

CHAIRMAN'S COLUMN



Dear colleagues!

The problem of international terrorism is still relevant for the most part of the world's regions. Unstable situation within the Eurasian region permanently makes our Group search and find new methods of countering evil that has challenged the existing world order and all the human civilization.

Making part of the FATF Global Network, we cooperate with other international and regional organizations in order to prevent and eliminate terrorism and its financing. Our region's main goal, within joint efforts of meeting threats and challenges, is the EAG strong collaboration with such structures as CSTO and SCO and certainly with our closest partners from FSRBs, in which our states and the Eurasian group are members and observers APG, MONEYVAL and MENAFATF.

It should be mentioned that the FATF Plenary meeting, held in February and aimed at strengthening efforts against terrorist financing, approved the consolidated strategy that sets out main goals and priorities for the FATF/FSRBs Global Network. Two months later within the framework of MONEYVAL Plenary week a special meeting, dedicated to countering terrorist financing, was held. The importance of this field was emphasized during MENAFATF Plenary meeting in April as well. You can learn more details in the present issue of the Bulletin, where you can also find a review of the recent FATF Report Emerging Terrorist Financing Risks which analyses newly detected TF methods and trends.

In the run-up to the EAG 24th Plenary meeting we will have to consider our colleagues' experience as well as to introduce our own proposals on most effective counter-terrorist financing practices.

**EAG Chairman
Yury Chikhanchin**

Keynote speech by FATF President Je-Yoon Shin at the Joint UN/FATF open briefing on depriving terrorist groups of sources of funding

Your Excellencies, dear colleagues!

I thank you for inviting me. This meeting today is an opportunity to update member states, and follows my address to the Security Council in December.

Without money ISIL and its affiliates cannot operate. The group needs funds to support their military operations, to attract new recruits and to maintain control over territories in which they operate. The importance of combatting terrorist financing is greater than ever, as highlighted by the continuing terrorist attacks across the world. Financial intelligence can reveal the structure of terrorist groups, the activities and travel patterns of individual terrorists, and their logistics network.

Effective and timely information sharing is critical. As we continue to see, intelligence agencies and law enforcement often hold information on the individuals involved in terrorist attacks before those events. Better and timelier sharing of this information, including with Financial Intelligence Units, could help detect and disrupt attacks before they happen. The reliance on foreign terrorist fighters further highlights the importance of effective sharing of financial intelligence.

It is also important that all our measures respect the rule of law, universal human rights and civil liberties, as these are the values that terrorists are attacking in the first place.

FATF values our partnership with the UN. The FATF standards complement the Security Council resolutions by providing best practice on financial aspects. And FATF offers technical guidance on how to implement targeted financial sanctions. Following the adoption of UNSCR 2178 in 2014, the FATF revised its standard to include the financing of individuals who travel for the purpose of terrorist training. All our member states will be assessed against this standard.

The FATF also relies on the support of our Global Network of 9 regional bodies and 198 jurisdictions, to

implement the standards and to share their knowledge of emerging terrorist financing threats.

What further steps is FATF taking to combat terrorist financing?

Since December, the FATF launched a new information gathering exercise from members on terrorist financing risks, challenges to information sharing and national approaches to addressing these risks and challenges. In February the FATF adopted a consolidated terrorist financing strategy. This builds on existing efforts and sets out key policy objectives to guide the work of the FATF and its global network to combat terrorist financing. Two policy objectives are of particular importance.

Firstly, effective domestic coordination and international cooperation. The FATF held a private sector consultation in December to identify TF risk indicators, and areas of improvement for information sharing. Next week the FATF will be holding its private sector consultative forum at the UN in Vienna. The focus of this meeting will be on barriers to information sharing from a private sector perspective, as well as practical solutions to these challenges. The EGMONT Group of FIUs has also established a working group to enable information sharing between FIUs. This includes both spontaneous and multilateral sharing of information.

