

▶ ANNUAL REPORT

▶ On activities of the Financial
Monitoring Center in 2022

▶ Yerevan, 2023



FINANCIAL MONITORING CENTER
CENTRAL BANK OF ARMENIA

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ACRONYMS

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
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
FPWMD	Financing of Proliferation of Weapons of Mass Destruction
Interagency Committee	Interagency Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing in the Republic of Armenia
Law	Republic of Armenia Law on Combating Money Laundering and Terrorism Financing
ML/FT	Money laundering and terrorism financing
MONEYVAL Committee	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
PEP	Politically exposed person
Registry	Registry of bank accounts
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 2022. 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 issued to the reporting entities, other guiding communication, 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 analyses:** This chapter provides information on strategic analyses aimed at identifying ML/FT risk trends and methods;
- **Other initiatives:** This chapter provides information on the work coordinated by the FMC for establishing and developing the registry 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 2022 and reports filed thereby, and memoranda of understanding signed with domestic and international counterparts.

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

STATISTICAL DATA

The FMC receives reports from reporting entities, including on cash and non-cash transactions, which exceed the minimum reporting threshold defined by the Law, as well as on suspicious transactions and business relationships. Statistical data is presented below on reports received over the period 2021-2022.

REPORTS ON CASH TRANSACTIONS

<u>Regulatory requirement</u>	2022	425,506
Transactions above AMD 5 million	2021	353,129

REPORTS ON NON-CASH TRANSACTIONS

<u>Regulatory requirement</u>	2022	430,901
Transactions above AMD 20 million and real estate transactions above AMD 50 million	2021	304,450

SUSPICIOUS TRANSACTION REPORTS

<u>Regulatory requirement</u>	2022	254
Suspicious transactions and business relationships	2021	262

The number STRs filed by non-financial reporting entities has increased

The FMC received in total 262 and 254 STRs in 2021 and 2022, correspondingly, the majority of which – 224 STRs in 2021 and 209 STRs in 2022 – were filed by banks. In 2022, the number of STRs filed by non-financial institutions increased.

The mentioned was indicative of better engagement of reporting entities other than financial institutions in the AML/CFT system.

The received STRs were related to suspicions of ML and predicate offences. During the reporting period, one STR was received regarding suspicions of TF, which were

subsequently refuted as a result of further analysis conducted by the FMC, including through the feedback received 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	
	<i>Armenian nationals</i>	<i>Foreign nationals</i>	<i>Armenian registration</i>	<i>Foreign registration</i>
2022	350	91	123	61
2021	340	111	172	111

The analysis of STRs demonstrated that STRs filed on Armenian nationals and legal entities were mainly related to transactions possibly associated with tax evasion, illegal entrepreneurship, financial pyramids, and fraud.

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

STRs received from reporting entities among non-bank financial institutions and non-financial institutions were mainly filed with the hypotheses of fraud, including through various schemes of using virtual assets.

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 stakeholders in the AML/CFT system, such as the reporting entities and the supervisory authorities, have a unique role to play in implementing risk prevention 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

On 9 June 2022 the Law HO-296-N “On Making Amendments to the Law of the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing” was adopted to ensure compliance of sectorial legal framework with the revised criminal and criminal procedure legislation.

During the reporting period, the draft decision of the Board of the Central Bank “On Approving the Template for Notaries to File Reports on Transactions Subject to

Mandatory Reporting and on Suspicious Transactions or Business Relationships; Approving the Procedure for Filing Reports; and Repealing the Decision of the Board of the Central Bank No 270-N of 7 October 2014” was developed and circulated among stakeholder agencies. Discussions were organized with these agencies regarding adoption and implementation of the draft decision, with a view to adopt it in the first half of 2023.

Guiding obliged entities

During the reporting period, the FMC issued twice as many instructions – counting around four dozen – to the reporting entities within the framework of performing its functions. These instructions mainly referred to:

- Taking preventive measures against fraudulent schemes and persons possibly involved in them;
- Conducting enhanced due diligence of certain types of transactions, as well as of transactions and business relationships with higher-risk clients;
- Taking measures to prevent the outflow of funds due to possible ML risks in individual transactions;
- Clarifying implementation of various requirements under the AML/CFT legislation by the reporting entities.

Solely in the episodes set out in the STRs, banks have rejected or terminated around 110 transactions/ business relationships characterized by higher ML/FT risk

Over the reporting period, the tendency of increased numbers in instances where banks reject transactions or terminate business relationships with higher-risk customers was maintained, reaching 110 solely in the episodes set out in the STRs.

