

CHAIRPERSON'S COLUMN



Dear colleagues,

The time has come for us to summarize the results of the presidency of the People's Republic of China in the Eurasian Group.

The effectiveness of the EAG states' AML/CFT systems largely depends on the level of their compliance with the FATF Standards as measured by mutual evaluations, which, in line with the ME schedule, have so far been carried out in four countries – China, Kyrgyzstan, Russia and Tajikistan. To assist its members in undergoing mutual evaluation procedures, the EAG has organized a series of trainings, including for assessors.

The fight against terrorist financing remains one of the EAG priorities. The EAG has taken an active part in the UN CTC research into the linkages between organized crime and terrorism. Other activities included the EAG/Interpol joint CFT workshop, the first Eurasian AML/CFT forum, etc.

The 30th EAG Plenary meeting adopted a new strategy which covers four key objectives: strengthening of EAG AML/CFT systems, improvement of their compliance with the FATF Standards, regional risk assessment, specific measures to mitigate risks and promotion of regional cooperation and coordination. The People's Republic of China will work towards the implementation of these priorities and the EAG action strategy in general.

In conclusion, I wish to thank my colleagues from EAG member states for their support throughout the entire term of China's presidency.

**EAG Chairperson
Ms. HAO Jinghua**

The People's Republic of China has completed its Chairmanship in The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)

The 31st Plenary week of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), chaired by Hao Jinghua (China), ended in Ashgabat (Turkmenistan)



The meeting was attended by more than 200 delegates from the EAG member states – Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan, as well as representatives of observer states and organizations in EAG – Armenia, Afghanistan, Iran, South Korea, Mongolia, Poland, Serbia, USA, Turkey, Financial Action Task Force (FATF), Eurasian Development Bank (EDB), United Nations Office on Drugs and Crime (UNODC), United Nations Office of Counter-Terrorism (UNOCT), UN Monitoring Group '1267', Eurasian Economic Commission (EEC), CIS Executive Committee, New Development Bank (NDB), UN Security Council (UNSC), Central Asian Regional Information and Coordination Centre for Combating Illicit Trafficking of Narcotic Drugs, Psychotropic Substances and their Precursors (CARICC) and representatives of Bureau for the Coordination of the Fight Against Organized Crime (BCFOC) invited

by the EAG Chairman. BCFOC was granted observer status in the EAG during the Plenary week.

The Plenary meeting was focused on the mutual evaluation of the Republic of Belarus conducted in 2019 and its level of compliance with the FATF standards, upon the results of which Belarus was placed in a regular follow-up process; a progress report of the Kyrgyz Republic in the framework of enhanced monitoring procedure by the Group; and implementation of the new EAG strategy adopted at the 30th Plenary meeting. In the context of the successful adoption of mutual evaluation report of the Russian Federation, FATF highlighted the positive experience of Russia in organizing preparatory work both at interagency and international levels. Among the main outcomes of the meeting was the completion of the Chairmanship of China in the EAG and the transfer of leadership of the Group to the Russian Federation.

Russia Got High Ratings for Compliance of Its National AML/CFT System with the FATF International Standards

Page 2

Experts Exchanged Views at the Eurasian Forum in Kyrgyzstan

Page 3

Proposals for Creating International Compliance Council Have Been Formulated in the Capital of Tatarstan

Page 4

During the EAG Plenary meeting and meetings of the Working groups the International Training and Methodology Centre for Financial Monitoring (ITMCFM, Russia) presented ongoing projects both within the Eurasian region and beyond. The projects were focused on the ITMCFM role in the EAG mutual evaluation process, notably, assistance provided to the national AML/CFT systems in achieving compliance with the FATF standards, as well as on specialized data reference system for financial intelligence units and operational services created to support joint (international) investigations carried out by financial intelligence units and operational services of the EAG member states.

In the framework of the EAG contest for the best results achieved in AML/CFT cooperation of state authorities, the Kyrgyz Republic was ranked first. The Republic of Belarus, the People's Republic of China and the Russian Federation became the prizewinners of the contest.

