

## CHAIRMAN 'S COLUMN



*Dear colleagues!*

The forthcoming summer period will be rich on events aimed at securing the development of national AML/CFT systems and their integration into the global financial security system.

Discussion of the upcoming updates of the FATF standards will be one of the most important issues in the framework of the 14th EAG Plenary meeting. In this connection, the goal of the EAG is to attract the attention of all member-states to the need for a comprehensive work to clarify the updates to the 40+9 Recommendations.

The interactive Expert Community Forum has been launched at the EAG web-site and has become one of the new directions in the communications of the Group. The Forum gives an opportunity to involve all interested parties in the discussion on changes in the FATF standards.

Case studies and surveys have become another direction of work with the expert community. The results of one of such case studies dedicated to perception of risks and threats of money laundering by banking community are published in the bulletin.

The priority direction of the EAG work is the expansion of cooperation with other FATF-style regional groups, particularly, with the Asia-Pacific Group. Consolidation of efforts in the field of typologies, anti-corruption initiatives, as well as common approaches to the assessment of ML/FT risks and threats create the basis for long-term partnership between our groups.

**Oleg Markov**  
EAG Chairman

## EAG AND APG: PROSPECTS FOR INTERACTION WITHIN THE FRAMEWORK OF THE INTERNATIONAL ANTI-MONEY LAUNDERING SYSTEM

The Asia-Pacific Region plays a considerable role in the modern international financial system. Integration into global economic processes has made governments of the Asia-Pacific region face new threats and challenges, including those in the field of countering money laundering and the financing of terrorism.

In the 1990s, FATF made a decision to promote the implementation of AML/CFT standards in the Asia-Pacific region. In February 1997 in Bangkok (Thailand), the Asia-Pacific Group (APG) was formed as an autonomous regional anti-money laundering body. In order to coordinate the group's activities, the Secretariat of the APG was established, located in Sydney (Australia).

APG became a FATF associate member in 2006 and is one of the first and the largest FATF-style regional bodies,

have observer status in the APG.

The structure of APG has a number of specific characteristics that make it different from other FATF-style regional bodies. The group is headed by two co-chairs – an Australian representative on a permanent basis and a representative of another APG member state on a rotating basis (in 2011-2012 – a representative of India). In the 2012-2014, a Chinese representative will act as the APG co-chair. The APG Secretariat headed by the Executive Secretary includes ten permanent employees, mostly Australian citizens.

An important role is played by the Steering Group dealing with strategic coordination of APG activities. The group includes the acting co-chairs of the APG, the previous co-chair (in 2010-2011 – from Singapore) and a number of APG member

South-East Asia).

The group's activities are carried out on the basis of a Strategic Plan reflecting APG mission and goals for the nearest three years, and the Annual Business Plan that gives a more detailed overview of the APG working program.

The APG Annual Business Plan includes technical assistance in the group's jurisdictions and training programs in its member states. Within the framework of the APG, the Donors and Providers Group has been established, formed on a voluntary basis of APG member states and observers. The group meets at annual forums to discuss issues of technical assistance and consulting services on numerous problems connected with AML/CFT.

Implementation of APG Strategic Plan allows, through mutual evaluations, for the development of mechanisms to

Management of money  
laundering and financing of  
terrorism risks in the financial  
sector: opinions of the expert  
community

page 2-3

Revision of the FATF  
standards: towards  
transparency of the global  
financial system and  
the security of national  
economies

page 4

APG takes an active part in the discussions of FATF, IMF and the World Bank on the application of FATF international standards in states with a low capacity for development of national AML/CFT systems. The Asia/Pacific Group also deals with issues concerning financial inclusion.

