REPORT

ON NATIONAL ASSESSMENT OF MONEY LAUNDERING AND TERRORISM FINANCING RISK IN THE REPUBLIC OF ARMENIA
(Methodology and Key Findings)

INTRODUCTION

Purpose and Scope

1. According to AML/CFT international standards (i.e., FATF 40 Recommendations[1]), countries should identify, assess, and understand ML/FT risks for the country. Based on that assessment, countries should apply a risk-based approach to ensure that measures to prevent or mitigate ML/FT are commensurate with the risks identified.[2]

2. Identification, assessment, and understanding of ML/FT risks are essential for the formation and development of an effective AML/CFT system. On the state level, this is achieved through policy development for relevant areas and enforcement of well-supported decisions, while on the private sector level – the same is achieved through implementation and compliance with adequate internal control procedures.

3. For the purpose of having a sustainable and progressive AML/CFT system, the Republic of Armenia has taken important steps towards the introduction and compliance with AML/CFT international standards. The legislative and institutional frameworks in the Republic of Armenia, being two fundamental pillars of the system, were rated largely compliant with international standards and best practices. This is evidenced in the outcomes of international mutual evaluations[3] for compliance with FATF Recommendations. Nevertheless, the findings from these mutual evaluations and the decade-long history of the AML/CFT system in the Republic of Armenia have revealed certain weaknesses and gaps in the system, which – if dealt with in a complete and comprehensive manner – will further improve the effectiveness of the AML/CFT system in the Republic of Armenia.

4. Established by the Decree of the President of the Republic of Armenia, the Interagency Committee has a mandate to approve the AML/CFT National Strategy[4] in order to achieve the objectives above in a coordinated manner. This document reflects the development priorities for the system, taking into consideration – among other factors – the findings of the previous ML/FT national risk assessment.

5. The measures for identifying, assessing, and understanding of ML/FT risks are in the focus of the Interagency Committee, evidencing the consistent efforts by the Republic of

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[1] More information on FATF is available [here](#)
[2] FATF Recommendation 1 is available [here](#)
[3] The last international mutual evaluation was carried out in 2009 by the IMF and MONEYVAL: the evaluation report is available [here](#)
[4] AML/CFT National Strategy for 2013-2015 is available [here](#)

Armenia Government to build an effective AML/CFT system. The findings of ML/FT national risk assessments are subject to periodic review when necessary.

6. The first assessment of ML/FT nationwide risks in the Republic of Armenia was carried out in 2010,[5] aiming to study ML/FT crimes and their sources, areas, mechanisms and/or contributing factors, as well as to improve the focus and effectiveness of AML/CFT measures.[6]

7. A new manual for conducting ML/FT national risk assessments in the Republic of Armenia was approved during the meeting of the Interagency Committee in September of 2013. The following publications by international organizations were considered when developing the new manual:

- *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations,* FATF (2012),[7]
- *FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment,* FATF (2013),[8]
- *OECD Handbook on Data Collection in Support of Money Laundering and Terrorism Financing National Risk Assessments,* OECD (2012),[9]
- *World Bank Methodology and Instruction Note for National Money Laundering Risk Assessment Tool,* WB (2012).[10]

8. After the approval of the manual for conducting ML/FT national risk assessments, 2010-2013 statistics and other information were collected from various state authorities and private sector entities, making up the body of information on which this Report is based. The current legislation in force as of 1 November 2014 and the implementation practices thereof served as a foundation for the analysis of legislative and institutional frameworks, as well as of the activities by reporting entities. Representatives from both state-level and private-sector stakeholders were directly involved in the process of conducting this assessment.

9. The findings in this Report are intended to be shared with corresponding stakeholders (including relevant self-regulatory organizations) involved in different areas of the AML/CFT system in the Republic of Armenia, as well as with financial institutions and DNFBPs specified under the *AML/CFT Law*. The findings of this assessment will also become available to the general public in a prudent format. In addition, these findings will be considered during the next revision of the AML/CFT national strategy.

