

EAG

KYRGYZ REPUBLIC: 5TH ENHANCED FOLLOW-UP REPORT (WITH RE-RATING)

December 2023



I. INTRODUCTION

1. At the 28th EAG Plenary Meeting in May 2018, the Kyrgyz Republic's Mutual Evaluation Report (hereinafter the "MER") was approved. The Kyrgyz Republic presented its 1st follow-up report (without a request for a re-rating) during the 30th EAG Plenary Meeting in May 2019. The Kyrgyz Republic delivered its 2nd follow-up report (with a request for a re-rating) at the 31st EAG Plenary Meeting in November 2019. As a result, the ratings for 13 FATF Recommendations were upgraded.
2. The Kyrgyz Republic presented its 3rd follow-up report (without a request for a re-rating) during the 35th EAG Plenary Meeting in November 2021.
3. The Kyrgyz Republic presented its 4th follow-up report (with a request for a re-rating) during the 37th EAG Plenary Meeting in November 2022. As a result, the rating for Recommendation 8 was upgraded, while the rating for Recommendation 15 was downgraded.
4. This follow-up report analyzes the results obtained by the Kyrgyz Republic from November 2022 to July 2023 as part of the addressing of technical compliance deficiencies listed in the MER. Re-rating has been made for those Recommendations for which justifications for significant improvements to the national AML/CFT system have been provided.
5. This report also provides an analysis of changes in the national AML/CFT system related to the new requirements of Recommendation 15, which were approved after the end of the on-site mission to the Kyrgyz Republic.

II. FINDINGS OF THE MUTUAL EVALUATION REPORT

6. The following technical compliance ratings¹ for the FATF Recommendations have been assigned based on the results of the MER and subsequent follow-up reports of the Kyrgyz Republic:

Table 1: Ratings of technical compliance as of November 2022:

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

7. Based on the outcomes of the mutual evaluation, the Kyrgyz Republic is under the EAG's enhanced monitoring.
8. The following experts from delegations/representatives of the Secretariat analyzed the Kyrgyz Republic's request for technical compliance re-ratings and prepared this Report:
 - Mr. Timur Kurmaniyazov, director of the Legal Department of the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan;

¹ Compliance with the FATF recommendations can be measured using the following ratings: Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-compliant (NC), and Not Applicable (NA).

- Mr. Daniil Burda, head of the International Legal Division of the Legal Department of the Federal Financial Monitoring Service of the Russian Federation (Rosfinmonitoring); and
 - Ms. Nazerke Zhampeis, Administrator of the EAG Secretariat (coordination by the Secretariat).
9. Section III of this Report provides analysis of the changes to the AML/CFT system aimed at increasing the level of technical compliance, while Section IV provides a summary of the analysis and a list of Recommendations, for which ratings have been changed.

III. OVERVIEW OF CHANGES TO IMPROVE TECHNICAL COMPLIANCE

10. This Section examines the amendments submitted by the Kyrgyz Republic, aimed at:
- a. Addressing technical compliance deficiencies specified in the MER and 4th FUR (R.8);
 - b. Ensuring technical compliance with new requirements of the FATF Recommendations which came into force after the end of the on-site mission to the Kyrgyz Republic (R.15).

3.1. CHANGES TO ADDRESS TECHNICAL COMPLIANCE DEFICIENCIES IDENTIFIED IN THE MER

11. The Kyrgyz Republic has demonstrated progress in addressing deficiencies identified in the 4th follow-up report for R.8, for which PC rating have been assigned.

