

REPORT
ON 2017-2020 NATIONAL ASSESSMENT OF
MONEY LAUNDERING AND TERRORISM
FINANCING RISKS
IN THE REPUBLIC OF ARMENIA

This document has been developed with the methodology approved by the Interagency Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing in the Republic of Armenia. The document has been approved at the 36th session of the Interagency Committee held on 18 October 2021.

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ABBREVIATIONS

AML/CTF Law	Republic of Armenia Law on Combating Money Laundering and Terrorism Financing
MONEYVAL's Assessment Report	Fifth round mutual assessment report on Armenia's anti-money laundering and counter-terrorism financing measures, MONEYVAL Committee of the Council of Europe (2015)
CBA	Central Bank of Armenia
CC	Criminal Code
CCP	Committee for Corruption Prevention
CDD	Customer due diligence
CIS HoFIU Council	Council of the Heads of Financial Intelligence Units of member states of the Commonwealth of Independent States
CJSC	Closed joint-stock company
CPC	Criminal Procedure Code
DNFBP	Designated non-financial business or profession
EAEU	Eurasian Economic Union
FIU	Financial Intelligence Unit
FMC	Financial Monitoring Center of the Central Bank of Armenia
FSD	Financial Supervision Department of the Central Bank of Armenia
FSRD	Financial System Regulation Department of the Central Bank of Armenia
FTZ	Free trade zone
GDP	Gross domestic product
GPO	General Prosecutor's Office
IC	Investigative Committee
IMB	Internal monitoring body
Interagency Committee	Interagency Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing, established by decision of the Prime Minister No. 45-A from 17 January 2019
JD	Judicial Department

LCFD	Licensing and Corporate Finance Department of the Central Bank of Armenia
LLC	Limited liability company
ML	Money laundering
MLA	Mutual legal assistance
MOE	Ministry of Economy
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOJ	Ministry of Justice
NGO	Non-governmental organization
NPO	Non-profit organization
NRA	National assessment of money laundering and terrorism financing risks
NSS	National Security Service
OJSC	Open joint-stock company
PEP	Politically exposed person
PF	Financing proliferation of weapons of mass destruction
RA	Republic of Armenia
Risk-Based Supervision Concept	Concept for risk-based supervision of designated non-financial businesses and professions in Armenia for compliance with anti-money laundering and counter-terrorism financing requirements
SIS	Special Investigative Service
SRC	State Revenue Committee
STR	Suspicious transaction or business relationship report
TF	Terrorism financing
UN	United Nations Organization

KEY FINDINGS

1. The key findings of the analysis of **contextual factors** are as follows:
 - 1) Taking into account geographical location of Armenia, including the realities emerged as a result of the large-scale aggression by Azerbaijan and Turkey against Artsakh in 2020, regional developments may have an adverse impact on ML/TF risk exposure of Armenia. Nevertheless, the effective border control regime mitigates potential ML/TF risks associated with cross-border relations.
 - 2) The economic environment of Armenia is generally stable, in terms of the GDP and other economic indicators a balanced growth is observed year-on-year. The growth trend has not been maintained only in 2020, due to the impact of two factors, i.e. the coronavirus pandemic and the martial law. Along with the GDP growth, the shadow economy has been decreasing down to 12-15% of the GDP. As for FTZs, due to their location, number of operators and business turnover, their activities do not generate any known ML/TF risks.
 - 3) Cross-border non-cash financial flows within the period under review are generally comparable with external trade indicators. The number of cash export and import declarations has significantly increased, contributing to the reduction of the shadow economy. Predicate offences with cross-border element do not have any significant impact on the country's ML/TF risk exposure.
 - 4) The fight against corruption is a priority on the agenda of the Armenian political leadership, as evidenced by the assessments conducted by international organizations, and the efforts of the respective Armenian authorities to comply with relevant international requirements through implementation of the necessary legislative and institutional frameworks, as well as operational measures. However, there are still actions to be taken, as set out in the Action Plan of the Anti-Corruption Strategy to ensure further progress, to achieve better compliance with international recommendations and best practices.
 - 5) Positive dynamics of financial inclusion indicators has been observed over the period under review, which is due to the wide range of non-cash transactions available to bank customers, engagement of Armenia with reputable international platforms, and other factors.
2. The key findings of the analysis of **ML threats** are as follows:
 - 1) The number of initiated criminal cases has sharply increased compared to the same indicator of the previous NRA, by an average of 60% per annum, the number of achieved convictions has generally remained the same, and the share of crimes committed in particularly large amount within total crime rate is about 11.6% per annum. Based on the analysis of the quantitative indicators of crimes by categories, crimes against property, corruption crimes, crimes against economic activity and cybercrimes constitute higher risk in terms of ML.

