

▶ ANNUAL REPORT

▶ On activities of the Financial Monitoring Center in 2020

▶ Yerevan 2021



FINANCIAL MONITORING CENTER
CENTRAL BANK OF ARMENIA

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ACRONYMS

AML/CFT	Anti-money laundering and counter-terrorism financing
AML/CFT Law	Republic of Armenia Law on Combating Money Laundering and Terrorism Financing
CIS	Commonwealth of Independent States
Egmont Group	Egmont Group of Financial Intelligence Units
Eurasian Group	Eurasian Group on Combating Money Laundering and Financing of Terrorism
FATF	Financial Action Task Force
FIU	Financial intelligence unit
FMC	Financial Monitoring Center of the Central Bank of Armenia
Interagency Committee	Interagency Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing in the Republic of Armenia
ML/FT	Money laundering and terrorism financing
MONEYVAL Committee	Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
PEP	Politically exposed person
STR	Suspicious transaction report
TTR	Threshold transaction report
UNSC	United Nations Security Council

EXECUTIVE SUMMARY

This report provides a summary of the works performed by the FMC in the field of AML/CFT over the course of 2020. In particular, the following topics are covered in the corresponding chapters of the report:

- **Statistical data:** This chapter provides information on TTRs and STRs filed by reporting entities with the FMC;
- **Preventive measures:** This chapter provides information on the preventive measures implemented for the mitigation of ML/FT risks, including the instructions cascaded to the reporting entities and works performed towards the enhancement of information systems;
- **Cooperation framework:** This chapter provides information on the state of play and outcomes of the on-going cooperation with both domestic and international counterparts in the field of AML/CFT;
- **Strategic and thematic analyses:** This chapter provides information on strategic and thematic analyses aimed at identifying and assessing systemic and sectoral ML/FT risks;
- **Other initiatives:** This chapter provides information on the work coordinated by the FMC for establishing a register of bank accounts.

Statistical data is presented in the concluding annexes of this report, covering the reporting entities registered with the FMC as of 31 December 2020 and reports filed thereby, trainings provided to the reporting entities, and memoranda of understanding signed with domestic and international counterparts.

This report is presented pursuant to Part 1(15) of Article 10 of the AML/CFT Law.

STATISTICAL DATA

The FMC receives reports from reporting entities, including information on cash and non-cash transactions, which exceed the minimum reporting threshold defined by the AML/CFT Law, as well as on suspicious transactions and business relationships. Statistical data is presented below on reports collected over 2019-2020.

REPORTS ON CASH TRANSACTIONS

<u>Regulatory requirement</u>	2020	274,352
Transactions above AMD 5 million	2019	280,049

REPORTS ON NON-CASH TRANSACTIONS

<u>Regulatory requirement</u>	2020	265,926
Transactions above AMD 20 million and real estate transactions above AMD 50 million	2019	252,863

SUSPICIOUS TRANSACTION REPORTS

<u>Regulatory requirement</u>	2020	253
Suspicious transactions and business relationships	2019	264

The number of non-bank reporting entities having filed STRs has increased

The FMC received in total of 264 and 253 STRs in 2019 and 2020, correspondingly, the majority of which – 255 STRs in 2019 and 196 STRs in 2020 – was filed by banks.

In 2020 the number of STRs received from other reporting entities, in particular, from money transfer companies, the Company Register, as well as the organizers of lotteries and internet gambling, has increased. For the first time, an STR was received from a notary. This indicates improved involvement of the reporting entities in the AML/CFT system.

The received STRs were related to suspicions of ML and predicate offences. During the reporting period, a small number of STRs was also received regarding suspicions of TF, which were subsequently refuted as a result of further analysis conducted by the FMC, including the feedback from law enforcement agencies.

Summary information is presented below on the involvement of natural and legal persons in the STRs filed by banks.

	Natural persons		Legal persons	
	Armenian nationals	Foreign nationals	Armenian registration	Foreign registration
2020	128	27	64	66
2019	134	60	84	64

The analysis of STRs demonstrates that STRs filed on Armenian nationals and organizations with Armenian registration were mainly related to transactions possibly associated with tax evasion, illegal entrepreneurship, as well as, in some cases, fraud and illegal trade in drugs.

