

## CHAIRMAN'S COLUMN

### Dear colleagues!

Ensuring economic stability and security both at the national and international levels is impossible without an active participation of the private sector and civil society institutions.

The experience of FATF and FSRBs shows that the effectiveness of applying international standards and developing a system for combating money laundering and financing of terrorism is directly connected to the degree of involvement of civil society in AML/CFT processes. A specialized study devoted to this problem was conducted with the participation of experts from the Eurasian region. The results of this research are presented on the pages of our latest Bulletin.

The outcomes of this study allow us to conclude that society today recognizes the reality of the threats and the scope of penetration of "dirty" money into the legal economy, and therefore, the private sector is interested in ensuring transparency of financial flows.

This research has shown that it is necessary to increase awareness of the measures being taken in the field of combating money laundering and financing of terrorism in order to ensure the active participation of business and civil society institutions in consolidation of their efforts with those applied by the government.

This was the central issue discussed at the November FATF Public Consultations Forum held with representatives of the private sector. This issue of the Bulletin highlights the work done during that Forum.

**Oleg Markov**  
EAG Chairman



## Kyrgyzstan is developing national AML/CFT regime in collaboration with the EAG

*Joining the EAG has become a first step for Kyrgyzstan on the way to formation of a comprehensive anti-money laundering and combating the financing of terrorism system. At the same time the Eurasian group started its work on mutual evaluations with assessing the regime of Kyrgyzstan which became the first country to undergo this procedure.*

The Kyrgyz Republic was among the EAG founding states which signed the Declaration on the establishment of the Eurasian group in Moscow on October 6, 2004. Since 2005 a financial intelligence unit (FIU) has been operating in Kyrgyzstan. The Kyrgyz State Financial Intelligence Service is an administrative-type FIU which is an independent executive body.

Pursuant to the Law on AML/CFT and the statute on the service, the financial intelligence unit has signed interagency agreements on mutual cooperation and the provision of information to the National Bank of the Kyrgyz Republic, the State Drug Control Service of Kyrgyzstan, the State Financial Police and other agencies.

The Law on Combating Money Laundering and Terrorist Financing came into force in the Kyrgyz Republic on November 8, 2006.

The EAG mutual evaluation of Kyrgyzstan was finalized



in June 2007. The Kyrgyz Republic will present its 5th follow-up report at the 13th EAG Plenary.

In the past two years national AML/CFT legislation has been considerably enhanced in accordance with the recommendations of the EAG mutual evaluation. In the framework of these amendments customer due diligence and beneficiaries' identification measures were strengthened for financial institutions. The National bank of Kyrgyzstan has been authorized to inspect the organization of internal control procedures of currency exchange bureaus and report

to the State Financial Intelligence Service.

Collaboration with its foreign colleagues and international organizations is an important part of the work of the Kyrgyz FIU. The financial intelligence unit has signed agreements and memorandums of cooperation and mutual support with a number of foreign FIUs.

The State Financial Intelligence Service is a member of the Egmont Group.

Generally Kyrgyzstan has been actively developing its national AML/CFT regime and has achieved significant progress in this area.

### CHRONICLE OF EVENTS

- **2004** – Kyrgyzstan joined the EAG.
- **2005** – Financial Intelligence Service of Kyrgyzstan was created.
- **2006** – The Law on Combating Money Laundering and Terrorist Financing of the

The role of civil society in the development of AML/CFT systems – results of a survey of experts

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Kyrgyz Republic was adopted.

- **2007** – Kyrgyzstan underwent EAG mutual evaluation.
- **2008** – Kyrgyzstan hosted the VIII EAG Plenary meeting.
- **2009** – Following the decision of the parliament of Kyrgyzstan the State Financial Intelligence Service gained additional powers. In particular it was granted access to databases of other state agencies.
- **2009** – the Kyrgyz FIU joined the Egmont Group.

## Consultations forum with the private sector: discussing the revision of the FATF Recommendations

*In a series of consultations with FATF experts representatives of the business community analyzed the recommended amendments to the international AML/CFT standards.*

In November, a two-day Public Consultations Forum was held in Paris by FATF. The event was attended by specialists from credit and financial institutions, professional associations in the insurance and security markets, as well as lawyers, notary officers, accountants, auditors and representatives of non-governmental organizations.

The purpose of the forum was to discuss the proposed amendments to the FATF standards, which are being revised prior to the fourth round of mutual evaluations. In his speech at the opening ceremony of the Forum, FATF President Luis Urrutia, noted that the proposed revision of the Recommendations should result in refinement of the standards and their improved effectiveness, in the light of the most pressing threats and risks.