Russia Got High Ratings for Compliance of Its National AML/CFT System with the FATF International Standards

During the Plenary Week of the Financial Action Task Force on October 13-18, 2019, the Russian delegation headed by the Director of Rosfinmonitoring Yury Chikhanchin demonstrated significant achievements of the national anti-money laundering, counter terrorist financing and counter proliferation financing (AML/CFT/CPF) system. Taking part in the presentation of the mutual evaluation report of Russia were the specialists of the Russian financial intelligence unit and the representatives of Bank of Russia, Presidential Executive Office, General Prosecutor's Office, Ministry of Foreign Affairs, Ministry of Internal Affairs, Federal Security Service, Investigative Committee and Federal Tax Service of the Russian Federation



Russian financial intelligence team at the FATF Plenary Meeting

The mutual evaluation report of the Russian Federation was presented by the Director of Rosfinmonitoring Yury Chikhanchin, who pointed out that the preparation of such document was a result of a very hard work.

- I would like to express our sincere gratitude to the assessment team and the representatives of the FATF Secretariat headed by Mr. Tom Neylan for their professionalism.

Yury Chikhanchin stated that Russia has always been committed to compliance with the FATF International Standards:

- The fight against money laundering, terrorist financing and proliferation financing is the priority of our country's national policy at the highest political level, which the assessment team could also witness during the on-site visit. We believe that the experts have acquired deep understanding of the specificities of the Russian AML/CFT system, and the report as a whole contains the impartial analysis and assessment of the existing situation. We greatly appreciate this and have already started to rectify the identified deficiencies.

The discussion also touched upon a number of controversial issues which, however, did not affect the overall results of the assessment. Based on the aggregate ratings, the AML/CFT system of the Russian Federation holds the fifth place in the world

in terms of effectiveness. Russia was placed in the regular follow-up process which implies provision of regular follow-up reports.

Key Findings

1. Rosfinmonitoring is core to the functioning of Russia's AML/CFT regime, as it is responsible for leading and coordinating policy and operational activities in the field of AML/CFT. This work is strongly supported, including legislatively, as AML/CFT is afforded the highest priority by the Russian Government. Domestic coordination and

cooperation is a major strength of the Russian AML/CFT system.

2. Russian authorities have an in-depth understanding of the country's ML and TF risks, as outlined in Russia's 2018 ML and TF NRAs and communicated by authorities to the assessment team. Both ML and TF risks are well identified and understood. Financial institutions have a good understanding of these risks, while understanding of other reporting entities varies.

3. Rosfinmonitoring has a wealth of available data, including a large volume of reporting, and employs sophisticated technologies and high degree of automation, to prioritise, generate, and contribute

Information note

The FATF Methodology for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems was adopted by the FATF in 2013 and envisages examination of two complementary elements: technical compliance and effectiveness.

Technical compliance means fulfillment of the requirements set out in the FATF 40 Recommendations,

while effectiveness means the ability of the AML/CFT stakeholders to achieve the immediate outcomes (IO) in eliminating ML/TF risks.

Mutual Evaluation Report of the Russian Federation summarizes the AML/CFT measures in place in the Russian Federation as at the date of the on-site visit (March 11-29, 2019). It analyzes the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Russia's AML/CFT system, and provides recommendations on how the system could be strengthened.

to investigations pursued by law enforcement authorities. LEAs routinely and effectively access and use this financial intelligence to investigate ML, TF, predicate offenses, and to trace criminal proceeds. Prosecutors further ensure the use of financial intelligence in case development by systemically reviewing investigations to verify that LEAs pursue all financial aspects.

4. Russia is investigating ML partly in line with its risk profile. LEAs routinely conduct financial investigations alongside predicate offences. Most ML investigations involve the acquisition or sale of criminal proceeds, so the majority of cases relate to less serious offences. Self-laundering is frequently investigated, unlike third-party ML, which is detected and investigated to a lesser extent. Some complex ML is pursued, however, opportunities for LEAs to uncover and investigate sophisticated and/or high-value ML may exist, especially in the financial sector and involving proceeds sent abroad, particularly those related broadly to corruption. Sanctions applied against natural persons are moderately effective, and while Russia cannot prosecute legal persons, the use of administrative sanctions against legal persons was not demonstrated. Alternative measures are a notable part of Russia's toolkit to combat financial and shell-company-related offences potentially related to ML.

5. Russia has a robust legal framework for combatting TF, which is largely in line with the international standards. On average, Russia pursues 52 TF prosecutions per year. Since 2013, Russia has convicted more than 300 individuals of TF, with the majority resulting in sentences of imprisonment ranging from 3-8 years. Russia demonstrates that it deprives terrorists, terrorist organisations and terrorist financiers of assets and instrumentalities through various approaches, such as through terrorist designations, administrative freezes, court orders, and confiscation. While the total amount of assets and instrumentalities deprived is relatively low, this is consistent with Russia's risk profile.

