

COMMITTEE OF EXPERTS ON THE EVALUATION
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THE FINANCING OF TERRORISM (MONEYVAL)

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Anti-money laundering and counter-terrorist financing measures

Armenia

**Fifth Round of Mutual Evaluations
1st Regular Follow-up Report
Summary Report**

July 2018

Follow-up report



The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism - MONEYVAL is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems. Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

The 1st Regular Follow-up Report (FUR) on Armenia and the Summary Report (SR) in ANNEX A were adopted by the MONEYVAL Committee at its 56th Plenary Session (Strasbourg, 2-6 July 2018).

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Armenia: 1st Regular Follow-up Report

I. INTRODUCTION

1. The mutual evaluation report (MER) of Armenia was adopted in December 2015. As agreed at that time, Armenia already reported back on a selected recommended action made in the report (regarding Recommendation 7) at MONEYVAL's 53rd Plenary in May-June 2017. The present follow-up report analyses the progress of Armenia in addressing the technical compliance deficiencies identified in its MER. Re-ratings are given where sufficient progress has been made. This report also analyses progress made in implementing new requirements relating to FATF Recommendations which have changed since the MER was adopted: Recommendations 5, 7, 8, 18 and 21. Overall, the expectation is that countries will have addressed most if not all technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Armenia has made to improve its effectiveness. Progress on improving effectiveness will be analysed as part of a later follow-up assessment and, if found to be sufficient, may result in re-ratings of Immediate Outcomes at that time.

II. FINDINGS OF THE MUTUAL EVALUATION REPORT

2. The MER rated¹ Armenia as follows:

IO 1	IO 2	IO 3	IO 4	IO 5	IO 6	IO 7	IO 8	IO 9	IO 10	IO 11
ME	SE	ME	SE	SE	ME	LE	LE	SE	SE	SE

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
PC	LC	LC	LC	LC	LC	PC	LC	C	LC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
C	PC	C	C	C	C	C	C	C	C
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	LC	C	LC	LC	LC	C	PC	C	LC
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
PC	C	C	C	LC	LC	LC	LC	LC	C

3. Given these results, Armenia was placed in regular follow-up. The assessment of Armenia's request for technical compliance re-ratings and the preparation of this report were undertaken by the following Rapporteur teams (together with the MONEYVAL Secretariat):

- Liechtenstein
- The Slovak Republic

4. Section III of this report summarises the progress made to improve technical compliance. Section IV sets out the conclusion and a table showing which Recommendations have been re-rated.

¹ There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

III. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

5. This section summarises the progress made by Armenia to improve its technical compliance by:

- a) Addressing the technical compliance deficiencies identified in the MER, and
- b) Implementing new requirements where the FATF Recommendations have changed since the MER was adopted (R.5, R.7, R.8, R. 18 and R.21).

3.1. Progress to address technical compliance deficiencies identified in the MER

6. Armenia has made progress to address the technical compliance deficiencies identified in the MER. As a result of this progress, Armenia has been re-rated on Recommendations 1, 7 and 8.

Recommendation 1 [R.1] (Originally rated PC – re-rated as LC)

7. In its 5th round MER of 2015, Armenia was rated PC for R.1. The main factors underlying the technical rating related to the following findings of the evaluators: Armenia did not properly identify and assess its money laundering (ML) risks, since insufficient consideration was given to certain threats and vulnerabilities; law enforcement and DNFBP² supervisory authorities (other than the Ministry of Finance) had not allocated resources on a risk-sensitive basis to prevent or mitigate the relevant ML risks identified in the national risk assessment (NRA); an assessment of risks was not used to justify the use of simplified measures; DNFBP supervisors were not in a position to ensure that DNFBPs implement their obligations under R.1.