A public consultations format, with participation of the business community that applies international standards in their everyday working practice, allowed for a constructive dialogue between the private

sector and supervisory bodies. "I believe that consultations will provide an opportunity for further strengthening of cooperation between the FATF and its partners," stressed Luis Urrutia.

During the forum, participants discussed a number of proposed amendments to the 40+9 FATF Recommendations including inclusion of tax crimes into the list of predicate offences for money laundering, introduction of enhanced monitoring of financial activities of national PEPs (equally with foreign officials), implementation of risk-based approach by the private sector and supervisory and law enforcement authorities, as well as expansion of the requirements for monitoring of transactions with the use of new electronic technologies and Internet payments.

FATF will continue consultations with the private sector during the coming year as well, keeping in mind how significant such an approach is for preparing a new edition of the Recommendations.

**Nadezhda Prasolova**, EAG expert and Rosfinmonitoring official who took part in the consultations, agreed to comment on the Forum discussions:

*"The conditions in which the global AML/CFT system is operating, and the challenges it is facing, are constantly changing and that is why the need arose to review its current standards. The forum participants are all interested in forming unified international approaches to defining key concepts that will be used in the new edition of the Recommendations, such as "tax crimes", "national PEPs", "electronic money", etc. Results of the consultations will allow to formulate the standards in a more precise manner, and adjust these to the possibilities of their practical application by all financial and non-financial institutions responsible for implementing AML/CFT measures."*

# THE ROLE OF CIVIL SOCIETY IN THE DEVELOPMENT OF

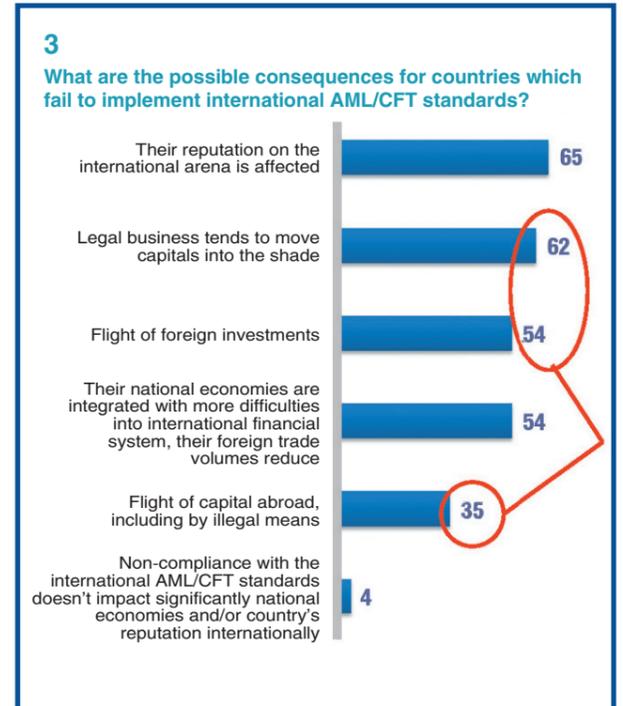
A group of independent analysts have conducted a survey of experts – leaders of financial companies and institutions of higher education, leading economists, representatives of international and public organizations of the Eurasian region. The theme of the survey was “Combating money laundering: an economic reality or a political necessity?” The goal of the study was to determine the degree of integration of civil society institutions, in the Eurasian region, into the system of combating laundering of proceeds of crime. A total of 60 experts participated in the survey.

## MONEY LAUNDERING – THE REALITY OF THE THREAT

Survey results indicate that most public institutions perceive that the risks associated with money laundering as being one of the factors destabilizing the economic and political situation in the state. Even

vidual agencies as a convenient tool in the struggle for spheres of economic and political influence (13%).

Only a small group of experts believes that the work on AML/CFT has a formal character today, or provides significant economic costs (10%). This position of the experts, whose working activities involve direct or indi-



those experts who do not view money laundering as a real threat to the country's economic development do not deny the seriousness of the problem. This small group of respondents perceives problems related to money laundering as one of the manifestations of a dysfunctional socio-political system of society.

Assessing the importance of activities related to the formation of effective mechanisms for AML/CFT, experts primarily singled out factors affecting the stability of the financial and political system of the state. The most significant results of an effective AML/CFT system the experts feel should be the increased transparency of the economic system and a reduction of the share of the shadow economy (81%), the formation of a positive political image of the state (73%), increase of investment attractiveness of the country (54%), accelerated integration into the global economy (52%), and improving the quality of public administration (44%). Experts also rated quite highly the degree of influence of the AML/CFT system on the security and stability of business (46%) [See figure 1].

