in the legislation:

- Lack of fitness and propriety requirements for managers, owners, and beneficial owners including fit and proper checks for management, owners or beneficial owners of casinos, games of chance, including online games of chance, and lotteries.
- For casinos and prize games operators, CDD requirements do not take into consideration transactions that in the aggregate equal to or exceed the threshold.

2. Awareness of the sector

In comparison to other participants of the DNFBP sector, knowledge gaps are relatively significant among dealers in precious stones and metals, real estate agents and casinos.

This might be indicative of different factors, such as the absence of a supervisory authority and large number of institutions for the real estate agents and dealers in precious stones and metals or absence of industry association for casinos, games of chance, including online games of chance, and lotteries.

Notaries, accountants, auditors and lawyers appear to have more sufficient level of awareness compared to other entities.

3. Products and distribution channels

The level of risk of the products offered by real estate agents, lawyers, casinos and dealers in precious metals and stones in comparison with other types of DNFBPs, is higher for the following reasons:

Real estate transactions are considered as high risk and sector involves high-risk distribution channels, such as acceptance of cash, transactions performed on behalf of third parties.

Lawyers provide large scale of services, which among others may include performance of high-risk transactions, such as performing for a client transactions related to the purchase or sale of companies.

The operation of a casino itself is a high risk criterion, thus casinos are of a higher risk than notaries or accountants. Casinos are also posed to high risk due to the fact that the vast majority of transactions are cash based.

Diamond processing sector presents opportunity to conduct large value transactions that may have a cross border implication. However, jewelers conduct a limited number of high value transactions. The risk level of other entities surveyed is less than medium.

4. Cross-border activities

In general, the transactions performed and services provided by the DNFBPs are of a local nature and the representatives of a sector are not largely involved in the international relations.

E.G., the vast majority of surveyed advocates mentioned that foreign clients comprise from 0-5% of their clientele and they do not provide any cross border services.

As for the casinos, foreigners comprise not more than 25% of their clientele.

In comparison to other types of DNFBPs dealers in precious metals and stones may be involved in cross-border activities, taking into consideration the fact that Armenia has a diamond processing industry.

5. Controls

As far as the supervisory capacity of the Armenian authorities is concerned, the following types of DNFBPs are considered as high risk because of absence of relevant bodies.

Real estate agents may be vulnerable to ML threat because control over their activities is performed only with regard to cost estimation of real estate and not with regard to buying and selling of real estate.

The other relatively high risk type of non-financial entities are lawyers and firms providing legal services, dealers in precious metals or dealers in precious stones (licensing requirements are in place only for some

types of dealers) and independent accountants and accounting firms, which are not licensed and supervised (no market entry requirement).

It is worth mentioning that licensing, supervision regime, as well as entry requirement exist for advocates and chief accountants.

Relevant bodies effectively supervise the activities of other entities and in case of breaches of legislation (including AML/CFT requirements), necessary sanctions are applied.

Control over other reporting entities is considered sufficient and risks connected with their supervision are low or moderate.

Global Risk

Considering all the vulnerabilities and threats existing in the DNFBPs sector, global risk level of real estate agents, casinos and dealers in precious metal and stones is relatively higher compared to other types of DNFBPs.

The trend of existing risks is stable for all surveyed DNFBPs, except for real estate agents.

The risk level of this type of entities rose because of changes in the regulatory framework.

The risk level of dealers in precious metals and stones is declining, as licensing requirements are introduced for trade, import, export, and transportation of polished or unpolished, but unframed and loose natural diamonds classified to 710210000, 710221000, 710231000 codes of Foreign Economic Activity Commodity List.

However, in absolute terms, the risk level for these types of DNFBPs cannot be classified as high.

The risk level of other entities considered is low.