APG provides assistance to member states having difficulties or deficiencies in developing national AML/CFT systems, in particular by organizing visiting missions. For example, a representative of the Eurasian Group

### APG jurisdictions

Australia	Cambodia	Nauru	Samoa Islands
Afghanistan	Canada	Nepal	Singapore
Bangladesh	China	Niue	United States of America
Brunei Darussalam	Lao People's Democratic Republic	New Zealand	Solomon Islands
Vanuatu	Macao (China)	Cook Islands	Thailand
East Timor	Malaysia	Fiji Islands	Taiwan (China)
Vietnam	Maldives Islands	Palau	Tonga
Hong Kong (China)	Marshall Islands	Pakistan	Philippines
India	Mongolia	Papua New Guinea	Sri Lanka
Indonesia	Myanmar	Republic of Korea	Japan

including 40 member states, among which are India and China - EAG member states. Russia and the Eurasian Group

states, representing certain geographic regions (for example, Bangladesh from South Asia, and the Philippines from

reform the national AML/CFT systems, taking into account risks and threats inherent to a particular state.

– an expert from the Russian Federation participated in one of these missions to Mongolia.

*(Continued on page 2)*

### On 14 – 17 June 2011, Moscow will host the 14th Plenary and Working groups meetings of the Eurasian Group on combating money laundering and financing of terrorism

The meeting will be attended by representatives of EAG member states - Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan, as well as by experts from countries and international organizations having observer status in the EAG.

Within the framework of EAG Plenary Week, Consultations with the private sector on "Revision of

the FATF standards: On the way to transparency of the global financial system and the security of national economies" will be held. Consultations are designed to clarify the forthcoming updates to 40+9 Recommendations.

During the 14th Plenary meeting member states are planning to sign the EAG Agreement. This agreement will establish the EAG as an intergovernmental organization

functioning on the basis of equal participation of its member states.

In addition, the mutual evaluation reports of Kazakhstan and Turkmenistan will be adopted.

On the agenda of the meeting there is the presentation of the results of projects of the International training and methodology centre for financial monitoring. These projects are aimed at rendering of information and methodological

assistance to the EAG member-states to improve the legislation in the field of AML/CFT, as well as to hold financial investigations and trainings for staff for national systems.

Participants of the Plenary meeting will also discuss the working plans of the Eurasian group for the period up to 2015, which will help to outline the strategic priorities in the activities of the EAG.

## EAG and APG: prospects for interaction within the framework of the international anti-money laundering system

(Continued from page 1)

APG maintains cooperation with other FATF-style regional bodies. In recent times, certain areas of common interest have been defined in the activities of APG and the Eurasian Group, as well as particular areas of cooperation, in the development of which both organizations are interested.

Together with the FATF, APG made substantial progress in its work on countering corruption. This area of activities is a top priority of the Eurasian Group, and could become a prospective area for cooperation.

Ensuring security of national economies of their member states and effective collaboration between them is the goal of both organizations. Combating such

relevant threats as laundering of money received from illegal deforestation and trade-based money laundering is a common task for both groups, and serves as possibility for development of joint projects.

Both groups have developed comprehensive communications strategies. The information policy of EAG and APG in the field of communications is focused

on maintaining dialogue with research experts and professionals working on AML/CFT issues.

At the annual Plenary Meeting of APG to be held at Kochi (India) in July 2011, representatives of EAG and APG are planning to discuss their joint plans, permitting them to expand their regional potential in the field of AML/CFT activities.

## Management of money laundering and financing of terrorism risks in the financial sector: opinions of the expert community

The recent financial crisis has aggravated the questions connected with maintaining financial stability of national economies. Many countries faced such problems as outflow of capital abroad and the encashment of funds.

Once again, specialists of the financial sphere started speaking of the effectiveness and reliability of the existing protection mechanisms of national economies, and above all – instruments for the detection and suppression of activities in money laundering and financing of terrorism.

In this situation, the question emerged – are credit institutions ready to assist the state in countering the current threats? On the whole, how much are credit institutions interested in detection of criminal schemes?

### Reputational risks as a threat to business stability

From November 2010 to March 2011, the Eurasian Group on countering money laundering and financing of terrorism, with participation of the Association of Russian Banks (ARB) organized a comprehensive study on the "Management of Money Laundering and the Financing of Terrorism (ML/FT) Risks in the Financial Sector: Opinions of the expert community." The research involved the heads of 90 banks, independent experts, and representatives of governmental authorities from EAG member states.

