

CHAIRMAN'S COLUMN



Dear colleagues!

2012 was the first year of the Group in a new format of an intergovernmental organization with its own budget and independent Secretariat.

Despite the need to solve a number of organizational tasks, the work of the EAG did not stop and all major issues were met. It was monitoring progress of national anti-money laundering systems, supported elimination of shortcomings. Meetings of working groups and plenary sessions were arranged. Mostly it is a merit of the EAG Secretariat, formed of Member States representatives.

Among organizational changes that took place last year, I would like to mention the election of the new Deputy EAG Chairman Mr. Shaktikanta Das, Additional Secretary Minister of Finance Government of India. India is a member of the FATF, and I hope, that participation of the country in EAG's chairmanship will raise the authority of EAG in international AML/CFT system. Also I would like to express my gratitude to Mr. Liu Zhengming, who held a position the Deputy EAG Chairman for two years, for his work and contribution into development of the Eurasian Group. I am sure that his work as co-chair of the Asia Pacific Group will strengthen links between the EAG and ATG.

A new methodology for assessing compliance is going to be accepted at the FATF February Plenary Meeting. This document will be the main instrument for the FATF's 4th round of mutual evaluations that should encourage national system AML/CFT to be more effective.

I wish good luck and effective cooperation in solving common issues to all members of the group and our partners.

Yury Chikhanchin
EAG Chairman

Plenary meeting in New Delhi

The 17th EAG Plenary meeting was held in New Delhi (India) on November 6-9, 2012

The heads of nine EAG member states, representatives of the FATF, the World Bank, the IMF, the SCO and observer states visited the Indian capital. One of the main aims of the event was to discuss the implementation of the revised FATF standards and review mutual evaluation reports.

It was the first time that India hosted the Eurasian Group meeting. The organizers did everything possible to ensure that the participants of the Plenary were comfortable and able to work productively, which none of the EAG delegations failed to notice.

India is an active participant of the global AML/CFT system and the FATF, APG and the "Egmont" Group member. Over the past few years, India has increased its participation in the EAG, having risen from observer to member state, then continuing to become one of the group heads.

The Indian Representative Mr. Shaktikanta Das, Additional Secretary of the finance minister of India, was elected the Deputy Chairman of the Eurasian Group at the 17th Plenary meeting. In this position he replaced the representative of the People's Republic of China Mr. Liu Zhen Ming.

Mr. Boris Toropov, who has managed the Group's Secretariat since November 2011, was elected the Executive Secretary of the EAG at this Plenary.

At the plenary were highlighted the achievements of Turkmenistan in the formation of the national AML / CFT system

and was made a decision to transfer the state with enhanced monitoring procedures to standard. At the same time, a number of States encouraged to intensify its efforts to eliminate existing strategic deficiencies as soon as possible.

As usual, AML/CFT typologies research was top of the day's agenda for the Plenary meeting. Such researches are of particular importance in financial intelligence, law enforcement and regulatory authorities and allow the private sector to focus on high-risk operations.

India, Belarus, Kazakhstan, Ukraine and Russia presented their final reports on certain



areas of typologies for 2012. Research was conducted into money laundering and terrorist financing with use of physical cash and bearer instruments, on the securities market, in non-commercial organizations, as a well as how to improve cooperation between FIUs in EAG member states in the fight against terrorist cells.

Particular attention was paid to staff training for national AML/CFT systems of the Group's member states. In a presentation from the

International Training and Methodology Centre for Financial Monitoring (Russia) were outlined the main recently implemented projects which include training staff as well as conducting and developing research. In 2012 ITMFCM continued to expand communications within the Eurasian Group. The Republic of Tajikistan was connected to videoconference system, next is going to be The Republic of Uzbekistan and other Group's member states.

A presentation from the Russian Institute of Financial and Economic Security (IFES) where students from EAG

member states studying was dedicated to the personnel training program in AML/CFT system.

An idea to create an AML/CFT education council as well as initiative to launch competition for the best student work in AML/CFT system were put forward at the Plenary.

The Group's work plan for 2013 was also confirmed within the meeting.

The main tasks of EAG in current year relate to its strategic

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goals: reduction of risks
ML/CFT on the national level,
developing of EAG capacity
as a regional organization and

Financial intelligence units discussed long-ranged projects on experience exchange

On 21-25 January the working groups meetings of the Egmont group, organization uniting more than 130 world financial intelligence units, were held in Ostend, Belgium. The event was attended by the EAG Secretariat and EAG member states representatives.