8. Based on the decision of the *Standing Interagency Committee on Combating Money Laundering, Terrorism Financing and Proliferation Financing* (hereinafter referred to as the Interagency Committee) from June 2017, the following areas have been analysed, *inter alia*, in the framework of the NRA analytical update: money laundering threats and trends; latent criminality; shadow economy and cash circulation; as well as corruption (both as a contextual factor within the broader framework of combating crime and as a predicate offence). The representatives of the private sector and a large number of authorities, including self-regulatory organisations, were involved in the update of the NRA. Different sources of information have been used for the revision of the NRA, including information from the financial intelligence unit (FIU) databases, law enforcement authorities, supervisors, reporting entities and self-regulatory bodies (SRBs), as well as independent/external reports from international organisations. The updated analysis also considers the vulnerability of different types of legal entities which can be misused for ML and predicate offences.

9. From the information and detailed explanations provided it can be concluded that the first deficiency has been dealt with in a very comprehensive manner, by implementing an extensive strategic action plan fully supported by the Government. From a risk and materiality perspective, all major categories of threats and vulnerabilities have been (re-)assessed with a large number of competent authorities contributing to this exercise. In addition to this well-coordinated and strategic approach a large number of private sector entities from both financial institutions as well as DNFBPs have been included in this exercise. In order to fully assess whether or not Armenia has now properly identified and assessed its ML risks, a comparison to the ML risk situation prior to the 5th round onsite-visit would need to be drawn (which is not possible from a desk-based review). From

² Designated non-financial businesses and professions.

the information provided, however, and considering what actions have been taken in the meantime, Armenia's identification and assessment of its ML risks seems adequate.

10. Based on the outcomes of the NRA, there has been an increase of human resources (both investigators and prosecutors) and focus (specialisation) in investigation and prosecution of predicate offences (together with ML) identified as the main threats for ML (as required by criterion 1.5). However, no information was provided on the additional resources allocated to DNFBP supervisory authorities on a risk-sensitive basis to prevent or mitigate the relevant ML risks identified in the NRA.

11. The new amendments to the Law on Inspections provide adequate powers for DNFBP supervisory authorities to conduct inspections, with the exception of the Chamber of Advocates (as supervisor of lawyers) which is not listed in that law and thus does not have the powers to conduct inspections. Based on a study conducted by the FIU in coordination with the involved public agencies, the authorities prepared the *DNFBP Risk-Based Supervision Concept* which considers DNFBPs' activity in terms of a number of characteristic features and provides the factors considered for determining the methods of supervision and the scope of supervisory measures with regard to each type of DNFBP under the guiding principle "as needed and required". With the technical amendments stipulated in the Law on Inspections and the above-mentioned concept paper for risk-based supervision of DNFBPs, a clear legal foundation has been implemented in relation to this recommended action point. Despite the remaining above-mentioned deficiency, the deficiency under criterion 1.9 has been mostly addressed.

12. **The majority of deficiencies identified in the MER have been addressed, notably with regard to criteria 1.1 and 1.9. As the original PC rating in the 5th round MER of 2015 was mostly due to the deficiency under criterion 1.1 (and its cascading effect on the other criteria), Armenia has implemented this recommendation to a large extent. The remaining deficiencies under criteria 1.5 and 1.9 are minor shortcomings. On that basis, R.1 is re-rated as LC.**

3.2. Progress on Recommendations which have changed since adoption of the MER

13. Since the adoption of Armenia's MER, Recommendations 5, 7, 8, 18 and 21 have been amended. This section considers Armenia's compliance with the new requirements in these three Recommendations. In addition, the analysis also covers Armenia's progress with regard to the deficiencies identified in the MER in respect of these recommendations.

3.2.1 Recommendation 5 [R.5] (Originally rated LC – no re-rating)

14. In its 5th round MER, Armenia was rated LC with R.5. The deficiencies related to the fact that not all acts which constitute an offence within the scope of and as defined in one of the treaties listed in the annex to the *International Convention on the Suppression of the Financing of Terrorism Convention* were covered by the financing of terrorism (FT) offence. Moreover, criminal liability did not apply to legal persons.

