FINANCIAL MONITORING CENTER
CENTRAL BANK OF ARMENIA

ANNUAL REPORT

On 2010 Activities in the Field of Combating Money Laundering and Terrorism Financing in the Republic of Armenia

YEREVAN - 2011

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1. Introduction

This report introduces the works implemented and the results achieved in the year 2010 in the field of combating money laundering and terrorism financing (hereinafter: AML/CFT) in the Republic of Armenia.

Since the enactment of the AML/CFT system in the Republic of Armenia, all the works implemented were aimed at developing the AML/CFT system and improving its compliance with internationally accepted standards. In consequence, the national financial intelligence unit - the Financial Monitoring Center of the Central Bank of the Republic of Armenia (hereinafter: the FMC) coordinated and implemented a number of works, which were aimed at meeting the objectives defined under the 2010-2013 National Strategy for Combating Money Laundering and Terrorism Financing in the Republic of Armenia. In particular, large fraction of the works was directed towards implementing a legal framework that largely complies with FATF standards, applying the risk-based approach in implementation of AML/CFT mechanisms, ensuring the equal enforcement of AML/CFT requirements among all reporting entities (financial institutions and designated non-financial businesses and professions), strengthening and expanding national and international cooperation, etc.

In 2010, among other works, a strategic analysis was conducted on ML/FT risks in the Republic of Armenia, and the results were documented in a paper entitled "Summary of Conducting a Strategic Analysis of Money Laundering and Terrorism Financing Risk in the Republic of Armenia"[1]. As evidenced by the results of the analysis, potential ML/FT risks in the Republic of Armenia are mainly concentrated in the financial system due to the volume of funds channeled through the system, the wide range of financial transactions and the opportunities to conduct international activities, etc. Worth to note that such a pattern is common for the majority of countries with developed financial systems. The situation in the non-financial sector is different: the risks are significantly lower in this sector due to the low level of development of mediated services, limited range of transactions, insignificant turnovers and limited international contacts. Concurrently, as evidenced by the results of the analysis, the ML/FT preventive measures and capacities are of more effective operation in the financial system than in the non-financial sector, which is explained by the fact that supervisory measures, as provided by law, and internal regulation of the financial sector are on a higher level. As for terrorism financing, the results of the analysis, as well as those of various studies conducted by a number of international structures evidence that the risk of terrorism, and therefore, the risk of terrorism financing is significantly lower in the Republic of Armenia. This is also explained by the fact that extremist groups or movements on the grounds of ethnic, religious and other forms of discrimination are non-existent in the Republic of Armenia.

In 2010, large fraction of the works in the field of AML/CFT was directed towards expanding the involvement of both the FMC and other relevant bodies into the projects and works conducted by international organizations and structures. In particular, experts from the Republic of Armenia were involved in the assessments of other countries' (Cyprus, San Marino and Kazakhstan) AML/CFT systems, as conducted by international organizations, and the representatives of the FMC were elected as bureau members in the Council of Europe's MONEYVAL Committee and the Conference of Parties under the Warsaw Convention. The representatives of the FMC are also at senior positions in the relevant working groups of the Egmont Group of Financial Intelligence Units and

[1] Refer to the following website for details on ML/FT risks in the Republic of Armenia: http://www.cba.am/am/SitePages/fmcregulation.aspx

the Eurasian Group on Combating Money Laundering and Financing of Terrorism. This is also to evidence that international cooperation initiatives on the development of the AML/CFT system are being consistently fulfilled, as defined under the 2010-2013 Strategic Program.

2. Developments in the AML/CFT Legislation

Legislative requirements commensurate to AML/CFT international standards were enforced by virtue of the RA Law on Combating Money Laundering and Terrorism Financing (hereinafter: the Law), as adopted in the Republic of Armenia in 2008. However, the practical experience accumulated over the two-year period since the enactment of the Law and the evaluations of various international organizations have revealed several deficiencies and shortcomings. Thus, for the purpose of improving the required AML/CFT mechanisms and developing a legal framework that largely complies with international standards, the FMC, in cooperation with experts from other authorized bodies, drafted a legislative package of revisions and amendments to the AML/CFT legislation, which proposed the following key improvements:

- Clarify the competencies of the FMC and supervisory bodies in relation to supervision over reporting entities and imposition of penal measures thereon;
- Provide the RA Central Bank with an authority to adopt legal statutes for the enforcement of legislative requirements among designated non-financial businesses and professions that are reporting entities;
- Improve and clarify the requirements for conducting customer due diligence, qualifying a transaction or business relationship as suspicious, documenting and retaining the conducted analyses;
- Bring the mechanisms for freezing and confiscating terrorism-related funds and other assets into compliance with international standards;
- Introduce a new threshold for filing reports on cash transactions subject to mandatory reporting;
- Clarify the scope of predicate offences of money laundering, etc.

After confirmation by all interested authorities, the legislative package was then submitted to the Government of the Republic of Armenia.

Besides, in 2010, a number of methodical guidance, typologies, supplements and amendments to other AML/CFT legal statues were adopted by the board of the Central Bank.

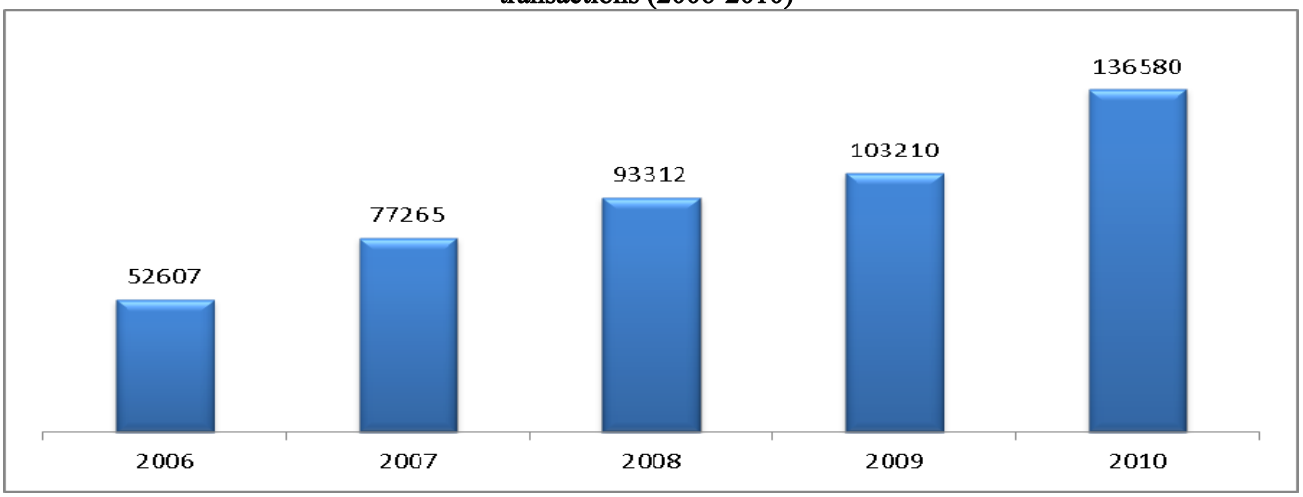
3. Information Collection and the FMC Database

According to the current AML/CFT legislation, reporting entities are obliged to file the FMC with reports on transactions subject to both mandatory reporting and on suspicious transactions. Concurrently, a number of reporting entities, such as, attorneys, entities providing legal services, sole practitioner accountants and accounting firms, sole practitioner auditors and auditing firms are exempted from the requirement to file reports on transactions subject to mandatory reporting and are obliged to report suspicious transaction reports only.

In 2010, approximately 136.000 reports on transactions subject to mandatory reporting and on suspicious transactions were filed to the FMC by reporting entities, which increased the total number of reports contained in the FMC database to approximately 466.000 items by the end of the

reporting period. The trend of the number of reports received on transactions subject to mandatory reporting from 2006-2010 and the 2010 statistics on reports filed on transactions subject to mandatory reporting, as broken down by reporting entities, are illustrated in the form of a chart and a table below.