6. Overall, Russia has an adequate system to implement TF and proliferation financing (PF) targeted financial sanctions, but has gaps and weaknesses in some areas, including TFS implementation without delay and explicit legally enforceable requirements that extend to all natural and legal persons (beyond reporting entities).

7. There is widespread and persistent trend of non-compliance with preventive AML/CFT obligations. Although breaches have been decreasing in recent years, the threshold for suspicious transaction reporting is low and automation in filing leads to a massive number of reports, which, while used in the FIU's datamining, are not detailed or suited for flagging high-suspicion or urgency. This increase in STRs could be leading to more terminations of business relations and refusals to conduct transactions for ML/TF concerns. Group-wide information sharing among FIs was not possible in Russia until the on-site visit.

8. The Bank of Russia (BoR) has implemented some aspects of risk-based supervision since 2013, and has recently improved the risk-based approach to supervision. Licensing requirements for FIs were strengthened in 2013 and now largely mitigate the risk of criminals being the owners or the controllers of FIs. However, supervision is mostly based on prudential factors and the BoR over-relies on remote monitoring. While number of license revocations has occurred, sanctions are not effective or dissuasive in all cases and monetary penalties imposed are low.

9. Russia has improved its legal framework and operational approach to enhance transparency of legal persons, which makes it more difficult to misuse legal persons established in Russia. Registration requirements have been enhanced and legal persons are constantly being reviewed and removed from the register for inaccurate information or for inactivity. Legal persons



**The FATF President
Xiangmin Liu:**

- It is really the high quality report reflecting serious teamwork.



**The FATF Executive
Secretary David Lewis:**

- This report is not just the serious test of the Russian AML/CFT system - it demonstrates how the mutual evaluation should be conducted.



**Executive Secretary
of the Eurasian Group
on Combating Money
Laundering and Financing
of Terrorism (EAG)
Sergei Teterukov:**

- In many senses, this report sets a precedent – and surely for the EAG member states.

maintain information on their beneficial owners and competent authorities effectively supervise the implementation of this requirement. FIs and DNFBPs also collect beneficial ownership information of customers with somewhat limited capacity to verify it.

Experts Exchanged Views at the Eurasian Forum in Kyrgyzstan

The Eurasian AML/CFT forum was held from 10 to 12 September 2019 on the shores of the Issyk-Kul Lake, Kyrgyz Republic. The decision to organize the forum was taken during the 30th EAG Plenary meeting, held in May 2019 in Moscow (Russia)

The forum was held under the auspices of the State Financial Intelligence Service under the Government of Kyrgyzstan (SFIS) and the SFIS Training and Methodology Centre in close cooperation with the Eurasian Group on Combating Money Laundering and Financing of Terrorism, as well as with support from the OSCE Program Office in Bishkek and the UN Counter-Terrorism Directorate. ITMCFM acted as co-organiser of the Forum.

The event was attended by international experts, representatives of international and regional organizations, UN Counter-Terrorism Committee, UN Office on Drugs and Crime, UN SC Resolution 1267 Monitoring Team, UN Regional Centre for Preventive Diplomacy for Central Asia, European Union, Central Asian Regional Information and Coordination Centre for Combating Illicit Trafficking of Narcotic Drugs, Psychotropic Substances and

their Precursors (CARICC), The Commonwealth of Independent States Anti-Terrorism Center (CIS ATC), The Regional Anti-Terrorist Structure of Shanghai Cooperation Organization (RATS SCO), Asian Development Bank, Eurasian Development Bank, The Eurasian group on combating money laundering and financing of terrorism (EAG), ITMCFM and Egmont Group, as well as representatives of financial intelligence units and competent authorities from Azerbaijan, Armenia, Afghanistan, Belarus, Iran, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Uzbekistan and Switzerland.

The forum agenda included the following:

- best AML/CFT practices;
- cross-border ML/TF risk assessment;

- FATF Recommendations and Guidance on virtual currencies and their regulation;
- the use of electronic payment instruments and cryptocurrencies in cross-border drug-related payments and money laundering schemes;
- the use of blockchain technology and cryptocurrencies for terrorist financing;
- the connection of corruption, money laundering and terrorism financing with criminal proceeds, including proceeds from organized crime.

