

CHAIRMAN'S COLUMN



Dear colleagues!

From the time the new FATF requirements were adopted promotion of the renewed standards and providing assistance to all participants of the international system became the main objective of the FATF. This task is also a principal priority for the EAG. It should be solved using integrated approach both at national and regional level, revealing political will, attracting legal and government entities and private sector.

This year all the EAG events are devoted to the new FATF standards promotion. They are carried out in a close cooperation with the FATF and our regional partners.

The September joint EAG-MONEYVAL workshop, which gathered respectable international experts in AML/CFT, was very useful. It let member states get through understanding in future work on implementation of the Recommendations.

The national risk assessment is of the highest attention for all the participants of the global network. Today, various practices and methodologies are actively discussed at different grounds. Obviously, the main approaches elaborated by the FATF let build the most reasonable algorithm to carry out an assessment. However, it is necessary to discuss these issues now attracting attention of all the system participants to this problem.

I hope the workshop in New Delhi will let member states of the Eurasian group obtain new information which will be useful in carrying out an assessment.

Yury Chikhanchin
EAG Chairman

Questions for the FATF President Mr. Bjorn Aamo

In this issue we publish the answers of the FATF President Bjorn Aamo to the questions of the EAG Bulletin. Current President is a representative of Norway and headed the FATF in June 2012. The answers were received after the FATF Plenary meeting held in Paris this year

The organization headed by you this year exists for more than 20 years. The FATF presidency is entrusted to different countries for the period of one year, but still there is consistency in the policy they conduct. In your opinion, what perspectives do you see for the FATF in general and what objectives do you personally have for the period of your Presidency?

Every incoming FATF President sets his priorities for his Presidency, during his term as vice President. These priorities are discussed with the FATF members at the Plenary meeting, which allows for long term consistency and which ensures that the objectives of the President, and of the members, are consistent.

My objectives for this year have been set in June. There are six main objectives that I have set for my term. The first is the promotion and facilitation of technical and effective implementation of the revised Recommendations, as adopted in February 2012. It is important for all countries, not just FATF and EAG members, to expeditiously commence the implementation of the revised Recommendations. Countries that wait with the implementation of the revised Recommendations will be at a disadvantage when it will come to the measurement of effective implementation. I see an important role for EAG in ensuring that its members commence effective implementation.

The second objective is closely related to the first one, which is the preparation for the fourth round of mutual evaluations, including completing the work on effectiveness and the revision of the Methodology. I should note in this regard that the focus of the next round of assessments, for FATF and EAG members, will be on effectiveness. While we will still require a solid and correct implementation of the requirements in laws and regulation, there will be an additional focus on measuring if these laws are implemented



effectively. Countries will have to act expeditiously in order to be able to demonstrate satisfactory results at the time of the evaluations.

The third objective is very close to my heart, it is the further development of the global network of the FATF in collaboration with the FSRBs and the relevant international organizations. FATF, EAG and all other 7 FSRBs are working together closer than ever before, allowing us to learn from each other's experiences. This has led to the creation of a dedicated working group in FATF for issues relating to the global network.

Enhancing communication and engagement with the private sector and civil society is an equally important objective. I come from a Nordic country with a strong democratic tradition and with participation from all parts of society. I strongly believe that the FATF can only be fully successful if our work is fed by and carried forward with the active participation of the private sector and civil society. It is also important that our work is based on the continuing assessment of risk and new threats, to ensure that our scarce resources are used where they are needed the most.

Finally, with the adoption of the new mandate of FATF for 2012 – 2020 by Ministers in April 2012, I believe it is important to review and refine the FATF's organizational and working methods to enhance effectiveness and efficiency.

Currently, one of the most important global problems is drug trafficking, including the one coming from Afghanistan. This issue is

widely discussed at various global and regional forums. Moreover, there are some good examples of liquidation of illicit drug production and delivery channels. However, it would be more effective, but obviously more difficult, to block the financial flows of illicit proceeds from drug trafficking. How can the FATF help in solving this challenge from your point of view?