Recommendation 8 (rating following the 4th follow-up report – PC)

12. The PC rating was assigned due to the following factors:
- The report on TF risk assessment in the NPO sector provides information on the necessity to amend several legal acts to control the activities of religious organizations. However, no information is available on the analysis of the sufficiency of other measures implemented by competent authorities (criterion 8.1c).
 - Kyrgyz competent authorities have not developed special training programs (annual plans to perform these trainings) (criterion 8.2b);
 - No best practices have been developed to prevent the NPO sector from abuse for TF purposes (criterion 8.2c);
 - There are no particular instructions/appeals for the NPO sector to make transactions through regulated financial channels (criterion 8.2d);
 - Measures taken to high-risk NPOs are insufficient since they are not proportionate to the identified risks (criterion 8.3);
 - The Kyrgyz Republic is revising its policy to define the priority of actions, including supervisory ones, to be implemented to high-risk NPOs (criterion 8.4a);
 - The measures taken are not commensurate to the risk due to a lack of risk-based supervision (criterion 8.4b);
13. The results of the Kyrgyz Republic's 4th follow-up report on criterion 8.1 remain relevant. Sectoral risk assessment conducted in 2022 has not been revised. In 2022, Kyrgyz Republic conducted TF risk

assessment in the NPO sector and approved a corresponding report, which identifies the types of NPOs that fall directly within the FATF definition: NPOs that raise and disburse funds for purposes specified in the FATF Standards (which include public associations, public foundations and religious organizations).

14. Among such NPOs, the Special Part of the report identifies and analyzes the types of NPOs which are at risk of being used for TF purposes. Such types of NPOs are a certain part of public associations (PA), public foundations (PF) and religious organizations (RO), identified by their factual activities and based on the following factors: - purpose and location of the activity (including international activities); - provided services (including receiving or raising donations, in particular cash usage; the ability to independently disburse or use funds); - assets and sources of financing; - management and control (including NPOs with a low management standard); - reporting (level of reporting discipline). The number of NPOs which are at risk of being used for TF purposes is: PA – 7.2% of all types of NPOs, PF - 9.6% of all types of NPOs, RO – 10% of all types of NPOs. The assessment of TF risks in the NPO sector showed that, in general, the NPO sector in Kyrgyzstan has a low risk of involvement in TF. (8.1 a).
15. The Report on TF risk assessment in the NPO sector contains a special section detailing the threats that terrorists and terrorist organizations represent to the NPO sector. In addition, a typology analysis related to the abuse of NPOs for TF purposes by terrorists and terrorist organizations was carried out and the way that terrorists and terrorist organizations can abuse types of NPOs which are at risk was determined. 8.1.b.
16. The Kyrgyz Republic conducted sufficiency analysis on the current regulatory framework governing NPO activities. The Report on TF risk assessment in the NPO sector contains proposals for 12 risk management measures. Among them there is the development of legal acts: 1) in terms of regulating of the NPO activities that might collect anonymous donations (to develop and adopt anonymous donations regulation); 2) providing the relevant supervisory authorities with additional control and supervisory powers, as well as the power to organize the verification of reports submitted by NPOs; 3) developing criteria for assessing the level of risk of targeted individual NPO which are at risk of TF abuse. No other legislative changes are provided, as based on the results of the analysis, section 7 of the Report on the TF risk assessment in the NPO sector provides a conclusion regarding the sufficiency of the current regulatory framework governing NPOs activities which are at risk of TF abuse. At the time of analyzing the materials submitted for this 5th follow-up report, regulatory measures 2 and 3 have actually been implemented 8.1.c
17. The Kyrgyz Republic legislation provides the possibility of reviewing the assessment not only after the expiration of a three-year period, but also in case of the events (factors) affecting the assessment (paragraph 44 of Resolution No. 606). The country has developed and approved 21 criteria for assessing the level of risk of targeted NPOs at risk of using them in TF. Currently, the country is working within the framework of the Working Group² to identify specific individual high-risk NPO among the identified NPOs which are at risk of TF abuse. 8.1 d
18. In June 2023, the Chairman of the State Financial Intelligence Service approved a plan of actions to raise awareness of TF risks in the NPO sector for the second half of 2023 and 2024 in order to address deficiencies related to criterion 8.2b. The plan contains 179 specific activities designed to raise awareness of high-risk NPOs identified as such by the NPO sector's TF risk assessment. Furthermore, the actions envisioned in the plan enable NPOs to improve their understanding of their TF risks and the measures that may be implemented to reduce them. It should be mentioned that at the time of the follow-up report, a part of the tasks specified in the plan had been completed; they were conducted in a training format.