The trend of the number of reports on transactions subject to mandatory reporting and on suspicious transactions (2006-2010)



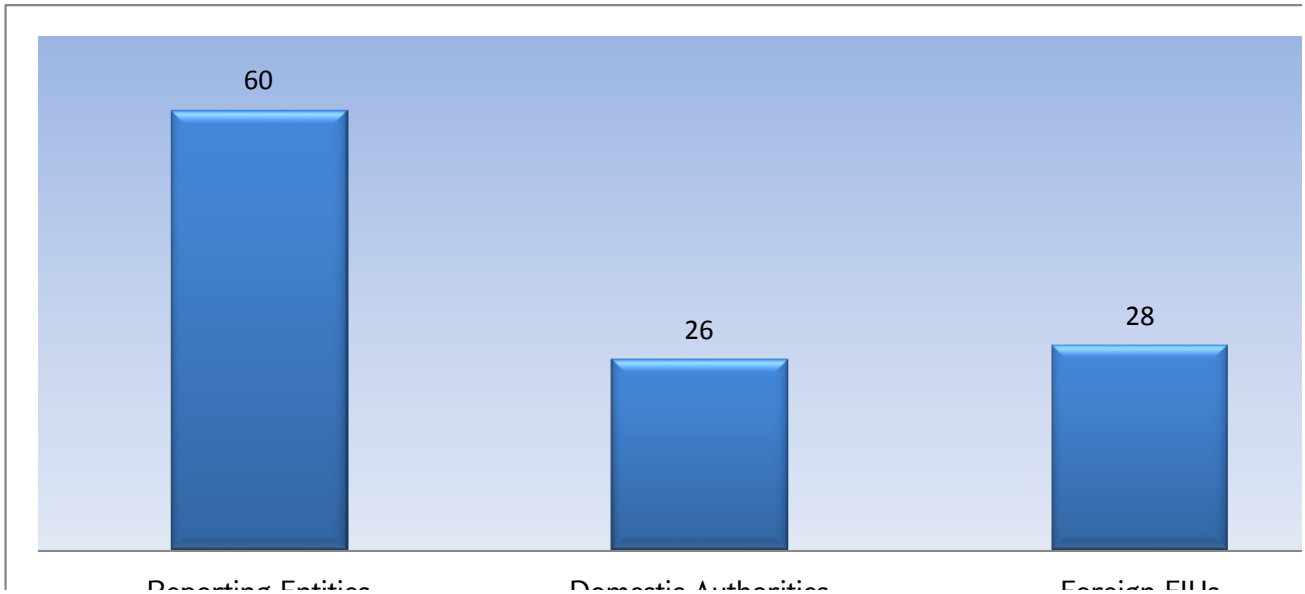
Reporting entities	Registered as of 31.12.2010	Number of over-threshold reports
Banks	21	133,030
Credit Organizations	31	190
Entities engaged in foreign currency broker-dealer transactions	1	-
Entities engaged in foreign currency exchange	225	-
Licensed entities engaged in money (currency) transfer services	10	-
Investment companies (entities providing investment services, as defined under the RA Law on Securities Market)	8	131
The central depositary of regulated market securities, as defined under the RA Law on Securities Market	1	222
Insurance (including re-insurance) companies	11	1,268
Entities providing intermediary insurance (including re-insurance) services	5	50
Insurance agents	343	-
Pawnshops	88	-
Notaries	79	1,001
Entities organizing games of chance and casinos	92	-
Entities organizing lotteries	4	-
The authorized body in charge of the integrated state	49	547

cadastre of real estate		
The state authority in charge of registering legal persons (the State Registry)	49	141
Total		**136,580**

4. Analyses on ML/ FT and the Results

For the purpose of fulfilling its competences, the FMC, as the state body in charge of collecting, analyzing and disseminating information in the field of AML/CFT, receives reports from reporting entities, as well as obtains relevant information from supervisory and other bodies. The information received is analyzed and, if deemed necessary and referable, is then disseminated to law enforcement or supervisory bodies in the manner defined by law.

At that, in the course of analyzing the information by the FMC, it becomes necessary to make additional requests and obtain information from reporting entities, domestic supervisory bodies and law enforcement authorities, and, if deemed necessary, from foreign colleagues, as well. Aggregate statistics on requests made in 2010, as broken down by addressees, are illustrated below.



