

▶ ANNUAL REPORT

▶ On activities of the Financial Monitoring Center in 2021

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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'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 2021. 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 2021 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 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 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>	2021	353,129
Transactions above AMD 5 million	2020	274,352

REPORTS ON NON-CASH TRANSACTIONS

<u>Regulatory requirement</u>	2021	304,450
Transactions above AMD 20 million and real estate transactions above AMD 50 million	2020	265,926

SUSPICIOUS TRANSACTION REPORTS

<u>Regulatory requirement</u>	2021	262
Suspicious transactions and business relationships	2020	253

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

The FMC received in total of 253 and 262 STRs in 2020 and 2021, correspondingly, the majority of which – 196 STRs in 2020 and 224 STRs in 2021 – were filed by banks.

In 2021, the upward trend in the number of STRs filed by non-bank financial institutions in compliance with the requirements of the AML/CFT legislation was maintained. The mentioned indicates expansion of involvement of 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
2021	340	111	172	111
2020	128	27	64	66

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.

Moreover, in 2021, the number of persons involved in STRs filed with the FMC considerably increased as compared to 2020, since the number of persons involved in STRs in relation to several incidents exceeded a dozen (mainly STRs filed with hypotheses of fraud and use of accounts for transit purpose).

STRs received from non-bank reporting entities were mainly filed with hypotheses of drug trafficking and fraud.

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, Law HO-296-N “On making amendments and supplements to the Law of the Republic of Armenia “On combating money laundering and terrorism financing”” was adopted by the National Assembly of the Republic of Armenia and entered into force on 26 July.

The amendments and supplements 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, a legal act defining the new form, procedure and deadlines for organizers of casinos, games of chance, including internet games of chance to provide TTRs and STRs was adopted by Resolution of the Board of the Central Bank of the Republic of Armenia No-151-N of 12 October 2021.

Guiding obliged entities

Within the framework of its functions, in 2021 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.

In addition, the minimum List of Positions of Domestic PEPs, as well as comments on fulfilling the legislative requirements regarding PEPs, their family members and close associates was provided to guide reporting entities.

Only in the episodes set out in the STRs, banks have rejected or terminated around 100 transactions and business relationships with high ML/FT risk

Over 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 100 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 subsequent addition to the national list of persons connected with terrorism under UN Security Council Resolution 1373 was submitted to and approved by the Interagency Committee on 18 October 2021, which contains data on mercenaries and terrorists (currently 341 individuals and 13 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 updated list of persons connected with terrorism was published on the FMC website on 21 October 2021, 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 during the reporting period, a module for organizers of casinos, games of chance, including internet games of chance, as well as organizers of lotteries to file TTRs and STRs in an online environment was integrated in the FMC's online reporting system, which was tested at the final stage and launched on 4 November 2021.

The development and introduction of this module stemmed from the need to:

- *Simplify reporting processes:* The relevant module of the system simplified the processes of reporting by organizers of casinos, games of chance, including internet games of chance, as well as organizers of lotteries, replacing the paper form by online mode, as well as ensured the fulfillment of multilevel information security requirements during information exchange. This resulted in considerable reduction of technical activities carried out by organizers of casinos, games of chance, lotteries, and improvement of the speed and quality of replenishment of the FMC database.
- *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.

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

Over the reporting period, two sessions of the Interagency Committee were convened (remotely), during which “Report on national assessment of money laundering and terrorism financing risks in the Republic of Armenia in 2017-2020”, “Report on national assessment of risks of financing of proliferation of weapons of mass destruction in the Republic of Armenia in 2017-2020”, the updated list of persons connected with terrorism¹, and “The 2022-2024 National Strategy for combating money laundering, terrorism financing, as well as financing of proliferation of weapons of mass destruction” were approved.

The FMC coordinated the implementation of measures deriving from “The 2019-2021 National Strategy for Combating Money Laundering and Terrorism Financing, as well as the Financing of Proliferation of Weapons of Mass Destruction”, the outcomes of which were communicated to the members of the Interagency Committee under the Chapter “Previous efforts and their outcomes” of “The 2022-2024 National Strategy for combating money laundering, terrorism financing, as well as financing of proliferation of weapons of mass destruction”.

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 notifications made to law enforcement authorities, requests made to and received from the law enforcement authorities, over 2020-2021:

¹ See the “Preventive Measures” section of this report for more details on the mentioned list.