The study showed that currently the need for participation in the process of countering money laundering (AML/CFT) is evident for all financial market players. Business circles are actively forming a "mature" attitude toward money laundering activities as being criminal affairs undermining national economies and particular businesses.

At the national level, such activities degrade the investment attractiveness of a country and affect business efficiency. When speaking of particular banking establishments, the risk of using a credit institution for financial fraud is perceived as a grave threat to the stability of its operations. The inevitable consequences of a public disclosure of the facts confirming the use of a credit institution for money laundering may include the loss of trust in this bank, and refusal of its services by high profile customers. The unpredictability of illegal financial

flows and the intention to hide the real source of income, create preconditions for instability of a financial institution and its poor reliability in the long-term perspective. By recognizing serious reputation risks, banks are motivated to actively implement various mechanisms designed to detect suspicious financial transactions.

technologies, international payments, non-banking systems of money transfer, provision of services providing anonymity, transactions involving purchase and sale of bonds and precious metals, etc.

In their everyday work, bank employees pay the most careful

attention to the psychological factor as one of the main factors to evaluate their customers. The individual communication of a credit institution officer with the physical person is still an important element and the starting point in the process of making a decision on providing services to the customer. It is this stage, which is of determinative nature in servicing customers, as it helps to create a barrier to prevent a chain of illegal transactions. However perfect the software used by the bank might be, and no matter how strict legal requirements and limitations are, it is only the informal application of the risk-oriented approach that allows ensuring the maximum level of security from financial crimes at the stage of concluding a service agreement with the customer.

### FATF recommendations: guide for action

The existing FATF Recommendations serve a basis for the development of effective protection measures to protect national economies from activities of organized financial groupings.

The threat of being included into the FATF list of countries with high risk of money laundering and the financing of terrorism stimulates governments to approve new laws and regulations meant to improve effectiveness of the financial transactions monitoring system.

Credit institutions have quite rapidly reacted at the publishing of new FATF lists in February 2010. For instance, 40% of the banks considered it necessary to introduce immediately new rules and standards concerning their work with customers from the countries on the FATF list. Internal control services of 42% of the banks have introduced limitations on relationships with correspondent banks or customers from countries with high ML/FT risks. At the same time, 19% of credit institution representatives noted that the appearance of new FATF lists had no impact on their activities (no additional limitations or rules were introduced). This indicator is based on the absence of transactions with foreign customers at many credit institutions.

It is evident for most experts that one

Distribution of answers to the question: "Is there a need for development of new requirements (AML/CFT standards) for working with transactions involving internet technologies and new payment methods?"

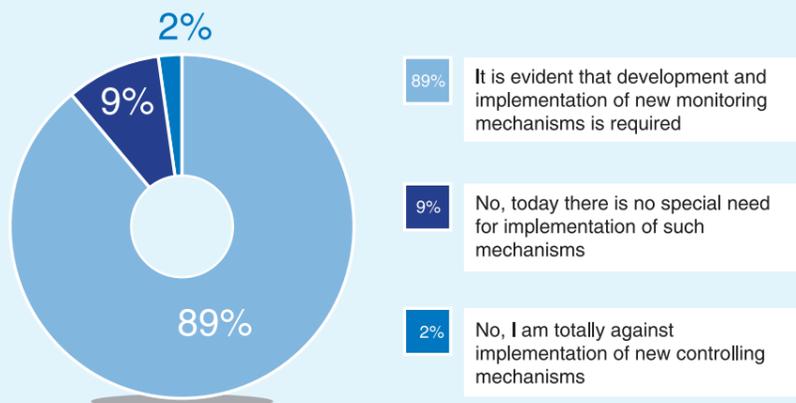


Diagram 1

### What do banks monitor?

Risks of shadow capital turnover are currently considered from the viewpoint of availability of concrete signs indicating financial transactions. Conventionally, current risks may be divided into the following groups:

- **Customer risk factors:** non-standard formats of activities, non-transparency of the customer's property structure, a large number of cash transactions, use of intermediaries in the structure of business relations, customer belonging to the political elite, establishment of customer relationships with non-commercial organizations, etc;
- **Country risk factors:** international and FATF sanctions, problems with legal system of the customer country, support and manifestation of terrorist activities, high level of corruption or other illegal activity, poor development of the financial system and the banking sector, offshore zones, etc.;
- **Product risks:** use of new

attention to risks connected with a large number of cash transactions (91%) and with transactions providing anonymity of the customer (89%). Most banks also take into account risks of working with customers who are well-known political leaders (84%), as well as non-standard forms of customer's activities (location at a distance from a financial institution, performance of transactions which are not typical for this kind of activity) (82%).

Speaking of the mechanism for evaluation of customer risks, some experts point out certain difficulties arising in the course of considering the history of customer's financial transactions. Adequate evaluation of risks in the work with a particular customer can only be ensured when applying a risk-based approach, and a permanent monitoring of transactions performed by customers from the high-risk groups.

In spite of automation and perfection of many processes related to customer risk evaluation, members of credit

of the important elements of AML/CFT system must be the struggle against corruption. However, when evaluating the effectiveness of mechanisms, which are currently at the disposal of internal control services, in their work on detection and suppression of corruption, most banking community representatives point out the need for their further improvement. About 7% of the respondents believe that internal control services of their institutions have all the necessary instruments for detection of such cases. More than a quarter (26%) of credit institution representatives believe that their internal control services do not have sufficient opportunities to detect corruption-linked transactions, which is mostly connected with receiving a corruption income in cash. For most representatives of credit institution (66%), it is evident that instruments currently used by their internal services facilitate detection of corruption schemes to a certain degree, but additional recommendations from supervisory bodies are necessary.

We can speak of the effectiveness of financial monitoring for the detection of corruption-related crimes only in the case, when such monitoring is an element of a comprehensive system of measures for the extermination of corruption as a social phenomenon, with such system including the creation of legal, institutional and organizational mechanisms.

It is evident that such mechanisms should be highly sensitive to the emergence of new patterns of money laundering of proceeds, obtained as a result of corruption activities.

#### New payment methods – new money laundering risks

The evolution of technologies applied in financial transactions, which are primarily brought on by active development of communications and oriented at attracting more new customers, may create new threats with regards to money laundering risks. Today, independent experts draw attention to the necessity of introducing statutory requirements for controls over transactions using new payment methods, especially methods involving Internet technologies.

For almost all credit institutions (90%) (*Diagram 1*), the need for development of new methodologies to assess the risks related to active implementation of Internet technologies and new payment methods is evident.

One of the tasks that regulatory bodies face today is the development of typologies for spotting illegal money laundering schemes based on new payment methods.

Among the specific proposals suggested by credit institution officers is the introduction of electronic digital signature and scanned copies of signed documents (including for transactions performed by physical persons), creation of mechanisms for control of customer identification in the remote access mode. Besides this, there is a need for improved security of customer accounts and their protection against unauthorized intrusion, which is being realized today through activation of a system

of cell phone messages informing the customer money being written off their account.

#### Risk-based approach as the basis for transaction monitoring

More than half of the interviewed banks (68%) note the importance of implementing risk-based approaches. Still, we have to point out that hopes of some credit institution officers on the chances of the process becoming much easier, due to the introduction of some standard schemes and control mechanisms can hardly be justified. Experts from regulatory bodies note that organized crime can quickly react to the introduction of new elements of control by inventing new ways to evade them.

Moreover, it is virtually impossible to use a unified approach to all customers when handling large amounts of transactions. It is only by applying a risk-oriented approach to every customer that we can ensure a high level of security for the financial system, to protect it from risks of being involved in money laundering activities. Such approach will allow banks to redistribute resources,

an obligatory requirement for all credit institutions in the nearest future, as the question of including this working principle into FATF standards is being discussed now.

#### Joint efforts – the key to AML/CFT system effectiveness

Most representatives of the banking community are interested in receiving detailed information on international experience in countering money laundering, including information on typologies, best practices, etc.