STRs filed on foreign nationals were mainly related to various fraud schemes (including illegal use of stolen bank card information, mass marketing fraud schemes, etc.), while STRs filed on foreign legal persons were mainly related to transit flows of funds through the banking system of Armenia.

Among STRs filed by non-bank reporting entities, there were cases involving possible ML schemes through underestimation or overestimation of the market value of a legal entity's shares and/or real estate, as well as financial transactions possibly related to drug trafficking.

PREVENTIVE MEASURES

Preventive measures implemented towards the mitigation of actual and potential ML/FT risks are of crucial importance for early identification and prevention of ML/FT cases. The FMC and other parties involved in the AML/CFT system, such as the reporting entities and the supervisory authorities, have a unique role to play in implementing AML/CFT preventive measures.

This part of the report provides information on the preventive measures implemented over the reporting period, particularly with regard to improving regulatory framework, guiding obliged entities and enhancing information systems.

Improving regulatory framework

During the reporting period, the draft law “On Making Amendments and Supplements to the Law on Combating Money Laundering and Terrorist Financing” was developed and submitted to the stakeholder domestic agencies for their agreement.

The amendments and supplements set out in the draft law are intended to address a number of shortcomings identified through the international assessments of the AML/CFT system in Armenia, as well as the uncertainties that have arisen in the course of the application of the law. In particular, the definition of PEPs has been expanded to include domestic high-ranking officials, persons entrusted with prominent positions in international organizations, including their family members and associates; requirements regarding identification of beneficial owners and verification of their identity have been defined more clearly; provisions have been introduced for the exchange of information on suspicious transactions or business relationships between members of financial groups; other substantive and technical amendments have been implemented.

Due to the launch of the FMC’s online reporting system, on 8 May 2020 the Board of the Central Bank of Armenia adopted the legal act defining the new form, procedure and deadlines for the banks to provide TTRs and STRs. A legal act defining the reporting procedure for notaries under the same system has also been developed and is currently agreed with the relevant stakeholders.

Guiding obliged entities

In order to mitigate the potential risks of ML/FT due to the coronavirus in 2020, guidance was provided to the reporting entities, in particular addressing the specifics of risk assessment within the framework of the current legislation. At the same time, the reporting entities were provided the Armenian version of the information note

issued by the FATF Secretariat, which addresses, among other issues, emerging AML/CFT threats and vulnerabilities due to the coronavirus.

Within the framework of its functions, in 2020 the FMC issued about two dozen instructions to the reporting entities aimed at mitigating higher risk of ML/FT in transactions and business relationships, and taking preventive measures. The instructions mainly referred to:

- Taking preventive measures against fraudulent schemes and persons possibly involved in them;
- Conducting enhanced due diligence of individual customer transactions and business relationships;
- Taking measures to prevent the outflow of funds due to possible ML risks in individual transactions;
- Clarifying implementation of a number of requirements to the reporting entities under the AML/CFT legislation.

Only in the episodes set out in the STRs, banks have rejected or terminated around 60 transactions and business relationships with high ML/FT risk

During the reporting period, only in the episodes set out in the STRs banks have rejected high-risk transactions or have terminated business relationships with the customer in about 60 cases.

The FMC has provided feedback to the commercial banks on the analysis carried out and measures taken based on the STRs.

Preventive measures were taken during the reporting period to effectively address the potential risks to the FT by, *inter alia*, implementing the restrictions imposed by international organizations, including through posting the updates of the lists published by the UNSC and the FATF on the FMC website.

The reporting entities were informed of the restrictions imposed by individual organizations and countries, in order to take steps aimed at avoiding possible financial sanctions related to them.

In pursuit of the international efforts to combat terrorism and TF, reporting entities were instructed to take preventive measures against the persons included in the CIS terrorist lists during the period under review.

