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 evaluations 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 of the Ministry 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 and India 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 developing of the 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 Ministry of Finance, 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 from November 2011, was elected the Executive Secretary of the EAG at this Plenary.

At the plenary were highlighting the achievements of Turkmenistan in the formation of the national AML / CFT system 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 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 member states studying was dedicated to the personnel training program in AML/CFT system.

One of the main tasks of EAG in current year relate to its strategic integration into global system of AML/CFT. The Group is planning consultations with the private sector and further work concerning the latest FATF standards implementation. It will be also continued visiting missions with consultations about elimination of the strategic deficiencies of the Egmont member states’ national anti-money laundering systems.

The next EAG Plenary and Working group meeting has been scheduled for May 2013 in Belarus.

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. Boujdjewn Verhelst supported the Russian FilM. 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 IMF and the World Bank representatives introduced guests to various NRA models that have been tried out in different 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 stage 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 an 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 the assessment of 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 risk assessment 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.
The 40th MONEYVAL Plenary Meeting was held in Strasbourg on December 3-7, 2012, marking 15 years since the committee was formed.
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 checked and approved 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 Kirmchenok, 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” drug 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 cross-check 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 interest. 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.