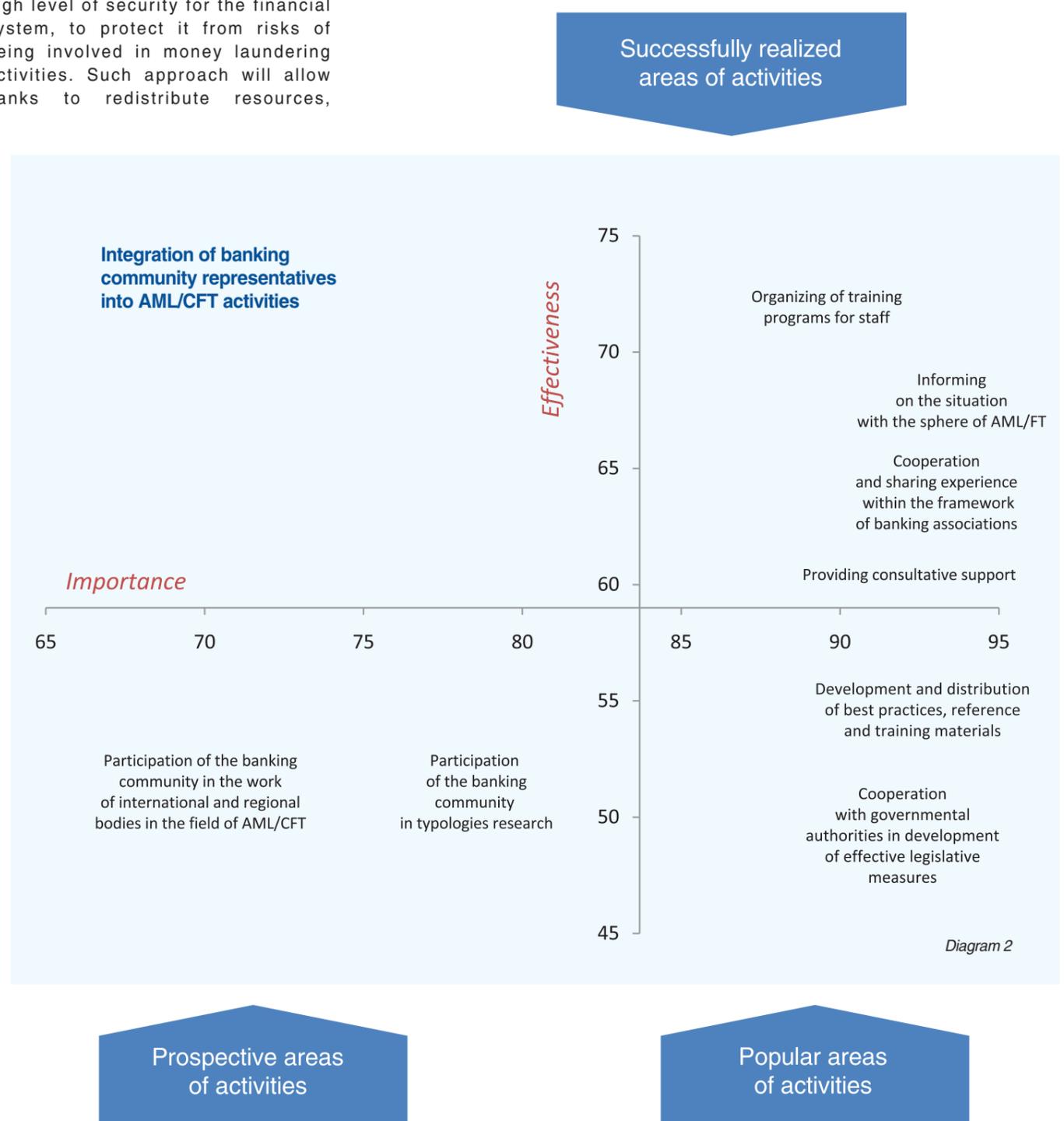
About 88% of banks see active exchange of experience within the framework of banking and financial associations and opportunities for joint search of effective means for detection of illegal financial schemes as an important element of the AML/CFT system.