Statistics	2020	2021
Notifications to law enforcement authorities	51	80
Requests from law enforcement authorities	6	9
Dissemination of information upon requests from law enforcement authorities	558	555

Over the reporting period, notifications to law enforcement authorities with the findings of FMC analyses 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 drug trafficking;
- 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 somewhat increased in comparison to the previous year, reaching 575 in 2020 and around 630 in 2021.

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

Supervision and examinations

In the reporting period, the supervisory measures were underway, 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 29 financial institutions (of which 22 exchange offices).

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, etc. Overall, the detected violations were not essential by nature, except for a case which concerned the failure to perform the obligation of suspending a transaction or business relationships upon the assignment of the FMC. The supervisory authorities did not provide data on the implementation of control measures with respect to non-financial institutions and resulting sanctions.

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 COE MONEYVAL Committee, the Egmont Group, the Eurasian Group, and the Council of Heads of CIS FIUs.

*FMC representative
was elected to the
position of vice-
chairperson of
MONEYVAL Committee*

MONEYVAL Committee

In the reporting period, the FMC led the Armenian delegation in the works of the MONEYVAL Committee. In 2021, representatives of the FMC were involved as legal, law enforcement and financial evaluators in the teams assigned to the 5th round mutual evaluations of Croatia and Poland.

During the interim session of the MONEYVAL Committee, the FMC acted as a member of the expert review group for the evaluation report of the Czech Republic. In December 2021, during the 62nd Plenary Session of MONEYVAL Committee, the representative of FMC was elected to the position of vice-chairperson of the Committee for a period of two years.

Egmont Group

The FMC continued exchanging information with foreign FIUs through the Egmont Group's secure web. Representatives of the FMC attended the meetings of the Working Groups, as well as the session of the Heads of FIUs, discussing a number of key issues, such as the project of introducing new information exchange system, 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.

The FMC representatives enrolled in many programs implemented by the Egmont Group, including the program devoted to the analysis of the FIUs' role in the fight against laundering of proceeds from corruption within the context of the COVID-19 pandemic.

Conference of the Parties to the COE Warsaw Convention

Within the framework of the activities of the Conference of the Parties to the COE Warsaw Convention, the FMC representative participated in the 13th Plenary Session and Bureau meetings. The Plenary Session discussed the thematic reports on the implementation of Article 10 (Corporate liability) of the Convention, in the expert review team of which the FMC representative acted, as well as the measures taken by member states, including Armenia, towards remedying the gaps identified in the previous reports.

The FMC representative was elected as a member of the Bureau. The Conference of the Parties decided that the 14th Session would discuss the implementation of Article 6 (Management of frozen or seized property) of the Convention.

Eurasian Group

In the reporting period, representatives of the FMC attended the 34th and 35th Plenary Sessions and the meetings of the Working Groups of the Eurasian Group. The Plenary Sessions particularly stressed the importance of issues related to strengthening the mutual cooperation between member and observer states, as well as the activities of the Working Group for Regional ML Risk Assessment, in which the representative of the FMC was involved.

Council of Heads of CIS FIUs

Representatives of the FMC participated in the 17th and 18th Plenary Sessions of the Council of Heads of CIS FIUs, in the framework of which, among other issues, regional developments and steps aimed at suppressing possible new risks arising from them were discussed.

Foreign FIUs

The FMC continued cooperating with foreign FIUs, leading to 62 requests received and 5 requests sent in 2021. The full list of memoranda of understanding signed between the FMC and foreign FIUs is presented in Annex 3.

STRATEGIC AND THEMATIC ANALYSES

The works of the regular cycle of the national ML/FT risk assessment continued in 2021. The scope of works of the national risk assessment expanded due to the changes in FATF recommendations covering the assessment of risks of financing of proliferation of weapons of mass destruction. The results of assessment of ML/FT/FPWMD risks were summarized in two reports – “Report on national assessment of money laundering and terrorism financing risks in the Republic of Armenia in 2017-2020” and “Report on national assessment of risks of financing of proliferation of weapons of mass destruction in the Republic of Armenia in 2017-2020”, according to which the ML risk in the Republic of Armenia was assessed as moderate, the TF and FPWMD risks – low. The main conclusions of the reports are published in the AML/CFT section² of the CBA website.

