

CHAIRMAN'S COLUMN



Dear colleagues,

The agenda of the key AML/CFT events is once again determined by a complicated international context: terrorist attacks in Kazakhstan, Turkey and other countries claimed people's lives. Another challenge is thrown down. A regular Plenary meeting of the Eurasian group in Astana started with the Remembrance day dedicated to the victims of the events of the 5<sup>th</sup> June in Aktobe. Naturally, it had an impact on the agenda of the meeting with the partner states. Unfortunately, today we have to admit that international system of combating terrorism needs to revise its approach. The world community is looking for new effective ways and mechanisms of collaboration. Therefore, it is important to increase the number of the EAG foreign partner states – Iran joined other observers of the Group.

One of top priorities of the Russian presidency in the EAG is activating cooperation in the field of countering terrorist financing, receiving concrete results in identifying and blocking sources and channels of financial support for international terrorist organizations, particularly, Islamic State (prohibited in Russia).

This key area is in the centre of attention of all the profile international organizations. Joint work is held within the UN, FATF and its regional bodies (in particular, EAG), Egmont Group, CHFIU, BRICS, etc.

With regard to the long-simmering threat posed by ISIL, the Plenary meeting of the Financial Action Task Force (FATF), held in Korea in the end of June, focused on the issue of designing measures for raising awareness of terrorist financing risks and their mitigation. We greet Spain that has taken over the FATF Presidency since June and we are looking forward to cooperating and supporting its initiatives.

**EAG Chairman  
Yu. A. Chikhanchin**

## Russian Federation Presented Action Plan for its Presidency in EAG

*The 24<sup>th</sup> Plenary Meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) chaired by the Director of the Federal Financial Monitoring Service Yury Chikhanchin was held in Astana, the capital of the Republic of Kazakhstan, in June 2016*

Apart from the delegations of the EAG member countries, the Plenary Meeting was attended by the representatives of 12 other countries and 14 international organizations that had the observer status, including the United Nations, World Bank, Organization for Security and Cooperation in Europe (OSCE), Regional Anti-Terrorist Structure of Shanghai Cooperation Organization (SCO RATS), Asia Development Bank,

In his welcome address, Baktyzhan Sagintaev, First Deputy Prime Minister of the Republic of Kazakhstan, also stressed that the recent appalling events in the world and new emerging terrorist challenges and threats force the global community to look for new effective ways and mechanisms of cooperation.

Yu. A. Chikhanchin presented his Action Plan as the Chairman of the



Financial Action Task Force (FATF), Egmont Group, FATF-style regional bodies (FSRBs) and others.

The Meeting started with a minute of silence: the 9<sup>th</sup> of June was declared the national day of mourning in Kazakhstan in memory of the victims of the terrorist attack in Aktobe.

### Yu. A. Chikhanchin, EAG Chairman:

– These events inevitably had an impact on the agenda of our meetings, both the Plenary and the Council of the Heads of FIUs of the CIS member countries held yesterday, bringing the counter-terrorism financing issues to the forefront. Today, the entire international anti-terrorism community should revise its approaches for joining the efforts aimed at countering this deadly threat.

Group. The main provisions of the Action Plan include:

- Enhancing effectiveness of the national AML/CFT regimes of the EAG member countries and undergoing assessments conducted by the FATF's Global Network.
- Intensifying counter-terrorism financing cooperation and achieving meaningful results in detecting and disrupting the sources and channels of financing of international terrorist organizations, in particular ISIL (banned in Russia).
- Assisting the member countries in preparation for the second round of the EAG mutual evaluations.

Granting the EAG observer status to Iran was one of the outcomes of the Plenary Week. Besides, the Eurasian Economic Commission (EEC) also obtained the EAG observer status.

Removal of the Republic of Kazakhstan and the Republic of Uzbekistan from the follow-up process, after they had improved

FATF Plenary Outcomes

Page 2

Spain Took Over the FATF Presidency in June 2016

Page 2

Countering Terrorist Financing Remains Our Top Priority

Page 3

TREIN – FATF Training and Research Institute

Page 3

Risk Assessment: Analysis and Experience Sharing

Page 4

their national AML/CFT systems, was another important milestone.