The information requested by the FMC from reporting entities and domestic authorities was mainly related to the followings:

- Due diligence information on financial institutions' customers, their transactions with or without opening a bank account;
- Financial statements of legal persons and the information contained therein;
- Information on participants, directors and beneficial owners of legal persons;
- Information on border crossing and criminal records of natural persons, etc.

Summarized data on references made to law enforcement authorities based on ML hypotheses arrived at as a result of analyses, criminal cases instigated and forwarded to the court based on such references, as well as suspended and/ or confiscated assets over the period of 2006-2010 are presented in the form of a table below.

	2006	2007	2008	2009	2010	Total
References made by the FMC to law enforcement authorities	2	11	11	9	23	56
Criminal cases instigated based on the references of the FMC	2	2	2	1	5	12
Requests made to the FMC by law enforcement authorities	-	13	19	39	53	124
Criminal cases instigated upon the initiative of law enforcement authorities	2	2	5	9	8	26
Total of criminal cases instigated	4	4	7	10	13	38
Convictions	1	0	0	7	3	10
Funds suspended based on the decision of the Board of the RA CBA[2]			USD 802.000	USD 1.100.000	AMD 345.000, USD 290.000	
Funds subject to confiscation for the benefit of the state based on court orders (AMD)[3]	388.000	0	0	53.824.860	514.026.500	

The main predicate offences behind the money laundering hypotheses drawn in the references made by the FMC to law enforcement authorities in 2010 were as follows:

- Financial fraud using counterfeit bank cards;
- False invoices with fictitious commodity volumes;
- Fictitious bankruptcy;
- Deliberate tax evasion;
- Legalization of proceeds obtained from illegal turnover of narcotic drugs, etc.

[2] All the funds suspended in 2010 were arrested.

[3] Besides the funds subject to confiscation for the benefit of the state, as illustrated in the table, another confiscation order was issued in 2010 for the benefit of a third party in the amount of AMD 502,240,268, which was based on a court verdict resulted from a money laundering conviction.

Worth to note that driven by the necessity to improve the effectiveness and promptness of the cooperation between the FMC and other domestic authorities, certain works were developed and are currently being implemented towards the creation of an integrated information environment, which is defined under the 2009-2010 Anti-Corruption Strategy of the Republic of Armenia. The integrated information environment would allow the interested parties to promptly exchange information by means of a secure connection, and would make the required information contained in the database of each authority accessible by others.

The FMC exchanged information with foreign FIUs via the Egmont Secure Web and within the framework of bilaterally signed MOUs, as well. 2007-2010 statistics on the exchange of information with foreign FIUs are presented below.

	2007	2008	2009	2010	*Total*
Requests made to the FMC by foreign FIUs	18	17	25	25	85
Requests made to foreign FIUs by the FMC	17	20	16	28	81

The requests made to the FMC by foreign FIUs, as well as the requests made to foreign FIUs by the FMC were mainly related to the followings:

- Transactions conducted by natural and legal persons through the financial system of the Republic of Armenia;
- Information on participants, directors and beneficial owners of companies;
- Information on real estate and other assets in ownership of the subjects of requests;
- Information of criminal nature in relation to the subjects of requests, etc.

Although the statistics on disclosing money laundering related crimes, indictments and convictions has a tendency for improvement, it is still far from being adequate, which becomes more evident when comparing it to statistics in countries with developed AML/CFT systems. Thus, the implementation of works should be continued towards achieving the objectives defined under the 2010-2013 National Strategy for Combating Money Laundering and Terrorism Financing in the Republic of Armenia, in particular for the areas of criminal prosecution of money laundering related crimes, implementation of international standards in judicial practices, judicial proceedings and issuance of court verdicts on ML cases.

5. Violations of AML/CFT Legislation and Imposition of Penal Measures

The equal enforcement of the AML/CFT legislation is still a relevant issue. According to the current legislation requirements, the FMC receives quarterly statistics on penal measures imposed on reporting entities by relevant supervisory bodies. Worth to note that no penal measures were imposed on designated non-financial businesses and professions in 2010. As for financial institutions, within the framework of cooperation between the FMC and the Financial Supervision Department of the RA Central Bank (hereinafter: the FSD), in 2010 the FMC documented and forwarded 6 references to the FSD on failures of reporting entities to ensure timely reporting and/ or to submit accurate information. The following penal measures were imposed as a result of the

references made, as well as the violations disclosed by the FSD in the course of off-site surveillance and on-site inspections in banks operating in the jurisdiction of the Republic of Armenia.

