



EAG



# ANNUAL REPORT



# 2016

EAG

ЕВРАЗИЙСКАЯ ГРУППА  
по противодействию легализации преступных доходов  
и финансированию терроризма

EURASIAN GROUP  
on combating money laundering  
and financing of terrorism



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The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) is a regional intergovernmental organization whose primary goal is to ensure effective interaction and cooperation at the regional level and integration of EAG member states into the international system of anti-money laundering and terrorist financing.

The EAG is a FATF-style regional body uniting Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan.

For more detail, please visit EAG website at:

[www.eurasiangroup.org](http://www.eurasiangroup.org)

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## EAG Chairman

### Yury Chikhanchin



In December 2016, I was invited as EAG chairman to brief the UN Counter-Terrorism Committee Executive Directorate on the anti-terrorist financing efforts undertaken by the Eurasian Group. The invitation further underscored the increasingly important role played by the EAG both in Eurasia and within the FATF global network.

Our work in 2016 was devoted to the preparations for the 2nd round of mutual evaluations of compliance of EAG member states with the revised international standards, based on the Methodology 2013 and EAG's 2nd Round Mutual Evaluation Procedures. The first country to submit materials for a mutual evaluation in 2016 was Kyrgyzstan, with an on-site mission to this country and approval of its mutual evaluation report scheduled for 2017.

The established practice of holding ad-hoc workshops on the margins of plenary weeks contributes to the professional development of experts participating in EAG meetings. In line with this practice, the EAG, using the past reports approved by the FATF and FATF-style regional bodies, organized in 2016 two workshops to prepare countries for national risk assessments and to study best practices in preparing and conducting mutual evaluations.

The workshops were used by experts to not only study best practices but also learn about the aspects that prevented some countries from receiving a higher score.

Much attention was devoted to the study of new ML/FT typologies, with EAG countries participating in a joint EAG/FATF/UNODC typologies workshop in Vienna, where they made presentations on key issues. 2016 was the first year of the new Russian presidency of the EAG, after the end of India's presidency in November 2015. The year's activity highlights, meanwhile, included preparations for and commencement of the second round of mutual evaluations, anti-terrorist financing efforts and personnel training, with the Russian-based International Training and Methodology Centre for Financial Monitoring playing a key role in the latter activity.

I would separately like to note the work carried out by the EAG Secretariat, which, despite its limited human resources, manages to complete a huge volume of high-quality work.

In addition, I would like to take this opportunity to wish all AML/CFT experts and other recipients of this report, regardless of where they are, success in their work for the benefit of their countries.

## EAG Executive Secretary

**Vladimir Nechaev**



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Dear colleagues,

Among the 2016 highlights was the completion of the 1st and commencement of the 2nd round of EAG mutual evaluations.

Meanwhile, the EAG Secretariat continued to work with countries to prepare them for the forthcoming assessments and to train expert assessors. The workshops to study the outcomes of the first mutual evaluation reports approved by the FATF and FATF-style regional bodies, which allowed EAG members to take note of those elements of the anti-money laundering systems that cause most problems for countries that have undergone mutual evaluations, proved to be a very interesting and useful experience.

This year saw the completion of the registration of the Agreement on the Eurasian Group on Combating Money Laundering and Financing of Terrorism with UN Secretariat.

I would separately like to mention the use of joint workshop formats in the past year to strengthen horizontal ties with our partners from the FATF, MONEYVAL, APG, OSCE, UN CTC, UNODC and others, with a joint EAG/FATF/UNODC in Vienna in May 2016 being judged as a particular success.

I would like to thank the EAG Secretariat staff for their hard work throughout the year, which, I hope, benefits all our members.

# 1. About EAG

## 1.1 History

The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) is a FATF-style regional body established at the initiative of the Russian Federation on October 6, 2004 at the founding conference in Moscow attended by six founding states: Belarus, Kazakhstan, China, Kyrgyzstan, Russia and Tajikistan. Later, the EAG membership was expanded further to include Uzbekistan, Turkmenistan and India.

The Moscow Declaration on the Establishment of the EAG and the Terms of Reference of the Eurasian Group formed the basis for the Agreement on the Eurasian Group on Combating Money Laundering and Financing of Terrorism, signed on June 16, 2011 and constituting part of the legal framework of the EAG member states and the basis for their cooperation. The Agreement defined the EAG as an intergovernmental organization with its own budget that functions on the basis of equal participation by members states in its activities.

The creation of the EAG contributed to the consolidation of efforts towards reducing the threat of terrorism, ensuring transparency, reliability and security of financial systems of the region's countries, and their integration into the international AML/CFT framework. A list of tasks assigned to the newly created organization also included the provision of technical assistance to EAG members in establishing national AML/CFT systems.

## 1.2 Goals and objectives

Under the EAG Agreement, the main goal of the Eurasian Group is to ensure effective communication and cooperation at the regional level, as well as the integration of EAG members into the international anti-money laundering and terrorist financing framework in line with the FATF recommendations and AML/CFT standards of other international organizations in which EAG member states participate.

The main objectives of the EAG are:

- to assist members in implementing the FATF Standards on Combating Money Laundering and Financing of Terrorism;
- to develop and implement joint activities aimed at combating money laundering and financing of terrorism;
- to conduct mutual evaluations of its members in line with the FATF Recommendations, including to study the effectiveness of the newly adopted anti-money laundering and terrorist financing legislative and other measures;
- to coordinate international cooperation and technical assistance programmes with the relevant international organizations, agencies and countries; and
- to conduct an analysis of money laundering and terrorist financing typologies and share experience in combating these crimes with account for regional specifics.

## 1.3 Members

Under the EAG Agreement, the Group comprises 9 members: Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan.

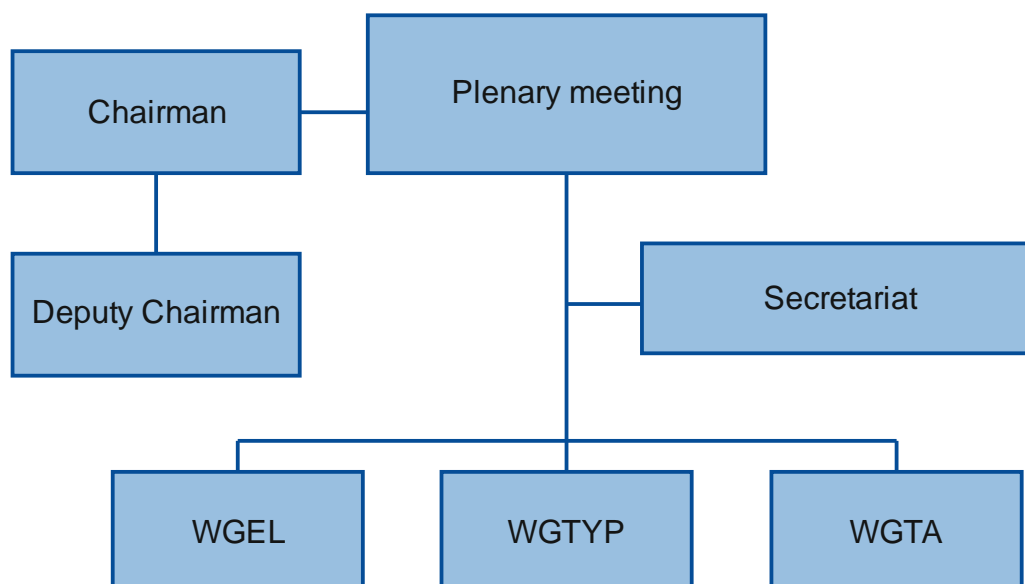
EAG membership is open to other counties in the regions who:

- take active steps to draft and enforce AML/CFT legislation consistent with the FATF

- Recommendations;
- agree to participate in EAG mutual evaluation programmes;
  - agree to actively participate in Plenary meetings and other EAG activities and events.

