

## CHAIRMAN'S COLUMN



Dear colleagues!

At the FATF Plenary Meeting that took place in Paris in October of this year, Russia, following India and China, confirmed the effectiveness of its anti-money laundering system by successfully defending its follow-up report. Now, all three EAG member states, who are also FATF members, have been moved from regular follow-up monitoring, which requires an annual report, to biennial follow-up.

This autumn, another important event for us took place in the Mongolian capital Ulaanbaatar: the joint workshop of the Eurasian and Asia Pacific groups on typologies and capacity building. In addition to strengthening the ties between these two geographically-linked FSRBs, the workshop displayed the similarities of problems and tasks that face the EAG and the APG today. Based on the event's results, we were convinced yet again of the importance of close horizontal cooperation with our neighbours in achieving common goals. The FATF notes the significance of horizontal cooperation between FSRBs in a program document approved dedicated to cooperation with FSRBs in October 2012, entitled "High-Level Principles and Objectives for FATF and FATF-style regional bodies".

Typology work in the EAG continues. Research on money laundering in the securities market, successfully conducted at India's initiative, has been completed.

The Nineteenth Plenary Meeting of the Eurasian Group that will take place in November of this year in the capital of Turkmenistan, Ashgabat, should, among other things, determine the initial steps of EAG's new management on the basis of continuing courses and Group's development strategy that we have pledged. I am certain that the national AML/CFT systems of Eurasian Group member states will continue to improve and develop for the sake of strengthening financial stability and economic development in the region.

**Yuri Chikhanchin**  
EAG Chairman

## The new President of the FATF: goals, objectives, prospects

*In this issue we publish the answers of the FATF President Mr. Vladimir Nechaev to the questions of the EAG Bulletin. Current President is a representative of the Russian Federation and headed the FATF in July 2013*

**Vladimir Pavlovich, let's start with the results of the Norwegian presidency in FATF. From your point of view, what are the key issues that remain on the agenda? What are the main achievements and challenges that the FATF faces in the year of its 25<sup>th</sup> anniversary?**

The main challenge that the FATF faces in the years to come is to ensure that all members of the FATF Global Network implement the FATF Recommendations effectively and efficiently. How well countries have achieved this goal, will become evident during the fourth round of mutual evaluations.

The start of the fourth round of mutual evaluations will be a key milestone during the Russian Presidency. The new Recommendations and the new Methodology for assessing compliance with the FATF standards and the effectiveness of AML/CFT systems were adopted under the Presidencies of my predecessors. Under the Russian Presidency, we will be putting the assessment process into practice. The FATF will focus on finalising the procedures for conducting the mutual evaluations and training the assessors. This is a crucial exercise, given that assessment teams will not only look at technical compliance with the FATF Recommendations but also have increased focus on the effectiveness of a country's AML/CFT measures. It is vitally important to have assessors within the FATF and other assessing bodies, that are able to properly apply the new Methodology and ensure that both the evaluation process and the mutual evaluation reports are consistent and comprehensive.

Equally important is our collaboration with the FATF-Style Regional Bodies and other assessment bodies as they prepare for their work using the new FATF Method-

ology. This collaboration and the development of processes and procedures to conduct mutual evaluations will help strengthen the Global Network and ensure quality and consistency of the as-

sessments conducted by the FATF, FSRBs and other assessing bodies. during the Russian Presidency and FATF and FSRBs will be encouraged to take into consideration factors related to financial inclusion in their assessment of AML/CFT systems.



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The FATF Plenary started its review of the FATF Membership under the Norwegian Presidency. The Russian Presidency aims to update and finalise a new membership policy and decide whether certain countries should be invited to join the FATF.

**At the June Plenary meeting you presented to the delegations the goals of the Russian presidency in FATF. What are your primary goals and priorities as the FATF president?**

Financial inclusion remains high on the FATF agenda

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lows those that are on the frontline of the fight against money laundering and terrorist financing to be well informed about current rules and efficient methods to detect and report suspicious transactions. FATF will convene another meeting of the Private sector consultative forum to discuss further work in formulating new guidance and typologies.