15. By May 2018, Armenia had not yet addressed the first deficiency, which notably concerns the criminalisation of offences stipulated in the *2010 Protocol Supplementary to the Convention for the Suppression of Unlawful Seizure of Aircraft* and the *2010 Convention on the Suppression of Unlawful Acts Relating to International Civil Aviation*. With regard to the criminal liability of legal persons, Armenia has provided draft amendments to its Criminal Code, as part of a broader and more fundamental revision of its Criminal Code, which would introduce such liability. The

amendments had however not yet entered into force at the time of the 56th MONEYVAL Plenary in July 2018.

16. In February 2016, R.5 was amended to require countries to criminalise the financing of the travel of foreign terrorist fighters. Armenia does not yet have a separate offence for the financing of the travel of foreign terrorist fighters. However, the country provided draft amendments for a new FT offence (“Financing of terrorism or any form of supporting terrorism”) to be introduced as a new Article 292 of the Criminal Code which would explicitly criminalise the supporting of travelling for the purposes of carrying out or participation in the training of terrorism. On the understanding that such support also includes financial support the current draft would meet the requirements of criterion 5.2.*bis*. While these amendments are not yet in force, the present FT offence under Article 217.1 (“Financing of terrorism”) may in the meantime be broad enough to capture this conduct, although no corresponding conviction had been obtained since the adoption of Armenia’s 5th round MER of 2015 to confirm this in practice. In any event, Armenia is encouraged to implement the current amendments to the Criminal Code as soon as its legislative procedures allow.

17. In this context, it should be noted that the provided draft amendments to the Criminal Code, which would introduce a new FT offence as Article 292, provide for an exemption from the FT criminal liability for “whistle-blowers” whose information to the state has led to the prevention of a terrorist act. It is suggested that the Armenian delegation seeks further guidance on whether such an approach would be consistent with the general requirements under R.5 before enacting the amendments in their current form.

18. **On that basis, R.5 remains at the current level of LC.**

3.2.2 Recommendation 7 [R.7] (Originally rated PC – re-rated as LC)

19. In its 5th MER, Armenia was rated PC with R.7. The main factor underlying the technical rating related to the fact that the legal basis for the implementation of targeted financial sanctions related to proliferation - Article 28 of the AML/CFT Law³ - could be open to legal challenge. The reason for this was that Article 28 of the AML/CFT Law required the freezing of property of “terrorism-related persons designated by UNSCRs”, and there is a clear conceptual difference between terrorism and proliferation. Therefore, the evaluation team in the 5th round MER of 2015 considered that criterion 7.1 was partly met and, being the core criterion under Recommendation 7, the overall rating at the time was PC despite the fact that all the other criteria had been met.

20. Amendments to the AML/CFT Law enlarged the scope of the law which now refers also to the “freezing of property of the persons related to the proliferation of weapons of mass destruction”. The law also includes definitions of “proliferation-related person” and “lists published by or in accordance with the United Nations Security Council resolutions”, which includes a reference to lists of terrorism-related or proliferation-related persons published by or in accordance with the United Nations Security Council resolutions. Moreover, the amended title of Article 28 now refers to “freezing of funds of persons related to proliferation of weapons of mass destruction”. The amended provision includes an obligation to apply freezing with regard to property owned or controlled, directly or indirectly, by persons included in the lists published by or in accordance with the United Nations Security Council resolutions. Relevant amendments have also been incorporated in other provisions of the AML/CFT Law to include references to targeted financial sanctions relating to proliferation financing. However, while supervision over reporting entities for their compliance with

³ Anti-Money Laundering and Counter-terrorist Financing Law.

the requirements of the AML/CFT Law (i.e. now expressly including TFS related to proliferation) is generally provided for in Article 29 of the AML/CFT Law, paragraph 2 of that provision refers to onsite inspections to review compliance with the requirements “to prevent money laundering and terrorism financing” only. While Armenia is in the course of also widening the scope of applicable secondary legislation with regard to proliferation, currently minor shortcomings remain. **This Recommendation is re-rated LC.**

3.2.3 Recommendation 8 [R.8] (Originally rated LC – re-rated as C)

21. In June 2016, R.8 was significantly revised, rendering the analysis for that recommendation in Armenia’s 5th MER of 2015 as outdated. For the purposes of this report, Armenia has provided information to demonstrate its compliance with the R.8’s new requirements.