Secondly, we need to continually improve and update our collective understanding of terrorist financing risks, and in particular the risks posed by ISIL. Early last year the FATF published a report on ISIL Financing, which highlighted the importance of centralized funding for the group. This report remains the most authoritative source of information on ISIL financing. In recognition of the evolving threat, we also held a joint session in February with the Coalition Counter ISIL Finance Group to exchange information on current efforts to combat ISIL financing. Meeting participants from over 55 countries and international organisations discussed engagement

Participation in the FATF
Plenary Meeting

Page 2

Participation in MONEYVAL
Plenary Meeting

Page 2

Participation in MENAFATF
Plenary Meeting

Page 3

Findings of the
International Typology
Research into the Existing
and Emerging Terrorist
Financing Risks

Page 3

strategies for countries where ISIL
branches operate.



The FATF is also monitoring the negative impact of wholesale de-risking and financial exclusion of business sectors and business lines. This includes money remitters and non-profit organisations, but also innovative Fintech start-ups. De-risking can drive financial transactions underground which reduces transparency and increases reliance on cash. Although new technologies can pose new risks, one should not underestimate the existing risks of cash and the use of high denomination notes. De-risking in turn impacts terrorist financing risks as the use of cash makes terrorist financing more difficult to detect.

Continued on page 2.

Continued from page 1.

There has also been rapid progress by many jurisdictions since November to fix the shortcomings in their terrorist financing framework that FATF identified last year. This work builds on a presentation that FATF made in December 2014 to the Counter-Terrorism Committee, which showed low levels of compliance among many states. As a result of our quick scan, thirty-seven jurisdictions have passed new laws or regulations. 21 jurisdictions are revising their laws. That leaves only 15 out of 194 states or jurisdictions that do not have a legal basis for applying the basic measures to counter terrorist financing.

The FATF will continue to work in close coordination with the UN. The recently adopted

UNSCR 2253 ensures that counter terrorist financing measures apply to all forms of economic resources exploited by ISIL. The FATF is currently analysing whether revisions to the FATF standards are necessary to integrate these new provisions. We will provide technical guidance to our members accordingly.

It is not enough to pass laws and regulations. Effective implementation of these measures is critical to successfully combating terrorist financing. Countries need to ensure that they use these tools effectively and that their authorities are properly trained and resourced. This includes law enforcement agencies, financial intelligence units and regulatory bodies. Countries also need to make sure that mechanisms are in place to facilitate the exchange of information between domestic authorities, the

private sector and international counterparts. The FATF must continue its work with the UN to promote and ensure effective implementation, including through overcoming barriers to information sharing.

Thank you very much for your attention.

14 April 2016, New York, United Nations



Participation in the FATF Plenary Meeting

EAG took part in the Financial Action Task Force (FATF) plenary meeting, held in Paris from 15 to 19 February 2016

In light of the growing terrorist threat, the main theme of the plenary discussions was once again the efforts to combat terrorist financing.

One of the key agenda items was a review, of the FATF Standards, i.e., Key Recommendation 5 ("Criminalization of terrorist financing") to ensure prompt and comprehensive implementation of UN Security Council Anti-Terrorist Resolutions 2199 and 2253.

In order to strengthen the fight against terrorist financing, the plenary approved a Consolidated FATF Strategy on Combating Terrorist Financing, setting out the key objectives and priorities of the global FATF/FSRBs network. One of the key elements of the updated strategy is the work to improve information sharing, internationally and domestically. In this regard, just prior to the plenary meeting, the FATF held two special meetings: with the private sector and the Counter- ISIL Finance Group. The outcomes of these activities were also reflected in the Strategy.

The FATF modified its methodology for assessing AML/CFT systems to include requirements related to banning the financing of foreign terrorist fighters. Participants also revised the framework document governing the FATF/FSRBs relations: "FATF Global Network Objectives and Principles".

The work on risk mitigation and the proper implementation of a risk-based approach in various sectors was continued, with the plenary approving the revised "Guidance on a Risk-Based Approach for Money or Value Transfer Services" and continuing work on a similar document covering correspondent banking.