On the initiative of the FMC, a national list of persons connected with terrorism was submitted to and approved by the Interagency Committee on 8 December 2020, which contains data on mercenaries and terrorists (150 individuals and 12 organizations) recruited with the assistance of Turkey and transferred to Azerbaijan before and during the hostilities against the Republic of Artsakh from 27 September to 10 November 2020. The list of persons connected with terrorism was published

on the FMC website on 10 December 2020, accordingly notifying the reporting entities and the relevant agencies.

Enhancing information systems

Continuous efforts towards the enhancement of the information systems used by the FMC and the reporting entities are important in terms of the effective prevention of ML/FT.

Among other works carried out in this area during the reporting period, on 15 September 2020 the FMC completed the testing and launched the new system for banks to file TTRs and STRs in a secure online environment, as well as the upgraded case management system for the FMC analyses.

The development and introduction of these systems stemmed from the need to:

- *Simplify reporting processes:* The introduction of modern technological solutions (including the functionality of web service-based filing of reports) allows banks to file TTRs within minutes after the confirmation of transactions.
- *Review the structure and content of reports:* The general structure of TTRs has been reviewed, fields corresponding to the new reporting forms have been defined, and mechanisms for technical and logical verification of the report contents have been introduced.
- *Improve information security:* The domains of the sending and receiving parties have been clearly separated; the functionality of removing from the communication environment the data that comprises banking secrecy immediately upon submission of the reports has been provided for, thus excluding the possibility of access by third parties; restrictions on data access at network as well as software and hardware levels have been supplemented.
- *Enable uniform environment for entering, processing and using information:* The new and upgraded systems for online reporting and FMC case management operate in a single environment, which enables easier and more efficient use of information in analytical works.

COOPERATION FRAMEWORK

DOMESTIC COOPERATION

Domestic cooperation for AML/CFT purposes can be conditionally divided into two frontiers:

- Strategic cooperation for policy development and coordination in the context of the Interagency Committee;
- Operational cooperation among the FMC, supervisory and law enforcement authorities in the context of information exchange, implementation of preventive measures, and detection of potential ML/FT cases.

Interagency Committee

During the reporting period, one session of the Interagency Committee was convened (remotely). The agenda included the approval of the list of persons connected with terrorism compiled on the basis of the data collected before and during the war in 2020¹.

The FMC coordinated the implementation of measures stipulated under the 2019-2021 National Strategy for Combating Money Laundering and Terrorism Financing, as well as the Financing of Proliferation of Weapons of Mass Destruction, and communicated information on the outcomes to the members of the Interagency Committee.

Cooperation with law enforcement authorities

Domestic cooperation between the FMC and law enforcement authorities is predominantly around information exchange on ML/FT hypotheses.

The table below presents statistical data on disseminations made to law enforcement authorities, requests made to and received from the law enforcement authorities, as well as on the criminal cases instigated for money laundering over 2019-2020:

Statistics	2019	2020
Disseminations from FMC to law enforcement authorities	51	50
Requests from FMC to law enforcement authorities	3	6
Requests from law enforcement authorities to FMC	219	558
Criminal cases instigated for money laundering	8 ²	21

¹ See the "Preventive Measures" section of this report for more details on the list.

² One of the cases was instigated in 2018, but the charges for ML were brought in 2019.

In the reporting period, disseminations with the findings of FMC analyses to law enforcement authorities with ML/FT hypotheses were predominantly related to the following circumstances:

- Financial transactions with the participation of PEPs;
- ML schemes with allocation of funds generated through various fraud crimes;
- Financial transactions potentially aimed at tax evasion, illegal entrepreneurship, concealment of the real volume of economic activity;
- Cases of money laundering through the use of various models of mass marketing fraud;
- Transit of funds through the banking system of Armenia;
- Schemes of laundering proceeds of illegal trade in drugs;
- Other circumstances corresponding to the schemes described in the typologies published by the Central Bank of Armenia and international organizations.

During the reporting period, the FMC cooperated with law enforcement agencies to ensure the effective use of data obtained through financial intelligence tools.