For credit institutions, the most important lines in their cooperation with governmental authorities

of cooperation with governmental authorities in development of legislative initiatives on issues regarding control over financial transactions, and hope that regulatory bodies will actively use the potential of the banking community.

It is obvious that one of the main conditions for effective functioning of an AML/CFT system is coordinated interaction between all participants of financial relations and governmental authorities, acting as regulatory bodies for these processes, as well as supervisory bodies and credit institutions. High motivation of credit institutions (and most of all of their internal control services) in this type of cooperation is an important indicator of the positive dynamics of the processes taking place these days.

Result of the research showed that improved work of credit institutions in the field of AML/FT and risk management is the key to ensuring



to reduce the amount of excessive transactions in the framework of risk assessment activities, and to pay closer attention to customers with higher risks of being involved in money laundering activities. Representatives of the regulatory bodies note that the application of a risk oriented approach should become

are participation in staff training programs (representatives of 84% of banking structures find such cooperation important to a greater or lesser degree), and receiving consultative and information support (*Diagram 2*).

Most representatives of credit institutions (88%) note the importance

stability of their structure. It is evident that protection of their business reputation/goodwill and long-term stability earns them the trust of the state and their international partners, which allows them to maintain a steady position in the financial market.

## Revision of the FATF standards: towards transparency of the global financial system and the security of national economies

Currently on the world stage we face a transformation of the standards regulating the international financial system, in almost all spheres.

Work on updating the standards of anti-money laundering and combating terrorism financing is a part of these global processes, and primarily it concerns the changes of the 40+9 FATF Recommendations. The current version of the Recommendations was endorsed by more than 180 countries and jurisdictions and accepted as a universal international AML/CFT standard. This standard has been applied since 2003, and the emergence of new risks and threats require new approaches. The international financial crisis revealed special importance of the issues of transparency in the financial sector.

### Why do we need to update the FATF Standards, and what areas of AML/CFT will be changed?

The revision of the recommendations is intended to unify the approaches to counteracting economic crime, corruption, terrorism and other threats. As a result of updating these recommendations, the FATF plans to increase their effectiveness in the context of the emergence of new threats and risks of ML/FT.

Some of the most complex changes in the FATF standards are highlighted.

**The most significant innovation, which affects virtually all aspects, is the new level of implementation of risk-based approach.**

A national assessment of risks and threats of ML/FT will determine the direction of national policy in the field of AML/CFT. Reallocation of resources at all levels towards the most press-

ing risks and significant threats will increase the efficiency of their fight against money laundering. This will include both the state, in terms of supervision, law enforcement and private sector. This approach includes assessment at the national level as well as in different sectors and in each financial institution. Financial institutions will need to assess risks and threats of ML/FT as it applies to their activities and choose the most effective tools to counter them.

In general, the FATF provides for financial institutions the expansion of their obligations in such areas as:

- Identification of clients and new standards for management of the risks, associated with introducing new technologies,
- Monitoring the transactions, related to non-cooperative territories and transparency of legal entities.

The practice of applying standards in the identification area prompted the FATF to strengthen requirements for the identification of the beneficial owners of legal entities. In particular, additional requirements on studying the structure of their management and business ownership will be imposed. New identification requirements were introduced for politically exposed persons. It has been recognized at a high level of the international community that AML/CFT measures are a powerful tool that should be applied in the fight against corruption.

The FATF attaches special importance to the issue of doing business using new technologies. It was decided to single out this problem as a separate recommendation, and in this connection, to tighten the requirements in terms of new products and business practices, as well as new instruments of payments.

**The most important change, which will affect most elements of AML/CFT system, will be the consideration of tax and customs offenses as predicate to money laundering.** In the financial sector, this update affects the obligation to direct information about suspicious transactions related to such crimes.