Following a review of progress since October 2015, Myanmar quitted the blacklist, meaning that it currently contains only 2 countries, North Korea and Iran. Among the countries quitting the grey list during the period were Algeria, Angola and Panama.

With regard to Brazil, the FATF issued a special public statement, highlighting the country's failure

to adequately criminalize terrorist financing even following the adoption of the new law.

A landmark event of the forum was the election of B. V. Toropov of Russia (formerly the Executive Secretary of the EAG and currently First Deputy Director of the International Training and Methodology Centre for Financial Monitoring) to the post of Co-chairman of the FATF Risks, Trends and Methods Working Group.

The FATF granted full membership to Malaysia at this plenary, making it the 37 member of the organization, and observer status to Israel.



Participation in MONEYVAL Plenary Meeting

The EAG delegation participated in the 50th Plenary meeting of Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) on 11–15 April 2016 in Strasbourg

In her opening remarks to the event Deputy Secretary General of the CoE Mrs Gabriella Battaini-Dragoni (Italy) emphasized the relevance of effective combating the financing of terrorism (CFT) and recognized that it remains more a "good intention" than a regular practice. She mentioned the recently adopted FATF Strategy on enhancing global CFT efforts as an incentive and instrument which could contribute to meeting this challenge.

In turn the FATF Executive Secretary Mr David Lewis, invited to participate in the MONEYVAL Plenary meeting as well, highlighted the necessity of further strengthening of cooperation between FATF, FATF-style regional bodies and specialized

international organizations in the field of countering the financing of terrorism and other security challenges and threats.

Within the MONEYVAL Plenary week a special meeting was held. Unprecedentedly it was dedicated exclusively to CFT and aimed at the Committee member jurisdictions' better understanding of rapidly changing terrorist financing risks, from ISIL first of all, and of timely de-risking measures. Russian experts held a presentation, explaining the essence of Russian-sponsored anti-ISIL UNSC Resolutions 2199 and 2253 and the importance of their implementation into the FATF Standards. The presentation was met with keen interest by the audience.



The Eurocommission delegation informed on practical steps aimed at prompt implementation of the 4th CoE Directive on preventing the use of

financial system for purposes of money laundering and terrorist financing, adopted in May 2015, by the European countries. Within the framework of the mentioned steps the EC is evaluating supranational risks according to specially elaborated methodology, and designating the list of ML/FT high-risk countries, whose financial institutions will be subject to enhanced customer due diligence (CDD).

Discussion, concerning the report on mutual evaluation of Serbia within the framework of the new round, was long and intense. The

debates considered not so much the technical compliance of Serbian AML/CFT regime with the FATF Standards but rather the effectiveness of their law enforcement. In particular, a number of delegations claimed that Serbia had a vague understanding of its terrorist financing risks, a low rate of investigations and absence of convictions for this crime. Gaps in supervision for traditionally high-risk NPO sector were indicated as deficiency as well.

Participants heard the reports on AML/CFT national systems' improvements in Lithuania,

Macedonia, Moldova, Poland, Romania, Slovakia, Croatia, Montenegro and Czech Republic. The major part of results was recognized insufficient for quitting the follow-up process.

On the sidelines of the session were organized a series of bilateral meetings and negotiations on relevant issues of profile cooperation with both FIUs of Jersey, Israel, Latvia, Lichtenstein, Malta, France, Estonia and the Executive Secretaries of FATF and MONEVAL.

The next regular Plenary meeting will be held in Strasbourg in September 2016.

Participation in MENAFATF Plenary Meeting

23rd Plenary meeting of Middle East & North Africa Financial Action Task Force (MENAFATF) was held from 26 to 28 April in Doha (Qatar) and attended by the EAG Secretariat representatives

Ali Sharif Al Emadi, Qatar Minister of Finance, in his opening remarks greeted the participants and emphasized the active participation of Qatar in MENAFATF and the importance of enhanced international cooperation, based on the principles of integrity and transparency, and aimed at combating global AML/CFT threats. In its turn, the State of Qatar schedules to open a specialized AML/CFT training centre in order to improve coverage both on regional and international levels.

