ANNUAL REPORT

FINANCIAL MONITORING CENTER
CENTRAL BANK OF ARMENIA

On 2009 Activities in the Field of Combating Money Laundering and Terrorism Financing

YEREVAN - 2010

Introduction

This report introduces the works implemented during the year 2009 in the field of combating money laundering and terrorism financing (hereinafter AML/CFT) in the Republic of Armenia.

The report is produced pursuant to Part 6 of Article 10 of the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing.

The following works and activities are set forth in the report:

1. Implementation of AML/CFT Legislation 3
2. Collection, Analysis, and Dissemination of Information 4
3. Assisting to Supervision over Implementation of AML/CFT Legislation 6
4. International Cooperation 7
5. Training and Consultancy Activities 8
6. Arrangement of Works of Interagency Commission 9
7. Coordination of Activities under the 3rd Round Assessment of Armenia's AML/CFT System by IMF and MONEYVAL 10

1. Implementation of AML/CFT Legislation

Due to the enactment of the 2008 Law on Combating Money Laundering and Terrorism Financing (hereinafter: the AML/CFT Law), the following legal acts drafted by the Financial Monitoring Center of the Central Bank (hereinafter: the FMC) were endorsed by the Board of the Central Bank on January 27, 2009 and entered into force on March 12, 2009:

- The Reporting Form 008 for Submitting Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by the State Body Performing Registration of Legal Persons (the State Registry), the Rules and Deadlines for Submission, the Rules for Registering the State Body Performing Registration of Legal Persons (the State Registry);
- The Reporting Form 009 for Submitting Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by the Central Depository, the Rules and Deadlines for Submission, the Rules for Registering the Central Depository;
- The Reporting Form 020 for Submitting Information on Suspicious Transactions or Business Relationships by Attorneys, as well as by Independent Lawyers and Firms Providing Legal Services, the Rules and Deadlines for Submission, the Rules for Registering Attorneys, as well as Independent Lawyers and Firms Providing Legal Services;
- The Reporting Form 024 for Submitting Information on Suspicious Transactions or Business Relationships by Real Estate Agents, the Rules and Deadlines for Submission, the Rules for Registering Real Estate Agents;
- The Reporting Form 025 for Submitting Information on Suspicious Transactions or Business Relationships by Independent Auditors and Auditing Firms, Independent Accountants and Accounting Firms, the Rules and Deadlines for Submission, the Rules for Registering Independent Auditors and Auditing Firms, Independent Accountants and Accounting Firms;
- The Form for Declaration on Beneficial Owners Provided by Legal Entities to the State Body Performing Registration of Legal Persons; the Rules for Submitting the Declaration;
- The Form, the Rules, and the Deadlines for Submitting Statistics to the Central Bank of Armenia by the Police and the National Security Service under the Republic of Armenia Government, by the Court Decree Enforcement Service of the Ministry of Justice, by the Ministry of Justice, by the Ministry of Finance, and by the State Committee of Real Estate Cadastre under the Republic of Armenia Government;
- The Regulation on the Criteria for Qualification and Professional Eligibility of the Head and the Members of Internal Compliance Units in Banks. Based on this regulation, the Central Bank Chairman's Decision No 376 FOU of March 19, 2009 approved the Tests for Qualification of Candidates for the Position of the Member (the Head) of Internal Compliance Units in Banks, and the Decision No 1/311 L

established the Arrangement of Works for Qualification of the Member (the Head) of Internal Compliance Units in Banks.