**In recent years the FATF invested best effort to build relationships with regional bodies. Please tell us what new initiatives are planned by the FATF in this area?**

The FATF's High Level Principles and Objectives for FATF and FATF-Style Regional Bodies sets the framework for the collaboration between the FATF and its regional bodies. The partnership between FATF and FSRBs can be further emphasised by organising joint plenaries. This can be particularly useful for the discussion of mutual evaluation reports of countries that are a member of FATF and one or more FSRBs. The Russian Presidency proposes to have a joint Plenary with the EAG in June 2014.

The FATF continues to work closely with the Task Force On Money Laundering in Central Africa (Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale [GABAC]) to help them achieve the status of an FSRB for the central part of Africa. We are increasingly working with the Zone Franc / Banque de France to be able to reinforce our support efforts to GABAC and other African regions that are part of the Zone Franc.



# EAG/APG Workshop: an Example of Promising Cooperation

*On September 23 – 27 of the current year the capital of Mongolia Ulaanbaatar hosted the EAG/APG joint typologies and capacity building workshop.*



**Over 250 representatives from 37 countries of the Eurasian and Pacific regions as well as from a series of international organizations registered for this event. The Mongolian Government represented by the Bank of Mongolia was the receiving party. All arrangements for the Russian Federation were made by the International Training and Methodology Center for Financial Monitoring. The Russian delegation was headed by Pavel Livadny, State Secretary and Deputy Director of the Rosfinmonitoring.**

All distinguished guests stressed the importance and significance of that impressive event at their welcoming speeches. Mr. B. Dzhavkh-

lan, the First Deputy of the Governor of the Bank of Mongolia, underscored in his opening speech: "The fight against money laundering and terrorist financing is impossible without smoothly running cooperation that facilitates sharing of opinions and contributes to more efficient crime detection. I believe that this workshop will strengthen our relations."

Mr. G. Hook, the APG Executive Secretary, particularly noted the similarity of the EAG and APG tasks: "This is our first joint event, though these two FSRBs have had close ties for a long time: we have several common member-states and observers, we have common borders, common tasks and common challenges we are facing in combating money

laundering and terrorist financing." In turn Mr. B. Toropov, the EAG Executive Secretary, stressed that the workshop is laying foundation for further development of the positive interaction of two FSRBs: "Typologies research and capacity building are important components of our work. I am confident that we will be able to find a great number of common points, common interests, to share our expertise and elaborate necessary decision."

After the opening ceremony the workshop agenda was briefly reviewed. Representatives of the EAG, APG and FATF talked about the objectives, tasks and activity of their organizations in typologies studies. Then, participants could listen to

specific presentations: Money Laundering Investigations and Mongolia Challenges (the speaker was Mr. G. Erdenbat, Mongolia), Gold Turnover in China (the speaker was Mr. Chzhan Yan, the People's Republic of China), Financial Flows Connected with Illicit Afghan Drug Production and Trafficking and Related Money Laundering and Terrorist Financing (the speaker was Mrs. A. Bobylkova, the Russian Federation).

Typologies workshop sessions ended on September 25 with the presentation of the findings and at the same day the APG/EAG capacity building workshop started.

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The issues of corruption, gold and drug trafficking, non-commercial organizations, and electronic money are topical for both FSRBs. This event confirmed to the full extent that the EAG and the APG can cooperate and in a very efficient manner despite of certain differences in the format of such fora. For instance, the EAG will formally join the gold turnover research conducted by the APG only in November this year at its 19<sup>th</sup> Plenary meeting though de facto these studies are already in place.

Some important agreements were reached during this event, inter alia the arrangement of joint research of financial flows connected with drug trafficking in Oceania, as well as the issues concerning the so-called Golden Triangle located in the APG region, but as drug sales are cross-border, it is necessary to combat it together. Agreements on collaboration expansion in national AML/CFT mutual evaluations of member-states of both FSRBs and on assessors sharing for its conduct were reached.



## Gordon HOOK — The APG Executive Secretary (Australia):

We intend to expand the APG membership. Under the Charter, we are enabled to accept all countries within the Asia/Pacific region, and each such country has the right to apply for the APG membership. In particular, we are conducting negotiations

with such countries as the Democratic People's Republic of Korea concerning the membership and observer status. We are also in active communications with another three countries: Micronesia, Tuvalu and Kiribati.