The FMC provided feedback to the commercial banks on the analysis carried out

and measures taken on the basis of 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 also informed of the restrictions imposed by individual organizations and countries, in order to take steps aimed at avoiding possible financial sanctions related to them.

Enhancing information systems

Continuous efforts towards the enhancement of information systems used by the FMC and the reporting entities are important for the effective prevention of ML/FT. Among other works carried out during the reporting period, the modernized version of the "Unified Information Domain" system – the "Financial Intelligence Data Exchange Platform" – was introduced to ensure the exchange of information in a secure environment between the agencies involved in the fight against ML/FT and the FMC.

Awareness raising and training on developments in the fight against ML/FT is one of the prerequisites for an effective system. To this end, the online learning system of the FMC was transformed enabling users to gain knowledge in the field through the use of modern technological solutions, to check their level of awareness, including by asking questions, subscribing to news, etc.

COOPERATION FRAMEWORK

DOMESTIC COOPERATION

Domestic cooperation in the field of AML/CFT is comprised of:

- Strategic cooperation within the Interagency Committee in the context of monitoring implementation of the Action Plan of the 2022-2024 National Strategy of Combating ML/FT/PF;
- Operational cooperation among the FMC, supervisory authorities and law enforcement agencies in the context of information exchange, implementation of preventive measures, and detection of potential ML/FT cases.

Cooperation within the Interagency Committee

As stipulated by Item 1.4 of the Action Plan of the 2022-2024 National Strategy of Combating ML/FT/PF adopted by the Interagency Committee on 17 December 2021, during the reporting period the FMC semiannually collected from stakeholder agencies and summarized information on the implementation of the measures stipulated by the Action Plan. The outcomes of monitoring were used not only to ascertain the actual state of implementation of the strategy, but also to identify the obstacles that arose during the implementation so as to deal with them or to revise the planned actions. In this regard, the FMC engaged in routine cooperation with all responsible agencies, provided clarifications regarding domestic and international regulations related to the fight against ML/FT, and provided other necessary support.

Within the framework of implementation of the first action in Item 3.3 of the Action Plan of the 2022-2024 National Strategy of Combating ML/FT/PF, the FMC collected and summarized information on the outcomes of the use of financial intelligence data provided to law enforcement agencies over the period 2020-2022. For the purpose of monitoring, the responses to requests and the notifications provided by the FMC during the reporting period to the law enforcement agencies pursuant to Parts 3 and 4 of Article 13 of the AML/CFT Law were considered. Inquiries with the data were sent to the relevant agencies with a proposal to provide feedback on the outcomes of their use and the quality of the information provided. Based on the analysis of the received information, the FMC initiated measures aimed at enhancing the efficiency of the use of financial intelligence data.

The outcomes of monitoring of the Action Plan of the National Strategy of Combating ML/FT/PF were presented to the Office of the Prime Minister of the Republic of Armenia.

Cooperation with law enforcement agencies

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

The table below presents statistical data on notifications made to law enforcement agencies, requests made to and received from the law enforcement agencies on ML hypotheses as set out in relevant analyses, over 2021-2022:

Statistics	2021	2022
Notifications to law enforcement agencies	80	66
Requests from law enforcement agencies	9	4
Dissemination of information upon requests from law enforcement agencies	555	407

Over the reporting period, notifications to law enforcement agencies with the findings of the FMC analyses on ML/FT hypotheses were predominantly related to the following circumstances:

- Transit of funds through the banking system of Armenia;
- ML schemes with allocation of funds generated through various fraud crimes;
- Schemes of laundering proceeds of drug trafficking;
- Schemes with features of financial pyramids;
- Financial transactions potentially aimed at facilitating illegal entrepreneurship, tax evasion, concealment of the real volume of economic activity;
- Financial transactions with the participation of PEPs;

- Instances of possible money laundering through the use of various models of mass marketing fraud;
- Instances of conducting transactions or establishing business relationships through the use of fake or forged documents;
- 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 agencies to the FMC decreased in comparison to the previous year, from 630 in 2021 to 430 in 2022. This reflected the establishment of more precise requirements for the contents of requests made by law enforcement agencies.

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

Supervision and inspections

Supervisory measures were taken in the reporting period, including targeted reviews to ensure compliance with the requirements of the AML/CFT legislation.

As a result of the mentioned supervisory measures, sanctions in the form of fines and/or warnings, depending on the nature of the violation, were imposed on 14 financial institutions (including 10 banks).

Violations of the legislation by financial institutions mainly related to the partial fulfillment or non-fulfillment of the requirements defined by the legislation, such as those on recognizing transactions or business relationships as suspicious and considering the filing of an STR in the presence of criteria or typologies of a suspicious transaction or business relationship; properly documenting and maintaining the results of the analysis; taking appropriate customer due diligence measures, including enhanced and ongoing due diligence measures. One of the detected violations was related to the failure to fulfill the obligation of suspending a transaction or business relationship based on the instruction of the FMC.