² A working group to assess the degree of risk of established NPOs exposed to the risk of using them in the form established on the basis of the decision of the AML/CFT Commission (Protocol No. 2 dated 07/15/2022)

19. Kyrgyz competent authorities created a brochure and distributed it to NPOs in order to address deficiencies related to criterion 8.2c). The brochure contains sections that highlight NPOs' responsibility to mitigate risks, methods that NPOs can use to protect themselves against TF risks, and TF risk mitigation strategies that can be used in NPO activities. However, personalized official notifications containing recommendations on the need to comply with the requirements of AML/CFT legislation, as stipulated in paragraph 6 of the Report on TF risks, were not sent to the NPOs at risk.
20. Money transfers should be made through regulated financial institutions in compliance with Kyrgyz Republic law (Article 5 of the Kyrgyz Republic Law on Payment System). However, the findings of the 2022 Report on TF risk assessment in the NPO sector show that one of the elements that raises risk in this sector is the use of cash by NPOs when they receive and transfer funds. A regulation defining processes for collecting, receiving, and recording anonymous donations has not been developed, despite the fact that the Risk Assessment Report states that it should be (criterion 8.2d).
21. Given that the majority of subcriteria of criterion 8.2, with the exception of subcriterion 8.2d, are fully or mostly met, criterion 8.2 has obtained mostly met rating.
22. To address deficiencies related to criterion 8.3 the Decree of the Cabinet of Ministers of the Kyrgyz Republic No. 331 of 3 July 2023 amended the Government Decree "On Measures to Implement the Law of the Kyrgyz Republic "On Countering the Financing of Terrorist Activities and Legalization (Laundering) of Criminal Proceeds" No. 606 of 25 December 2018". This Regulation defines the tasks of the competent authorities in supervising high-risk NPOs. Subclause 5, clause 9 of the Decree states that the SFIS, justice authorities, tax authorities, and religious authorities should impose effective, proportionate, and dissuasive sanctions on NPOs that violate the provisions of the AML/CFT Law and other regulations. Additionally, the Order of the SFIS dated March 27, 2023 No. 33/p amended the Order of the SFIS On Approval of Typical Criteria for High and Low Risks. This order regulates the activities of FIs/ DNFBPs and is aimed at increasing their understanding of the TF risks associated with the activities of specific NPOs and the application of a risk-based approach based on the criteria (factors) in accordance with paragraphs 2 and 3 of Chapter 1 of SFIS Order No. 33. According to the Order, the reporting entities apply measures to mitigate TF risks only for those public associations, public funds and religious organizations that collect and distribute funds and only after the assessment of the client's risks and assignment of a specific risk level directly by the FIs/ DNFBPs themselves. Thus, this order applies in relation to all public associations, public funds and religious organizations which are covered by FATF definition and not only those PA, PF, RO that are at risk. Consequently, without considering additional criteria relevant only to at risk NPOs (e.g. 21 criteria for assessing the level of risk of targeted individual NPO at risk) that order is not risk-based enough.
23. The aforementioned reforms on supervisors No. 331 of 3 July 2023 adopted only in the summer of 2023; government authorities have not demonstrated that the NPOs identified as being most at risk to abuse for TF purposes have been subject to any measures based on a risk assessment. For example, the intensity and depth of inspections are not based on the risk level. This scenario has an effect on the rating for criterion 8.3, which has been rated as partly met.
24. The Kyrgyz Republic is taking some measures to define the priority of actions, including supervisory ones; it has approved risk criteria to rate NPOs exposed to TF risks. Competent authorities may apply to NPO various types of liability (administrative, criminal and liquidation of NPOs established as legal entities). Based on amendments made in the Decree of the Government of the Kyrgyz Republic No, 606, the country has defined authorities that should conduct risk-based supervision of NPOs. However, since these changes were introduced only in July 2023, the country has not completed the process of adjusting its policies to

prioritize actions, including supervisory activities, no additional (risk-based) measures for NPOs due to violations of the CFT regime requirements have been applied, despite the provision of control (supervisory) authorities with additional powers. Given the aforementioned, criterion 8.4 has been rated as mostly met.