The Egmont group Chairman Mr. Boudjewyn Verhelst supported the Russian FIU Director, the EAG Chairman Mr. Yury Chikhanchin's initiative on holding a joint EAG/Egmont workshop

"Modern approaches to building and developing FIUs information analysis systems" in the framework of the forthcoming EAG Plenary week in Minsk, Belarus, in May 2013. It is planned to attract the leading experts in the IT sphere from different financial investigation units as participants of the workshop. The plenary is supposed to include a review of the issues related to usage of modern data processing methods, unstructured data search and processing, schemes visualization etc.

The initiative to hold a regional workshop on the issues of countering financial flows related to afghan opiates trafficking was also put forward and got support at the Egmont working groups meetings. The event will be held in Russian in the framework of the Egmont group Plenary week in Sun City (SAR) in July 2013.

The workshops will be arranged by the International Training and Methodology Centre for Financial Monitoring (Russia).

Results of EAG national risk assessment seminar

Risk assessment in the AML/CFT system has been a permanent fixture recently in our bulletins. The task of conducting these assessments has become even more pressing as the EAG member states turn to solving the practical planning and organizational issues of this work



Selecting the assessment methods is becoming particularly urgent. Countries have already been conducting AML/CFT risk assessment on a national level (national risk assessment NRA) for a while. They carried these assessments out guided by their own views on how to perform them. However, with the adoption of the FATF standards, the necessity to compare results from different countries has arisen, which would have been impossible without working out a common approach to conducting NRA. The EAG Chairman Yury Chikhanchin suggested holding a workshop for the Eurasian Group member states on "National AML/CFT risk assessment: methods and experience". His aim was to develop a common understanding of NRA terms and concepts, as well as goals and scope.

The workshop was held on November 5, 2012, in New Delhi (India). The organizer (the International Training and Methodology Centre for Financial Monitoring) invited a range of renowned representatives from international organizations including the FATF, the World Bank and the International Monetary Fund (IMF), who all gave interesting presentations. Talks from experts from a number of national financial intelligence units were equally as informative.

The key part of presentation made by the FATF representative Valerie Schilling was familiarization of participants with a draft of national risk assessment guidance being developed by the FATF. In particular, emphasis was placed on clarifying the main concepts of risk assessment, while the importance of training future personnel at the very beginning of the process was also stressed.

The IMF and the World Bank representatives introduced guests to various NRA models that have been tried out in several countries. The IMF approach is based on calculating risk likelihood, while the assessment procedure itself tracks the main stages in the money laundering process. The ISO international risk assessment standards lie at the foundation of this approach. The World Bank has already developed the second version of this NRA tool (known as the WB 2nd generation NRA tool), which offers a range of additional features, and allows a number of other tasks to be solved, including risk management.

Experience from various countries served as a useful example of assessing risks in practice. The Republic of Kazakhstan was the first EAG member to use the World Bank's technique to perform an NRA and is already at the results stage. A representative from Kazakhstan's FIU shared information about organizing the risk assessment process, the various stages and major difficulties the country had faced while its conducting.

Ukraine used an approach similar to that of the IMF's. The entire money laundering process was assessed using likelihood theory: the act of money laundering, the arousal of the reporter's suspicion, reporting their suspicions to the financial intelligence unit, the financial investigation, transferring the case to a law enforcement agency, criminal investigation, taking the case to court etc. The chain could break at any stage so the outcome of each step is always deemed as probable. This leads to the calculation of the likelihood of a specific risk.

India's experience was particularly informative, as there is the Interdepartmental committee consisting of the FIU representatives, law enforcement agencies, intelligence services and supervisory bodies, which deals with the NRA. The NRA was carried out in India from 2009-2011. Our Indian colleagues studied the IMF and the World Bank methods, as well as examining British and the U.S. experience. A range of questionnaires were drawn up, the answers to which were used to rate predicate offenses, identify and outline 42 ML and FT methods, as well as solve a range of other challenges. The various product and service categories in the private sector were assessed for ML vulnerability, an assessment of the role of the regulator was drawn up etc. In 2011, The Committee released a report, which served as a base for indication of signs of suspicious transactions in the private sector.