### 1.4 Organizational structure

The structure of the management and working bodies of the EAG:



The Plenary meeting, which is typically convened twice a year, but not less than once a year, is the supreme decision-making body of the Eurasian Group. The Plenary considers the fundamental issues of EAG member states' common interest, defines the strategy and directions of activity, and takes decisions aimed at fulfilling the goals and objectives of the Eurasian Group.

The Chairman of the Eurasian Group is elected by the Plenary for a 2-year term. The Chairman chairs Plenary meetings and represents the Eurasian Group in its contacts with the outside world. All decisions of the Plenary are also approved by the Deputy Chairman.

#### History of the EAG Presidency

Viktor A. Zubkov	2004 – 2007
Oleg A. Markov	2007 – 2011
Yury A. Chikhanchin	2011 – 2013
Krishnan Kodumudi	2013 – 2014
Ajay Tyagi	2014 – 2015
Yury A. Chikhanchin	2015 –

In November 2015, the Plenary appointed Mr. Yury Chikhanchin as Chairman of the EAG.

Mr. M. Mambetzhonov (Kyrgyzstan) served as EAG Deputy Chairman from November 2015 to November 2016, and was succeeded in November 2016 by Mr. Ch. Kenenbaev (Kyrgyzstan), who will hold that post until November 2017.

A total of 5 EAG working groups carried out work in the key areas of the Group's activities throughout 2016:

▪ **Working Group on Mutual Evaluations and Legal Issues (WGEL);**

The WGEL is responsible for:

- conducting EAG mutual evaluations and follow-up monitoring;
- assessment of ML/FT risks and review of best risk-based approach-related experience sharing practices;
- legal support for EAG activities.

*Group co-chairs:*

- Liu Xiang Min (China) *until June 2016;*
- Dmitry Kostin (Russian Federation) *until June 2016;*
- Mei Jiao (China) *since June 2016;*
- Chyngyz Kenenbaev (Kyrgyzstan) *since June 2016;*
- Herman Neglyad (Russian Federation) *since June 2016.*

▪ **Working Group on Technical Assistance (WGTA)**

The WGTA is responsible for:

- assessment and coordination of technical assistance efforts in EAG member states;
- development and coordination of training and other activities, preparation of teaching aids and provision of basic AML/CFT trainings;
- review of EAG's financial operations, including allocation of funds and processing of documents governing the EAG's financial and economic activities.

*Group co-chairs:*

- Irda Igembayev (Kazakhstan)
- Stanislav Smolyar (Russian Federator)

▪ **Working Group on Risks and Supervision (WGRS)**

*As part of the EAG's optimization efforts, the work of the WGRS was discontinued in June 2016. As a result, the tasks related to the assessment of risks were included in the WGEL's mandate in November 2016.*

The Working Group was responsible for promoting understanding of the risk-based approach (RBA) among EAG member states; developing guidelines on NRA-based sector risk assessment; assisting in the implementation of RBA to supervision; identifying regional specifics of ML/FT risks; and disseminating best RBA and risk assessment practices in Eurasia.

*Group co-chairs:*



- Pankaj K. Mishra (India)
- Andrey Gasanov (Russian Federation)

▪ **Working Group on Typologies (WGTYP)**

The WGTYP is responsible for:

- gathering, processing, analysing and preparing typology-related materials;
- assisting EAG members and coordinating their work in the preparation of typology-related materials;
- cooperating with other FATF-style regional bodies, observers and other international organizations on typological research;
- promoting cooperation with EAG competent authorities, the private sector and typology research experts.

*Group co-chairs:*

- Igor Voluevich (Russian Federation) *until November 2016;*
- Zohid Khatamov (Uzbekistan) *until June 2016;*
- Alexander Prakopenko (Belarus) *since November 2016;*
- Esendik Musabekov (Kyrgyzstan) *since November 2016;*
- Yevgeny Mozgov (Russian Federation) *since November 2016.*

▪ **Working Group on Counteraction of Financing Drug Business, Crime and Terrorism (WGCF)**

*As part of the EAG's optimization efforts, the WGCF was merged with the WGTYP in November 2016.*

The Working Group comprised two sections: on combating the financing of drug trafficking and crime (CFDC), and on combating the financing of terrorism (CFT).

- The sections were responsible for consolidating best information sharing practices; assisting in organizing and undertaking operational and preventive activities to combat the financing of drug trafficking, crime and terrorism; studying the experiences and consolidating best practices in combating the financing of drug trafficking, crime and terrorism; and holding consultations on combating the financing of drug trafficking, crime and terrorism.

*Section co-chairs:*

CFDC

- Esendik Musabekov (Kyrgyzstan);
- Elena Tikhonova (Russian Federation).

CFT

- Yevgeny Mozgov (Russian Federation);
- Kemalettin Kolutek (Turkey) *until June 2016.*

### 1.5 EAG Secretariat

The EAG Secretariat was established by the decision of the Founding Conference on October 6, 2004 and tasked with coordinating the activities under its purview. The Agreement on the Conditions of Stay of the EAG Secretariat in the Territory of the Russian Federation was signed on February 14, 2012. Later that year, the newly formed Secretariat, whose staff comprised nationals of EAG member states, began its work in Moscow.



EAG Secretariat

As of 2016, the Secretariat employed 10 persons, including representatives of Belarus, Kazakhstan, Kyrgyzstan and Russian Federation. The post of EAG Executive Secretary is held by Vladimir Nechaev (Russian Federation).

### 1.6 Observers

As of late 2016, 18 international and regional organizations and 16 countries held observer status in the EAG.

The 24th Plenary granted observer status to the Islamic Republic of Iran. The Plenary suspended the observer status in the EAG of Germany following the submission of the relevant request from this country.