The Plenary also discussed fight against drug trafficking and disruption of routes of transportation of narcotic drugs across the Eurasian Region and adjacent countries, money laundering and terrorist financing risks and procedures of mutual evaluation of the national AML/CFT systems.

The special counter-terrorist financing (CFT) session was held during the Plenary Week. In her presentation, Svetlana Martynova, the representative of the UN CTC, focused on the use of legal instruments for combating the financing of ISIL and foreign terrorist fighters (FTFs). The outcomes of the FATF's Terrorist Financing Fact-Finding Initiative (TFFI), launched in 2015 and enabled to monitor the relevant risks and vulnerabilities, were presented to the meeting participants. In February 2016, this work was assigned to the FSRBs so that the regional bodies could use the FATF methodology for developing their own CFT monitoring procedures and identify vulnerabilities of their respective member countries.

*Continued on page 2.*

*Continued from page 1.*

The results of this exercise undertaken by the EAG demonstrate that sound enough mechanism and legal frameworks have been established by its member countries for combating the financing of terrorism. The participants were informed about another survey conducted by the FATF where countries are requested to analyze terrorist financing risks, information exchange, accessibility of information, and operational countermeasures.

One of the important decisions made by the Plenary Session was optimization of the EAG

Working Groups. This work is one of the priorities of the Russian presidency. The number of Working Groups decreased from 5 to 3, namely: Working Group on Mutual Evaluations and Legal Issues (WGEL), Working Group on Typologies (WGTYP), and Working Group on Technical Assistance (WGTA). The optimized structure of the Working Groups will help to reduce number of duties of the member countries and to focus the efforts on the EAG priorities.

The workshop dedicated the EAG member countries preparation to the national risk

assessment and mutual evaluations was held on the side-lines of the Plenary Week. The experts from Armenia, Lichtenstein, China, Russia, the Council of Europe and the FATF shared their experience in this area.

The participants of the Plenary Session expressed their appreciation and gratitude to the leadership of the Republic of Kazakhstan for the hospitality and excellent organization of the event. The next 25<sup>th</sup> EAG Plenary Meeting will take place in November 2016 in New Delhi (Republic of India).

## FATF Plenary Outcomes

*The EAG Secretariat delegation attended the Plenary of the Financial Action Task Force on Money Laundering (FATF), which took place from 18 to 24 June 2016 in Busan and was chaired by the Republic of Korea*

In light of the long-simmering ISIL threat, the Plenary's work was mostly focused on the development of measures aimed at raising awareness of the existing terrorist financing (TF) risks and their mitigation.

To this end, delegates approved an Action Plan designed to assist countries in the proper implementation of the FATF Strategy to combat TF, adopted in February 2016.

The work of revising Recommendation 5 (Criminalization of TF) in order to reflect better the requirements of the key UNSC anti-terrorist resolutions and prevent their dual interpretation was continued.

The Plenary also revised Recommendation 8 (Non-profit organizations). The revised standard aims to ensure that the monitoring and prevention of abuse of the NPO sector for terrorist financing is carried out in line with the risk-based approach and risk assessment conducted by each country.

The Plenary approved the findings of the study into TF risk indicators, which lay the foundation for the future adoption of a unified approach to risk mitigation in the private sector, especially large banks and other financial institutions. Importantly, given the sensitive nature of the information contained in this document, the FATF will make

sure that its confidentiality status is properly observed by all countries.

The FATF adopted a Handbook designed to assist countries in completing and sending requests for extrajudicial freezing of terrorist assets.

Participants approved the FATF Report to the G20, which, besides anti-terrorist financing efforts, also focuses on the transparency of beneficial ownership. In response to the G20's call for action on the Panama Papers, the FATF has committed itself to holding consultations during the interseasonal period with the World Economic Forum on strengthening international anti-corruption standards.

The FATF updated the list of jurisdictions with strategic deficiencies in national anti-money laundering and countering the financing of terrorism (AML/CFT) systems.