- 2) The total amount of damage recovered during investigation of criminal cases and the proceeds of crime established by convictions has amounted AMD 118.8 billion (annual average of AMD 29.7 billion), which equals around 0.48% of the average annual GDP of the country. In terms of the proceeds of crime established by convictions, fraud in particularly large amount, illegal entrepreneurship committed by an organized group, non-payment of taxes, duties or other obligatory payments, embezzlement or peculation in particularly large amount, and official forgery constitute higher risk in Armenia.
- 3) In recent years, the level of latent criminality has not significantly changed in Armenia, except for some changes in the latency certain categories of crime. Latent criminality is estimated at about 55% of the total crime rate, and according to expert estimates the undisclosed part of the possible proceeds of crime due to latent criminality may amount to around AMD 9.1 billion (annual average of AMD 2.3 billion), which equals around 0.037% of the average annual GDP of the country. Findings of the assessment of latent criminality by categories of crimes have been used to identify the crimes that constitute higher threat of ML in Armenia.

Hence, juxtaposition of the outcomes of analysis for initiated cases and achieved convictions, proceeds of crime estimates and latent criminality estimates leads to the conclusion, that the following crimes represent higher threat of ML in Armenia:

- Fraud in particularly large amount (crime against property);
- Illegal entrepreneurship committed by an organized group (crime against economic activity);
- Non-payment of taxes, duties or other obligatory payments (crime against economic activity);
- Embezzlement or peculation in particularly large amount (crime against property); and
- Official forgery (corruption crime).

- 4) The hypotheses put forward in the alerts received by the FMC from the private sector, law enforcement authorities and foreign FIUs are substance-wise aligned with both each other and the disseminations made by the FMC to law enforcement authorities. Despite the fact that Armenia is not an international or regional financial center, 57% of the funds involved in the STRs have foreign interconnections, which indicates effectiveness of the preventive measures taken by obliged entities in higher risk situations.
3. The key findings of the analysis of **TF threats** are as follows:
 - 1) Within the period under review, there have been no favorable preconditions for terrorism and TF in Armenia;
 - 2) Competent authorities have effectively prevented the attempts of persons associated with terrorist organizations in the region to penetrate into Armenia;

- 3) Two cases of preparation of terrorist acts have been registered, which are not significant in terms of the public harm and the scale;
 - 4) Armenia's interconnections with higher risk countries, including through international wire transfers, are limited to the normal ties with Armenian Diaspora communities;
 - 5) The analyses have not identified significant risks of terrorism, and the hypotheses put forward regarding potential TF have been disconfirmed.
4. The key findings of the analysis of ML/TF vulnerabilities associated with the **legislative framework** are as follows:
- 1) Developments in sectoral legislation have been made towards implementation of the actions recommended by MONEYVAL's Assessment Report adopted in December 2015, as well as by the Action Plan adopted to address the issues raised in the report. The amendments have further improved Armenia's compliance with the FATF Recommendations. However, work is still underway to implement the FATF Recommendation on virtual assets and virtual asset service providers.
 - 2) It is expected that introduction of the arrangements for civil confiscation will have a significant positive impact on reducing the level of ML/TF vulnerabilities, while adoption of the law restricting use of cash will provide better legislative mechanisms to curb ML/TF threats.
5. The key findings of the analysis of ML/TF vulnerabilities associated with the **institutional framework** are as follows:
- 1) The FMC has been actively participating in and contributing to the investigation of the financial component in all criminal cases initiated for ML, as well as in large criminal cases initiated for predicate offences. As the national coordination body for AML/CTF, the FMC significantly contributes to achieving the outcomes set forth in the AML/CTF mutual assessments and progress reports on the country. Further directions for improving performance include reducing the average duration of operational analyses, expanding the scope of strategic analyses, and increasing the frequency of training of obliged entities.
 - 2) The number of initiated criminal cases has significantly increased, due to which it is almost impossible for the law enforcement system to provide for the necessary processes related to their investigation, while the achieved outcomes are the result of constantly overloaded work. Investigation of ML cases usually lasts up to one year. The need to expand financial and technical resources, as well as knowledge and experience of the competent authorities remains actual in the law enforcement system, and certain measures are being taken in this direction.
 - 3) The judicial system has been overloaded within the period under review, as indicated by the court trial of cases with an average duration of up to 16 months, as well as by the indicator of overturned judicial acts in ML cases. Accordingly, solutions for the existing issues in the area have been set out in the 2019-2023 Strategy of Judicial and Legal Reforms currently in implementation.