As a result of supervision of non-financial institutions, 4 non-financial institutions (2 organizers of internet games of chance and 2 organizers of lottery) were penalized by fines for failing to carry out ongoing due diligence of the business relationship as provided for by the law.

INTERNATIONAL COOPERATION

In the context of combating ML/FT, the FMC cooperates both with foreign FIUs and international organizations involved in AML/CFT, through exchanging information and participating in various activities. 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 Council of Europe MONEYVAL Committee, the Egmont Group, the Conference of the Parties to the Warsaw Convention, 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 2022, representatives of the FMC were involved as legal, law enforcement and financial evaluators in the teams assigned to the 5th round mutual evaluations of Liechtenstein, Bulgaria, Estonia, Monaco and Romania for their compliance with the FATF Recommendations.

The representative of FMC continued acting as the vice-chairperson of the Committee.

Egmont Group

The FMC continued exchanging information with foreign FIUs through the Egmont Secure Web. Representatives of the FMC attended the meetings of the working groups, as well as the meeting of the Heads of FIUs of the Egmont Group. The FMC representatives enrolled in various projects implemented by the Egmont Group, including in the working group established for the review of the operational guidance on the activities of financial intelligence units and the exchange of information. The FMCC representative was re-elected as a member of the Egmont Group Committee.

Warsaw Convention

Within the framework of the activities of the Conference of the Parties to the Council of Europe Warsaw Convention, the FMC representative participated in the 14th plenary session and Bureau meetings. The plenary session discussed the thematic reports on the implementation of Article 25 (confiscated property) of the Convention, as well as the measures taken by member states, including Armenia, towards remedying the gaps identified in the previous reports. The FMC representative continued to act as a member of the Bureau of the Conference of the Parties.

Eurasian Group

Within the reporting period, representatives of the FMC attended the 36th and 37th plenary sessions of the Eurasian Group. The representative of the FMC was involved in technical assistance activities aimed at remedying the shortcomings identified by the mutual evaluation report of Uzbekistan.

Council of Heads of CIS FIUs

Representatives of the FMC participated in the 19th, 20th and 21st plenary sessions of the Council of Heads of CIS FIUs, in the framework of which, based on the recent regional developments and the need for suppressing potential risks arising from them, issues related to the enhancement of the projects implemented within the working groups of the Council, as well as the development and implementation of new projects were discussed.

Foreign FIUs

The FMC continued cooperating with foreign FIUs, leading to 33 requests received and 25 requests sent in 2022. The full list of memoranda of understanding signed between the FMC and foreign FIUs is presented in Annex 2.

STRATEGIC ANALYSES

Within the framework of strategic analyses, the study of operations with the accounts of non-resident clients of banks was continued in order to establish specific characteristics of the transactions of individual clients and the circumstances potentially creating significant risks of money laundering.

In order to identify ML/AF risks related to the use of cash, a study of ML/FT preventive measures implemented by reporting entities in case of cash transactions was conducted.

At the same time, analysis of the status of the internal monitoring bodies of reporting entities was carried out in order to assess their operational independence as stipulated by the respective provisions of the AML/CFT Law.

The results of analyses with relevant conclusions were provided to the reporting entities, which in turn presented plans of measures/actions aimed at remedying the identified deficiencies.

OTHER INITIATIVES

During the reporting period, the Registry was launched and works were performed to provide for its technical and software support and use.

Technical and software support: Works were carried out towards implementation of additional technical and software solutions necessary for the population and development of the Registry. In particular, an appropriate web-service was launched for exchanging information with the State Revenue Committee. Moreover, due to the need to process large volumes of data received from banks, works were carried out to enhance technical infrastructure and software system of the Registry.

Directions for using the Registry: Pursuant to the joint decision No. 197-L of the Board of the Central Bank from 27 December 2021 and No. 1383-L of the Chairman of the State Revenue Committee from 30 December 2021 "On Establishing the Procedure for Verifying the Validity of the Borrower's Bank Account through the Centralized Registry of Bank Accounts Run by the Central Bank of the Republic of Armenia, for the Payment of Income Tax Refund by the State Revenue Committee of the Republic of Armenia", relevant data has been exchanged with the State Revenue Committee since 1 January 2022 based on the information contained in the Registry.