The representative of New Zealand FIU also shared experience in ML/FT risk assessment. He noted that all possible sources were used to identify potential threats: FATF and FSRB typologies, the "Egmont" Group documents, information from the FIUs of Australia, Canada, Great Britain, the U.S.A., as well as publicly available information. The experience of our colleagues in New Zealand demonstrated that there is no universal approach to risk assessment; countries must employ a combination of statistical, analytical and effective assessment methods. The Reserve Bank, the Ministry of Internal Affairs and Financial Markets Authority run the AML/CFT system in New Zealand. Each body conducts its own assessment.

The New Zealand FIU releases quarterly reports on new typologies,

which are illustrated with specific examples. The report is intended to update the information received from risk assessment. Just like the NRA report, these reports are also publicly available.

The recent research related to money laundering in general provides a grim outlook. In particular, it shows that:

- large-scale organized crime (including, drug trafficking), and therefore money laundering, will increase;
- the gap between the AML/CFT capabilities of countries will grow;
- the official financial system will be the main channel for money laundering for the foreseeable future;
- a second wave of the global financial crisis will reveal new ways of fraud and money laundering.

The workshop's participants underlined that, currently, AML/CFT system faced the challenge of preemption: determining where illicit funds will end up and not where they are at the moment. It will be impossible to solve this task without forecasting and developing various scenarios of crimes and identifying effective and reliable signs of the main elements of illegal financial cash flows: transactions, participants etc.

The New Zealand representative said that NRA reports contain information that a country's leadership will not be happy to hear, but it should be used as a tool for the responsible people to make the right decisions.

The workshop became a platform for sharing valuable NRA experience and network. The participants expressed mutual interest in continuing discussions on this issue.

15 years of MONEYVAL

The 40th MONEYVAL Plenary Meeting was held in Strasburg on December 3-7, 2012, marking 15 years since the committee was formed



The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (PC-R-EV) was established in 1997 and subsequently renamed MONEYVAL, representing another step in the development of the anti money laundering system in Europe. The main aim of this Council of Europe Committee has always been to evaluate and improve the anti money laundering systems of the countries in the region. MONEYVAL reports contain detailed recommendations on how to improve the effectiveness of national anti-money laundering and counter-terrorist financing systems.

The 15-year anniversary of the Council of Europe's Committee of Experts was marked by extending the number of jurisdictions in which it conducts evaluations of the AML/CFT system. The UK Crown Dependencies of Guernsey, Jersey and the Isle of Man were welcomed into MONEYVAL.

The following representatives from the governing bodies of the Council of Europe were special guests at the jubilee meeting: Thorbjørn Jagland - Secretary General of the Council of Europe, Claude Mignon - President of the Parliamentary Assembly of the Council of Europe (PACE) as well as FATF President Bjørn Aamo.



Secretary General **Thorbjørn Jagland** emphasized that the creation of MONEYVAL in 1997 was an important step forward in the fight against money laundering, while the anniversary provides an opportunity to look ahead and combat new threats. "To effectively fight against money laundering and the financing of terrorism" he said "States need to be bound by common standards. They need to know what to

expect of each other." The Secretary General urged all member states to ratify the Council of Europe AML/CFT conventions as quickly as possible, including the Warsaw Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, as well as the Convention on the Prevention of Terrorism.

Thorbjørn Jagland welcomed the inclusion of the UK Crown Dependencies of Guernsey, Jersey and the Isle of Man in the MONEYVAL mutual evaluation process.

He also noted that at a time when the world faces severe efforts of the financial and economic crisis criminals try to exploit the weakest links and that Council of Europe member States cannot be their entry points. "Reliance on money of criminal origin to sustain an economy is not only wrong, it is shortsighted. It will inevitably undermine confidence in the financial system of the country, thus directly undermining its economic development", he added.



In his address PACE President **Claude Mignon** talked about cooperation issues between MONEYVAL and the MPs of Council of Europe members. "Clearly, when the implementation of MONEYVAL recommendations calls for changes in legislation, it is for national parliaments to pass new laws or amend existing ones. It is important, therefore, to ensure that parliamentarians are aware of MONEYVAL's reports and the recommendations made, and are conversant with the standards on which those evaluations are based" he said. Claude Mignon also called for the participation of PACE representatives in MONEYVAL meetings, to use the opportunities outlined in the committee's statute.

The president believes that members of the national PACE delegations play a key role in this and should systematically inform the relevant national parliamentary commissions about the preparation and publication of reports. "Consideration might be given to the possibility of holding parliamentary hearings attended by government officials and experts, including MONEYVAL experts, to present the evaluators' findings to parliamentarians. This would allow better expert input at the early stages of drafting bills and legislative proposals designed to remedy the shortcomings found by MONEYVAL in its reports," he said.