#### Observer organizations

- Asian Development Bank (ADB)
- Asia-Pacific Group on Money Laundering (APG)
- World Bank (WB)
- Financial Action Task Force on Money Laundering (FATF)
- Middle East & North Africa Financial Action Task Force (MENAFATF)
- Egmont Group
- Eurasian Development Bank (EDB)
- European Bank for Reconstruction and Development (EBRD)
- Interpol

#### Observer countries

- Armenia
- Afghanistan
- Germany
- Iran
- Italy
- Lithuania
- Moldova
- Mongolia
- Poland
- Serbia

- Executive Committee of the Commonwealth of Independent States (CIS)
- CIS Anti-Terrorism Centre (CIS ATC)
- UN Counter-Terrorism Committee (UNCTC)
- International Monetary Fund (IMF)
- Collective Security Treaty Organization (CSTO)
- Organization for Security and Cooperation in Europe (OSCE)
- Council of Europe Committee of Experts (MONEYVAL)
- The United Nations Office on Drugs and Crime (UNODC)
- Shanghai Cooperation Organization (SCO)
- USA
- Turkey
- Ukraine
- France
- Montenegro
- South Korea

### ***1.7 Financial supervision***

In accordance with the Agreement on the EAG and the Regulations on the Formation and Implementation of the EAG Budget, which is an integral part of the Agreement, financial supervision over the EAG's activities is carried out by means of an internal and external audit. In addition, the EAG has drafted and adopted regulations governing its financial and economic activities.

Following a review of the findings of the 2015 Audit Report, the EAG Secretariat continued the efforts to improve and harmonize its financial and economic activities. Much of the EAG's efforts were devoted in 2016 to the systematization, updating and adjustment of the relevant financial regulations, culminating in the amendments, made by the EAG Plenary on the recommendation of the Working Group on Technical Assistance, to the following documents:

- Regulations on the EAG Secretariat;
- EAG Financial Rules;
- Regulations on Salaries, Guarantees and Compensation Packages of EAG Secretariat Staff;
- EAG Accounting & Reporting Regulations;
- EAG Operation Revenue Distribution Regulations.

In line with the auditors' recommendations and findings of the Audit Report, the EAG, with a view to improving transparency of the EAG Budget, has created a new expenditure item called "Business travel expenses".

The work to harmonize and systematize the documents governing the EAG's financial and economic activities, carried out in 2016, was aimed at increasing the transparency of the EAG Secretariat's activities, helped eliminate shortcomings and address comments made in the aftermath of the audit of the Secretariat's activities covering the 2012-2014 period, as well as contributed to the harmonization of the budgeting process. These measures helped optimize and improve the quality of the EAG's financial and budgetary discipline.

*2016 EAG Budget*

<b>Expenditure items</b>	<b>Amount (Russian rubles)</b>
Maintenance of the EAG Secretariat's activities	27,677,320
Business travel expenses	9,276,603
Purchase of services	5,102,600
Miscellaneous expenses	140,860
Acquisition of non-financial assets	726,909
Incidental expenses	400,000
<b>TOTAL:</b>	<b>43,324,292</b>

## 2. STRATEGIC ACTIONS AND INITIATIVES

### *2.1 Development of national AML/CFT systems*

In 2016, the EAG continued to support the integration of its members into the international AML/CFT framework, including through assistance in building their national AML/CFT systems in line with the international standards. The EAG Secretariat carried out the work to prepare EAG members for the next round of mutual evaluations: trainings for expert assessors and workshops for countries to be assessed.

In September 2016, Tajikistan hosted a workshop designed to prepare this country for the upcoming evaluation. The purpose of the workshop was to promote understanding of the evaluation process and the country's role in it, as well as to boost performance of the assessed country's team. The EAG Secretariat will continue to organize such workshops in order to meet its priorities for preparing EAG countries for the upcoming new round of mutual evaluations.



EAG/ITMCFM training workshop for expert assessors

As part of the preparations for the EAG 2nd round of mutual evaluations, EAG assessors attended in September 2016 a joint EAG/ITMCFM workshop. The purpose of the workshop was to provide training for the representatives of EAG member states' delegations selected to participate in the upcoming EAG mutual evaluations as expert assessors and expert analysts. As a result of this event, the EAG Secretariat provided training to a total of 30 expert assessors, who, through their participation in simulation exercises, not only attended a course on the theory of the updated FATF Recommendations and Methodology, but also gained practical experience in conducting mutual evaluations.

### *2.2 Information and communication strategy*

Successful media coverage of the work carried out by EAG members in the field of AML/CFT and the way they are viewed by experts and the public at large depend, to a large extent, on the proper functioning of public relations.

Another important source of information is the Information Bulletin, an editorial project published by the EAG and distributed among its main partners. The Bulletin contains up-to-date information on the progress in development of the national AML/CFT systems of EAG member states and the key events of the international AML/CFT schedule. A total of 4 issues of the Bulletin were published in 2016.

In addition, the EAG is involved in the publication, once in a quarter, of the magazine *Financial Security*, whose editorial board includes the EAG Executive Secretary among its members. The magazine, available in Russian and English languages, regularly features articles on the EAG's activities.

The implementation of the EAG's information and communication strategy promotes public interest and involvement of civil society in the AML/CFT issues, as well as contributing to public awareness of the new FATF standards.

### **2.3 Information resources**

There are a number of proprietary databases that were created within the EAG Single Information Space (SIS) structure and designed to assist FIUs in their work. Among them are:

- a database of typology research conducted by the FATF, EAG and MONEYVAL, which comprises approx. 50 studies and allows FIU analysts to monitor the current trends and ML/FT risk areas defined by the international community;
- an online database of EAG member states' legislation containing a total of 160 regulations and accessible via the EAG official website.

### **2.4 Videoconferencing**

Videoconferencing (VC) is an essential SIS component capable of increasing the intensity and effectiveness of cooperation among EAG member states. As of late 2016, it connected Belarus, Kazakhstan (with hubs in Astana and Almaty), Kyrgyzstan, Russia, Tajikistan, Uzbekistan, EAG Secretariat, ITMCFM, Armenia and the Institute of Financial and Economic Security MEPhI.

The videoconferencing system (VCS) is used for both multi-party consultations and training events. Besides the traditional experience sharing activities conducted after the completion of the current and commencement of the new round of FATF and EAG mutual evaluations, VCS participants attended various trainings (seminars, workshops, etc.). These activities, which cover the widest possible range of topics and participants, enabled the EAG's key partners to become acquainted with the best international AML/CFT standards implementation practice. The benefits of using modern communication channels are obvious. They range from a more efficient interaction within the EAG to the availability of distance learning opportunities for FIU law enforcement and supervisory personnel, to the potential offered by joint online workshops and conferences in terms of cost savings and stakeholder appeal.

EAG-sponsored trainings and experience sharing sessions were attended by more than 1000 representatives of the government authorities, the private sector and educational and scientific institutions of the EAG.