Following a review of progress made since February 2015, the blacklist remained unchanged (North Korea and Iran). At the same time, due to Iran's adoption of the AML/CFT Law and a joint Action Plan to address outstanding deficiencies, receiving the EAG observer status and the lifting of sanctions by the UN, the counter-measures imposed against it by international financial institutions were suspended for 1 year.

The FATF issued a positive assessment of Brazil's progress in eliminating the previously identified deficiencies in criminalizing terrorist financing (a public statement specifically dedicated to Brazil was released in February). Despite this, the attending delegations once again called on the Brazilian authorities to speed up the process of bringing its national legislation into line with international standards.

Participants discussed the 4<sup>th</sup> round of the FATF mutual evaluation reports of Austria, Canada and Singapore.

Following their review, all three countries were left on the enhanced follow-up process and told to report their progress in addressing deficiencies back to the Plenary in one year's time.

It was the last Plenary held under the Korean Presidency. Juan Manuel Vega-Serrano from Spain was elected new President of the FATF, with the post of Vice-President going to Santiago Otamendi of Argentina.

The next FATF Plenary is scheduled to take place in Paris this October.



## Spain Took Over the FATF Presidency in June 2016



**Mr. Juan Manuel Vega-Serrano** from Spain assumed the position of President of FATF on 1 July 2016. He succeeded **Mr. Je-Yoon Shin** of Korea.

Mr. Vega-Serrano is the Director and CEO of SEPBLAC, Spain's Financial Intelligence Unit and AML/CFT Supervisory Authority.

Mr. Vega-Serrano joined the senior civil service in 1992. In 2001 he became Assistant Deputy Director General of the Treasury and began attending FATF meetings. In 2005, he was appointed Secretary of the Commission for the Prevention of Money Laundering, from which he promoted a comprehensive revision of Spain's AML/CFT legal framework.

Mr. Vega-Serrano holds a Doctorate of Laws (PhD) and a Diploma of Advanced Studies in Economics. He has published several books and articles on financial regulation.

### Objectives for FATF-XXVIII (2016-2017)

- Counter Terrorist Financing
- Enhancing transparency
- Outreach to the FinTech community
- Effective implementation of the FATF Standards
- Increased operational focus
- Enhanced international standing

# Countering Terrorist Financing Remains Our Top Priority

*In November 2015 David Lewis (UK) was elected Executive Secretary of the FATF (Financial Action Task Force). During his visit on 27-28 of June 2016 to Russia he gave an interview, in which he featured the top priorities of the Group and its key work areas*

*– David, earlier you worked on AML/CFT policy in the UK Government. What are the key differences you faced with your progress from the national government to an international organization?*

– The big difference is that I am no longer looking at AML/CFT from the national perspective. Now I work for the interests of all the FATF member states. That makes it very important and interesting.

One of my main challenges is to raise the visibility of FATF and to communicate more with the media. Recent terrorist attacks highlighted the importance of FATF. On behalf of FATF I can talk about our initiatives in countering such atrocities, explain in a simple and easy way to the public what it is we are doing and why and how we can help.

The key aspect is making FATF more action-focused. The nature and intensity of the threats we are facing mean that we have to intensify our work and ensure that it has a maximum impact here and now.

*– Countering the financing of terrorism (CFT), particularly ISIL, is very visible in the FATF agenda. So what other key initiatives could you mention? Are there any new initiatives in the CFT department?*

– Countering terrorist financing remains our top priority. At the FATF meeting we held in Busan, Korea (June 2016) we updated delegates on how the structure of ISIL financing is changing. Last year in February we first published a report on ISIL financing and another report in October on emerging terrorist financing risks. But the situation is rapidly changing.

At the meeting we also took a number of other steps, including the revision of the FATF Recommendation on non-profit organizations to better protect them from abuse. We approved a handbook to assist practitioners in their implementation of UN Security Council Resolution 1373 and we approved documents to help private sector detect terrorist financing. In July FATF will be reporting to G20 Finance Ministers on progress in implementation of the three initiatives I've just spoken about.

We are continuing to identify jurisdictions that represent a strategic threat to the financial system, including the field of terrorist financing. There are a number of those that have significant AML/CFT deficiencies.