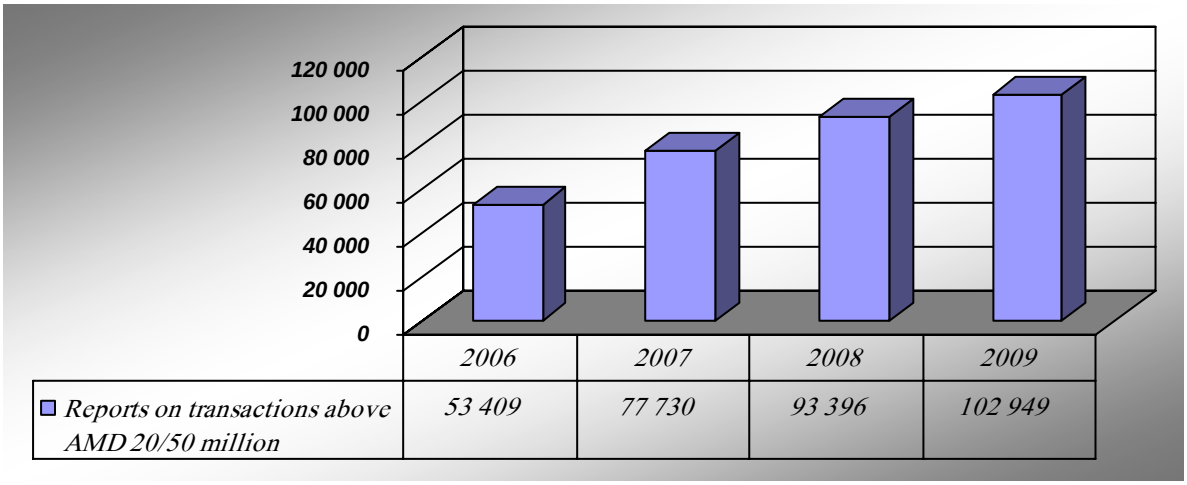
Moreover, on October 6, 2009 the Decision No 296-N of the Board of the Central Bank approved the Form for Submitting Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by Banks (the Reporting Form 101); the Rules and Conditions for Submitting Information; the Rules for Registering Banks; and the Deadlines for Submitting Information. It also repelled the parts of the Decision No 231-N adopted by the Board of the Central Bank on July 23, 2008 related to the requirements with regard to banks. The decision provided for enactment of the XML-based reporting system from the beginning of 2010.

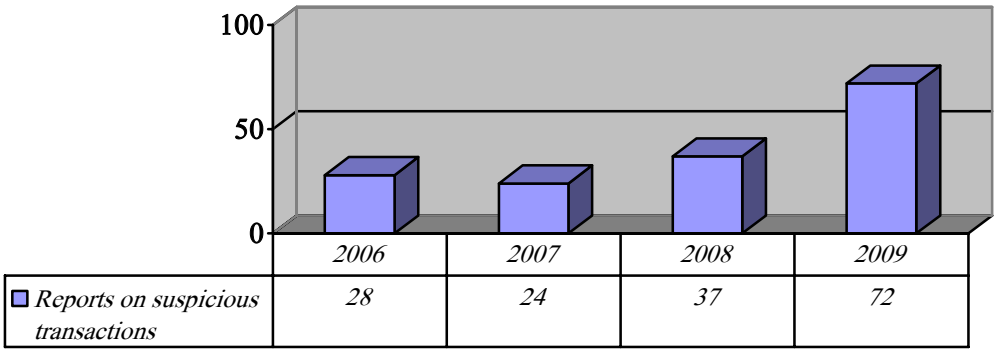
On July 28, 2009 the Decision No 224-N of the Board of the Central Bank approved the new list of offshore territories; this list had been developed by the FMC based on the progress report on compliance to the internationally recognized tax standards published on April 2, 2009 by the Organization for Economic Cooperation and Development.

During the reporting period, drafting of methodological guidelines on risk-based AML/CFT practices for various groups of non-financial institutions and entities was completed; the guidelines are to be endorsed and implemented in 2010.

2. Collection, Analysis, and Dissemination of Information

During 2009, approximately 103.000 reports on transactions subject to mandatory reporting and on suspicious transactions were added into the FMC's database (Annex 1 contains detailed statistical information on the received reports). By the end of the reporting period, the number of reports contained in the FMC's database totaled approximately 328.000 items. The number of reports received in 2009 demonstrates an increasing trend when compared with the respective statistics for 2006, 2007, and 2008. Below is the comparative schematic illustration of the mentioned statistical data:





During the reporting period, the FMC received signals from various sources, which were all processed by means of initiating analysis within the FMC. The structure of the signals is presented below:

- Reports on suspicious transactions – 72;
- Requests from foreign financial intelligence units (FIU) – 25;
- Requests from domestic law enforcement authorities – 39;
- Requests from other divisions of the Central Bank and other state bodies – 15;
- Information analyzed on basis of own initiative – 3.

All requests specified above were processed and duly answered.