I am confident that the APG members will be glad if we receive the application from the Russian Federation. Russia is represented in the Asia/Pacific region and our Plenary meeting unanimously approved its admission as an observer. The APG co-chairmen discuss from time to time the question of the full membership of Russia and all related observations I have heard by now were positive. I know that Russia is a member of other international organizations — the FATF, MONEYVAL, EAG, but it is not an obstacle to become a member of the APG — China and India are members of the FATF, EAG and APG at the same time. I cannot speak for all APG members, but my personal opinion is the following: if Russia joins the APG, it will play a positive role in our work.

I believe that the APG has the closest relations just with the EAG among other FSRBs: we have common members and observers, and we have overlap in our tasks. This workshop is the first event organized jointly with the EAG. All comments and opinions I heard about it were very encouraging. This week on multiple occasions we have exchanged opinions about the workshop with Boris Toporov, the EAG Executive Secretary, and came to the common conclusion that this is the first step in a series of further events. They can have other forms — workshops, training, and even joint annual Plenary meeting of both FSRBs. We also discussed the possibility to bring EAG experts into APG mutual evaluations and vice versa. We are not only looking forward to this opportunity, but we will also facilitate such exchange for the good of our common cause.





## AML/CFT and New Technology – Understanding of Virtual Currencies

The item of AML/CFT and New Technology – Understanding of Virtual Currencies was discussed on the joint EAG/APG workshop. The approaches to that issue were represented by several countries' authorities including Australia, Canada, and the USA. A representative of the Russian Association of Electronic Currency read a number of informative reports.

As put at the workshop, virtual currency allows persons to keep and exchange the value in electronic form. It is important that it's impossible to call any virtual currency as "foreign", besides, in legal terms, it is not quite clear what a "money transfer in virtual currency" is.

The speakers suggested the following virtual currency classification:

- centralized and decentralized virtual currency.
- convertible and non-convertible virtual currency.

It should be noted that non-convertible currency is the currency of online games. In terms of potential money laundering, this "money" is deemed low-risk money, so there is actually no need to consider it.

Centralized currency is easier regulated since there is an administra-

tor who may be held responsibility for abidance by the requirements of AML/CFT regime. The weakness of centralized currency is that the administrator may be located in the country with inadequate AML/CFT regime. Besides, the administrator may conspire with a person involved in money laundering and/or financing of terrorism. It was emphasized that there were no restrictions as to the amount of transfer using virtual currency, since an individual may open an unlimited number of accounts.

The discussion automatically was centered round Bitcoin as it's the most popular decentralized digital currency. Curiously enough, analysis of statistics (by countries) of Google requests searching for Bitcoin web sites shows that the USA take the greatest interest to this currency.

Describing Bitcoin, Russia's representative noted that the currency is still not widely spread in the country. In his opinion, the system lacks a user-friendly interface, which hinders financial availability of the digital currency. In this regard, other participants noted that numerous add-ons are generated to make Bitcoin operations easier. It also said that Canada introduced special ATMs to enable exchange dollars and Bitcoins.

The thorniest question in virtual money systems is the subject of regulation and – in case of favorable decision – raises the question how to organize the supervisory activities. It was underlined that payment systems were not classified as digital currency systems. They are deemed to be governed by tried and tested regulation system.

As for monitoring of AML/CFT legislation, the USA rely on the following. Organizing monitoring in Bitcoin exchange offices and exchangers is pretty easy. Exchange offices may operate in personal mode or online. In the USA, exchange offices and exchangers have been subject of primary financial monitoring for a long time, and they know well the procedures for customer due diligence, operations

monitoring, submission of suspicious transaction reports to financial intelligence units. FinCEN has organized receipt of reports on Bitcoin operations, 189 reports were received from "depository" and major online payment systems.

Summarizing the discussion of Bitcoin-related issues, it may be noted that the system still has been distinguished by relatively small range of transactions. Everything may change if the volumes grow, and then – in the context of great financial flows – risks of use for ML/TF purposes may increase. Stakeholders still waiting what will happen in Bitcoin, how it's going to develop – will it pass away, take its own niche or become a popular means of accumulation of funds and payment.