The number of requests made by law enforcement authorities to the FMC has dramatically increased; in particular, 202 and 575 requests were made to the FMC in 2019 and 2020, accordingly. Such sharp increase in the number of requests was due to a higher number of cases whereby law enforcement agencies consider ML in the investigation of crimes, as well as to the increase in the detection of possible cases with legalization of proceeds of corruption-related crimes.

When handling requests from law enforcement authorities, the FMC in turn makes requests not only to the financial institutions in Armenia, but also to foreign FIUs, where necessary.

***21 ML cases were
instigated***

21 ML cases were initiated during 2020, of which corruption crimes (abuse of official authority, bribery, illegal entrepreneurship, official fraud, abuse of power by employees of a commercial or other organization, official negligence) were the predicate offences for 13 cases; fraud – for 2 cases; embezzlement or waste, tax evasion, extortion, illegal trade in drugs, child trafficking along the establishment and management of criminal association – for 1 case each. For 1 ML case, no charges were brought yet. Within the framework of all ML cases initiated in 2020, the FMC actively facilitated the investigation of the financial component, by means of disseminations on its own initiative or in response to inquiries received from law enforcement agencies. In parallel with the exchange of information, comprehensive discussions were organized on separate criminal cases.

In general, the hypotheses underlying disseminations made by the FMC further to the analysis of the alerts and criminal cases instigated by law enforcement authorities are comparable, which is an important indicator of effective cooperation between the FMC and law enforcement authorities.

Supervision and examinations

No on-site inspections were carried out during the pandemic. Instead, in addition to regular off-site supervision, targeted reviews were conducted to ensure compliance with AML/CFT legislation.

No significant violations were detected as a result of the mentioned control measures. Sanctions in the form of warnings were imposed on 4 financial institutions and 1 notary.

Violations of the legislation by financial institutions mainly related to the failures to properly file TTRs with Authorized Body, implement customer due diligence measures, meet the obligations in relation to refusal or termination of transactions or business relationships, approve non-face to face business relationships, etc.

INTERNATIONAL COOPERATION

In the context of AML/CFT, the FMC cooperates both with foreign FIUs and international organizations involved in AML/CFT, through exchanging information and participating in various projects. The FMC represents the country at international organizations and bodies involved in the development of AML/CFT international standards, as well as in the evaluation of their implementation and enforcement by individual jurisdictions; these include the MONEYVAL Committee, the Egmont Group, the Eurasian Group, and the Council of Heads of CIS FIUs.

MONEYVAL Committee

In the reporting period, the FMC led the Armenian delegation in the works of the MONEYVAL Committee. In 2020, representatives of the FMC were involved as legal and financial evaluators in the teams assigned to the 5th round mutual assessments of Slovakia, the Holy See (including Vatican City State) and San Marino.

During the 60th Plenary Session, as well as the interim session of the MONEYVAL Committee, the FMC acted as a member of the expert review teams of the evaluation reports of Hungary, Ukraine and the Czech Republic.

Information on the measures taken by Armenia within the framework of the 2nd Progress Report on the implementation of the recommendations of the 5th round assessment of the Armenian AML/CFT system was submitted to the MONEYVAL Committee in November 2020.

Egmont Group

The FMC continued exchanging information with foreign FIUs through the Egmont Group's secure information network. Representatives of the FMC attended the meetings of the Working Groups and the Heads of FIUs, discussing a number of key issues, such as facilitating bilateral and multilateral information exchange, raising the effectiveness of new cooperation platforms and FIU operations. Among other topics of the agenda, the meetings reflected on the important role played by FIUs in ensuring financial stability internationally.

Representatives of the FMC were involved in a number of projects initiated by the Egmont Group, including on the revision of accession and compliance requirements for membership to the Egmont Group, definition of the main concepts used in the Egmont Group, and other tasks.

The FMC representative was elected to the executive body of the Egmont Group as a "Europe II" regional representative for a two-year term.

Conference of the Parties to the CE Warsaw Convention

Within the framework of the activities of the Conference of the Parties to the CE Warsaw Convention, the FMC representative participated in the 12th Plenary Session and Bureau meetings. The Plenary Session discussed the thematic reports on the implementation of Articles 3 (Confiscation Measures), 7 (Investigative Powers and Techniques) and 19 (Requests for the Monitoring of Banking Transactions), as well as the measures taken by member states, including Armenia, towards remedying the gaps identified in the previous reports.