In 2021, the previous year’s characteristic indicators of the activities of banks operating in the territory of the Republic of Armenia, typically possible ML/FT risks and the effectiveness of procedures for risk mitigation were also studied.

² <https://www.cba.am/am/SitePages/FMCNewsDetails.aspx?NewsID=602>

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 2019, the FMC coordinated the works of the Central Bank of the Republic of Armenia in 2021 towards the creation of a centralized registry of bank accounts (hereinafter referred to as the Registry).

- *Development of legal regulations:* On 28 September 2021, Resolution of the Board of the Central Bank of the Republic of Armenia No 143-N "On maintaining a centralized registry of bank accounts, defining the list of information to be entered, the form and deadlines for providing information (reports)" (hereinafter referred to as the Resolution) was adopted. The Resolution defines the scope of information to be entered in the Registry, the procedure for maintaining the Registry, the procedure and deadlines for filing reports with the Registry. A specific regulation sets forth the deadlines for entering in the Registry the information on bank accounts existing as of the day of entry into force of the Law "On the Central Bank of the Republic of Armenia" and those closed in the past 5 years, as well as on bank safe-deposit boxes no longer used, taking into consideration the volume of such information. The Registry was introduced on 1 November 2021, and the full replenishment with data will be completed before 31 August 2022.
- *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.
- *Registry uses:* Since January 2022, persons considered to be beneficiaries of refund of income tax amounts paid by natural persons in the amounts paid for mortgage loan servicing have been provided with opportunity to carry out the whole refund process electronically. This initiative has envisaged also carrying out the verification of validity of the bank account electronically, by use of the Registry. For the purpose of fulfilling the mentioned objective, the Joint Resolution of the Governor of the Central Bank of the Republic of Armenia and the Chairperson of the State Revenue Committee of the Republic of Armenia "On defining the procedure for verifying the validity of the bank account of the borrower through the centralized registry of bank accounts maintained by the Central Bank of the Republic of Armenia for the purpose of refund of income tax amounts by the State Revenue Committee of the Republic of Armenia" was adopted.

Annex 1: Reporting entities and report submissions

Reporting entities	Registered with FMC	Reports	
		TTRs	STRs
<u>Financial institutions</u>			
Banks	17	638752	224
Credit organizations	45	6065	2
Traders in foreign exchange	179	1547	-
Broker-dealers in foreign exchange	-	-	-
Licensed money (currency) transfer services	11	655	27
Investment firms	14	150	2
Investment fund managers	5	10	-
Central Depository	1	-	1
Insurance (reinsurance) companies	8	-	-
Insurance (reinsurance) agents	3	-	-
Corporate investment funds	2	2	-
Non-public contractual investment funds without a licensed manager	24	74	-
Pawn shops	82	469	-
<u>Non-financial institutions</u>			
Realtors	205	-	-
Notaries	119	9754	-
Attorneys, independent lawyers and law firms	1489	-	-
Independent accountants and accounting firms	10	-	-
Independent auditors and audit firms	27	-	-
Dealers in precious metals	-	-	-
Dealers in precious stones	22	-	-
Dealers in art work	-	-	-
Auction houses	-	-	-
Organizers of games of chance and casinos	6	-	-
Organizers of lotteries	4	368	5
Organizers of internet games of chance	4	3005	1
Trust and company service providers	-	-	-
<u>Others</u>			
Credit bureaus	1	-	-
TOTAL	2,278	660,851	262

Annex 2: Trainings for reporting entities

Topic	Reporting entity
Financial institutions	
- Preliminary results of national ML/FT risk assessment - Amendments and supplements to the Law of the Republic of Armenia "On combating money laundering and terrorism financing" - Financial analysis tools - ML schemes - New technology capabilities and challenges in the AML/CFT context	All non-bank financial institutions
- Preliminary results of national ML/FT risk assessment - Amendments and supplements to the Law of the Republic of Armenia "On combating money laundering and terrorism financing" - Financial analysis tools - ML schemes - Results of analysis of the practice of qualifying a transaction and business relationships as suspicious, existing issues - New technology capabilities and challenges in the AML/CFT context	Banks
Non-bank financial institutions	
- Results of national assessment of risks of money laundering, terrorism financing and financing of proliferation of weapons of mass destruction in 2017-2020 - AML/CFT obligations of reporting entities - Criteria and situations for suspicion	Notaries Accountants and auditors Organizers of games of chance, casinos and lotteries

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