### The first meeting of the FATF to be held under a Russian presidency took place on 16-18 October 2013



At the meeting, progress reports on Russia and New Zealand were discussed and approved. These states moved from regular to biennial follow-up in light of substantial progress and success at addressing significant deficiencies.

The question of further working with countries that are not working to address significant deficiencies in their anti-money laundering systems by February next year and will not be able to move from regular follow-up was also discussed. It was decided that specific steps regarding each of these countries will be examined individually with consideration for remaining deficiencies.

At the Plenary Meeting, considerable emphasis was devoted to the situation in countries on the FATF watch lists that have serious problems with AML/CFT. Morocco and Nigeria were removed from the lists.

The decision was taken to send review teams to Antigua and Barbuda, Bangladesh, Nepal, and Vietnam (a positive outcome of the review teams' visit would be the prerequisite removal of the countries from the lists). Progress was noted in Kyrgyzstan and Tajikistan's work on addressing deficiencies.

FATF decided to continue studying the question of the organisation's possible expansion.

At the meeting, the completed typography reports in the following areas were approved for publication:

- Financing of terrorism in West Africa (jointly with GIABA).
- The role of Hawala and other providers of similar services in AML/CFT.
- Laundering money and financing terrorism through the diamond trade (jointly with the Egmont Group).

On the eve of Plenary Week, a joint meeting of FATF experts, the G20 Anti-Corruption Working Group, OECD and other international organizations was held in which the Best Practices Paper: The Use of the FATF Recommendations to Combat Corruption review process was discussed among other issues. The review process, approved by the FATF Plenary Meeting, was published on the organisation's website.

Approval of the procedures for the fourth round of FATF mutual evaluations that will begin starting next year became a significant part of the future work of FATF and FSRB.

Recommendations by the FATF President regarding future work in compliance and enforcement were offered and approved at the Plenary Meeting. The first interim results of this work will be discussed in February.



# The Outcome of the Russian Chairmanship in the EAG

*It has been two and a half years since the signing of the Agreement on the Institutionalization of the Eurasian Group on Combating Money Laundering and Financing of Terrorism as an International Organization with the Secretariat as Its Standing Body*



Our timeline began with the signing of the Agreement at the 14<sup>th</sup> EAG Plenary meeting (July 2011, Moscow) at the initiative of O.A. Markov, the Chairman of the Eurasian Group, and at the time an assistant to the President of the Russian Federation. The 15<sup>th</sup> EAG Plenary meeting (Xiamen, China, November 2011) elected Yu.A. Chikhanchin the Chairman for a two-year term. In November 2013, at the 19<sup>th</sup> EAG Plenary meeting in Ashgabat Russia is to step down and transfer the chairmanship to India.

Two years ago we developed the document titled The Action Plan of the EAG Chairman Yu.A. Chikhanchin for 2011–2013; now we can look back and take stock of what goals we managed to achieve, and to what extent.

## **Consolidation the positions of the EAG member states in the global and Eurasian AML/CFT systems.**

The EAG member states are provided with expert support at the working groups and the FATF Plenary meetings. One of the primary EAG achievements in this respect is the removal of Turkmenistan from the FATF enhanced monitoring routine (exclusion from the so-called grey lists) in June 2012, as well as providing effective assistance to Kyrgyzstan and Tajikistan.

## **Boosting efficiency and enhancing the impact of our expert missions, consultations, seminars, trainings for the purpose of advancing the implementation and effectiveness of the national AML/CFT systems of the EAG member states.**

Specialists from Russia, Belarus, Kyrgyzstan, and Tajikistan acquired significant practical experience in the EAG Secretariat. Topical workshops conducted right before Plenary meetings became a tradition. Besides Moscow, these workshops were hosted in India, Belarus, and a regional workshop on terroristic asset freezing is currently being prepared to be held in Ashgabat, November 2013. Overall, we can say that the weight of the EAG within the global AML/CFT framework has significantly increased in the last two years.

## **Active work in the framework of the EAG in combating the financing of drug trafficking, crime and terrorism.**

In the autumn of 2012 we created the Working Group on Combating Drug Trafficking, Crime, and Terrorism which is active in many areas of information interaction between financial intelligence units. In addition, the Working Group settled the foundation for the agenda of the Council of FIU Directors of the CIS member states, and achieved solid practical results with respect to countering criminal activity. A number of EAG observers take an active part in the Working Group.