At the same time, in order to provide for the return to the participants of the social security system the amounts exceeding the maximum amount of social payments calculated and transferred (collected) from the income receivable (received) from several sources, the drafts of the laws "On Making Amendments to the Law of the Republic of Armenia on Personified Accounting of Income Tax, Profit Tax and Social Payments" and "On Making an Amendment to the Law of the Republic of Armenia on Bank Secrecy" were developed and officially circulated among stakeholder agencies so as to enable the State Revenue Committee to receive data on the ownership and validity of the single bank account of the participants, or the bank account provided by the participants, on the basis of the information contained in the Registry.

In order to deal with the current issues identified in the course of operating the Registry, amendments were made by the decision of the Board of the Central Bank No. 64-N from 19 April 2022 to the decision of the of the Board of the Central Bank No. 143-N from 28 September 2021 (hereinafter: the Decision) "On the Procedure for Running the Centralized Registry of Bank Accounts, the List of Data to be Included, the Template and the Deadlines for Providing Data (Reports)".

Due to the technical and software issues encountered by the banks in the course of operating the Registry, as well as the unprecedented workload in the financial system, the decision of the Board of the Central Bank No. 140-N from 23 August 2022 implemented an amendment in the Decision, whereby the deadline for the population of the Registry with regard to existing bank accounts was set 30 September 2022.

ANNEXES

Annex 1: Reporting entities and report submissions

Reporting entities	Registered with FMC	Reports	
		TTRs	STRs
<i>Financial institutions</i>			
Banks	18	809997	209
Credit organizations	41	6531	3
Traders in foreign currency	179	4602	-
Licensed money (currency) transfer services	10	119	25
Investment firms	14	2195	-
Investment fund managers	5	14	-
Central Depository	1	-	-
Insurance (including reinsurance) companies	8	-	-
Insurance (including reinsurance) agents	3	-	-
Corporate investment funds	2	-	-
Non-public contractual investment funds without a licensed manager	40	65	-
Pawnshops	82	538	-
<i>Non-financial institutions</i>			
Realtors	205	-	-
Notaries	121	8312	-
Attorneys, independent lawyers and law firms	1489	-	-
Independent accountants and accounting firms	10	-	-
Auditors and audit firms	2	-	-
Dealers in precious metals	1	-	-
Dealers in precious stones	11	-	-
Dealers in art works	-	-	-
Auction houses	-	-	-
Organizers of games of chance and casino	8	10192	-
Organizers of lottery	4	357	5
Organizers of internet games of chance	4	3052	12
Trust and company registration service providers	-	-	-
<i>Others</i>			
Credit bureaus	1	-	-
Authorized body in charge of registering legal persons (Company Register)	1	458	
Authorized body running the unified state cadastre of real estate	1	*	-
TOTAL	2259	846432	254

* The FMC has access to the database of the authorized body managing the unified state cadastre of real estate.

Annex 2: Memoranda of understanding with partners

Memoranda of understanding with domestic competent authorities

Law enforcement agencies

- General Prosecutor's Office (updated on 28 November 2016)
- National Security Service (signed on 24 January 2017)
- Police (updated on 18 November 2016)
- State Revenue Committee (updated on 25 September 2017)
- Investigative Committee (signed on 16 November 2016)
- Anticorruption Committee (signed on 07 March 2022)

Other competent authorities

- Academy of Justice (signed on 12 November 2016)
- Ministry of Economic Development and Investments (signed on 19 January 2017)
- Ministry of Finance (signed on 10 October 2017)
- Corruption Prevention Committee (signed on 18 September 2020)

Memoranda of understanding with foreign FIUs

Country	Date	Country	Date
 Australia	26 August 2009	 Montenegro	12 July 2011
 Belarus	04 February 2008	 Panama	03 July 2013
 Bermuda	21 October 2009	 Poland	22 September 2009
 Canada	21 December 2009	 Romania	27 May 2009
 China	08 June 2011	 Russia	09 June 2015
 Croatia	11 July 2012	 San Marino	15.03.2010
 Cyprus	11 July 2012	 Saudi Arabia	12 July 2011
 Georgia	26 February 2008	 Serbia	12 July 2011
 Israel	03 November 2011	 South Africa	22 May 2009
 Iran	26 May 2010	 Taiwan	12 July 2011
 Japan	29 October 2012	 Tajikistan	19 May 2011
 Kazakhstan	11 November 2015	 Thailand	29 November 2010
 Kyrgyzstan	19 February 2014	 Turkmenistan	24 October 2017
 Latvia	28 October 2017	 Ukraine	13 March 2008
 Lichtenstein	04 June 2014	 United Arab Emirates	28 May 2009
 Macedonia	13 July 2011	 United Kingdom	27 September 2012
 Moldova	12 July 2011	 Vatican	14 April 2017