Illicit flows of prohibited goods pose challenges to affected countries wherever these flows appear, also in the case of Afghanistan. However, the effective implementation of the FATF Recommendations provides countries with tools to counter these illicit activities by targeting the illicit profits, the very reason for which these goods are produced and traded.

The fight against illicit proceeds is not necessarily more difficult than the fight against the illicit goods. However, it requires political will, a sound technical implementation of the FATF Recommendations, the effective use of these tools by countries, well trained staff and sufficient resources. Regrettably, while many countries have set up elaborate systems to target the illicit flows of goods, not all countries have set up similar systems to counter the flow of illicit proceeds. The number of money laundering investigations, prosecutions and convictions is still low in global terms, as are the amounts that are confiscated.

I am very appreciative of EAG's work in the Central Asian region. The technical assistance given through EAG, as well as the pressure that EAG applies with FATF to alert

EAG-MONEYVAL
Workshop

Page 2

ML/FT risk assessment:
methods and opportunities

Page 3

News

Page 4

the countries in the region of the importance to enhance their anti-money laundering and combating terrorist financing systems is important.

The new FATF standards have been adopted. What next steps is the FATF going to undertake for the evaluation of countries' compliance with these requirements?

This falls squarely within the objectives for my Presidency. The FATF is currently undertaking discussions on the revised assessment Methodology. These discussions are being undertaken with input from FSRBs including EAG. As was the case with the existing assessment Methodology, FATF, EAG and all other FSRBs will use the same Methodology to assess compliance with the revised FATF Recommendations. In addition, FATF and the FSRBs have also already commenced discussions on the evaluation and follow-up procedures. In October 2011, the FATF and FSRBs agreed on a series of High Level Principles and Objectives for FATF and FSRBs. Some of these objectives relate to the need for the global network to produce assessment reports that are comparable. For this, it is important that FATF and the FSRBs use assessment and follow-up procedures that are equivalent and ensure comparable output. For EAG members China, India and Russia, which are each members of three bodies, this is of special importance in terms of leading by example.

It is intended that FATF will commence its fourth round of mutual evaluations in the second half of 2013 and that FSRBs will follow soon thereafter. This timing underscores the need for relatively quick action by countries in order to be prepared for assessment of the effective implementation of the revised FATF Recommendations.

Continued on page 4.

EAG-MONEYVAL Workshop

The Eurasian Group and Committee of Experts on Combating Money Laundering and the Financing of Terrorism of the Council of Europe (MONEYVAL) held "Review of the FATF Standards" workshop in Strasbourg (France) on September 19-21, 2012 as part of a joint project.



The FATF representatives Richard Chalmers and Vincent Schmoll, The Egmont Group representative Boudewijn Verhelst, The World Bank expert Claudio Stroligo and other AML/CFT experts were among the main speakers at the workshop. The sterling reputation of the speakers reflects exactly how effective the event was.

In his welcoming speech to participants of the event, the EAG Chairman Yuri Chikchanchin reiterated that the international anti-laundering system had undergone a transition from extensive to intensive development. "So far, the development of the AML/CFT system has led to an expansion in the number of reporting subjects, their responsibilities have been increased, which in turn has led to an increase in the burden on both the subjects and the authorities. This burden has increased in all areas of activity in the AML/CFT field. Now I suggest that work should be targeted and organized objectively. This will help optimize the use of available resources and take preventative measures depending on the situation in the country and the level of risk in each financial market sector and non-financial occupation".

The MONEYVAL Chairman Vladimir Nechaev said in his speech at the opening ceremony he hoped that the workshop would be a practical discussion. "Participants need to think about what changes are to be made to their country's legislation and procedures. I encourage all countries to participate actively. This seminar was organized specifically with the aim of encouraging delegates to take part in an open discussion".