Within the framework of analytical works, the FMC made requests for obtaining additional information, as follows:

- Requests to foreign FIU-s – 16;
- Requests to domestic law enforcement authorities – 19;
- Requests to reporting entities – 15;
- Requests to other divisions of the Central Bank – 37.

Due to analytical activities, references were made for taking respective measures, as follows:

- References to foreign FIU-s – 1;
- References to domestic law enforcement authorities – 9;
- References to reporting entities – 16 (including those for provision of feedback);
- References to other divisions of the Central Bank – 2.

During the reporting period, in 4 cases commercial banks applied temporary suspension of funds based on ML suspicions, the suspended amount totaling the equivalent of AMD 393 million.

Below is presented data on criminal investigation cases instigated on basis of referrals made by the FMC to law enforcement authorities, as well as facilitated by the information provided from the FMC.

Referrals made to law enforcement authorities	Criminal cases instigated for ML	Including cases instigated on basis of referrals from FMC	Cases referred to the court	Convictions
9	10	1[1]	9[2]	7[3]

Over the reporting period, law enforcement authorities seized funds or property totaling AMD 96.8 million under preliminary investigation of 3 of the criminal cases instigated for ML.

Within the same period, a total of AMD 62.5 million funds or property was confiscated for the benefit of the state on basis of ML convictions.

3. Assisting to Supervision over Implementation of AML/CFT Legislation

The FMC participated in complex inspections of reporting entities, particularly of 4 banks, conducted by the Financial Supervision Department of the Central Bank (the FSD), thus assisting the inspection teams in the examination of the banks' internal systems of ML/ FT prevention and in the drafting of inspection findings.

The following actions were taken for the failure of financial institutions to furnish registration applications, to submit internal legal acts, and to ensure timely reporting, as well as for the violations disclosed through off-site surveillance and on-site inspections conducted by the Financial Supervision Department:

- 4 financial institutions (including 2 banks and 2 credit institutions) were sent notifications with an instruction to take relevant measures so as to refrain from similar violations in future;
- 15 financial institutions (including 4 banks, 5 credit institutions, 3 insurance and 3 investment companies) were sent a warning with an instruction to take relevant measures so as to refrain from similar violations in future;
- 2 financial institutions (including 1 bank and 1 insurance company) were imposed fines totaling AMD 300.000;
- Licenses of 2 pawnshops were temporarily suspended.

No penal measures were imposed on reporting entities under jurisdiction of other supervisory bodies (the Ministry of Finance, the Ministry of Justice, and the State Committee of Real Estate Cadastre under the Republic of Armenia Government).

[1] Concerning all other instigated criminal cases, domestic law enforcement authorities made requests to the FMC; based on these requests, the FMC conducted analysis and submitted the results to the respective authorities.

[2] Among the cases referred to the court, 3 issued from criminal cases instigated in 2007 or 2008.

[3] Among the convictions, 5 issued from court proceedings of criminal cases instigated in 2008.

4. International Cooperation

Over the reporting period, the FMC and the other authorized bodies and agencies were actively involved in activities aimed at representing the interests of the Republic of Armenia at international structures dealing with AML/CFT, as well as at implementing joint projects with international and foreign donors.

Council of Europe's MONEYVAL Committee Activities

Delegations of the Republic of Armenia participated in 29th, 30th, and 31st plenary meetings of MONEYVAL. During these meetings, the Armenian delegation raised or participated in the consideration of following issues:

- At the 29th plenary, the proposal of the Armenian delegation on amending certain MONEYVAL procedures was considered, providing for a distinct mechanism of calculating and reviewing country ratings based on assessment and progress reports. Due to discussions, the proposal was decided to be taken into consideration when drafting MONEYVAL's 4th round assessment procedures. The plenary adopted the 3rd round assessment report on Ukraine, for which the Head of Legal and International Relations Division of the FMC had acted in the capacity of the legal evaluator.
- At the 30th plenary, the 3rd round assessment report on Armenia was heard and adopted (see details under Section 7 of the report).
- At the 31st plenary, the 3rd round assessment reports on Bosnia and Herzegovina, as well as that of Serbia were heard and adopted, for which the Head of the FMC and the Deputy Head of the FMC, respectively, acted in the capacity of the financial evaluator. During this plenary, elections of the Chairman, the Vice Chairman, and the Bureau members of MONEYVAL were held, and the Head of Legal and International Relations Division of the FMC was elected a member of MONEYVAL's Bureau.