- 4) The supervisory authority for financial institutions in a number of cases has refused to issue a financial institution license and has suspended licenses, which speaks of proper application of legal requirements. Risk-based supervision has been implemented for banks and insurance companies. Controls have identified various infringements, which are mainly indicative of an average level of vulnerability and have a decreasing trend. Nonetheless, it is necessary to introduce risk-based supervision for the other financial institutions as well, and to improve the arrangements for the application of sanctions.
- 5) Amendments have been made to the legislation regulating supervision over gambling operators. At that, as a result of a gap in the regulatory framework, no inspections have been carried out for about 9 months. Nevertheless, within the period under review controls have identified infringements, which are mainly indicative of a high level of vulnerability. Legislative changes have also been made in the field of audit activity, however external controls of auditors and audit firms have not been conducted as the relevant procedures are in the stage of development. Within the period under review, controls have identified infringements, which are indicative of a high level of vulnerability, only with regard to notaries in 2017. The authority in charge of supervising notaries has concluded on ineffectiveness of control due to notarial secrecy. This is evidenced by the extremely low number of ascertained infringements. No violations of AML/CTF requirements have been identified with regard to lawyers, despite the absence of legislative and other impediments. The FMC has not conducted inspections of other non-financial institutions, and no infringements have been identified, which is in line with the outcomes of the assessment of risks associated with their activities under the Risk-Based Supervision Concept.
- 6) In the area of reliability and usability of data:
- Within the period under review, all large companies, including financial institutions, have been obliged to publish annual financial statements, which is largely in line with international best practices in the field of financial integrity. Legislative amendments enacted at the beginning of 2020 have expanded the scope of obligated entities.
 - Sources of data necessary for the proper conduction of CDD are widely used by key stakeholders in the financial sector, which is in line with ML/TF risk concentrations. Controls of financial institutions have identified infringements of CDD requirements, which is not the case with non-financial institutions. In general, CDD is mostly conducted in an effective manner.
 - The FMC has access to all databases necessary for its analyses, and no issues have been identified with their reliability or usability.
 - Law enforcement authorities propose that the investigation of ML cases is impeded by insufficient access to financial secrecy regarding persons with no status in criminal procedures, as well as regarding legal entities affiliated with them.