The format of the workshop not only included the main speakers presentations, but also drew on representatives from all MONEYVAL and EAG member states as either co-rapporteurs or discussion

participants. This facilitated a constructive assessment of current issues, while delegation representatives were engaged in discussion, actively asking questions and fervently commenting on the presentations of speakers and co-rapporteurs alike. As a result, all member participants were able to gain expert opinions on issues surrounding the implementation of the revised AML/CFT standards in their respective national systems.

The co-speakers gave comprehensive information about possible changes that would need to be implemented into national AML/CFT systems, regarding regulatory, procedural and legislative amendments in the anti-laundering sphere.

Particular attention was paid to questions involving the implementation of an AML/CFT risk-based approach. FATF representatives explained that the previous FATF standards included several general measures based on risk, but there were no requirements to understand and analyze risks or take a risk-based approach. During the 3rd round of FATF evaluations, it became evident that countries were not entirely clear on how a risk-based approach would work in practice or the benefits of employing such an approach.

The FATF gave top priority to introducing a risk-based approach, a recommendation about which came first in the reviewed standards. The recommendation is of a general nature and relates to the fulfillment of all the other standards. This means that preventative measures and the allocation of authorities' resources should be based on the risks identified.

A risk-based approach may lead to significant changes in the way the FATF Standards are met, despite the fact that in principle, it does not envisage any real changes in AML/CFT

requirements. This approach is fundamentally different to the previous rules based approach that many countries employed before the revised Recommendations were approved. By relying on the latter approach, countries would have imposed AML/CFT measures irrespective of the circumstances, i.e. applying the same principle to all cases.

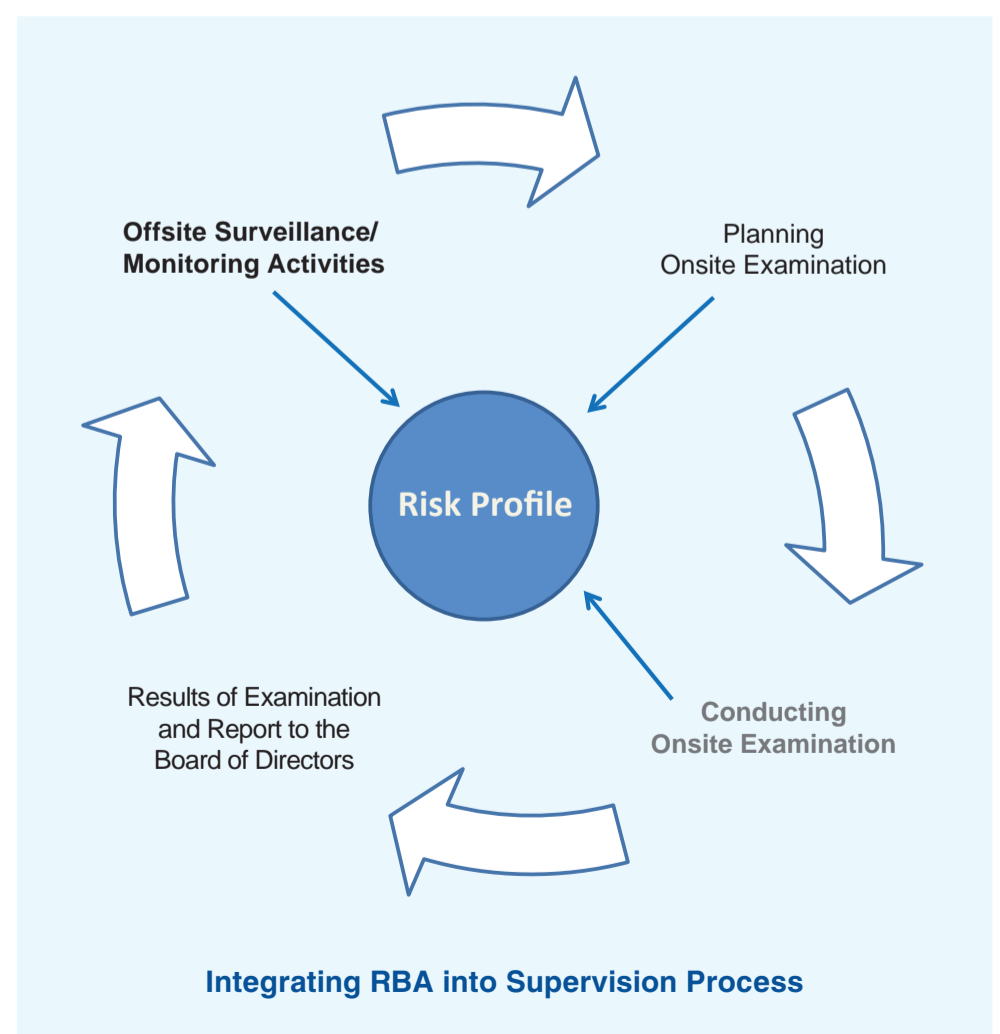
Under a risk-based approach, countries can now decide how stringent safeguards should be in one case or another and have the obligation to take tougher measures in high-risk situations. Therefore, the main aim of a risk-based approach is to optimize the resource allocation of government bodies, financial and nonfinancial institutions to combat money laundering and the