The FMC representative was re-elected as a member of the Bureau. The Conference of the Parties decided that the 13th Plenary Session would discuss the implementation of Article 10 (Corporate Liability), where the representatives of the FMC were selected as members of the expert review team.

Eurasian Group

In the reporting period, representatives of the FMC attended the 33st Plenary Session and the meetings of the Working Groups of the Eurasian Group. The Plenary Session stressed the importance of assessing and mitigating ML/FT risks emerged in the Eurasian region due to the coronavirus, as well as discussed topics related to strengthening the mutual cooperation between member and observer states in the framework of the Eurasian Group.

The representative of the FMC was involved in the Working Group tasked with the assessment of regional money laundering risks.

Council of Heads of CIS FIUs

Representatives of the FMC participated in the 15th Plenary Session of the Council of Heads of CIS FIUs, in the framework of which, among other issues, the assessment and mitigation of ML/FT risks emerged due to the coronavirus were discussed.

Foreign FIUs

The FMC continued cooperating with foreign FIUs, leading to 39 information requests received and 48 requests sent in 2020. The full list of memoranda of understanding signed between the FMC and foreign FIUs is presented in Annex 3 of this report.

STRATEGIC AND THEMATIC ANALYSES

In 2020 works were implemented to conduct the regular national AML/CFT risk assessment covering the period 2017-2019. The FMC coordinated the works of the taskforce comprised of the representatives of the Prosecutor General's Office, the Special Investigative Service, the National Security Service, the Investigative Committee, the Police, the State Revenue Committee, the Ministry of Justice, the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Economy, the Judicial Department and the Central Bank of Armenia.

The assessment comprised the stages of developing relevant questionnaires, their completion by the involved agencies, and analyzing and summarizing the collected information. The assessment report reflects on all areas considered for money laundering and terrorist financing risks in the framework of 2010-2013 and 2014-2016 national risk assessments, also considering the existence and reliability of financial and other relevant information. In addition, the institutional arrangements for confiscation of property are analyzed separately.

The FMC also initiated thematic studies of potential or existing ML/FT risks related to the activities of commercial banks in Armenia, including cross-border flows. As a result of the studies, measures were taken to mitigate the identified risks, including through issuing guidelines and instructions to banks.

OTHER INITIATIVES

Based on the 2019-2021 Anti-Corruption Strategy and its Action Plan (Item 37) approved by the Government's decision N 1332-N of 3 October 2020, the FMC coordinated the works of the Central Bank in 2020 towards the creation of a centralized registry of bank accounts (hereinafter referred to as the Registry). These works can be conditionally divided into three parts: study of international experience, elaboration of legal regulations, development of technical and software solutions.

- *Study of international experience:* The legal regulations and practices of the Czech Republic, Spain, Latvia, France, Malta, Moldova and Austria were studied. Additional information was requested from partners in countries with more acceptable models, in particular Latvia and the Czech Republic.
- *Development of legal regulations:* Based on the results of the study of international experience, the draft law "On Making Amendments to the Law on the Central Bank of the Republic of Armenia" (hereinafter: the Draft Law) was developed and considered with the stakeholder state agencies and the private sector, then submitted to the Government's Staff.

According to the Draft Law, the Registry will contain information on bank accounts and safe deposit boxes, including the opening and closing dates, account number, safe deposit box number, identification data of the customer and the authorized person, and bank information. In this regard, it is important that the introduction of the Registry does not anyhow change either the procedure for obtaining information that constitutes banking secrecy or the scope of the bodies with access to such information. The Draft Law is currently considered in the Government.

- *Development of technical and software solutions:* In parallel with the development of legal regulations, work was carried out to develop technical and software solutions for the system. In particular, the technical infrastructure and software product, which will ensure the receipt of relevant information from banks and the formation of the Registry, are in the final stage of development and will be ready for launch after passing the relevant tests.