22. Armenia provided an analytical update of its 2014 NRA, which covers the period 2014-2016. The updated version contains a new (and previously uncovered) chapter on “Risk of terrorism financing abuse of non-profit organisations”. It concludes that non-profit organisations (NPOs) operating in Armenia, which meet the FATF definition, are exposed to a low risk of FT abuse. By coming to such conclusion, the updated NRA has taken into account NPOs’ key characteristics; the current regulations on their state registration, accountability and supervision; the outcomes of the analysis of their interrelations with higher risk countries; as well as the absence of favourable conditions for terrorist activities and terrorist financing in Armenia. The country has considered a large number of available information and performed an in-depth and comprehensive assessment of the relevant part of the NPO sector in order to support its conclusions. As the NPO sector analysis is part of the standard structure for NRAs approved by the Interagency Committee, all future reiterations of the NRA (at least once in three years) will reflect on this sector and hence ensure a periodical reassessment.

23. Armenia has clear policies to promote accountability, integrity and public confidence in the administration and management of NPOs, depending on the type of NPO (i.e. specific requirements for foundations, charities, religious organisation, etc.). The country has provided outreach to the NPO sector by training in 2015 representatives of NPOs and their supervisors on the AML/CTF legislative amendments, the typology on the misuse of non-profit organisations for FT purposes, as well as the outcomes of the NRA. Although the country has not yet developed with NPOs best practices to address FT risks and vulnerabilities, Armenia has translated in 2016 the *FATF Report on Emerging Terrorist Financing Risks* into Armenian, posted it on the FMC’s website and circulated it among all stakeholders. The topic of FT abuse has been integrated in the e-learning platform, which is available to reporting entities, relevant authorities and NPOs. Moreover, the availability of the UNSCR search engine has been communicated to the NPOs and their supervisors, which enables instant searches for possible matches with designated persons and entities. Current legislation requires legal entities, including NPOs, to limit their cash payments to 300,000 AMD (approximately 500 EUR) and introduces an overall monthly ceiling of 3,000,000 AMD (approximately 5,000 EUR), thereby encouraging NPOs to conduct transactions via regulated financial channels.

24. Armenia handed in 2016 the task of effective supervision and monitoring of NPOs, in line with the identified risk, from the Ministry of Justice to the State Revenue Committee (SRC). The SRC carries out its competencies on the basis of an amended memorandum of understanding with the FMC, which includes provisions on the cooperation on risk-based supervision of NPOs on the basis of the sectoral risk assessment. The legislative basis for the supervision is laid down in the Law on Non-governmental Organisations and the Law on Foundations. The SRC monitors the compliance of NPOs with the requirements under this recommendation. In case of non-observance, dissuasive and

proportionate sanctions as described in more detail in Armenia's 2015 MER (paragraphs 98-101 of the TC Annex) can be applied.

25. Armenia coordinates and cooperates amongst all competent authorities through the Interagency Committee at the policy-level. The Interagency Committee brings together all competent authorities involved in the prevention of ML/FT and the banking association. It also provides for a working group tasked with such coordination/cooperation at operational level. Various memoranda of understanding between competent authorities also enable them to cooperate amongst each other. The sharing of relevant information takes place within the context of the Interagency Committee's work, as well as between the various authorities on a bilateral basis. The National Security Service (NSS) has the necessary general investigative powers for investigating FT cases (although no specific powers or expertise has been provided with regard to NPOs). Armenia's AML/CFT system does not contain any possible hindrance for authorities' full access to information on the administration and management of NPOs.

26. As regards international cooperation, Armenia has not identified a specific point of contact for NPO-related requests in case of FT or other terrorist support-related suspicions, but the country instead uses its general procedures and mechanisms, as defined by the Code of Criminal Procedure and the AML/CFT Law and as considered compliant with this Recommendation in its 2015 MER (paragraphs 103-104 of the TC Annex).