financing of terrorism. In general, this approach will lead to a more effective implementation of the Recommendations as the resources are allocated in a more substantiated way, while attention will be focused on the sectors and activities at most risk.

It goes without saying that a method based on risks cannot be applied to the fundamental legal and formal aspects of the AML/CFT system, such as for example, criminalizing of the financing of terrorism, existence of an authorized Financial Intelligence Unit and supervisory bodies in a country etc. Each such measure is a must.

On the other hand, the revised Recommendations emphasize that when employing a risk-based approach during, for example, monitoring procedures, there should be stricter requirements that the supervisory body must take into account and fulfill. The general requirements also state the necessity not only to assess ML/FT risks on a national level, but also in a specific sector or organization under surveillance. For example, a supervisory body should plan an on-site examination based on an evaluation of the risks determined during in-office audit.

The other topic that drew most interest from participants was the international cooperation of financial intelligence units (FIUs) in combating money laundering, financing of terrorism and proliferation of



weapons of mass destruction. In particular, the discussion involved a new form of global cooperation, or the so-called “diagonal” exchange of operational information and asset confiscation requests. Amendments to the way in which information is exchanged will help make the global AML/CFT/PF system more effective and transparent.

The workshop in Strasburg continued the tradition of bilateral cooperation between the EAG and the MONEYVAL, which both have mutual observer status. This tradition already goes back a number of years since the joint typology seminar on combat money flow in Internet only and money-laundering threats presented by online and mobile

payments, which was held in Moscow in 2010.

One of the most important areas of cooperation between the Groups is adjustment of the methods for the next round of mutual evaluations. Work on clarifying and implementing the FATF Recommendations in national AML/CFT systems, which is currently one of the main goals of the FATF-style Regional Bodies and governments, helps bring the Groups’ stance towards these approaches inline.

In light of the above, the seminar in Strasburg became a significant event for the EAG and MONEYVAL countries. Area of work to implement the updated standards in national legislations was firmly established.



ML/FT risk assessment: methods and opportunities

The key concept of the revised FATF Recommendations was adoption of a risk-based approach in the AML/CFT. The vast majority of recommendations imply using this approach when organizing and planning events in this area. ML/FT risk assessment ratings the starting point of this approach, as all further practical steps are based on the results of this assessment. The assessment must be carried out on three levels: for the country as a whole, for specific sectors and reporting entities.

The FATF published a report the “Global assessment of money laundering and terrorist financing threats”. The document was based on in-depth typological research and strategic FATF supervisory initiatives. The report highlights “the importance of identifying and paying particular attention to issues requiring immediate action”, and also that the report “is a tool to help governments make decisions on optimal resource usage and determining priorities for regulatory bodies and criminal justice systems”. In fact, the document served as an ideological and theoretical basis for developing the FATF national risk assessment guidelines, as it was based on the idea of effective AML/CFT resource allocation.