The greeting speech was delivered either by the President of Financial Action Task Force (FATF) Mr. Je-Yoon Shin (Korea) before the opening of the Plenary meeting. The FATF President highlighted the importance of global measures for combating international terrorism, and especially the remarkable contribution of the Middle East region to addressing this challenge. Mr. Je-Yoon Shin noted

that FATF focuses on designing of reports, guiding lines and best practices on the revised Standards and Recommendations so that FATF-style regional bodies could effectively accomplish the new round of mutual evaluations.

The Plenary meeting was chaired by Shaikh Fahad Faisal Al-Thani, Deputy Head of the Qatar Central Bank and Chairman of the National AML/CFT Committee. Among his priorities Shaikh Al-Thani mentioned countering terrorism and terrorist financing as a global threat. The keynote steps to be taken for reaching the goal are as follows: establishment of Forum of timely experts in the issues of terrorist financing (TF) at the MENAFATF premises; detection of CFT member states demands for coordination of technical assistance; improvement of compliance with the FATF Recommendations 5 and 6; detection of TF risks,



trends and typologies in the region for further de-risking, and finally strengthening of the international cooperation and information exchange between the AML/CFT community members.

The State of Qatar expressed its support of the Secretariat and MENAFATF member states and suggested assuming the costs of the next Plenary meeting organization in order to reduce financial burden on the Secretariat and raise effectiveness of the Group's events. The 24th MENAFATF Plenary meeting is scheduled for November in Qatar.

Findings of the International Typology Research into the Existing and Emerging Terrorist Financing Risks

The Financial Action Task Force (FATF) published in October 2015 a report titled "Emerging Terrorist Financing Risks" (hereinafter the Report)

The main objective of this Report is to analyse recently identified terrorist-financing methods and trends, referred to as emerging TF risks. The report also provides an overview of traditional methods, techniques and tools in which funds are raised, moved and stored by terrorists and terrorist organizations to assess their current significance.

Combating the financing of terrorism (CFT) continues to be a priority for the FATF, given the threats posed by terrorist organizations. This threat includes small terrorist cells or lone actors capable of committing attacks and significantly harming society. It is therefore important to identify and dismantle the financial networks of all types of terrorist groups.

The Report analyses the financial activities of a range of terrorist organizations from lone actors or small terrorist cells to well-established international

networks such as Islamic State of Iraq and Levant (ISIL), Boko Haram and Al-Qaeda and its associates and affiliates. The organizations featured in the Report have either been designated by the UN or national listing regimes.

The Report structure includes:

1. Financial management of terrorist organizations,
2. Overview of traditional terrorist financing methods and techniques, and
3. New emerging terrorist financing risks.

The Report notes that while the number and type of terrorist groups and related threats have changed over time, the basic needs for terrorists to raise, move and use funds remained the same. However, as the size, scope and structure of terrorist organizations have evolved, so too have

their methods to raise and manage funds. The main objective of the Report is to analyse recently identified terrorist financing methods and also the so-called "emerging TF risks".

The FTF phenomenon is not brand new, but the recent scaling up of individual traveling to Iraq and Syria has been a challenge for many FATF members.

Foreign terrorist fighters are predominantly using traditional methods, particularly self-funding, to raise the funds they require to travel to the conflict areas. In order to move and get access to funds, FTFs also rely on traditional methods and techniques. These primarily include the physical movement of cash, use of ATMs to access funds from bank accounts and use of money value transfer services (MVTs).

Continued on page 4.

Continued from page 3.

However, the novel aspect for jurisdictions is the challenge in identifying these individuals because of the relatively low amounts of funding they require and the speed with which they can acquire it.

There are also cases when family and associates have knowingly or unwittingly transferred their own legitimately obtained funds to persons engaged in conflict. For example, one jurisdiction reported that half of their TF suspicious transaction reports were related to people with some form of employment with only 15% recorded as unemployed (one third did not include information on the customer business activity or occupation).