25. *Weighting and conclusion:* Currently, the Kyrgyz Republic identified NPOs at risk of being abused for TF purposes and has sufficient capacity to identify among them high-risk individual NPOs. Kyrgyz Republic's legislation contains explicit mechanisms for subsequent risk assessments and work in this area is in progress (criterion 8.1). Regulations have been revised, and the state bodies of the Kyrgyz Republic have been given the necessary authority to apply measures commensurate with the identified risks, but in practice the measures taken so far have not been risk-based enough (criterion 8.3). State bodies of the Kyrgyz Republic have expanded their work with the NPO sector by developing special educational programs. Events to raise TF risk awareness have been held in accordance with the approved plan. As part of the events, best practices for protecting the sector from TF risk were disseminated to the private sector. Furthermore, the Kyrgyz Republic's government authorities prepared and distributed to NPOs a brochure outlining potential methods to mitigate TF risks (criterion 8.2(b) and 8.2(c)). The Kyrgyz Republic has addressed most of the deficiencies noted in the MER and the 4th follow-up report, and the remaining deficiencies are minor. Given the foregoing, **the rating for R.8 is upgraded to LC.**

3.2. Amendments to ensure compliance with the updated Recommendations

26. Recommendation 15 was amended following the adoption of the Kyrgyz Republic's MER/last follow-up report. This section examines the Kyrgyz Republic's national AML/CFT system's compliance with the updated Recommendations, as well as progress in addressing technical compliance deficiencies identified in the MER in relation to these Recommendations.

Recommendation 15 (rated PC on the basis of the 4th follow-up report outcomes)

27. Factors underlying the PC rating:

- There is no proper documented ML/TF risk assessment in the virtual assets and VASPs sector of the Kyrgyz Republic (*Criterion 15.3a*);
- This Sub-Criterion is impacted by the fact that there has been no proper documented assessment of the ML/TF risks associated with virtual assets and VASPs in the Kyrgyz Republic (Sub-Criterion 15.3 (a)), as well as the absence of a requirement in Law No. 87 to use RBA to allocate resources and mitigate ML/TF risks (*Criterion 15.3 b*);
- General requirements for assessment, classification, management and mitigation of risks should be provided, as outlined in Article 20, Part 2 of Law No. 87. There is also no evidence that VASPs are required to assess their ML/TF risks by clients, countries, products, services, transactions and channels of supply (*Criterion 15.3c*);
- The Cabinet of Ministers of the Kyrgyz Republic has not adopted a decision on determining the authorized body to regulate and supervise the activities of VASPs other than crypto exchanges, which affects, among other things, the authority to impose fines (*Criterion 15.6a*);
- The powers of the supervisory authority to conduct VASP inspections, including for compliance with AML/CFT legislation, are not specified in Law No. 12. (*Criterion 15.6b*);
- There is no evidence of guidance or other documents to aid in the implementation of AML/CFT measures designed for VASPs. (*Criterion 15.7*);