- 1 bank was sent a notification with an instruction to take relevant measures so as to refrain from similar violations in future;
- 15 financial institutions (including 7 banks, 1 insurance company, 2 credit institutions and 5 currency exchange offices) were sent 39 warnings with instructions to take relevant measures so as to refrain from similar violations in future;
- 7 financial institutions (including 5 banks, 1 credit institution and 1 currency exchange office) were imposed fines totaling AMD 3.100.000.

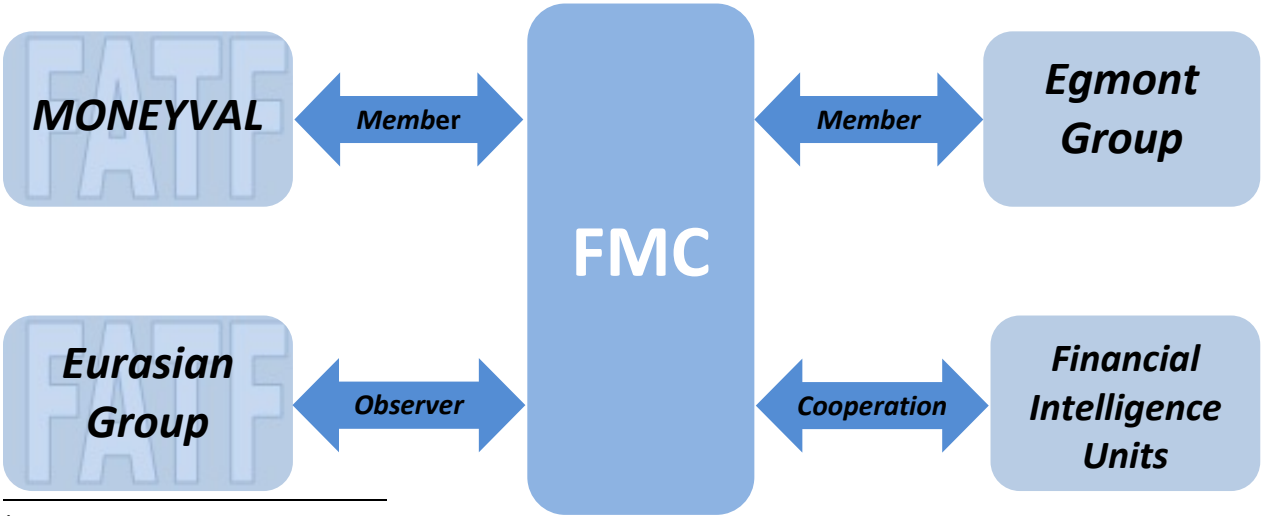
Besides, the employees of the FMC participated in complex on-site inspections of banks conducted by the FSD, thus assisting the inspection teams in the examination of the banks' internal AML/CFT systems and in the drafting of inspection findings.

6. International Cooperation

There a number of distinguished international structures, which are involved in developing AML/CFT international standards and their implementation in different countries. The Republic of Armenia, represented by the Financial Monitoring Center, is involved in the works of such international structures.

The Republic of Armenia is a member of the Council of Europe's MONEYVAL Committee and has an observer's status in the Eurasian Group on Combating Money Laundering and Financing of Terrorism. These are FATF[4]-style regional bodies that are aimed at ensuring the implementation of FATF 40+9 Recommendations in member states. Since 2007, the FMC is also a member of the Egmont Group of Financial Intelligence Units, which provides the opportunity to cooperate with 120 financial intelligence units worldwide, in inclusion of exchanging information via the secure web, participation in the management of the Group, plenary sessions and working group meetings. The competency of cooperation and coordination of works with the international structures above and other organizations in the field of AML/CFT is assigned to the FMC by law.

The main partners in the framework of international cooperation on AML/CFT are as follows:



[4] FATF is an international intergovernmental body in charge of developing the AML/CFT policy.