In his speech FATF President **Bjørn Aamo** highlighted the important role that MONEYVAL plays in the global AML/CFT network. "This year and next year we should see an even more visible demonstration of the close co-operation between MONEYVAL and the FATF," he said. "As you know, the current MONEYVAL Chairman Vladimir NECHAEV became FATF Vice-President under the Norwegian Presidency this past July and is going to assume the FATF Presidency starting from July 2013. I've already had the pleasure of working with Vladimir for some months now, and I believe that he brings a great deal to the FATF – and to the global network – not at least due to his MONEYVAL experience. The work and experience of MONEYVAL have helped to strengthen the global AML/CFT network. MONEYVAL, through its hard work, has had an influence on how we as the global network ensure implementation of these standards by our member countries. In my view, the global AML/CFT network would not have been where it is today if it were not for this contribution. I can only commend MONEYVAL for what it has achieved over the past 15 years and look forward to its continued success in the coming years as part of the global network.

FATF Vice President and MONEYVAL Chairman **Vladimir Nechaev** expressed his gratitude that MONEYVAL's work was acknowledged by the Committee of Ministers of the Council of Europe.

"We have never been just a body which writes reports and puts them in the bottom drawer. Since the decision in the second plenary in 1998 to institute a system of progress reports, underpinned by Compliance Enhancing Procedures, there has always been an emphasis on follow up. This is what a monitoring body should be about, in my view," he said.

The fourth round of MONEYVAL evaluations was the main topic of the agenda. In particular, mutual evaluation reports of Moldova and Lithuania were reviewed. In addition, the follow up reports of EAG observer states Armenia, Serbia, Ukraine and Montenegro were heard. These countries are also EAG observers.

Participants of the Plenary paid particular attention to theoretical issues related to the adopted new FATF Recommendations, especially to developing of effectiveness methodology.

The problem of implementing the FATF Recommendations regarding the freezing and seizure of terrorist assets was also discussed. A number of issues on implementation the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS N 198) (Warsaw, May 16, 2005) were also discussed.



The presentations from the MONEYVAL Secretariat and World Bank were dedicated to creating a national risk assessment system. FATF Vice President and MONEYVAL Chairman Vladimir Nechaev informed the Plenary about the seminar dedicated to this issue, which was held in New Delhi in last November and received a lot of positive feedback from participants. The event was held on the majority of the EAG Plenary on the initiative of Eurasian Group Chairman Yuri Chikhanchin.

EAG secretariat representatives also took part in the MONEYVAL Plenary Meeting and informed the participants on upcoming Eurasian Group events. The partnership between the two groups broadens each year. The committee's anniversary year was marked by a joint seminar on implementing the revised FATF Recommendations. Vladimir Nechaev believes that the EAG is a reliable partner of the Committee of Experts in the region and has been instrumental in assisting its member states in improving and harmonizing the national AML/CFT systems.



EAG Seminar “Combating money laundering derived from the production and sale of drugs”

The Eurasian Group held an international workshop for combating money laundering derived from the production and sale of drugs on December 13 – 14, Beijing. Concept and project of the workshop were worked out by the International Training and Methodology Center for Financial Monitoring (ITMCFM)

The workshop was arranged in collaboration with the Chinese financial intelligence unit. The concept and the program were elaborated by the ITMCFM. The Chinese counterparts kindly arranged place and comfortable conditions for participants. The high level of organization, interesting presentations and active participation of the guests all led to the event being a great success.

Financial intelligence representatives, drug control, customs, national banking and national law enforcement organizations of EAG member states, as well as the Collective Security Treaty Organization (CSTO)-which has observer status-were involved in the workshop.

The main aim of the event was to identify the latest challenges and threats in the combat against drugs, as well as to search for ways to develop cooperation, given the ever-changing nature of this criminal activity.

The following dignitaries gave welcoming addresses: Deputy Director General of the People's Bank of China's Anti Money Laundering Bureau Liu Zhenmin, EAG Executive Secretary Boris Toropov and Alexander Klimenchenok, deputy director of the Federal Financial Monitoring Service (Rosfinmonitoring).