The forum, held for the first time, became an informal regional platform for exchanging expert views and informing its participants about the latest results of ML/TF investigations.

Proposals for Creating International Compliance Council Have Been Formulated in the Capital of Tatarstan

The 5th International Workshop on Public-Private Partnership as a Tool to Increase Efficiency of AML/CFT System, as well as Consultations with private sector took place under the auspices of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) on 26-27 September 2019 in Kazan (Russia)



These events were organized by the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), the Federal Financial Monitoring Service and the International Training and Methodology Centre for Financial Monitoring (ITMCFM).

During the workshop participants discussed the effectiveness of preventive measures, the quality of suspicious transaction reports, application of targeted financial sanctions, best AML/CFT cooperation practices with private sector, innovative approaches and solutions in the area of automation, the use of digital technologies in supervision activities and financial monitoring, and international AML/CFT trends.

Welcoming remarks to the participants came from President of the Republic of Tatarstan Rustam Minnikhanov, EAG Chairman Hao Jinghua, Deputy Plenipotentiary Representative of the Russian President in the Volga Federal District Igor Panshin and Deputy Director of Rosfinmonitoring Galina Bobrysheva.

Rustam Minnikhanov: «Unfortunately, rapidly developing economy of the republic attracts not only potential investors. Hence, AML/CFT efforts are extremely vital... The flows of dirty money are generated in the shadow economy. They try to penetrate almost every type of business activity. In order to ensure the interrupted economic growth and development of the financial sector, it is necessary to change the situation when a significant part of financial resources is used in illicit transactions... Here in Tatarstan, we focus on the timely detection and fight against the legalization of criminal proceeds, as well as cutting off possible channels and sources of funds used for financing terrorists and extremists... We've achieved tangible results in the fight against financing of extremist groups, in tax sphere and in credit and financial sphere to reduce the shadow economy.»

Representatives of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), South Korea's

FIU, and European Bank for Reconstruction and Development (EBRD) acted as experts.

The workshop was attended by more than 130 representatives of FIUs, supervisory authorities, leading experts of the compliance departments of financial and non-financial institutions of the EAG member states and observer countries, as well as representatives of the EAG Secretariat and ITMCFM.

EAG Chairman Hao Jinghua and participants of the workshop emphasised the great practical value of the issues addressed:

- based on the outcomes of the business game algorithm of conducting sectoral risk assessment for financial institutions was developed;
- the experience of Russia's Compliance Council was used to formulate proposals for creating international Compliance Council.

Recommendations were adopted at the end of the forum following the results of the 5th EAG/ITMCFM International Workshop on Public-Private Partnership as a Tool to Improve AML/CFT Efforts and Consultations with private sector.

Recommendations following the results of the 5th EAG/ITMCFM International Workshop on Public-Private Partnership as a Tool to Improve AML/CFT Efforts and Consultations with the private sector

Participants of the 5th International Workshop and Consultations with private sector underscored the importance of sharing experiences in improving

cooperation between supervisory authorities and private sector, providing feedback to improve the quality of suspicious transaction reports, and developing new approaches to the detection of customer activities in high-risk areas, and formulated the following recommendations:

1. To propose to the EAG Plenary meeting to consider the possibility of creating International Compliance Council under the auspices of the EAG in order to promote AML/CFT cooperation between expert and professional communities, share experiences and best practices in application of preventive measures by financial institutions and non-financial businesses and professions, and to facilitate information interaction between EAG FIUs.
2. To submit to ITMCFM for summary, by November 1, 2019, the findings of a survey on EAG private sector cooperation.
3. To propose to ITMCFM to summarize examples of best practices provided by the EAG private sector for preparing the EAG Beneficial Ownership Identification Guidelines.
4. To summarize proposals from the participants of the 5th International Workshop for organizing sectoral ML/TF risk assessments, and to request ITMCFM to develop algorithm for conducting sectoral risk assessment procedure.
5. To continue the discussion of the experience in regulating the sector of virtual assets and ML/TF risks associated with the use of new technologies in the course of workshops and Consultations with participants of private sector.

We welcome you to take part in the development of the EAG Bulletin. If you would like to place news, articles and other publications in the following issues of the Bulletin, please feel free to send an e-mail entitled "EAG Bulletin" to: info@eurasiangroup.org

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