- The requirements of Chapter 12 of the Regulations on Customer Due Diligence Procedures providing for CDD procedures for electronic money transfers (R.16 requirements) do not apply to VASPs (*Criterion 15.9*);
28. In order to address the deficiencies identified during the MER with regard to Criteria 15.1-15.2, the Kyrgyz Republic amended Decree of the Government No. 606, dated December 25, 2018, "On Measures to Implement the Law of the Kyrgyz Republic on Combating the Financing of Terrorist Activities and Legalization (Laundering) of Criminal Proceeds". According to the adopted amendments, the requirements of the above criterion are fully met.
 29. In order to implement the new R.15 requirements, the Kyrgyz Republic adopted the Law No. 12 "On Virtual Assets" on January 21, 2022. The list of virtual asset-related services provided by VASPs in Article 26 of Law No.12 corresponds to the types of activities of VASPs specified in the FATF Recommendations Glossary. In this regard, the definition of VASPs in Article 4, Part 1, sub-paragraph 12 of Law No. 12 is consistent with the FATF definition.
 30. In 2023, the country conducted a comprehensive assessment of ML/TF risks in the virtual assets and VASPs sector. The final report was approved by the protocol of the meeting of the AML/CFT Commission dated July 28, 2023 No. 6. Based on the Risk Assessment Methodology approved by the AML/CFT Commission, the working group examined threats and vulnerabilities by predicate offences, customer/user profile, connection with economic sectors, types of virtual assets, and VASPs services in order to identify and assess ML/TF typologies. According to the findings of the analysis: 1) three ML typologies have been classified as "high risk" and ten ML typologies have been classified as "medium risk"; 2) two TF typologies have been classified as "medium risk". It should be noted that the assessment of ML/TF risks in the virtual assets and VASPs sector was conducted for the first time. Taking this into account, as well as the fact that regulation and supervision of the virtual assets and VASPs sector in the Kyrgyz Republic are still in their early stages, the assessment was conducted at an appropriate level. However, more work is needed to update the risk assessment with new data from supervisory and law enforcement activities (*Criterion 15.3 a*).
 31. The Report on ML/TF Risk Assessment in the Virtual Assets and VASPs Sector provides for the development of an Action Plan to mitigate the identified ML/TF risks in the virtual assets and VASPs sector for 2023-2024, including institutional, operational (law enforcement), regulatory, supervisory, and legislative measures. The minutes of the AML/CFT Commission meeting No. 6 on July 28, 2023 approved this Action Plan, which includes 37 measures of varying priority in the aforementioned areas. The actions in the Plan are proportionate to the identified risks (*Criterion 15.3 b*).
 32. The obligations of VASPs to identify, assess, document, and update their ML/TF risks, including taking into account the NRA outcomes, to submit information on the identified risks to the authorized bodies and FIU, and to apply enhanced or simplified policies, controls and risk mitigation procedures are stipulated in Law No. 87 (*Article 20, Part 1, paragraphs 1 and 2*), as well as in the Regulations on General Requirements for the Internal Control Program (*Annex 11 to Decree of the Government No. 606*) (*Criterion 15.3 c*).
 33. Due to the addressing of the deficiencies identified in the 4th follow-up report of the Kyrgyz Republic, Criterion 15.3 is rated compliant.
 34. Decree of the Cabinet of Ministers No. 514 "On Regulation of Relationships Arising from the Circulation of Virtual Assets", dated September 16, 2022, approved a number of regulatory legal acts (RLAs) aimed at addressing of the identified deficiencies. However, the RLAs do not include any requirements for beneficial owners of VASPs or accomplices of offenders. *Criterion 15.4* is rated largely compliant because, with the exception of this deficiency, the majority of the requirements are legislated.