The criminal proceeds remain a source of funding. However, in the case of TF, funds raised from criminal activity have generally been petty and relatively unorganized crimes. One emerging trend includes suspected FTFs applying for small short-term loans to many providers simultaneously with no intention to repay.

The Report notes that although the role of social networks in breeding violent extremism has been well reported, less is known about how it is used to raise funds for terrorists and terrorist groups. The Report finds that there are significant vulnerabilities associated with social media, including anonymity, access to a wider range and number of potential sponsors or sympathizers and the relative ease with which it integrates electronic payment mechanisms. It is also apparent that donors are often unaware of the end-use of funds supported by social media, including crowdfunding, which represents a risk that terrorist organizations can exploit.

A case study of a large-scale crowdfunding scheme involving e-wallets was presented by the Russian Federation. A group of individuals led by Mr. A (Group A) organized a scheme to raise funds via social networks and internet. This group of individuals registered numerous e-wallets, credit cards and mobile phone numbers. The financial requisites were placed on the internet (including social networks) under the pretext of collecting donations for Syrian refugees, people in need of medical and financial aid, and for the construction of mosques, schools and kindergartens. The wording contained some indirect indications that the money was intended as financial support for terrorist activities. Indeed, the funds were sent as aid for terrorists and their families and to support terrorist activities.

The money was sent either to credit card accounts or to e-wallets. Collected funds were

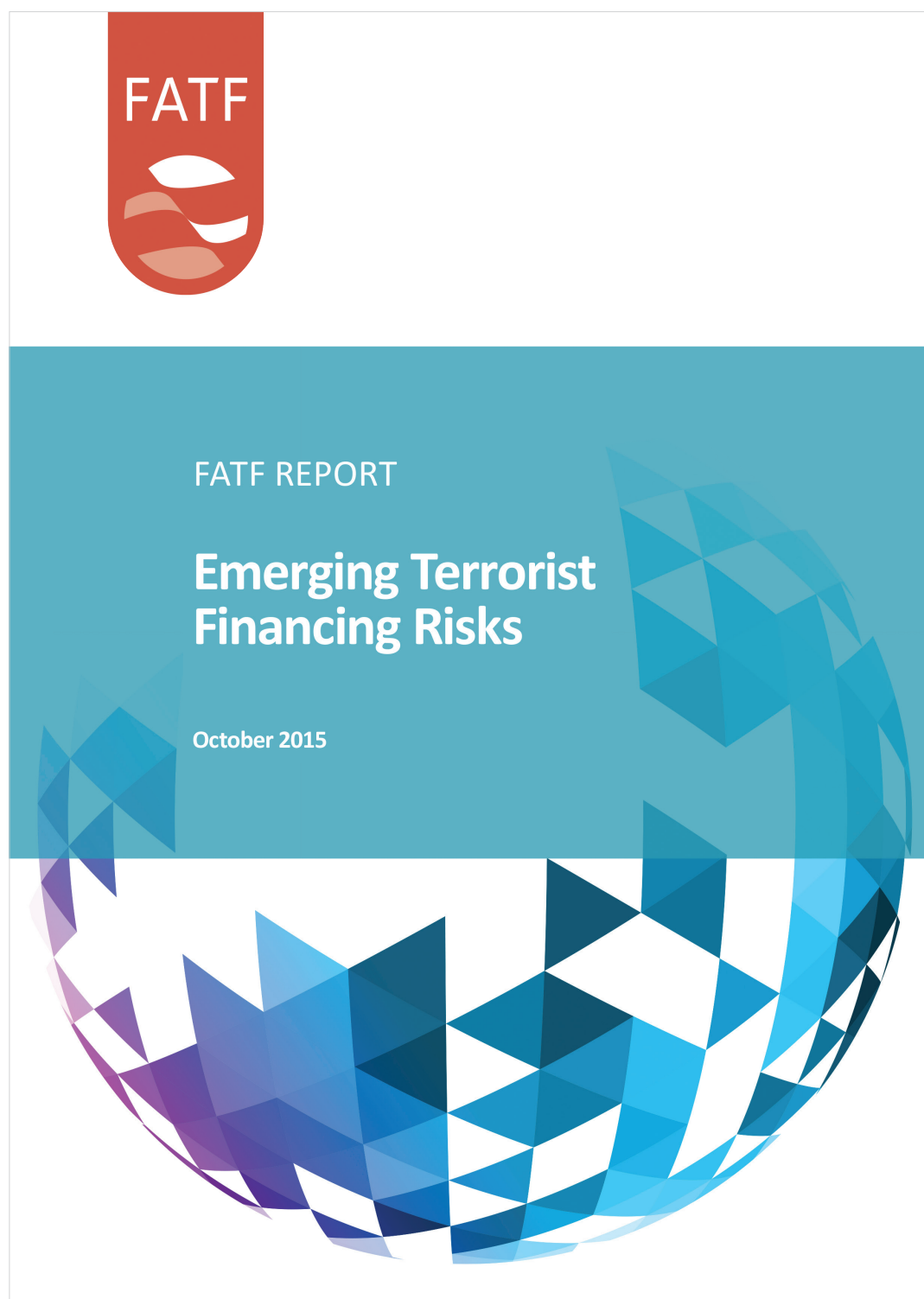
moved through a chain of transfers and were withdrawn in cash to be further transported by couriers. The payment instruments were managed on-line and via mobile devices as well.