There are currently several approaches to risk assessment, put forward by the World Bank and IMF among others. The FATF played an active role in developing the national risk assessment guidance, making it more comprehensive and practical to use.

The FATF’s general approach is to offer each country the opportunity to determine their own method of national risk assessment. In other words, countries are not



bound to using any of the current methods. This lets each country select the method that best suits the unique conditions of that particular government, making the method easier to employ. Furthermore, countries are free to use various sources of data to conduct the national assessment. These may include a wide range of statistical data, results of expert assessments, mutual assessment results, analytical research etc.

The World Bank’s methodology (software) is one of the most popular tools for conducting national risk assessments. The 2nd version of this methodology has already been released and allows all the risk assessment procedures to be structured, whilst maintaining a certain level of freedom when selecting the source data. We would like to note that the World Bank developed a special “tool” to automate some stages of this process.

The general requirements for all national risk assessment methods used by one state or another are as follows: it should be internally consistent, be logical, understandable to those who use it, practical (contain recommendations and procedures that should be relatively straight forward to be put into practice). Using these principles, Ukraine decided to conduct a risk assessment of its own method. Representatives of Ukraine shared the experience gained from this assessment during consultations with private sector held as part of the Eurasian Group’s 16th Plenary Meeting in Moscow.

As a result, the role of FATF-style Regional Bodies (FSRBs) is increasing. The main advantage of FSRBs is their “locality”. In particular, for historical reasons the majority of EAG member states have similar AML/CFT systems.

As a result, everyone was on the same page when developing a common concept for the Eurasian Group when conducting national risk assessments. In addition, it is easier to share experience and the procedure for conducting an ML/FT risk assessment is simplified, which in turn makes it easier to carry out FSRB mutual evaluations.

A number of states in the Eurasian region have already started working on national ML/FT risk assessments. In particular, work on assessing threats and vulnerabilities in the anti-laundering system in Kazakhstan is close to fulfilment. The Group’s member states are actively studying methods of national ML/FT risk assessment.

The risk assessment of national AML/CFT systems must be completed before the 4th round of FATF mutual evaluations.

The workshop on national risk assessment in New Delhi held on the initiative of the EAG Chairman Yury Chikchanchin will let the participants exchange experience, study practice of the countries already having held such assessment and try to determine future events which may ease the solution of the task to carry out assessment by EAG member states. The International Training and Methodology Centre for Financial Monitoring organised the event. Representatives from the FATF (Valery Schilling), the World Bank (Claudio Stroligo), the Deputy Chairman of the State Committee for Financial Monitoring of Ukraine (Alexey Feshchenko), executives from the FIU of Kazakhstan and other experts have all been invited to take part in the seminar.

Continued from page 1.

This has been the first Plenary under your Presidency. What results of the meeting would you like to emphasize? How was the dialogue between the FATF and FSRBs conducted during the Plenary week? Are you planning any joint FATF/FSRBs events in the near future?

The October 2012 Plenary was very productive, and produced several important results. We have again updated our Public Statements concerning our ongoing work to identify jurisdictions that

may pose a risk to the international financial system and issued my Chairman's Summary of the major outcomes from the plenary. We also updated and revised several Guidance and Best Practice Papers. Although these papers are not binding, they contain useful information that will assist countries to correctly understand the FATF Recommendations.

FATF is a body that exercises peer pressure on its members to improve their anti-money laundering systems through mutual evaluations and through stringent follow-up

processes. In relation to Turkey, we have had to take the difficult decision to suspend Turkish membership on 22 February 2013 unless adequate counter-terrorist financing legislation is enacted.