At the same time, some experts acknowledged that the introduction of controls to achieve AML/CFT often leads to some technological difficulties for the reporting institutions; in particular, it makes it difficult to process financial transactions (21%). However, the proportion of respondents who felt that the regulation in the AML/CFT field, to a certain extent, prevents the efficient carrying out of legitimate business, is very small (4%).

Among the factors complicating the successful countering of money laundering, experts pointed out the use of mechanisms for money laundering by indi-

rect links with the risks of money laundering, points out a lack of awareness in certain professional and social groups about the impact of AML/CFT measures. The basis for such prejudice is that the information about specific cases, identifying money laundering and terrorist financing, is kept secret from the public - which is due to objective reasons and the need to maintain confidentiality of the investigation and execution of financial transactions.

## IGNORING STANDARDS OF AML/CFT – WHO LOSES?

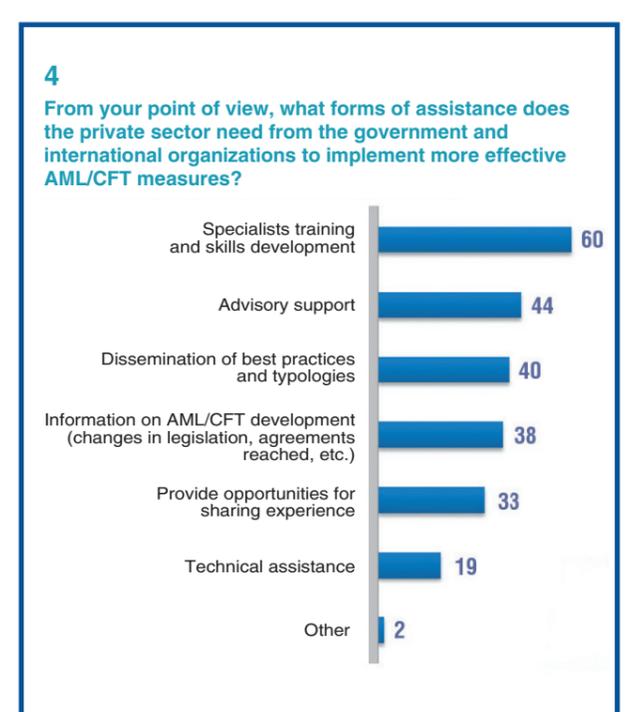
There is a connection between the consequences of non-compliance with AML/CFT standards by private companies and the political image of the state.

A full 60% of the experts do recognize the obvious connection between the reputational risks for businesses and non-compliance with AML/CFT standards. In addition to this, the private sector may face problems such as difficulties in dealing with partners (50%), and limitation of correspondent relations with foreign financial institutions (48%). Moreover, failing to observe standards by large financial institutions leads to a reduction of positions in their international rankings (37%) and threatens the stability of the business community as a whole (50%) [See figure 2].

According to experts, the passivity of the private sector towards AML/CFT issues is detrimental to the reputation of the country and the operations of its financial institutions. Among the most significant negative effects, the experts noted the decline in prestige in the international arena (65%), increase in the proportion of the «gray economy» and shadow capital (62%), the reduction of foreign trade and the outflow of foreign in-

vestments (54%), and capital flight (35%). It is obvious that having such indicators of economic development, the country's businesses will face a number of objective obstacles to development [See figure 3].

Both the representatives of the business community and government officials are interested in ensuring civilized conditions exist for financial activities. According to the experts, currently, the responsibility for forming such relationships lies with the state. Such