Among the topics covered were:

- Practical importance of strategic analysis and its implementation into national legislation;
- Practice of application of administrative measures against reporting entities;
- Joint efforts to combat the threats posed by international terrorist organizations, including ISIL, and the specifics of financial investigations against persons involved in the activities of the international terrorist organization Islamic State;
- Participation of EAG and CSTO FIUs and law enforcement in the regional anti-drug operation "Channel";

- Cooperation between FIUs and law enforcement on predicate offences in compliance with the FATF recommendations, and the practice of using the FIU's findings as evidence in criminal and judicial proceedings;
- Detecting criminal proceeds in foreign trade transactions and main typologies of siphoning capital off overseas. Experience in enforcing currency controls to combat capital siphoning;
- Best practices in the application of a risk-based approach in non-financial institutions, including:
  - leasing companies;
  - pawnshops;
  - individual entrepreneurs and legal entities engaged in transactions with precious metals and precious stones and items of jewellery;
  - individual entrepreneurs and real estate agents.
- Illegal migration and human trafficking-related money laundering at the national and international level;
- Identification, freezing and repatriation of criminal assets located abroad. International cooperation on repatriation of assets;
- Experience in implementing FATF international standards – Recommendations 18 (internal controls) and 24 (beneficial owners of legal persons) in the drafting of regulations for banks and non-bank financial institutions;
- Implementation of UNSC targeted financial sanctions against the financing of terrorism and proliferation of weapons of mass destruction into national legislation. Experience of EAG members and other foreign countries;
- Topical issues of the national ML/FT risk assessment and implementation of a risk-based approach in the payment services sector: the fundamentals of payment system-related risk management;
- Predicate offence and money laundering typologies. Typologies of corruption offences;
- Financial analysis methods and techniques (for FIU personnel);
- The practice of combating drug-related money laundering;
- Open source information searches (for FIU personnel);
- The role and place of electronic payment systems in drug trafficking and ML risks;
- Virtual and private currencies – ML/FT risks and approaches to their mitigation.

The VCS was also regularly used to conduct working meetings, personnel trainings for national AML/CFT systems, intersessional meetings of the EAG and working meeting of the CIS Council of FIU Heads.



VCS activities

### 3. EAG KEY EVENTS

In 2016, the EAG held two Plenary meetings.

#### I. 24th EAG Plenary meeting

The EAG Plenary and Working Group meetings were held from 6 to 10 June 2016 in Astana (Kazakhstan).

- After reviewing ISIL-related issues, the Plenary called on EAG members to intensify efforts to combat the financing of ISIL and speed up the implementation of the relevant UN Security Council Resolutions.
- The Plenary granted the status of observer in the EAG to the Islamic Republic of Iran and the Eurasian Economic Commission (EEC), and suspended the observer status of Germany following the submission of the relevant request;
- The Plenary removed Kazakhstan and Uzbekistan from the EAG follow-up process.
- The Plenary voted to optimize the work of its working group and approved the EAG Budget 2017.



24th EAG Plenary and Working Group meetings

The Workshop on the preparation of EAG Member States for Conducting National Risk Assessments and Mutual Evaluations was held on the side-lines of the 24th EAG Plenary week. The event, sponsored by the International Training Centre for Financial Monitoring (Russia) and the Financial Monitoring Committee of Kazakhstan's Finance Ministry, was attended by representatives of the EAG and FATF Secretariats, Council of Europe, Armenia, China, Liechtenstein and Russia.

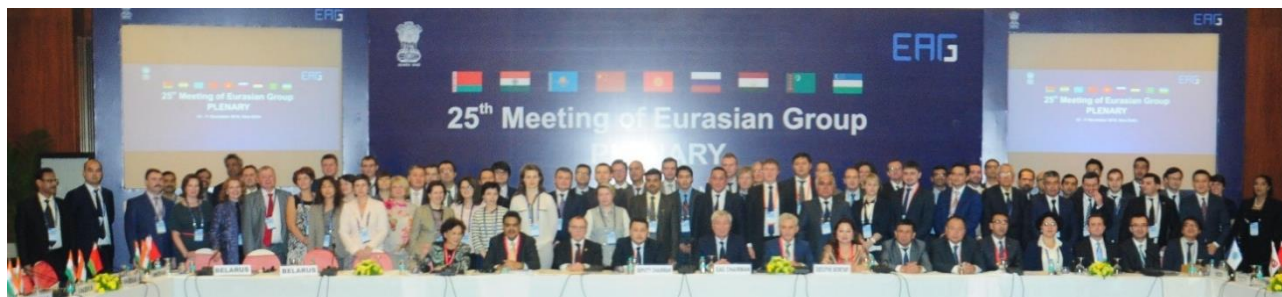


Workshop on the Preparation of EAG Member States for Conducting National Risk Assessments and Mutual Evaluations



## II. 25th EAG Plenary meeting

The EAG Plenary and Working Group meetings were held from 7 to 11 November 2016 in New Delhi (India).



The 25th EAG Plenary and Working Group meetings

- The Plenary elected Mr. Chyngyz Kenenbaev (Kyrgyzstan) to the post of EAG Deputy Chairman until November 2017.
- After reviewing ISIL-related issues, the Plenary called on EAG members to intensify efforts to combat the financing of ISIL and speed up the implementation of the relevant UN Security Council Resolutions.
- The Plenary removed Belarus from the EAG follow-up process, including in relation to the FATF's FT questionnaire.
- The Plenary approved the typologies reports "Pyramid Scheme-Related Money Laundering" and "Typologies of Asset Stripping in Credit Institutions"; the outcomes of the investigation "Terrorist Financing Related to Counterfeiting of Currency"; and the Guidelines on the listing/de-listing of terrorists/extremists and freezing (blocking) of their assets.
- The Plenary optimized the work of the EAG working groups and approved the following documents: the mandates of the Working Group on Mutual Evaluations and Legal Issues (WGEL) and the Working Group on Typologies and Combating the Financing of Terrorism and Crime (WGTYP); the WGTYP Action Plan and candidates for the positions of WGTYP co-chairs; and the EAG Action Plan and Activity Plan 2017.
- Participants approved the EAG Secretariat Performance Report 2016.
- As part of the efforts aimed at expanding cooperation with international and regional organizations, the CHFIU and the Eurasian Group on Combating Money Laundering and Financing of Terrorism signed a Protocol on Cooperation.
- The Plenary approved the Regulations on the Flag and Emblem of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).



The blue colour of the flag (a symbol of consistency, excellence and justice) stands for stability, security and trust. The shape of the EAG emblem symbolizes protection of its members against AML/CFT threats to their security. The white stars symbolize the capitals of the nine member states that signed the EAG Agreement in 2011.