Finally, we mustn't forget the importance of improving the transparency of beneficial ownership, legal persons and arrangements. The financial system is often being abused to hide illicit finances through the use of shell companies and nominally directors. We know that terrorist organizations make use of these same structures to hide the origin of their funds and their intended use.

Terrorist financing and beneficial ownership are now our top priorities. With both these issues the emphasis is on implementation, effective implementation rather than technical compliance.

*– At the XXV International Financial Congress (Saint Petersburg, Russia) you are going to speak at a session dedicated to financial inclusion. Are there any FATF projects or initiatives in this regard?*

– Financial inclusion remains a key priority for the FATF because it helps ensure transparency of transactions, which helps us detect and disrupt the financial flows. The FATF is issuing guidance on financial inclusion in line with the FATF standards. We have also done a number of projects to help firms understand how to implement the FATF standards in order to minimize financial exclusion. This includes guidance on supervision and enforcement, guidance for the private sector on a risk-based approach for banks and a risk-based approach for MVTs (money value transfer services).

But perhaps the best way FATF supports financial inclusion is through its work to understand the risks emanating from new payment product and services, so called Fintech. It is vital that FATF keeps pace with innovations and financial services and that it develops a relationship with those providers, so that we can build risk mitigation measures into the business model instead of reacting to them afterwards.



In this coming year, we will be looking to hold events with the Fintech community and the Regtech community. We are sure that communication will help them cooperate.

*– David, you have already talked on the near future of the FATF. What about the longer term? How do you see the future of the FATF as a body? And how do you think it is the best way to build relationship with FSRBs?*

– To talk about the future, we need to look at how we work. It is important to understand what are FATF's strengths and weaknesses.

At the moment we are an organization that meets 3 times a year and we attend FSRBs' plenaries. In the future we need to act and behave like a global network rather than a collection of bodies. It also means building closer relationships with other international organizations, for example with the Egmont Group of Financial Intelligence Units. FIUs should be given a greater voice in the FATF as they are our operational arm.

## TREIN – FATF Training and Research Institute

One of the last initiatives of the Korean Presidency of the FATF, which ended this June, was the establishment within the global anti-money laundering network of the FATF Training and Research Institute (TREIN).

The FATF's work on promoting this initiative was carried out over a period of one year and involved, among others, the adoption in 2015 of the TREIN Concept, which envisages the establishment under the FATF's auspices of an organization dedicated to AML/CFT experts training, conducting scientific and research projects within FATF and FSRBs, and assisting

them in the institutional development of the anti-money laundering system on all levels. In 2015 the FATF also endorsed the general principles governing the work of the newly established institute: compliance of the targeted programs and activities with the FATF Plenary resolutions, establishment of a reporting and coordination mechanism, and setting out project management principles.

The FATF's June Plenary approved the Memorandum of Understanding on the Establishment and Operation of the TREIN, expected to be signed by the OECD, FATF,

Korean FIU and the Busan City Hall and come into force in August 2016. The activities of the new institution within the global anti-money laundering network will contribute to the FATF's overall action plan, and will be carried out in compliance with applicable standards and practices of the FATF and OECD. The inauguration of the Institute is scheduled for the end of this September. The FATF currently has job openings for the positions of Director and Training and Research Specialist. More information is available at [www.fatf-gafi.org](http://www.fatf-gafi.org).

## Risk Assessment: Analysis and Experience Sharing

*A workshop on ML/FT risk assessment experience sharing and analysis was held on June 18, 2016 during the FATF Plenary week in Busan, (Republic of Korea). The workshop, focused on national risk assessment (NRA) as well as the search for new opportunities and ways of organizing this review process in the countries set to undergo mutual evaluations, was the first in a string of events and activities organized as part of the studies conducted by the FATF's Risks, Trends and Methods Working Group*

This initiative attracted the attention of a large number of FATF member states, as confirmed by a wide range of participants: the Plenary week was attended by 43 delegations comprising a total of 240 participants. Participants welcomed the accessibility of some of the previously published NRA reports, which represent a valuable experience for all states. At the same time, representatives of some countries noted certain challenges associated with this process given the sensitive character of the information on anti-terrorist financing measures contained in these documents – hence the decision to publish only abbreviated versions of the reports.