Egmont Group Activities

As a member of the Egmont Group, the FMC kept exchanging information with foreign FIU-s through the Egmont Secure Web (see details under Section 2 of the report).

The FMC's delegations participated in the 17th plenary meeting of the Egmont Group in May, and in the meetings of the Egmont working groups in October. In these meetings, the FMC presented a proposal aimed at improving the timing of responses to information requests, as well as at setting an obligation to expedite initiatives for signing MoU-s. The proposal was considered by member FIU-s and would be further discussed during 2010 meetings.

Issues related to holding the Egmont 2011 plenary in Armenia and to the course of arranging the respective preparatory works were also considered during the above-stated meetings. In this relation, a decision of the Chairman of the Central Bank of June 22 established a committee for coordinating arrangement works of the Egmont 2011 plenary. By the end of the year, the committee had established a work-plan and the schedule for its implementation, also having implemented certain works (selection of the

Egmont 2011 plenary logo, research of meeting venues, approval of the list of works to be outsourced etc). Works for preparing this event would be continued in 2010.
In addition, the FMC and the other authorized bodies and agencies jointly implemented works for completing questionnaires submitted by international structures dealing with AML/CFT (such as FATF, MONEYVAL, Egmont Group, Eurasian Group), for presenting proposals and reflections on strategic research papers etc.

Memoranda of Understanding Signed between FMC and Foreign FIU-s

During the reporting year, the FMC signed Memoranda of Understanding with the FIU-s of Romania, Poland, Republic of South Africa, United Arab Emirates, Bermuda, Australia, and Canada. Also, agreement was reached for signing a Memorandum of Understanding with the FIU of China.

US-Funded Technical Assistance

Technical assistance funds under the amendment to the Letter-Agreement on Cooperation between the Republic of Armenia Government and the US Government in the Areas of Narcotics' Control and Law Enforcement, which was signed between the US Ambassador to Armenia and the Genera Prosecutor of Armenia, were allocated to the following projects:

- Arrangement of a study visit of the FMC staff members to FinCEN (the US financial intelligence unit) for enhancing analytical skills;
- Drafting and implementation of the FMC's Case Management System;
- Translation of the FATF 40+9 Recommendations, as well as of other relevant materials into Armenian;
- Arrangement of other training programs.

EBRD-Funded Technical Assistance

The European Bank for Reconstruction and Development provided technical assistance to the FMC for the development (improvement) of qualification examination modules for internal compliance units of reporting entities. The EBRD and the FMC outsourced this work to the Basel Institute of Governance, which developed examination modules for various groups of reporting entities. Qualification on basis of these examination modules would start during 2010.

5. Training and Consultancy Activities

During the first two months of the reporting year 2009, the FMC held series of consultative meetings with the representatives of various domestic bodies and agencies, aimed at clarification of issues and procedures related to the 3rd round AML/CFT assessment of Armenia.

A training course on the Prevention of Money Laundering and Terrorist Financing in Financial Institutions was delivered at the premises of the Financial and Banking College for the internal compliance staff of financial institutions.

In March 2009, the FMC organized a consultative workshop for the staff of the headquarters and territorial divisions of the state body performing registration of legal persons (the State Registry). During the workshop, provisions of the Reporting Form 008 for Submitting Information on Transactions Subject to Mandatory Reporting and Suspicious Transactions or Business Relationships by the State Body Performing Registration of Legal Persons (the State Registry), the Rules and Deadlines for Submission, the Rules for Registering the State Body Performing Registration of Legal Persons (the State Registry), as well as the Form for Declaration on Beneficial Owners Provided by Legal Entities to the State Body Performing Registration of Legal Persons, the Rules for Submitting the Declaration were presented and discussed.

Within the framework of cooperation between central/national banks – members of or observers to EURASES – the Central Bank of Armenia organized a seminar on Arranging Works of the Banking System for Currency Control, Prevention of Turnover of Illegal Proceeds (Money Laundering) and Terrorist Financing. The FMC staff members delivered lectures for the representatives of EURASES member states – Belarus, Russia, Tajikistan, and Kyrgyzstan.