In 2010, the representatives of the Republic of Armenia participated in the regular plenary sessions and working group meetings of the international structures above, thus representing the interests of the Republic of Armenia, as well as participating in the programs and initiatives of these structures.

The delegation of the Republic of Armenia participated in the 32nd, 33rd and 34th plenary sessions of Council of Europe's MONEYVAL Committee, including the meetings of the Bureau, as well. During these meetings a number of important issues were heard and adopted, among which the followings are presented:

- The 4th round assessment report on Slovenia was heard, where the Armenian delegation acted in the capacity of an ad hoc group member, thus presenting its detailed proposals and comments on the draft report. As a result of discussions, the majority of the Armenian delegation's proposals were accepted, and relevant changes were made to the report;
- The progress report on Armenia was heard and adopted, which had documented the progress made throughout the previous year and a decision was made to present the second progress report two years later;
- The second progress report on Andorra was heard, where the Armenian delegation acted in the capacity of a rapporteur country, thus conducting relevant analysis and presenting its position on adopting the report.

Besides, in 2010, the representatives of the FMC and the Prosecutor General's Office of the Republic of Armenia participated in the 4th round assessment of San Marino and Cyprus, respectively, acting in the capacity of the Council of Europe's MONEYVAL Committee evaluators' group member.

The delegation of the Republic of Armenia also participated in the plenary sessions of the Eurasian Group, thus making a proposal to provide technical assistance to member states of the Eurasian Group, presenting the results of joint efforts of the FMC and the Eurasian Group throughout the previous years and the vision for future joint activities. The representative of the FMC was elected as a co-chair of the Working Group on Assessment and Prevention of ML/FT Risks in International Financial Relations.

In cooperation with the FATF, representatives of the FMC participated in the joint plenary session of the FATF and MENAFATF and the joint meeting of the FATF and Egmont experts, where the representative of the FMC presented a report on the information exchange between financial intelligence units and the development of international cooperation. The importance of the presented material for all member FIUs of the Egmont Group was documented in the results of the meeting.

In the framework of the Egmont Group of Financial Intelligence Units, the representatives of the FMC continued their active participation in the plenary sessions and working group meetings of the Group. In particular, as a country sponsoring the possible membership of Iran and Tajikistan in the Egmont Group, the FMC presented the results of the works implemented with these countries. Besides, the delegation of the FMC made a proposal to sponsor (jointly with the Russian Federation) the possible membership of Turkmenistan in the Egmont Group, which was then adopted. The FMC provided support to the countries under sponsorship in designing legal statues required for the possible Egmont membership.

In 2010, the representative of the FMC was elected as a deputy chair of the Egmont Operational Working Group, where, among other works, a number of proposals on enhancing the effectiveness of information exchange between financial intelligence units were considered upon the initiative of the FMC.

Back in 2008, the Secretariat and the Committee of the Egmont Group had decided to hold the 19th regular plenary session of the Egmont Group in the Republic of Armenia, whereas preparation is under way, and a video on Armenia was presented during the 18th plenary session of the Egmont Group.

The Second Conference of the Parties of the Council of Europe's Warsaw Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism was held In April 2010, where the representative of the FMC was present and elected as a member of the Bureau.

This year the FMC signed a number of MOUs with other financial intelligence units. As for the end of 2010 the FMC had signed MOUs with FIUs of 14 countries[5].

Preliminary agreements on signing MOUs were reached with the financial intelligence units of China and Saudi Arabia.

Worth to note that in accordance with the current legislation, the FMC is empowered to exchange information with foreign financial intelligence units within the framework of signed MOUs, as well as without an MOU, in the manner defined under the rules of the Egmont Group.

7. Trainings, Consultancy and Technical Assistance

For the purpose of enhancing the effectiveness of the AML/CFT system, a number of seminars and trainings were held for both foreign colleagues and reporting entities throughout the reporting year.

International training programs

In May 2010, the delegation of the Islamic Republic of Iran, represented by the head of the FIU of this country, paid a visit to Armenia upon the invitation of the FMC.