Operation “Channel”

A number of the talks at the workshop were dedicated to the cooperation between law enforcement agencies and financial intelligence units as part of the “Channel” antidrug operation, which is being conducted under the auspices of the CSTO. The main goal of the operation is to coordinate work between departments to identify and crosscheck information related to the legalization of money derived from the sale of drugs and other serious crimes in EAG and CSTO countries. To this end, information is shared about people, facts and property involved in the cross-border trafficking of drugs, psychotropic substances and their precursors, as well as money laundering. The analysis of this information helps to identify those involved in criminal activities.

The necessity of the financial intelligence units to work closely with the relevant anti money laundering bodies both during the active and intermediate stages of the operation was highlighted during the speeches. In addition, the importance of examining financial transactions associated with the production and sale of both drugs and their precursors was also outlined.



This is a relatively new task for the FIUs; combating drug precursors may also yield a result similar to that of combating the drugs themselves.

Particular attention was paid to the requirements of FIU experts working both on national and international operations. It was emphasized that the quality of work improves if FIU staff are familiar with the nature of drug trafficking and money laundering, as well as the way in which local law enforcement agencies work. It would also be preferable if an FIU representative were assigned to this area on a permanent basis. This would allow the representative to acquire the relevant experience and contribute more to the Operation. Efficient information requests from FIUs in EAG member states to their foreign counterparts in relation to those involved in drug trafficking, especially during the active phase of the Operation, would also be a significant step toward improving the effectiveness of cooperation. Representative of the Chief Executive Board of the competent authorities to combat drug trafficking in member states of the Collective Security Treaty Organization Mikhail Melikhov gave a number of success stories in the battle against drug trafficking. In particular, he noted that the participation of EAG FIUs enabled them to verify financial transactions, which were suspected to be associated with the legalization of illicit funds. During the Operation, the FIUs provided with information on 36 individuals and 1 legal entity. The active participation of Chinese representatives in “Channel”, which has observer status, was also noted.

Cooperation between FIUs and law enforcement agencies

The practical results of EAG member state work to improve cooperation

between FIUs and law enforcement agencies were presented at the workshop, while examples were given of multilateral financial investigations aimed at tackling the financing of drug trafficking, with the participation of Kazakhstan, Tajikistan, Uzbekistan, India, Belarus, Turkmenistan, Kyrgyzstan, China and Russia.

A representative of the Indian drug control authorities highlighted the problem of improving interagency cooperation in combating drug trafficking and money laundering. He briefly described legal framework and the functional responsibilities of some government authorities, presented the structure of international cooperation in the drugs combating and provided category list of reporting entities.

The AML/CFT system in India helps identify so-called high-risk individuals and legal entities, bank accounts and suspicious activity.

The representative of the People's Republic of China gave a presentation on the fundamental legal and institutional systems for combating the laundering of drug money. Previous cases have shown that drug dealers in China tend to invest illicit funds in nightclubs, roads and property (to be subsequently resold). During the investigation of one case, the police discovered that dozens of small deposits between 300 and 500 yuan were being made each day into accounts. The funds were then withdrawn when 20,000-30,000 yuan had accumulated. This is a common indicator of the sale of drugs. The case was brought to a successful conclusion when video footage caught the suspect withdrawing the funds from an ATM.

The Chinese representatives also said the internet and other advanced technologies were being used more frequently to disguise, transfer and ultimately launder money earned from

the sale of drugs. They also noticed a growth in international drug cartels. Drug smuggling organizations transfer money all over the world using financial institutions, which may include illegal private banks and bogus companies.

Our Chinese colleagues also mentioned that companies were being created for the sole purpose of laundering drug money. Money-laundering agents work for dedicated sales businesses. They make investments with the aim of laundering money and making large profits.

The Russian delegation's presentations, which included representatives from the Ministry of Foreign Affairs, the Federal Drug Control Service of the Russian Federation, FIUs and customs, were aimed at solving the main challenges in identifying the flow and movement of drug money and uncovering transactions and persons related to drug trafficking. The reports were mainly focused on the analysis methods, as well as creating the conditions (an information database) for conducting these analyses. The financial structure of businesses engaged in the drug industry identified during investigations was of particular interests. The information about international financial centers, in which drug revenue is stored and through which cash flows are redirected was just as interesting.

At the end of the workshop, participants drew up a list of recommendations for EAG and CSTO member states to coordinate cooperation and hold trainings concerning combating the drug trafficking financing. In addition, the issue of holding similar annual seminars was also discussed to ensure everyone is on the same page and to share the most effective methods for conducting international investigations and cooperation.

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”

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