# AML/CFT SYSTEMS – RESULTS OF A SURVEY OF EXPERTS

## 5 In what way can civil society institutions and independent experts contribute to AML/CFT processes?



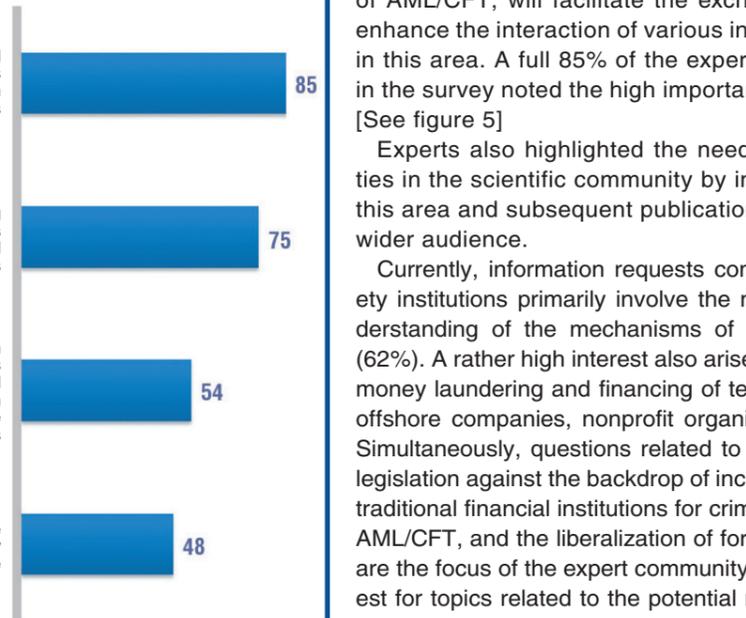
**Government sector expert:**  
"we lack "face-to-face" communication with other experts in the information society"

They can participate in public forums, conferences, panel discussions, etc. organized by the EAG and other organizations in the regions as well as carry out their own AML/CFT related events

They can participate in elaborating approaches and recommendations on ML/TF risks mitigation for financial and non-financial sectors

They can conduct research on AML/CFT related topics (including drug trafficking, illegal migration, corruption, human trafficking, piracy, etc.) and distribute the outcome and best practices

They can participate in the EAG interactive expert community of the EAG website



forms of support in the private sector as training of specialists (60%), providing advice (44%), dissemination of best practices, explaining the legislative framework, and regulating the activities related to AML/CFT, will promote social responsibility in the private sector and increase stability and transparency of national economies [See figure 4].

## IS CIVIL SOCIETY AN ALLY OR JUST AN OBSERVER?

Realizing the positive impact of AML/CFT activities on the successful functioning of various subsystems in society, not all experts acknowledge the need for the active participation of various social institutions and groups in activities focused on the laundering of pro-

ceeds of crime. About 38% of the surveyed experts hold the view that civil society cannot have a major impact on increasing the transparency of the financial system, nor create barriers to curb criminal activities related to fraud in the financial sector and terrorist financing.

Inadequate assessment of the value of civil society's participation as a subject of AML/CFT activities, at this stage, may be considered as an additional potential for its involvement in the formation of effective barriers to launder "dirty" money.

The most popular forms of involvement of civil society in AML/CFT is to conduct activities that contribute to enhancing dialogue among all participants in socio-economic relations. Roundtables, conferences and seminars devoted to the discussion of problems

of identifying and minimizing the risk of ML/FT, and issues devoted to the development and implementation of AML/CFT, will facilitate the exchange of views and enhance the interaction of various institutions operating in this area. A full 85% of the experts who participated in the survey noted the high importance of such events. [See figure 5]

Experts also highlighted the need to promote activities in the scientific community by initiating research in this area and subsequent publication of the results to a wider audience.

Currently, information requests coming from civil society institutions primarily involve the need for a clear understanding of the mechanisms of financial monitoring (62%). A rather high interest also arises in topics involving money laundering and financing of terrorism schemes by offshore companies, nonprofit organizations and others. Simultaneously, questions related to the development of legislation against the backdrop of increasing risks of non-traditional financial institutions for criminal schemes of the AML/CFT, and the liberalization of foreign trade activities, are the focus of the expert community. There is also interest for topics related to the potential risks of participation in new forms of financial relations, such as electronic payments, alternative remittance systems, etc [See figure 6].

Significantly, the respondents displayed high interest in subjects which are directly related to the consumer financial services market. This demonstrates the significant potential of a greater involvement of the civil society in AML/CFT.

Under present conditions, a sufficiently effective form of integration of professional capacities in AML/CFT may be to organize an online community, bringing together leading experts in this field. About 48% of experts consider such a format of professional communications as being the best, promoting the ongoing exchange of views of experts from various countries. The first steps to create such a community have already been taken through the EAG Internet portal. All professionals who are interested in participating in AML/CFT activities have the opportunity to become members of the EAG Expert Club by simply registering on the official website.

## 6 Which expert fields and research topics in the focus of the FATF, EAG and other international organizations are most interesting for civil society institutions and the scientific and financial expert community?



## Recent events



### G-20 adopts unified approaches to fighting corruption

They are based on the UN Convention against Corruption, which the participants of the G-20 Summit in Seoul committed to ratify.

