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 Expert 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 countries.

The APG annual report includes a comprehensive update of the group’s jurisdiction and jurisdictional updates in national AML/CFT systems, providing 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
Afghanistan
Bangladesh
Brunei Darussalam
Vanuatu
East Timor
Hong Kong (China)
India
Indonesia
Cameroon
Cambodia
Canada
China
East Timor’s Democratic Republic
Macau (China)
Malaysia
Maldives Islands
Marshall Islands
Nauru
Nepal
New Zealand
Nue
New Zealand
Cook Islands
Fiji Islands
Fiji Islands
Palau
Pakistan
Papua New Guinea
Philippines
Republic of Korea
Samoa Islands
Singapore
United States of America
Solomon Islands
Thailand
Taiwan (China)
Tonga
Philippines
Sri Lanka
Japan

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.
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 (MLFT) 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.

**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 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.;  
- **Product risks:** use of new

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](Image 741x1111 to 946x1186)

- **2%** It is evident that development and implementation of new monitoring mechanisms is required.
- **9%** No, today there is no special need for implementation of new controlling mechanisms.
- **89%** No, I am totally against implementation of new controlling mechanisms.

**EAS 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. 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 area-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.
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 such cases, 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 methods 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 association important to their internal services facilitate 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/FIT and risk management is the key to ensuring
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 regul-ating the international financial sys-tem, in almost all spheres.

Work on updating the standards of anti-money laundering and combat-ting 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 stan-dard. This standard has been applied since 2003, and the emergence of new risks and threats require new ap-proaches. The international financial crisis revealed special importance of the issues of transparency in the fi-nancial 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 countering economic crime, corrup-tion, 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 di-rection 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 su-pervision, law enforcement and pri-vate sector. This approach includes assessment at the national level as well as in different sectors and in each financial institution. Financial insti-tutions 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 fi-nancial 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 per-sons. 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 recom-mendation, 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 consider-ation of tax and customs offenses as predicate to money laundering. The FATF recommends that it affects the obligation to direct information about suspicious transactions re-lated 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 identi-fication of senders and recipients of remittances. The current standards include the obligations of financial in-stitutions to identify the sender; the remittance should be accompanied by information about the sender. The new standards, most likely, will require fi-nancial institutions to find out more information about the remittance re-cipients as well. In view of the fact that such practices can have a significant impact on international transactions FATF is holding substantive consulta-tions with the private sector.

Among other issues to be considered in the context of the revision of recommen-dations are the powers of law en-forcement, 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 pri-vate 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 meth-odology will be developed and imple-mented. 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 ef-fectiveness of the systems and their elements in both public and private sectors. The issue of the evaluation of the ef-fectiveness of self-rating is being dis-cussed. 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 devel-oping criteria for evaluating the effec-tiveness 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 Consul-tations 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

Modern technologies offer substantial advantages for development of communi-cations within the Eurasian Group. An important direction of the EAG activities to involve a wide circle of ex-perts in the discussions of the most relevant AML/CFT issues. The interactive EAG Expert Forum, created on the initiative of EAG Chair-man Oleg Markov, is a new tool for cooperation with experts.

One of the first Forum discus-sions was devoted to ML/FT risks in the field of e-money turnover. This topic attracted the involvement of experts from Ukraine and Russia, as well as members of the banking community, in the discussions. The most active par-ticipants were representa-tives of e-money systems, such as Yandex Money and others. Participation of a large number of experts in this discussion allowed at-tendees to see these prob-lems from various points of view, both from the view-point of the need for regu-lation of this industry and creation of barriers for its unscrupulous members, and from the viewpoint of tech-nical capabilities of the sys-tems for the reduction of ML/FT risks.

Viktor Dostov, President of the Electronic Money Association.