ANNEXES

Annex 1: Reporting entities and report submissions

Reporting entities	Registered with FMC	Reports	
		TTRs	STRs
<i>Financial institutions</i>			
Banks	17	523580	196
Credit organizations	44	3306	3
Traders in foreign exchange	176	1014	-
Broker-dealers in foreign exchange	-	-	-
Licensed money (currency) transfer services	9	162	32
Investment firms	13	721	1
Investment fund managers	5	48	-
Central Depository	1	-	3
Insurance (reinsurance) companies	8	-	-
Insurance (reinsurance) agents	4	-	-
Corporate investment funds	2	1	-
Non-public contractual investment funds without a licensed manager	24	94	-
Pawn shops	82	463	-
<i>Non-financial institutions</i>			
Realtors	205	-	-
Notaries	113	8973	1
Attorneys, independent lawyers and law firms	1489	-	-
Independent accountants and accounting firms	10	-	-
Independent auditors and audit firms	26	-	-
Dealers in precious metals	-	-	-
Dealers in precious stones	22	-	-
Dealers in art work	-	-	-
Auction houses	-	-	-
Organizers of games of chance and casinos	2	4	-
Organizers of lotteries	4	236	6
Organizers of internet games of chance	4	1716	11
Trust and company service providers	-	-	-
<i>Others</i>			
Credit bureaus	1	-	-
TOTAL	2,261	540,318	253

Annex 2: Trainings for reporting entities

Topic	Reporting entity
Financial institutions	
• Customer due diligence • Criteria of high risk and indicators of suspicious transactions or business relationships • Analytical data sources • Situational analyses • Measures to combat TF and PF	All non-bank financial institutions
• ML schemes • Identification of beneficial owner • Draft Law on Making Amendments and Supplements to the Law on Combating Money Laundering and Terrorist Financing • Compliance function of the Central Bank of Armenia	Banks
Non-bank financial institutions	
• Draft Law on Making Amendments and Supplements to the Law on Combating Money Laundering and Terrorist Financing • Identification of beneficial owner and customer due diligence • TTRs and STRs: comparisons with other reporting entities	Notaries

Annex 3: Memoranda of understanding with partners

Memoranda of understanding with domestic competent authorities

Law enforcement authorities

- General Prosecutor's Office (updated on 28.11.2016)
- National Security Service (signed on 24.01.2017)
- Police (updated on 18.11.2016)
- State Revenue Committee (updated on 25.09.2017)
- Investigative Committee (signed on 16.11.2016)
- Special Investigation Service (signed on 14.03.2019)

Other competent authorities

- Academy of Justice (signed on 12.11.2016)
- Ministry of Economic Development and Investments (signed on 19.01.2017)
- Ministry of Finance (signed on 10.10.2017)
- Corruption Prevention Committee (signed on 18.09.2020)

Memoranda of understanding with foreign FIUs

Country	Date	Country	Date
 Australia	26.08.2009	 Montenegro	12.07.2011
 Belarus	04.02.2008	 Panama	03.07.2013
 Bermuda	21.10.2009	 Poland	22.09.2009
 Canada	21.12.2009	 Romania	27.05.2009
 China	08.06.2011	 Russia	09.06.2015
 Croatia	11.07.2012	 San Marino	15.03.2010
 Cyprus	11.07.2012	 Saudi Arabia	12.07.2011
 Georgia	26.02.2008	 Serbia	12.07.2011
 Israel	03.11.2011	 South Africa	22.05.2009
 Iran	26.05.2010	 Taiwan	12.07.2011
 Japan	29.10.2012	 Tajikistan	19.05.2011
 Kazakhstan	11.11.2015	 Thailand	29.11.2010
 Kyrgyzstan	19.02.2014	 Turkmenistan	24.10.2017
 Latvia	28.10.2017	 Ukraine	13.03.2008
 Lichtenstein	04.06.2014	 United Arab Emirates	28.05.2009
 Macedonia	13.07.2011	 United Kingdom	27.09.2012
 Moldova	12.07.2011	 Vatican	14.04.2017