During the months August-October, individual training and consultative meetings were held with all banks operating in Armenia, based on the assessment of AML/CFT training and consultancy needs. The meetings involved clarification of AML/CFT-related issues, as well as discussion of ways to improve the overall efficiency of the system.

6. Arrangement of Works of Interagency Commission

Over the reporting period, the FMC initiated 3 meetings (on January 26, February 23, and October 16) of the Interagency Commission on the Fight against Counterfeiting of Money, Fraud in Plastic Cards and Other Payment Instruments, Money Laundering and Terrorism Financing (hereinafter: the Interagency Commission), which involved consideration of a number of AML/CFT-related issues. Among them, the following are the key issues considered by the Committee:

- Coordination of activities for preparing the 3rd round assessment of Armenia's AML/CFT system by the IMF and MONEYVAL; summarization of the recommendations made by the assessment report, approval of the action plans for their implementation;
- Discussion of the status of referrals on suspicious transactions made by the FMC to criminal investigation bodies, and consideration of the investigative subordination of money laundering cases;
- Approval of the report to the President of the Republic of Armenia on the outcomes of 2007-2009 activities of the Interagency Commission;

- Consideration of the draft document on the form, the rules, and the deadlines for submitting AML/CFT-related statistics to the Central Bank of Armenia by authorised state bodies.

At the second session of the Commission, a meeting was held with the IMF and MONEYVAL assessment team. The meeting discussed the course and directions of the 3rd round assessment of Armenia's AML/CFT system, the visits to various bodies and agencies, as well as other issues related to the assessment.

7. Coordination of Activities under the 3rd Round Assessment of Armenia's AML/CFT System by IMF and MONEYVAL

In order to prepare for the assessment, the FMC developed guidelines expounding the assessment process and principles, and sent them to all bodies and agencies, which were supposed to meet with the assessment team.

The assessment team visited the country in February-March, 2009. During the meetings with the representatives of the public and the private sector, a number of legislative and practical issues pertaining to the AML/CFT system in Armenia were discussed and clarified, and relevant materials were provided to the assessment team. Thereafter, the FMC organized submission of the Armenian authorities' comments and suggestions on the draft assessment report in four rounds. As a result, the draft report was essentially revised, and the positions of the parties were agreed and clarified.

The draft report was heard and adopted at the 30th plenary meeting of MONEYVAL on September 21-22, 2009. The assessment report recognized the significant progress of the Republic of Armenia in legal, financial, and law enforcement aspects of the AML/CFT framework, as well as the improved efficiency of preventive measures. Thus, the country was given the following ratings for compliance with the FATF 40+9 Recommendations:

Compliant	6 Recommendations
Largely compliant	20 Recommendations
Partially compliant	17 Recommendations
Non-compliant	5 Recommendations
Non-applicable	1 Recommendations

In accordance with MONEYVAL rules of procedure, following the adoption of the assessment report Armenia should present a progress report on implementation of the recommendations of the assessment report to the plenary meeting of MONEYVAL in September 2010.

Annex 1

Reporting entities	*Registered as of 2009*	*Reports filed to FMC by reporting entities in 2009*	
		Over-threshold reports	*Suspicious transaction reports*
Financial institutions			
Banks	22	100416	70
Credit organizations	27	218	0
Investment companies	8	296	-
Licensed persons providing cash (money) transfers	9	0	1
Insurance (including reinsurance) companies, insurance (including reinsurance) brokers	62	1229	0
Persons engaged in foreign currency trading	228	0	0
Pawnshops	68	7	0
Non-financial businesses and professions			
Notaries	73	350	0
Authorized body responsible for maintaining the integrated state cadastre of real estate (the State Cadastre Committee)	49	335	0
State body performing registration of legal persons (the State Registry)	49	98	1
Persons organizing prize games and casinos (including those via Internet), persons organizing lotteries	80	0	0
Realtors[4]	110	-	0
Attorneys	340	-	0
Independent lawyers and firms providing legal services	7	-	0
Independent accountants and accounting firms	3	-	0
Independent auditors and auditing firms	23	-	0
Total	***1150***	***102949***	***72***

[4] In accordance with the Law or the respective regulations, these reporting entities are exempt from over-threshold mandatory reporting requirement.