The Seminar on Review of First FATF/FSRB/IMF mutual evaluation reports: Common Deficiencies and Best Practices was held on the side-lines of the 25th EAG Plenary. Participants studied the experience from the first mutual assessments conducted as part of the latest round, followed by a review by FATF, UNODC and EAG experts of the key trends and a discussion, among other topics, of the challenges related to the building of effective AML/CFT systems and the possibility of applying the best FATF and FSRB practices in EAG countries.

Summarizing the outcomes of the seminar, the Secretariat highlighted the need to continue the practice of analysing the shortcomings and best practices identified in FSRB reports in the context of a more narrow focus on the relevant Immediate Outcomes.



Seminar on Review of First FATF/FSRB/IMF Mutual Evaluation Reports

### III. Workshop on supervision

The international workshop "Effective Supervision as a Mechanism for Ensuring Transparency and Stability of the Financial System" was held on December 12-13, 2016 in Minsk, the capital of Belarus, for AML/CFT regulation and supervision experts of EAG members and observers. The workshop, organized by ITMCFM, was attended by representatives of the EAG Secretariat, the Financial Monitoring Department of the State Control Committee of the Republic of Belarus, and the National Bank of the Republic of Belarus, with Michael Stellini, head of MONEYVAL's AML/CFT Monitoring and Training Department, attending the workshop as an international expert.

The main purpose of the event was to share best practices in conducting AML/CFT supervision as part of preparations of EAG countries for a new round of mutual evaluations. Participants also discussed matters relating to the assessment of money laundering and terrorist financing risks, the effectiveness of adopted measures and cooperation with private sector organizations, as well as the issue of personnel training in this area. Particular attention was devoted to the experience of countries that had already undergone mutual evaluations, recommendations of expert assessors and deficiencies in the national AML/CFT systems. As an example, participants reviewed the reports of Armenia, France, Singapore, Canada, Italy and Slovakia.

The workshop ended with the drafting of recommendations for improving the effectiveness of oversight mechanisms. In particular, countries are encouraged to keep an eye on the reports issued by the FATF and FSRBs, pay more attention to the quality of submitted STRs, monitor the DNFBBPs, and communicate the findings of the national risk assessment to the private sector.



Workshop on effective supervision

## 4. MUTUAL EVALUATIONS

### 4.1 EAG mutual evaluations

The Eurasian Group officially completed the first round of mutual evaluations in 2016, which resulted in the removal of all EAG member states from the follow-up process.

The Secretariat, jointly with EAG members, commenced the second round of mutual evaluations of compliance with the revised FATF Recommendations. Kyrgyzstan, just as during the 1st round, became the first country to undergo a mutual evaluation in 2016.

Due to changes made by the FATF to the Universal Procedures<sup>1</sup>, which affected the duration of mutual evaluations and the terms of the regular and enhanced monitoring procedures, the 25th EAG Plenary approved the relevant amendments to the EAG 2nd Round Mutual Evaluations Procedures.

### 4.2 Follow-up reports

In 2016, the EAG monitored its members' progress in implementing mutual evaluation recommendations and eliminating the identified deficiencies.

Following the approval of its mutual evaluation report, each EAG member state presents its follow-up report for consideration by the EAG Plenary, setting out the measures undertaken by the country since the approval of its mutual evaluation report.

The frequency of reporting depended on the progress achieved by each country in implementing the international AML/CFT standards.

The 24th and 25th EAG Plenaries, held in May and November 2016 respectively, reviewed the follow-up reports of EAG member states as part of the procedure for their removal from the EAG follow-up process.

### EAG members' follow-up reports in 2016

#### 24th EAG Plenary meeting (May)

- Kazakhstan
- Uzbekistan

#### 25th EAG Plenary meeting (November)

- Belarus



Kazakhstan

The EAG Plenary approved the follow-up report of Kazakhstan as part of the procedure for removal of this country from the EAG follow-up process. Kazakhstan made significant progress in eliminating the shortcomings under recommendations R.1, R.5, SR.I and SR. III, by amending the country's Criminal Code and the framework AML/CFT law, and adopting other regulations (decrees of the Minister of Finance of the Republic of Kazakhstan; Internal Regulations Requirements for entities carrying out certain types of banking operations and for microfinance organizations; Freezing Procedures; Regulations on subsistence payments to individuals included on the list of organizations

<sup>1</sup> The Consolidated Processes and Procedures for Mutual Evaluations and Follow-Up

and individuals associated with the financing of terrorism and extremism). The country's compliance with the above recommendations was rated as "largely compliant".

At the same time, a review of progress made with respect to the key recommendation R. 23 (Regulation, supervision and monitoring) exposed the country's failure to achieve the "largely compliant" rating.

Factoring in the progress made in eliminating the deficiencies under the core and key recommendations, as well as under the majority of other recommendations, the Plenary voted to remove Kazakhstan from the EAG follow-up process.



Uzbekistan

The Plenary approved the 5th follow-up report of Uzbekistan as part of the procedure for the country's removal from the EAG follow-up process. Uzbekistan achieved significant progress in eliminating the existing deficiencies under Special Recommendation I, by making the necessary changes to its Criminal Code. It criminalized the theft of nuclear materials and unlawful acts against the safety of fixed platforms located on the continental shelf. This allowed assessors to conclude that the country had fulfilled the key requirements of the International Convention for the Suppression of the Financing of Terrorism and deserved the "largely compliant" rating under this recommendation.

At the same time, a review of progress made with respect to the key recommendation SR.III did not allow the Plenary to conclude that the "largely compliant" rating had been achieved.

Factoring in the progress made in eliminating the existing deficiencies under the core and key recommendations, as well as under the majority of other recommendations, the Plenary voted to remove Uzbekistan from the EAG follow-up process.



Belarus

The Plenary approved the follow-up report of Belarus as part of the procedure for the country's removal from the EAG follow-up process. Belarus achieved significant progress in eliminating the existing deficiencies under Special Recommendation III, by making the necessary changes to the country's Framework Law. Measures adopted helped Belarus address the defects especially with regard to the creation of an extra-judicial mechanism for the freezing of funds of persons involved in terrorist activities, allowing the Plenary to award the country a "largely compliant" rating under SR.III.

At the same time, a review of progress made with respect to Special Recommendation V (International cooperation) did not allow the Plenary to award to the country a "largely compliant" rating.

Factoring in the progress made in eliminating the existing deficiencies under the core and key recommendations, as well as under the majority of other recommendations, the Plenary voted to remove Belarus from the EAG follow-up process.

## 5. INTERNATIONAL COOPERATION

The EAG works closely with many international and regional organizations and institutions, holds joint workshops and trainings, and provides technical assistance to countries both within the EAG and beyond.

The Eurasian Group, a FATF's style regional body, is an associate member of the FATF and an observer in the following FATF-style regional bodies: the Asia-Pacific Group on Money Laundering (APG), the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), and the Middle East and North Africa Financial Action Task Force (MENAFATF). The Group also holds observer status in the Egmont Group and the Warsaw Convention, and a partner status in the Paris Pact.