27. In its revised NRA, Armenia has identified those organisations that meet the FATF's definition of NPOs and has concluded that they entail in general a low FT risk. **Therefore, Recommendation 8 is rated C based on the assessment of Armenia's compliance with the recently-amended criteria of this Recommendation.**

3.2.4 Recommendation 18 [R.18] (Originally rated C – no re-rating)

28. In November 2017, the interpretative note to R.18 was revised to clarify the requirements on sharing of information related to unusual or suspicious transactions within financial groups. This also includes providing this information to branches and subsidiaries when necessary for AML/CFT risk management. Article 23(1) of the AML/CFT Law requires that financial groups should have in place and apply group-wide internal legal statutes aimed at the prevention of money laundering and terrorism financing. Based on Article 23(1)(16) of the AML/CFT Law, financial groups should have procedures for sharing information within the group for the purpose of combating money laundering and terrorism financing, which as clarified by the authorities covers also information sharing on STRs. **Hence Armenia has covered the amendments for the recommendation, the rating of which remains at C.**

3.2.5 Recommendation 21 [R.21] (Originally rated C – no re-rating)

29. In November 2017, the interpretative note to R.21 was amended to clarify that tipping-off provisions under R.21 are not intended to prevent information sharing under R.18. The authorities clarified that, since the sharing of STRs within groups is not expressly provided, the AML/CFT Law does consequently not expressly exempt it from the tipping-off prohibition. However, information sharing within groups is generally exempted from the tipping-off prohibition, which then includes the specific type of information sharing (i.e. STRs) at question. Armenia submitted that the FMC has provided relevant clarification to the reporting entities following the amendment to R.21. **Hence Armenia has covered the amendments for the recommendation, the rating of which remains at C.**

3.3. Brief overview of progress on other recommendations rated PC

30. In its 5th MER of 2015, Armenia was rated PC on **Recommendation 12** on account of the fact that the country did not have legislative measures with regard to domestic politically exposed persons (PEPs) and, consequently, their family members. This technical deficiency remains unchanged, although the authorities submitted that the AML/CFT Law provides for enhanced customer due diligence (CDD) measures required under R.12 for any person undertaking a higher risk business relationship, which naturally includes domestic PEPs. As already identified in the 5th round MER of 2015, financial institutions are not yet required to determine that the beneficiary of a life insurance policy and/or the beneficial owner of the beneficiary are PEPs, although this deficiency is not given a lot of weight since there are no life insurance companies in Armenia.

31. With regard to the regulation and supervision of DNFBPs, Armenia was rated PC on **Recommendation 28** for the following reasons: The monitoring of compliance by lawyers, real estate agents and dealers in precious metals and stones was inadequate; limited powers of the Chamber of Advocates to conduct on-site inspections; limited powers of the Ministry of Finance to request additional information from casinos under off-site supervision; limited requirements to prevent criminals from being professionally accredited or holding a management function (except for casinos); limited sanctions for AML/CFT breaches; no risk-based supervision by the Chamber of Advocates and the Financial Monitoring Centre (FMC). Based on the findings of Armenia's most recent full-scope NRA and a targeted study of the regulatory and operational features of certain types of DNFBP (with the purpose of specifying the minimum scope of the risk-based supervisory measures that is necessary for the effective prevention and mitigation of AML/CTF risks relevant for these DNFBPs), Armenia established a "DNFBP Risk-Based Supervision Concept" during the period 2015-2017. The concept is meant to enable risk-based monitoring of AML/CFT compliance by certain DNFBPs, including lawyers, real estate agents and dealers in precious metals and stones. Since July 2015, the FMC has launched a DNFBP register (which is integrated into its Automated Case Management System) implementing the requirements of the Rules for Registration of Reporting Entities. The register enables identification of DNFBPs supervised by the FMC (i.e. realtors, lawyers, dealers in precious metals and stones) and enforcement of the requirement for their registration with the FMC, thus establishing a framework for further supervisory action pursuant to the "DNFBP Risk-Based Supervision Concept".