- 7) The cooperation with FIUs is primarily carried out without impediments, the responses to inquiries are received within an average of up to 1 month. At the same time, there are numerous issues in the field of MLA requests, where the average response time is more than 6.5 months.
 - 8) Domestic cooperation is primarily carried out without impediments, through the “Integrated Information Domain” system available to the FMC and all law enforcement authorities. Nevertheless, no similar system is available for communication among law enforcement authorities, which could increase the effectiveness of cooperation.
 - 9) In order to prevent terrorism and TF, Armenia implements both domestic and international measures in multilateral and regional formats, which essentially curb the possibility for materialization of threats associated with terrorism and TF.
6. The key findings of the analysis of ML/TF vulnerabilities associated with **private sector** are as follows:
- 1) Regarding financial institutions:
 - **Customer risk:** The share of higher risk customers in the total client base of banks is below 1%. The absolute majority of customers of financial institutions, around 98%, are individuals and legal entities resident in Armenia. Non-resident customers are considered higher risk, and additional due diligence measures are applied to them. The share of transactions with residents of higher risk countries is insignificant, the relationships with them and the connection with Armenia are due to the Armenian Diaspora communities in the respective countries. As far as persons resident in offshore jurisdictions are concerned, the risk associated with them is concentrated in a limited number of banks, where control measures taken by supervisors, as well as internal risk mitigation mechanisms in place are sufficient to ensure effective implementation of AML/CTF requirements.
 - **Geographical risk:** Risks associated with correspondent relationships are at a minimum level taking into account effective AML/CTF systems in the countries where correspondent banks operate, and the reputation of correspondent banks. In terms of cross-border wire transfers, those to higher risk countries are small in number, do not constitute a predominant destination and are due to the Armenian Diaspora communities in the respective countries.
 - **Product/ service risk:** Taking into account the limited, mainly classical selection of products/ services provided in the financial system of Armenia, as well as the measures taken by financial institutions to mitigate potential risks emanating from their provision, the respective risks are duly identified, assessed and mitigated.
 - **Internal control system:** Findings of the analysis demonstrate that in banks and other large financial institutions, where the main ML/TF risks are concentrated, the ML/TF prevention function is performed in line with the best practices of corporate governance through a three-tier system. AML/CTF measures taken by small

financial institutions are sufficient to mitigate ML/TF risks associated with their operations.

2) Regarding non-financial institutions:

- As in the period reviewed under the previous NRA, casinos in Armenia do not issue certificates of winning; the number and volume large transactions through gambling operators, as well as the number of reports filed with the FMC have increased; and the share of foreign customers is 2.5%. According to the data and the findings of the analysis in the Risk-Based Supervision Concept, the potential ML/TF risks associated with casinos, online gambling and lotteries in Armenia are at a manageable level and may not have significant adverse consequences.
- Risks associated with the transactions in the real estate market are stable. The vast majority of the parties to real estate transactions are Armenian nationals, which in turn indicates use of property for licit purposes. Involvement of non-residents in real estate transactions is not significant and is explained by reasonable circumstances.
- Lawyers, advocates, accountants and auditors in Armenia practically have negligible or no involvement in the types of activities, for which the FATF Recommendations establish CDD, reporting and other requirements. As to advocates, they have low probability of becoming subject to the AML/CTF legislation, also due to the professional legal privilege.
- Services identical with dealership in precious metals and stones are provided mainly by individuals and companies engaged in production and sales of jewelry, where strict restrictions apply to legal entities for the use of cash in transactions. Alerts on the involvement of dealers in precious metals and stones in transactions exposed to ML/TF risk are practically non-existent.

3) Despite the fact that LLCs are the main type of companies involved in criminal cases, there is no reason to believe that there are preconditions favoring involvement of LLCs in ML schemes; the obvious reason for this is the large share of LLCs in the total number of incorporated companies. Strict regulation of the access to bank secrecy and service information on CJSCs, as well as insufficiency of control mechanisms and public oversight with regard to beneficial ownership information are referred among the potential causes for the vulnerability of legal entities.

4) All NPOs in Armenia are subject to supervision; the absolute majority of NPOs registered in the country operate in Armenia, around 65% are customers of local banks, which consider them higher risk. Interconnections with TF higher risk countries are limited to those with Armenian Diaspora centers, the amounts involved in transactions with residents of such countries are small and, in general, there are no preconditions favoring terrorist and TF activities in Armenia.

7. Analysis of criminal cases and convictions has not identified new ML methods and trends. Nevertheless, there has been an increase in the number of predicate offences with the use of new technologies, including through new products and delivery channels.

8. The final scores for ML/TF threats and vulnerabilities are as follows:
 - ML threats – average (2 points);
 - TF threats – low (1 point);
 - ML vulnerabilities – average (2 points);
 - TF vulnerabilities – average (2 points).
9. According to Paragraph 30 of the “Methodology for 2017-2020 National Assessment of Money Laundering, Terrorist Financing and Proliferation Financing Risks in the Republic of Armenia”, the residual risk of ML is assessed as **average** through juxtaposition of the scores for ML threats and vulnerabilities, and the residual risk of TF is assessed as **low** through juxtaposition of the scores for TF threats and vulnerabilities.