They also called upon FATF to continue its work on analyzing the possibilities of implementation of the current AML/CFT framework to combat corruption. This initiative is among the FATF priorities under the Mexican presidency in 2010-2011. In its framework a Reference Guide and Information Note on the use of the FATF Recommendations to support the fight against corruption was published late October.

The revision of the FATF standards which is being conducted prior to the IV round of mutual evaluations will also provide for more effective countering corruption. This is due to enhanced standards of customer due diligence and identifying beneficiary owners as well as introducing enhanced monitoring of financial activity of national PEPs.

As a result of the G-20 Summit, the FATF was also proposed to regularly inform the G-20 countries on the situation in high-risk and non-cooperative jurisdictions.

In order to strengthen the global efforts to combat money laundering the participants of the Summit agreed to apply effective measures to prevent and identify the facts of transfer of illicit income abroad and implement mechanisms to return the illegal capitals. In this regard special international tools should be implemented to provide for exemption of the assets and information disclosure, including those which are already applied in the framework of mutual legal assistance.

### The Kyrgyz FIU develops interagency cooperation in AML/CFT

The State Financial Intelligence Service of the Kyrgyz Republic signed a memorandum of mutual cooperation and information exchange with the State Drug Control Service of Kyrgyz-

stan in November. The document was signed by the Chairpersons of the two agencies – Gulmira Shakirova and Vitalyi Orozaliev.

The main purpose of the agreement is to enhance cooperation of the two state agencies in anti-money laundering and terrorist financing. It will provide for better operational cooperation and information exchange. It also envisages organizing personnel training for the agencies as well as other law-enforcement and supervisory bodies.

The State Financial Intelligence Service of Kyrgyzstan has signed a similar agreement with the national General Prosecutor's Office.



### China shuts down 500 underground banks in 8 years

Chinese police authorities had shut down 500 underground banks since 2002 in the national battle against money laundering.

In order to provide for effective AML/CFT measures tools for interagency cooperation are being implemented in China with participation of the People's bank of China, Ministry of Public Security, Supreme People's Procuratorate, Supreme People's Court and other agencies.

China also attaches great attention to international cooperation in AML/CFT. It is a member of FATF, EAG and Asia/Pacific Group on Money Laundering (APG).



### Russia to strengthen currency regulations for foreign trade operations

The Ministry of Finance of Russia published draft amendments to the



national AML/CFT framework law and law on currency regulations. These amendments are aimed at creation of a comprehensive financial monitoring mechanism for import and export of goods and services.

The proposed amendments are due to introduce more severe sanctions for gaining no profit from abroad and implement enhanced control of operations which surpass 6 mln rubles.

These measures become ever more relevant given the general concern of the international community regarding spread of ML/TF schemes to foreign trade transactions.

### Kazakhstan will enhance national legislation aimed at combating hostile takeovers

The parliament of Kazakhstan approved in the first reading a draft law

on amending the national legislation for combating illegal business takeovers.

The draft law suggests introducing criminal liability for hostile takeovers in the Penal Code including at its early stage. It will also expand the definition of a "corporate argument".

The national legislators are also planning to amend the law "On bankruptcy" by banning realization of bailed property once the external observation procedure has been introduced.

### The EU calls for joint efforts to fight terrorism and transnational crime

The EU will elaborate a comprehensive strategy for combating terrorism and transnational crime and enhancing coordination of individual countries in this field.

This initiative was announced in Brussels by the EU Commissioner in charge of Home Affairs Cecilia Malmström. According to the Commissioner, exemption of criminal proceeds is crucial for conducting effective fight against organized crime.

The announced antiterrorist programme consists of 41 items and will be implemented within the next three years. As Malmström pointed out, it is important to devise unified regulations of financial flows in order to block the channels aimed at supporting terrorist activities. She also mentioned only that income from illegal drug trafficking in the EU surpasses 100 bln euros annually.



## EAG Expert Community

The Eurasian group on combating money laundering and financing of terrorism unites the countries in Eurasia to join their efforts in the fight against economic crimes and the threat of international terrorism. The eight member

states of the EAG include Belarus, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan. 17 countries and 15 international and regional organizations have observer status.

The EAG is creating an interactive expert community in order to discuss the current issues and share experience with the aim of bringing together specialists in the field of financial monitoring, financial security, law, banking technologies and others engaged in global AML/CFT processes.

The opportunities created by the EAG portal allow experts to hold interactive forums, carry out research and discuss the current AML/CFT initiatives.

We welcome all experts that wish to join us in this work to fill in a form at [www.eurasiangroup.org](http://www.eurasiangroup.org) (follow the "Expert Community" link).

### 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

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