35. Operation of a VASP without a license is prohibited by the Law. The legislation of the Kyrgyz Republic stipulates administrative and criminal liability for this offense. **Criterion 15.5** is rated as met.
36. The National Bank is the supervisory authority for VASPs that are banks, non-bank financial institutions and other legal entities. Other VASPs are supervised by the Gosfinaadzor. The powers of the NBKR and Gosfinaadzor to supervise and monitor VASP activities related to AML/CFT legislation implementation, including conducting inspections of VASPs, exercising remote control over VASPs, and requesting and receiving information from VASPs, are set out in Chapters 3-5 of the Regulation on the Procedures of Conducting Inspection of the Implementation of the AML/CFT Legislation of the Kyrgyz Republic (*Annex 3 to Decree of the Government No. 606*). Kyrgyz law also grants supervisory authorities the powers to impose various sanctions on VASPs. **Criterion 15.6** is rated compliant.
37. The Kyrgyz Republic has made significant progress in providing FIs (particularly banks) with guidance documents and feedback. There is no evidence, however, of the availability of guidance and other documents to aid in the application of AML/CFT measures developed for VASPs. **Criterion 15.7** is rated partially compliant.
38. Various sanctions may be applied to the VASPs, their founders and officials for violation of AML/CFT legislation. Because of the lack of practice in implementing these measures, determining whether the sanctions are proportionate and dissuasive is difficult. Given that the range of measures/sanctions for AML/CFT legislation violations is quite broad (fine, prescription, license revocation), and the possibilities of its application are enshrined at the law level, **Criterion 15.8** is rated largely compliant.
39. VASPs are classified as financial institutions under the AML/CFT Law, and as such, all requirements outlined in the law and related to R.10-21 apply to VASPs. Decree of the Cabinet of Ministers No. 331, dated July 3, 2023, amended Decree of the Government No. 606, dated December 25, 2018, "On Measures to Implement the Law of the Kyrgyz Republic on Combating the Financing of Terrorist Activities and Legalization (Laundering) of Criminal Proceeds" to extend the requirements of R.16 to VASPs. Furthermore, in accordance with R.15, all transfers of virtual assets should be treated as cross-border transfers for the purposes of applying R.16 and should always be accompanied by the information required for cross-border transfers. At the same time, Chapter 12 of the Annex to the aforementioned Resolution also contains reduced requirements for domestic transfers. The lack of exceptions for virtual asset transfers may result in ambiguity in interpretation and enforcement. In light of the foregoing, **Criterion 15.9** is rated largely compliant.
40. Information disclosure mechanisms, reporting obligations, and control over the implementation of targeted financial sanctions (TFS) are fully applicable to VASPs. Based on the results of the 2nd FUR, the Kyrgyz Republic was rated met in relation to TFS, which also is applicable to **Criterion 15.10**.
41. The Kyrgyz Republic has a legal framework in place for international cooperation and information exchange on VASP issues. Given that the Kyrgyz Republic is rated LC with R. 37-40 based on the outcomes of the mutual evaluation and the 2nd follow-up report, **Criterion 15.11** is rated largely compliant.
42. *Weighting and conclusion:* The Kyrgyz Republic meet or is close to meet the majority of the R.15 criteria requirements and is partially meet the Criterion 15.7 requirements. Given the country's significant progress in Criteria 15.1, 15.2, 15.3, 15.6, and 15.9, **the overall R.15 rating is upgraded to LC.**

3.3. General findings related to progress on other Recommendations for which the country does not request re-rating (for information only)

43. In the period from July 2022 to July 2023, various normative legal acts of the Kyrgyz Republic regulating AML/CFT issues were adopted.

44. For more detailed information on the Kyrgyz Republic's progress on the following recommendations, please refer to Annex 1 to this report:

- R.1, R.2, R.6 and 7, R.10, R.18, R.19, R.20, R.22, R.23, R.24, R.25, R.26, R.27, R.28, R.34, R.35, R.40.

IV. CONCLUSION

45. The Kyrgyz Republic has made significant progress in rectifying the technical compliance shortcomings identified in the MER, and as a result, the rating for R.8 has been raised from PC to LC.

46. In terms of the amended Recommendations following the on-site mission, the Kyrgyz Republic has significantly implemented the new R.15 requirements, as a result of which the rating for R.15 has been upgraded from PC to LC.

47. Given the Kyrgyz Republic's progress in improving the National AML/CFT system since the MER's adoption, the technical compliance ratings with the FATF Recommendations have been amended as follows (the revised ratings are marked in bold and green):

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

48. The Kyrgyz Republic continues to be under enhanced monitoring and will continue to report to the EAG on future progress in improving the national AML/CFT system.