As of 2016, the Eurasian Group signed, and continues to abide by, agreements, memoranda and treaties with the Coordinating Council of the heads of competent authorities on combating drug trafficking of the Collective Security Treaty Organization (CSTO), the Interparliamentary Assembly of Member Nations of the Commonwealth of Independent States, the Regional Anti-Terrorist Structure of the Shanghai Cooperation Organization, the Antiterrorist Centre of the Commonwealth of Independent States and the CIS Council of FIU Heads.

Given the Group's associate member status in the FATF, all EAG members, regardless of their status in this organization, participate in its work within the EAG delegation. In turn, many FATF members take an active part in the EAG's activities.

In addition, EAG representatives take part in the Plenary meetings and other activities of the APG, MENAFATF and MONEYVAL. Within the framework of horizontal experience sharing between FSRBs, a representative of the EAG Secretariat took part as an expert in the October 2016 evaluation of Mongolia as part of a new round of APG mutual evaluations.

In 2016, the EAG continued to participate in the FAFT-initiated process for the strengthening of the global AML/CFT system. Regular consultative meetings between FSRB secretariats, held in the framework of FATF Plenary weeks and dedicated to the sharing of experience in conducting typological studies and identifying high-potential areas for future work, as well as to the exchange of past study outcomes, is one of the components of this process.

In February 2016, a representative of the EAG Secretariat participated in the UN Counter-Terrorism Committee's three-day visit to Kyrgyzstan. The delegation members discussed with the representatives of the Kyrgyz authorities the implementation of various provisions of UN Security Council Resolutions 1373 (2001), 1624 (2005) and 2178 (2014) concerning legal issues, international cooperation, combating the financing of terrorism, law enforcement and border control.

In May 2016, a representative of the EAG Secretariat took part in the UN Counter-Terrorism Committee's five-day visit to Kazakhstan to assess this country's progress in implementing various provisions of Security Council resolutions 1373 (2001), 1624 (2005) and 2178 (2014) concerning legal issues, international cooperation, terrorist financing, law enforcement and border control.

One of the EAG's priorities in the Eurasian region is the development of cooperation with institutions responsible for regional integration and security, in particular the CIS, the CSTO and the SCO.

In October 2016, the EAG Executive Secretary participated in the 4th Scientific and Practical Conference on Cooperation in Combating International Terrorism and Extremism between Members and Observers of the Shanghai Cooperation Organization, organized by the Executive Committee of SCO Regional Anti-Terrorist Structure (Tashkent, Uzbekistan). The main objective of the conference was to promote thought information sharing a common understanding and approaches among SCO

members and observers, as well as its international partners, to new challenges and threats posed by international terrorism and extremism. The Eurasian Group briefed participants on its efforts to combat the financing of foreign terrorist fighters in the region, informed them about the main methods of using the Internet for terrorist financing, and tabled proposals for further strengthening of cooperation between the EAG and the SCO RATS.

### 5.1 EAG Key Event Schedule 2016

FATF activities	EAG activities	Activities of FSRBs and international organizations
<ul style="list-style-type: none"> <li>▪ FATF Plenary meeting (<i>France, February</i>);</li> <li>▪ ICRG meeting on Iran (<i>Italy, April</i>);</li> <li>▪ Joint FATF/EAG/UNODC workshop on typologies (<i>Austria, May</i>);</li> <li>▪ FATF Plenary meeting (<i>South Korea, June</i>);</li> <li>▪ FATF Plenary meeting (<i>France, October</i>);</li> <li>▪ FATF TRAIN workshop (<i>South Korea, November</i>)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Expert Group meeting on the draft EAG Budget 2017 (<i>Russia, April</i>);</li> <li>▪ UNODC/EAG expert meeting (<i>Tajikistan, May</i>);</li> <li>▪ 24th EAG Plenary meeting (<i>Kazakhstan, June</i>);</li> <li>▪ Workshop to prepare EAG members for NRA and mutual evaluations (<i>Kazakhstan, June</i>);</li> <li>▪ EAG expert assessor workshop to prepare for mutual evaluations (<i>Russia, September</i>);</li> <li>▪ Workshop for countries undergoing evaluations (<i>Tajikistan, August</i>);</li> <li>▪ UNODC/EAG workshop on automation (<i>Belarus, October</i>);</li> <li>▪ 25th EAG Plenary meeting (<i>India, November</i>);</li> <li>▪ Workshop to review first FATF/FSRB/IMF mutual evaluation reports: Common deficiencies and best practices (<i>India, November</i>);</li> <li>▪ Workshop for supervisors (<i>Belarus, December</i>);</li> <li>▪ EAG Chairman's briefing at UNCTC (<i>USA, December</i>);</li> </ul>	<ul style="list-style-type: none"> <li>▪ Egmont Group working group meetings (<i>Monaco, January</i>);</li> <li>▪ UNCTC mission (<i>Kyrgyzstan, February</i>);</li> <li>▪ UNODC expert meeting (<i>Croatia, March</i>);</li> <li>▪ MONEYVAL Plenary meeting (<i>France, April, September, December</i>);</li> <li>▪ 23rd MENAFAFT Plenary meeting (<i>Qatar, April</i>);</li> <li>▪ UNCTC mission (<i>Kazakhstan, May</i>);</li> <li>▪ APG workshop on PWMD (<i>South Korea, August</i>);</li> <li>▪ APG technical assistance mission to Mongolia (<i>Mongolia, August</i>);</li> <li>▪ UNODC training workshop (<i>Kazakhstan, October</i>);</li> <li>▪ APG mutual evaluation mission to Mongolia (<i>Mongolia, October</i>);</li> <li>▪ SCO scientific and practical conference (<i>Uzbekistan, October</i>);</li> <li>▪ MENAFATF/APG typologies workshop (<i>Saudi Arabia, November</i>);</li> <li>▪ UNCTC special meeting</li> </ul>

**FATF activities****EAG activities****Activities of FSRBs and international organizations**

on combating terrorist financing (*USA, December*);

- Joint UNRCCA/UNODC workshop on combating terrorist financing (*Turkmenistan, December*).

## 6. TECHNICAL ASSISTANCE

### *6.1 Technical assistance framework*

One of the key areas of the Eurasian Group's activities is the provision of technical assistance in the establishment and development of financial intelligence units and improving national AML/CFT regimes in EAG member states, including personnel training.

The EAG coordinates its international cooperation and technical assistance measures with specialized international organizations, agencies and countries concerned.

The main goals of technical assistance are:

- to summarize and disseminate best practices in the Eurasian region;
- to assist in the process of establishment and development of national AML/CFT systems in the Eurasian countries;
- to assist member states in building their talent pools and integrating into the EAG common system of information exchange.

Technical assistance was discussed in the format of bilateral meetings between EAG members and donors. The purpose of the meetings was to identify EAG members' needs and agree on the plans for future cooperation. The World Bank, UNODC, IMF, International Training and Methodology Centre for Financial Monitoring, USA, other originations and donor states were actively involved in the provision of technical assistance.