In November 2010, the delegation of the Department of Financial Monitoring of the National Bank of Tajikistan, represented by the Chairman of the Bank, paid a visit to Armenia upon the invitation of the Central Bank of the Republic of Armenia, whereas, among other issues, the two Chairmen discussed the prospective of cooperation and mutual support between the financial intelligence units and questions in relation to the FMC providing technical assistance to the FIU of Tajikistan. The FMC also organized seminar discussions for the foreign colleagues, whereas materials on AML/CFT legislation, institutional, organizational and technical sufficiency issues were presented.

Domestic training programs

In April-May 2010, the FMC organized seminar discussions in Tsakhkadzor for the employees of internal monitoring bodies of banks, credit institutions, insurance, and investment companies. Considering the importance of such training programs, the geography of seminars was expanded, and, within the framework of technical assistance provided to the FMC by the US Treasury, a number of seminars were organized in Yerevan for designated non-financial businesses and professions, such as accounting and auditing firms, attorneys, the representatives of the RA State

[5] The countries are as follows: Australia, Belarus, Bermuda, Canada, Georgia, Iran, Poland, Romania, Russian Federation, San Marino, South Africa, Thailand, Ukraine, United Arab Emirates

Register Agency of Legal Entities and the RA Central Depositary, the employees of the RA Real Estate Cadastre Committee and entities engaged in realtor activities, employees of the RA Ministry of Finance, organizers of games of chance and casinos, the employees of Tax and Customs Authorities of the RA State Revenue Committee.

During the seminars above, discussions were held and clarifications were provided on practical mechanisms for implementing the requirements of the AML/CFT legislation and on further improvement opportunities.

For the purpose of knowledge and capacity development for the employees responsible for implementing adequate mechanisms of ML/FT risk prevention in financial institutions (employees responsible for internal monitoring functions, internal audit members, customer service representatives, other employees dealing with ML/FT internal risks), a number of trainings were organized in the Financial-Banking Educational Center of the Financial-Banking College Foundation in October 2010. During the trainings, the legal framework of the Republic of Armenia was presented, case studies were considered and interactive discussions were held.

Besides, throughout the year, 7 employees of the FMC participated in various international seminars and training programs.

Technical Assistance

The FMC coordinated the three visits of IMF representatives to Armenia in 2010, which were aimed at revealing the needs for AML/CFT purposes in various authorities and agencies in the Republic of Armenia.

During the April visit, the AML/CFT Strategy of the Republic of Armenia was assessed and the progress made after the 3rd round assessment of the AML/CFT system of the country was evaluated. During the visit, the IMF organized a training seminar for the employees of supervisory bodies of designated non-financial businesses and professions. Besides, the IMF experts held a meeting with the members of the working group adjacent to the Interagency Commission on the Fight against Counterfeiting of Money, Fraud in Plastic Cards and Other Payment Instruments, Money Laundering and Terrorism Financing, whereas strategic questions in relation to AML/CFT and capacity development prospective in select authorities were discussed. As a result, a complex program of technical assistance for the Republic of Armenia in the field of AML/CFT was designed with its short-term and long-term priorities.

During the following visits, international AML/CFT best practices on casinos and realtors were presented, questions on conducting effective supervision were discussed, and relevant supervisory manuals-methodologies were developed, as well. Seminar discussions were organized for the RA Ministry of Finance, the RA Real Estate Cadastre Committee, organizers of games of chance and casinos and realtors. Besides, with the support of the FMC, the IMF experts and the FSD did jointly developed off-site surveillance and on-site inspection manuals, as well as relevant guidance for financial institutions, etc.

A number of works were implemented within the framework of technical assistance provided by the US Treasury, such as the development and implementation of the Automated Case Management System of the FMC, the organization of training seminars for various authorities and institutions in the field of AML/CFT, the Armenian translation of the FATF 40+9 Recommendations Methodology, etc.

Besides, within the framework of the same technical assistance project and in accordance with the agreement reached with the Financial Intelligence Unit of Bulgaria, the representatives of the FMC, RA Ministry of Finance, RA National Security Service and the Chamber of Advocates paid a visit

to Bulgaria in July, which had an objective to study the experience of the Bulgarian FIU and the country's AML/CFT system as a whole.