## **The preparation to the upcoming rounds of the FATF and EAG mutual evaluations, active participation in the development of methodology materials within the FATF and FSRB, enhancing assessors training, and methodology support of the EAG expert activity, implementation of new technologies in the work of assessors.**

The preparation for regular FATF and EAG evaluation rounds centers inter alia on the development of new EAG mutual evaluation procedures, which while largely based on the FATF evaluation routines retain a certain degree of regional specifics. In October 2013 the FATF is going to adopt its procedures, and the EAG is planning to use them as the foundation for its own mechanisms to be adopted at the 19<sup>th</sup> Plenary meeting. In anticipation of the next round of evaluations the EAG will be organizing training for assessors, and educational workshops for member states. It is noteworthy that the overall level of AML/CFT competence of the EAG delegations has increased considerably, while some of the heads of delegations have been acknowledged as world-class experts.

The EAG Secretariat has switched over to the fully digital document workflow, which allowed us to advance our responsiveness in interaction with the delegations. The EAG serves as the platform for designing documents for the new round of mutual evaluations, and discussions between the EAG member states and observers on the current issues, that are far from being simple if one takes

into account the long-term effect of the regulations and documents we adopt, as well as the new FATF methodology which expands the scope of mutual evaluations to the efficiency of national AML/CFT systems, while previously it covered only technical compliance.

## **Intensification of work with the EAG member states and observers for the purpose of enhancing their participation in the EAG activities and providing technical assistance within the EAG framework.**

The EAG Secretariat invested its efforts in developing partnership with the MONEYVAL (a joint seminar in 2012), the APG (a joint workshop on typologies held in September 2013, in Mongolia), and the MENAFATF (a joint workshop on typologies is being considered for 2014). A series of workshops with other FSRBs is a good example of horizontal partnership within the FATF family. We exchange best practices even with the groups that do not have an observer status with the EAG, for example with the West African GIABA.

We have had working meetings with the secretariats of the FATF, APG, MONEYVAL, and MENAFATF, that led to a number of agreements on the intensification of horizontal cooperation, potential joint events, joint typological research, experience and best practices exchange, and exchange of experts in the course of mutual evaluations.

Mongolia has recently become the EAG observer, and Mongolian public servants were trained in the International Training and Methodology Center for Financial Monitoring.

We actively use our videoconferencing system for joint meetings and roundtables with representatives of financial intelligence units and supervisors from the EAG member states.

The EAG collaborates with the UN agencies, as well; for instance via a series of regional workshops and missions of the UN Counter Terrorism Committee (CTC). The EAG observer states have been showing increased activity, Turkey, Poland, Lithuania, and Mongolia deserve a special mention.

## **Launching new typology research within the EAG system that takes into account the revised FATF Recommendations, and the new AML/CFT risks.**

Events organized by the EAG serve as a reliable source of current information on the recent initiatives and typology work.

The EAG even expanded its initial plans in this respect: at the 19<sup>th</sup> Plenary Session the group plans to join the APG research on the production, transportation, and marketing of gold.

The EAG works on the most vital typology subjects, for instance the off-shore issue. There is extensive research initiated by the Russian Federation on the topic of the financial flows related to Afghani drug trafficking. This effort is undertaken by a number of interested countries - members of the FATF and EAG. In addition, we completed the laundering money through stock market research headed by India.

Upon the completion of every event the EAG Secretariat prepares and disseminates reports and reference materials (in English and Russian), that provide the EAG member states with the opportunity to study the issues we discuss and decisions we make.

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In conclusion, it should be underlined that the EAG Secretariat that is headquartered in Moscow, has grown into a full-fledged executive body of an international organization, where representatives of the EAG member states work on a continuous basis, which deepens the interaction within the group. We continuously work to advance the qualification of our Secretariat employees, and clearly define areas of responsibility among them.

Today the EAG Secretariat is a stable international structure that solves issues far beyond the subject matter of its events. The Secretariat has its own budget, which allows it to cover administrative and technical functions. The EAG Secretariat is a regular participant of the FATF Global Network Coordination group that advances the cooperation between the FATF and FSRB's.