With a view to disseminating best practices and strengthening national AML/CFT systems, as well as in connection with the commencement of a new round of mutual evaluations in EAG countries, the EAG held joint workshops in 2016 with the FATF, MENAFATF, APG, ITMCFM, UNODC, Council of Europe, SCO, Armenia and Liechtenstein, as well as was involved in the preparation of expert assessors and EAG member states for the upcoming mutual evaluations.

The EAG Chairman initiated amendments to the procedure for the submission by EAG member states of reports on any changes to their national AML/CFT legislation, progress in conducting the national risk assessment and preparations for the EAG 2nd round of mutual evaluations. The EAG Secretariat, jointly with EAG member states, began the work on the updated version of the reporting procedure, which will allow it to assess EAG member states' needs for technical assistance and raise the quality of assistance in improving national AML/CFT systems. The Secretariat plans to complete the drafting of this instrument in 2017.

In 2016, the Eurasian Group, working jointly with ITMCFM, translated and prepared for publication the following documents:

- Revised FATF Recommendations and Methodology, with amendments as of November 2016;
- FATF Guidance on Correspondent Banking;
- FATF Guidance on Criminalization of Terrorist Financing;

FATF/FSRB New Round Mutual Evaluation Reports

- Mutual evaluation report of Austria;
- Mutual evaluation report of Singapore;
- Mutual evaluation report of Canada;
- Mutual evaluation report of Switzerland;



- Mutual evaluation report of the USA;
- Mutual evaluation report of Hungary;
- Mutual evaluation report of Bangladesh.

Updating of EAG members' framework laws on the EAG website (Russian and English versions).

## 7. ML/FT TYPOLOGIES RESEARCH

One of the EAG's main tasks is to study money laundering and terrorist financing typologies. It carries it out by organizing international events and conducting typologies research. EAG members are interested in conducting and participating in various research projects. In this regard, a list of projects completed in 2016 includes:

**Typologies of Money Laundering Related to Pyramid Schemes** (lead by Tajikistan); among the countries participating in this study are: Belarus, India, Kazakhstan, China, Kyrgyzstan, Russian Federation, Italy, Mongolia and Turkmenistan. Research participants prepared recommendations for strengthening the framework for combating pyramid schemes and improving the relevant legislation.

**Typologies of Corruption Crimes and Money Laundering** (led by Russia). Among the countries participating in this study are: Belarus, India, Kazakhstan, China, Kyrgyzstan, Turkmenistan, Tajikistan, Uzbekistan, Italy, Mongolia, Poland and Serbia. Study participants conducted reviews of typologies of corruption, prepared a generalized description of financial schemes with specific details relevant to individual sectors, and developed indicators of corruption and guidelines on their identification. The main focus of the study was on typologies of corruption and subsequent money laundering related to the procurement of goods, performance of works and provision of services in the public and private sectors, which can be used by financial intelligence units to launch self-initiated corruption investigations.

**Typologies of Illegal Asset Stripping in the Financial Sector** (led by Russia). Among the countries participating in this study are: Kyrgyzstan, Belarus, Kazakhstan, Uzbekistan, Russian Federation, Turkmenistan, Azerbaijan, Romania, the Czech Republic, Guernsey and Jersey. Study participants reviewed national regulations governing activities in the financial sector; identified the key indicators pointing to the deteriorating state of the bank's financial status and on-going illegal asset stripping; and considered steps to improve interagency and international cooperation in investigating such crimes and the role of financial intelligence units in this process.

The EAG carries out its work in close cooperation with the FATF, FATF-style regional bodies, observers and other international organizations.

A FATF/EAG/UNODC-sponsored meeting of experts on typologies was held in May 2016 in Vienna, Austria. Participants in the meeting, attended by over 170 representatives (54 delegations), including from the private sector, discussed the efforts to combat terrorist financing and cut off illicit financial flows. The event included three parallel sections dedicated to the following topics: ISIL funding management experience and strategy; cutting off funding for organized crime and professional money laundering centres; combating terrorist financing in West and Central Africa.

EAG Secretariat representatives participated the MENAFATF/APG meeting on typologies and capacity building, held in November-December 2016. The workshop was attended by representatives of law enforcement, prosecution and financial intelligence agencies and supervisors. The workshop included parallel sections on the following topics: social media and terrorist financing; e-money related money laundering; problems associating with generating corruption proceeds in foreign jurisdictions; and identification of best practices and obstacles to local inter-agency information exchange.

## 8. COMBATING THE FINANCING OF DRUG TRAFFICKING, CRIME AND TERRORISM

The Working Group on Counteraction of Financing Drug Business, Crime and Terrorism (WGCF) carried out its work from 2012 to 2016.

### *8.1 Combating the financing of drug trafficking and crime*

In June 2016, the EAG approved the summary report "Uncovering the Financial Component of the Drug Trade. Drug Trafficking from Afghanistan", whose contributors included both EAG members and observers: Belarus, India, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, Armenia, Turkey and Ukraine.

The purpose of this research was to develop country-specific measures needed improve the identification of drug-related money laundering, as well as financial institutions and countries acting as financial drug centres.

The relevance of this topic is due to the expansion of drug trafficking networks across the globe. Producing, transit and consumer countries act as links of a single chain that threatens the economic and political stability of the majority of the world's countries, strengthens the positions of international organized criminal groups and criminal networks whose activities are transnational in nature, contributes to the increase in the number of drug addicts, and results in the involvement in the trade (in the capacity of drug smugglers and small-scale drug dealers) of millions of citizens of different countries.

The report contains a general list of criteria of suspicious financial transactions allegedly connected to drug trafficking, as well as the geography of financial flows related to drug trafficking.

In November 2016, the EAG approved the summary report "Use of Companies Registered in Offshore Jurisdictions for Redistribution and Laundering of Criminal Proceeds".

The purpose of this study is to develop country-specific measures needed to successfully identify offshore jurisdictions and companies involved in the redistribution and laundering of drug money.

The report sets out the indicators of suspicious financial transactions involving the transfer of funds to offshore jurisdictions.

### *8.2 Combating the financing of terrorism*

With an eye to developing a common methodology for compiling national lists of terrorists and extremists, as well as in order to establish a universal mechanism for freezing (blocking) assets of persons involved in terrorist activities, EAG member states continued their work in 2016 to find ways to improve these mechanisms in order to increase effectiveness and improve cooperation among EAG financial intelligence units. The outcome document, entitled "Guidelines on EAG Cooperation in Freezing the Assets of Persons Involved in Terrorist Activities", is intended as a teaching aid to help financial intelligence units in solving problems related to international cooperation on the freezing (blocking) of terrorist assets, and can be used, among others, in the preparation of freezing requests to other countries targeting foreign assets of persons in respect of whom similar measures have already been taken at the national level.