The order of discussion items on the agenda reflected the stages of the NRA process: preparations for the assessment, assessment, and a review of findings and related issues. Participants were particularly keen to hear the reports presented by countries with practical experience in risk assessment: Australia, Belgium, Israel, Italy, Korea, New Zealand and the UK. In their speeches participants noted that, despite the fact that the global FATF standards do not set any specific methodology or format for NRAs, this work is particularly important for understanding the risks and conducting the subsequent assessment of the overall state of the national AML/CFT system, as well as for communicating this information to the private sector.

### Key Conclusions

First of all, participants concluded that the biggest incentive for conducting NRAs was the operational and policy needs of each specific country, rather than the requirement of the FATF Recommendations. Each country conducting a NRA seeks to obtain maximum benefit from this procedure, given that the identification of the existing risks will allow to reduce their negative impact in the future.

As noted by many meeting participants, one of the central issues of the NRA is a clear coordination between all stakeholders. Operational engagement between NRA participants is strategically important as it will add greater detail to the progress and results of the work itself. First of all this is necessary to solve the following tasks: to develop a clear plan of action, set strict deadlines for conducting the assessment and determine the areas of responsibility for all participants. It should be remembered that the key findings of the assessment should reflect the consolidated position of the country as a whole, rather than individual authorities and other stakeholders.

Participants agreed that the existence of a coordinating body is likely to have a positive effect on the conduct of the NRA. Meanwhile, the



responsibility for other tasks such as information collecting can be shared among all stakeholders. It is also desirable that the issues of money laundering and terrorist financing are reviewed separately in each report, with the lead roles in any of these studies allocated to different assessment process participants. The main reason for such separation lies in various nature and scale of these illegal activities. Determining the ML/FT risk ratio tends to be a very challenging task, which may become the subject of a separate study.

A key requirement of any high quality NRA process is the availability and reliability of the data used. According to the participants, the lack of a unified data submission format is a major impediment to this process, as it makes the task of comparing and analysing data difficult. At the same time it would be wrong to rely exclusively on quantitative or qualitative data, rather they should complement each other dialectically. It is equally wrong to underestimate the value of expert assessments, studies and surveys, given that they often help fill in the gaps left due to the lack or unavailability of statistical information. It is important to remember that problems in the gathering of statistics and other data may be indicative of the existence of certain risk zones.

Participants also noted the importance of using the adequate terminology in conducting NRAs, since it will help standardize the texts of the reports and facilitate their understanding.

Involvement of the private sector may help its representatives acquire experience of participation in NRAs. Although the views held by representatives of the public sector and businesses participating in the assessment may differ on certain issues, their constructive cooperation will undoubtedly benefit both sides. Such discussions help reveal new aspects of the challenge and create opportunities for the parties to articulate their objectives and establish a clear

framework for interaction. Cooperation with the private sector may take the forms of joint meetings and research projects. These mechanisms may be combined or used separately. Meanwhile, feedback provided by the private sector after the publication of the NRA may also have its value. Participants separately highlighted the need to take into account the possible input from the representatives of scientific and analytical centres.

According to some participants, it is rather difficult to identify and assess cross-border risks, such as those related to predicate offences in other jurisdictions. Such information can be collected within international cooperation and analysis of socio-economic interaction with foreign countries. This can be achieved, inter alia, through the study of open publications (reports published by foreign partners, international organizations, media, etc.). In any case, the information obtained should be verified with the help of independent sources. Another important source of data for detecting cross-border risks are regional or intergovernmental risk assessments.

A key indicator of a successful NRA process is the development of a national strategy for reducing risks, including approval of a priority AML/CFT action plan and updating of the state anti-money laundering policy and activities of the competent authorities. The findings of the assessment may draw attention of the competent authorities to the problem areas, as well as ensuring the allocation of the resources needed to address them.

Given the significant interest generated by the previous workshop, participants proposed to hold such events in the future on a regular basis. Meanwhile, expert discussions dedicated to NRA and other related subjects can be carried out not only on the side-lines of the FATF regular meetings, but also during the now-traditional FATF-sponsored joint expert meetings.