In order to enhance the transparency of international financial transactions, the FATF is considering the possibility of changing the international financial standards in connection with identification of senders and recipients of remittances. The current standards include the obligations of financial institutions to identify the sender; the remittance should be accompanied by information about the sender. The new standards, most likely, will require financial institutions to find out more information about the remittance recipients as well. In view of the fact that such practices can have a significant impact on international transactions FATF is holding substantive consultations with the private sector.

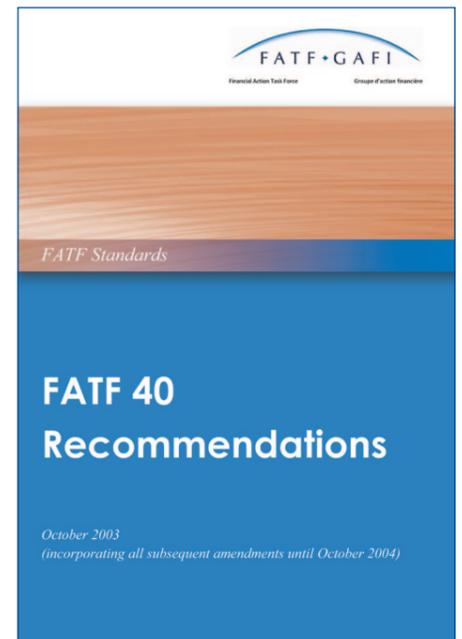
Among other issues to be considered in the context of the revision of recommendations are the powers of law enforcement, financial intelligence units, as well as international cooperation.

The FATF will review and specify possible changes to the standards subject to the discussions with the private sector, and they are expected to be completed by February 2012.

It is expected that the new edition of the Recommendations is expected to be adopted in February 2012. In the same year, an assessment methodology will be developed and implemented. Thus, the 4th round of mutual evaluations of FATF member-states will start in late 2012 - early 2013.

In the course of mutual evaluations, special attention will be paid to the effectiveness of the systems and their elements in both public and private sectors.

The issue of the evaluation of the effectiveness of self-rating is being discussed. In this connection, it is nec-



essary to mobilize the efforts of the national AML/CFT systems to enhance effectiveness. In this context, the EAG member-states should consider developing criteria for evaluating the effectiveness of national AML/CFT systems and carrying out self-assessments as one of the priorities.

Discussion of the upcoming changes of the 40+9 Recommendations will be further developed during the Consultations with the private sector of the Eurasian Region, which will be held in Moscow on June 14 in the framework of the EAG Plenary Week.

## First results of work of the EAG Expert Forum

EXPERT FORUM

Modern technologies offer substantial advantages for development of communications within the Eurasian Group. An important direction in the EAG activities to

involve a wide circle of experts in the discussions of the most relevant AML/CFT issues. The interactive EAG Expert Forum, created on the initiative of EAG Chairman Oleg Markov, is a new tool for cooperation with experts.

One of the first Forum discussions was devoted to ML/FT risks in the field of e-money turnover. This topic attracted the involvement of FIU representatives from Ukraine and Russia, as well as members of the banking community, in the discussions. The most active participants were representa-

tives of e-money systems, such as Yandex Money and others. Participation of a large number of experts in this discussion allowed attendees to see these problems from various points of view, both from the viewpoint of the need for regulation of this industry and creation of barriers for its unscrupulous members, and from the viewpoint of technical capabilities of the systems for the reduction of ML/FT risks.

Viktor Dostov, President of the Electronic Money Association, claims the Forum is a convenient instrument

for cooperation between experts.

In the short term, there are plans to start discussions on the actual practice in the application of the risk-based approach. The next stage of its development will be an English language version of the Forum, which will make it possible to involve our foreign colleagues into discussions of AML/CFT issues.

**The Eurasian Group invites all interested experts to register at the Forum and take part in its discussions. The address of the forum - <http://experts.eurasiangroup.org>**

### Editorial board

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](mailto:info@eurasiangroup.org)

Telephone: +7 (495) 950-31-46, fax: +7 (495) 950-35-32.

More information can be found on our website: <http://www.eurasiangroup.org>