Responding to the heightened interest in the Egmont Group's study on the region-specific financial profile of foreign terrorist fighters, delegations shared their experiences and best practices throughout 2016 in the use of this profile. The 25th Plenary, based on the information provided previously and questionnaire feedback, decided to prepare a summary document on the following topic: "The Common Financial Profile of Foreign Terrorist Fighters in Eurasia". The purpose of this project

is to summarize the EAG members' experiences in identifying typologies of financing FTFs, in order to highlight the specific characteristics of persons and their accomplices who may be supporters of international terrorist organizations, including ISIL, or be FTFs themselves. The study's focus on the financial behaviour of potential FTFs is designed to aid reporting entities in identifying such behaviour and minimizing threats to EAG member states.

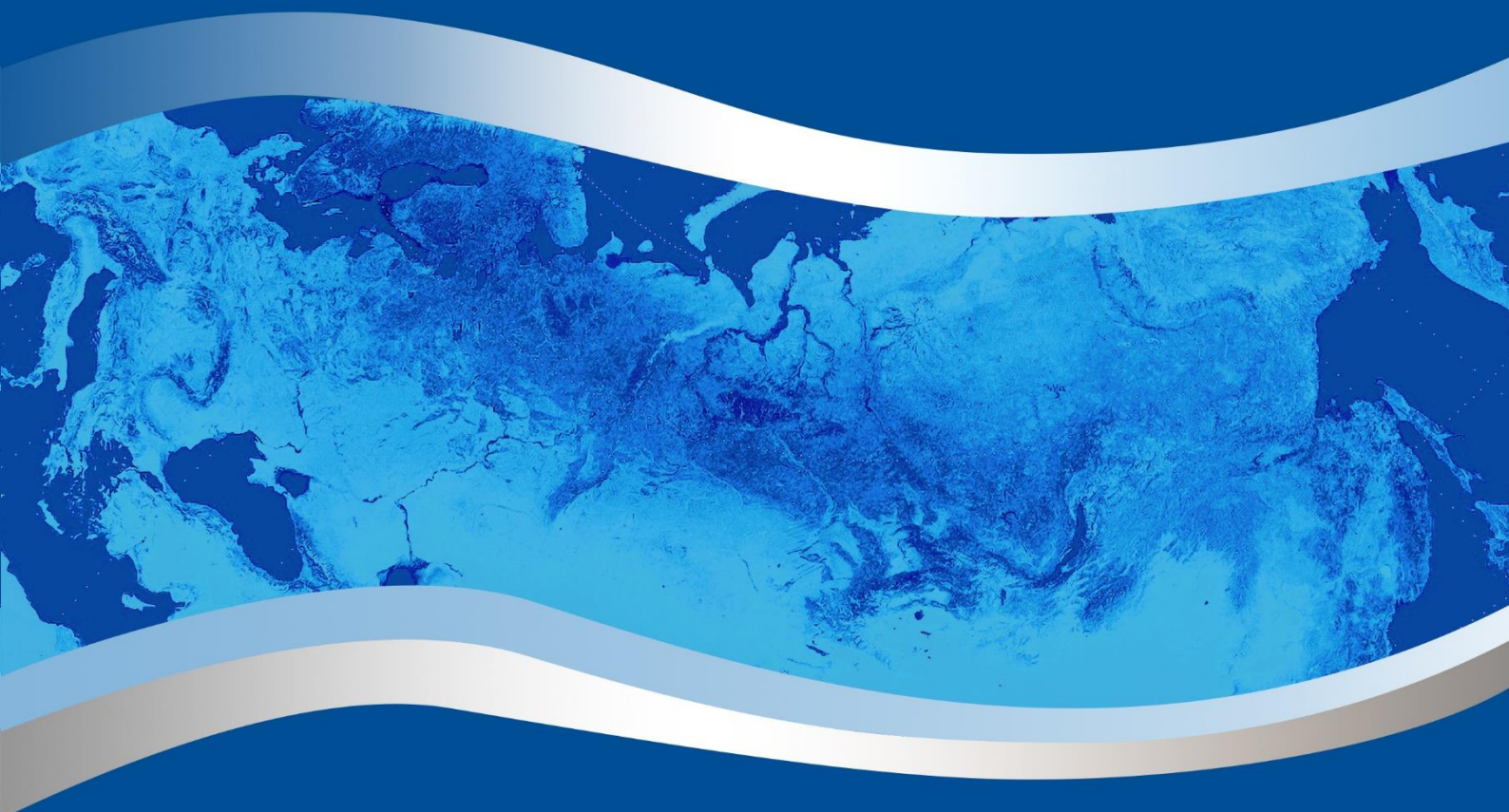
As part of the global fight against terrorist financing, the FATF, jointly FATF-style regional bodies, completed in 2016 the work to identify deficiencies in the implementation by the FATF global network participants of FATF Recommendations 5 and 6. As a result of this work, several EAG members were found to have significant shortcomings in the implementation of the said recommendations. However, already at the 25th EAG Plenary meeting, these countries briefed the Plenary on legislative amendments adopted by them to remedy the identified shortcomings. As part of the agreement reached with the UN Counter-Terrorism Committee Executive Directorate (UNCTC), the EAG Chairman held a briefing for the members of the Committee in New York (USA) on December 15, 2016.

As part of this visit, the EAG and the UNCTC signed a memorandum of understanding and agreed to hold a joint workshop on the use of targeted financial sanctions and combating the financing of foreign terrorist fighters on the margins of the EAG Plenary in 2017.

Kazakhstan, Tajikistan and China won a third contest for the best example of AML/CFT cooperation between EAG government agencies entitled "Interagency Cooperation in Conducting Terrorist Financing Investigations", held in accordance with the decision of the 24th EAG Plenary in 2016.

## LIST OF ACRONYMS

- APG – Asia-Pacific Group on Money Laundering
- WB – World Bank
- Egmont Group – international association of financial intelligence units
- EEC – Eurasian Economic Commission
- MONEYVAL – Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism of the Council of Europe
- IMF – International Monetary Fund
- MENAFATF – Financial Action Task Force against money-laundering in the Middle East and North Africa
- ITMCFM - International Training and Methodology Centre for Financial Monitoring
- ML – Money Laundering
- CSTO – Collective Security Treaty Organization
- AML/CFT – anti-money laundering and combating the financing of terrorism
- FIU – financial intelligence unit
- WGEL – Working Group on Mutual Evaluations and Legal Issues
- WGTYP – Working Group on Typologies
- WGTA – EAG Working Group on Technical Assistance
- WGOS – Working Group on Supervision
- FSRB – a FATF-style regional body
- CIS – Commonwealth of Independent States
- FATF – Financial Action Task Force on Money Laundering
- FT – financing of terrorism
- SCO – Shanghai Cooperation Organization



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