The dialogue between FATF and FSRBs was again very fruitful. It is important to note that all FSRBs are seated at the main table, with the FATF members. FSRBs such as EAG take part in all discussions and FATF values the input. I realize that not all FSRB members have the resources to attend the FATF meetings. This confirms the importance of FSRBs as

interlocutors between FATF and non-FATF members.

Strengthening the FATF/FSRB dialogue is essential and I believe we should do as much as we can to foster that dialogue. In that respect I wish to emphasize that all our events are open to FSRBs and their members, just as FSRB events are open to FATF members. In addition we hold joint events together and will hold a joint Typologies meeting with GIABA. I will also hold a meeting of the FATF/FSRB Presidents in June at the FATF plenary in Oslo.

News

EAG Mission to Kyrgyzstan



October 5, 2012, Vice Prime Minister of the Kyrgyz Republic Djoomart Otorbaev welcomed a high-level mission of the Eurasian Group on combating money laundering and the financing of terrorism and the FATF.

The main topic of discussion was Kyrgyzstan's fulfillment of the interagency action plan approved at the FATF plenary meeting on October 28, 2011 (The plan was developed with the help of the IMF).

At the start of the meeting, Djoomart Otorbaev said that the Kyrgyz government is taking all possible measures to develop the national anti money laundering and financing of terrorism and extremism system. He told the mission that in the first quarter of 2012, the Kyrgyz financial intelligence unit was turned into an autonomous government body. In addition, a Commission comprising 17 state bodies was established with the aim of improving interagency cooperation

in combating the financing of terrorism and money laundering. Three working groups were set up as part of the Commission. They are aimed at developing draft regulations, establishing a unified position in international cooperation issues and conducting national risk assessments.

In turn, the EAG Chairman and Director of the Russian Financial Monitoring Service Yury Chikchanchin said that the Mission commended the steps taken by the Kyrgyz Government in combating money laundering and the financing of terrorism. He also expressed hope that Kyrgyzstan would tackle the drugs trade just as actively.

Both sides also discussed questions of further cooperation during the meeting, in particular concerning the FATF technical and methodological support to the Government of the Kyrgyz Republic, aimed at improving systems to suppress money-laundering transactions.

Tajikistan and Uzbekistan connect to EAG's VCS

The National Bank of Tajikistan connected to the Eurasian Group's videoconference system (VCS) on October 10, 2012. It became the fifth member of the EAG's VCS. The system facilitates cooperation and the exchange of information between EAG member states. The Group has already held a significant number of events using the system. The system already includes the EAG Secretariat, the Belarusian FIU, Kazakhstan, Russia and International Training and Methodology Centre for Financial Monitoring, which is a coordinator of the Eurasian group's events using videoconferencing.

On that date the first talks with the use of videoconferencing system (VCS) were held between the EAG Chairman Yury Chikchanchin and the head of Tajik delegation in the Eurasian group Dzhamsheed Yusufien.

Currently the preparatory work is underway to establish a connection with the Department for Combating Tax, Currency Crimes and Money Laundering at Uzbekistan's Prosecutor-General's Office. Connection to the system is expected to be done in February 2013.

Russia and China exchange AML/CFT experience

A delegation from the National Bank of China headed by the new Chinese financial intelligence unit chief (CAMLMAC) Mr Luo Yang made an official visit to Moscow on September 25-26.

The visit included a meeting with Rosfinmonitoring Director Yury Chikchanchin and the agency staff. The parties discussed possibilities for bilateral cooperation and swapped experience in anti money laundering and terrorist financing.

The delegation from the People's Republic of China also visited the International Training and Methodology Center for Financial Monitoring (ITMCFM), where they learned about the current and future plans of the Center. Mr Luo also discussed with the management of the ITMCFM possible areas of cooperation, which among other things involved holding international events, staff training, research work and developing the EAG's videoconference systems etc.

According to Mr Luo Yang, such visits help both understand the nuances of each other's work whilst increasing the effectiveness of AML/CFT systems.



Editorial board

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