32. Armenia was rated PC on **Recommendation 31** because competent authorities conducting investigations of money laundering, associated predicate offences and terrorist financing were limited in their ability to obtain access to all necessary documents for use in investigations and in prosecutions as required by this recommendation. This was notably in respect of information constituting banking secrecy, information on transactions with securities or information constituting insurance secrecy, in which the powers of investigators were limited to data related to persons suspected or accused in a criminal case (i.e. requiring the formal instigation of a criminal investigation). No further progress was reported in this regard. The MER also found deficiencies with regard to investigation techniques for investigations, notably the unavailability of accessing computer systems. The authorities clarified that such access is indeed provided by the Code of Criminal Procedure.

IV. CONCLUSION

33. Overall, Armenia has made good progress in addressing the technical compliance deficiencies identified in its 5th round MER of 2015 and has been re-rated on 2 out of 5 recommendations (Recommendations 1 and 7) which were rated PC in the MER. One other recommendation (Recommendation 8) was re-rated from LC to C.

34. Recommendation 1 (rated PC in 2015) has been rated LC, after Armenia has brought the identification and assessment of its ML risks to an adequate level, which had been the main reason for the original PC rating.

35. Recommendation 5 remains at the level of LC. Armenia should however implement the current amendments to the Criminal Code (with regard to the financing of the travel for the purposes of providing or receiving terrorist training) as soon as its legislative procedures allow.

36. Recommendation 7 (rated PC in 2015) has been rated LC, after the legal basis for the implementation of targeted financial sanctions related to proliferation had been amended to a wide extent (which had been the reason for the PC rating in 2015).

37. For Recommendation 8 (originally rated LC), which has been significantly amended since Armenia's MER, the country implements the new requirements; consequently, the recommendation has been re-rated C.

38. Armenia has implemented recent changes to Recommendations 18 and 21; both recommendations remain being rated C.

39. While some progress has been achieved on the other three recommendations (R.12, 28 and 31) which had been originally rated PC, moderate shortcomings remain on all three recommendations. Bearing in mind that countries are expected to have addressed most if not all technical compliance deficiencies by the end of the third year from the adoption of their MER, Armenia is encouraged to address the remaining deficiencies within that time framework.

40. Overall, in light of the progress made by Armenia since its MER was adopted, its technical compliance with the FATF Recommendations has been re-rated as follows:

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
LC	LC	LC	LC	LC	LC	LC	C	C	LC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
C	PC	C	C	C	C	C	C	C	C
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	LC	C	LC	LC	LC	C	PC	C	LC
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
PC	C	C	C	LC	LC	LC	LC	LC	C

41. Armenia will remain in regular follow-up and will continue to report back in two-and-a-half years to MONEYVAL on further progress to strengthen its implementation of AML/CFT measures.

GLOSSARY OF ACRONYMS

AML	Anti-money laundering
BO	Beneficial ownership
CDD	Customer due diligence
CFT	Countering the financing of terrorism
DNFBP	Designated non-financial business and professions
FI	Financial institutions
FT	Financing of terrorism
HFIU	Hungarian Financial Intelligence Unit
LC	Largely compliant
ML	Money laundering
NGOs	Non-governmental organisations
NPOs	Non-profit organisations
NRA	National risk assessment
PC	Partially compliant
PF	Proliferation financing
R	Recommendation
STR	Suspicious transaction report
TFS	Targeted financial sanctions
UNSCR	United Nations Security Council Resolutions

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Anti-money laundering and counter-terrorist financing measures -
Armenia

Fifth Round of Mutual Evaluations

1st Regular Follow-up Report

Summary Report

The Summary Report in ANNEX A of the 1st regular follow-up report on Armenia proposes re-ratings for three recommendations (Recommendations 1, 7 and 8).

In accordance with Rule 21, paragraph 7 of MONEYVAL's Rules of Procedure, this Summary Report consists of an independent analysis by the Secretariat on the basis of the desk-based review undertaken by the Rapporteur Teams.

Follow-up report