significant vulnerability for terrorist organizations to capitalize on. The Report finds that this issue is linked with criminal activity including extortion, smuggling, theft, illegal mining, kidnapping for ransom, corruption and environmental crimes. Companies that extract natural resources can be vulnerable to extortions, kidnapping of their employees for ransom or menacing by terrorist groups in order to operate in certain regions.

In conclusion, the Report notes that while terrorist organizations continue to adapt and counter law enforcement responses, it is clear that they continue to require resources to meet their destructive goals. Following the financial trail, and understanding how all types of terrorist organizations, whether specific territory-based or small cells operating autonomously, raise, use and manage funds is critical in detecting, preventing and sanctioning terrorist and terrorist financing activity. Understanding and exchanging information on the financial management of terrorist organizations is important in order to implement CFT measures effectively.

While the emerging risks identified in the Report require monitoring by law enforcement agencies, it is important to note that the traditional terrorist financing methods and techniques continue to represent significant TF risks. These risks evolve. For example, criminal proceeds are an important source of funds for terrorists; however, jurisdictions have noted an increase in self-funding through legitimate means such as personal and business income.

The Report notes that financial intelligence is a necessary component for all counter terrorism activities, and use of relevant and appropriate non-financial information is essential for TF investigations. National counter terrorism authorities should continue to leverage financial intelligence, and also promote international financial intelligence-sharing on priority counter-terrorism issues through organizations such as the Egmont Group or Interpol and bilateral and multilateral information exchange through financial intelligence units. In order to capitalize on the benefits of financial intelligence, FIUs, operational authorities and intelligence agencies must continue to improve information exchange on emerging risks. Focus should be on identifying and targeting financial collection/aggregation/accounting points within a terrorist organization. This would increase law enforcement agencies' ability to concentrate their efforts on ultimate recipients of the funds, rather than just the sources.



The Report points out that electronic, online and new payment methods from the terrorist financing point of view pose a vulnerability which may increase over the short term as overall use of these systems grows. Many of these systems can be accessed globally and used to transfer funds quickly. A number of online payment systems and digital currencies are also anonymous by design, which makes them attractive for TF, particularly when the payment system is based in a jurisdiction with a comparatively weak AML/CFT regime. Although most remittance transactions are traceable, identifying the actual end-user or beneficiary remains challenging.

The exploitation of natural resources for terrorist financing purposes raised a substantial concern in the context of ISIL. However, the Report dedicated to ISIL has confirmed that it is also relevant for other terrorist organizations and regions. The ability to reap high rewards from the natural resources sector, coupled with the weak institutional capability, particular in or near areas of conflict, creates a