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[5] The previous national risk assessment is available here
[6] A comprehensive analysis of ML/FT risks in the DNFBP sector was carried out as part of the 2012-2014 IMF technical assistance program
[7] The document is available here
[8] The document is available here
[9] The document is available here
[10] The document is available here

Methodology

10.   Analysis of risk, in particular – identification, examination, assessment and understanding of risks, is the first step towards managing risks through mitigation or prevention.

11.   In order to form a comprehensive picture of the risks prevalent in the country, two main factors were considered as part of this ML/FT national risk assessment – **potential threats** from the perspective of ML/FT and **potential vulnerabilities** in the AML/CFT system. The analysis of interactions between these two factors in various contexts provides a prospective on the potential consequence of ML/FT risks or the so-called 'residual risk' (in relation to which commensurate prevention and mitigation measures are undertaken), which is materialised among constituent pillars[11] and participants[12] of the AML/CFT system, as well as among other relevant legal/corporate entities.[13]

12.   The following assessment methodology was used to rate potential ML/FT threats and AML/CFT vulnerabilities on a scale of 1-5, where 1 is very low, 2 is low, 3 is medium, 4 is high, and 5 is very high. In terms of trends going forward, threats and vulnerabilities were rated as declining, stable, or growing.

13.   When conducting this assessment, it was extremely important to accurately identify the interaction between potential ML/FT threats on one hand, and the capability to withstand these threats on the other hand, to gain an appropriate understanding of what is called 'residual risk'.

14.   To demonstrate this hypothetically, if potential ML threats in a country arising from predicate offences committed in particularly large amounts are rated very high (for example, based on high crime rates in that country), while the AML/CFT vulnerabilities from financial institutions from the perspective of withstanding these threats are rated very low (for example, based on strong AML/CFT regimes in place within these financial institutions), then the 'residual risk' shall neither be rated very high nor necessarily high either: instead, the expected level of risk would be rated either medium or low, depending on the assessed severity of ML/FT threats and AML/CFT vulnerabilities.

Threats

15.   In general, threats are defined as persons or actions that can cause harm to the state, the public, or the economy. Criminals, terrorist organizations, ML/FT offences are all examples of threats from the perspective of ML/FT. Severity of these threats depend on the environmental characteristics and the crime pattern of that country.

16.   In order to identify **ML threats** in the Republic of Armenia, several factors were analysed, including crimes pattern of the country (by looking at the number of ML predicate offences and the associated ML risks), as well as the current characteristics and expected trends of crime. In order to identify **FT threats** in the Republic of Armenia, several factors were considered, including the favourability of conditions in the country to commit acts of

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[11] I.e., legislative and institutional frameworks
[12] I.e., financial institutions and DNFBPs that are specified as reporting entities under the *AML/CFT Law*
[13] I.e., legal persons and arrangements, and non-profit organizations

terrorism, operate terrorist organizations, or finance terrorism, as well as any possible information on FT involvements either on national or international level.

17. Thorough understanding of threats is important for every participant of the AML/CFT system, ranging from state authorities to reporting entities, in order to improve the allocation of their efforts towards the identification and prevention of potential ML/FT schemes.

Vulnerabilities

18. In order to adequately mitigate the ML/FT risk in the country, it is equally important to identify and assess corresponding vulnerabilities, which are defined as weaknesses and gaps in the system that can be abused by persons or actions presenting threat, or can enable the achievement of such criminal objectives. This analysis estimates the extent to which the identified shortcoming and gaps can affect the vulnerability of the overall system.

19. In order to carry out a comprehensive analysis of potential ML/FT threats, several factors were analysed, including circumstantial and structural elements directly related to the AML/CFT system in the country, contextual factors, legislative and institutional frameworks, categories of reporting entities, and other relevant corporate/legal entities.

Findings and Users

20. The identification and assessment of potential ML/FT threats and potential AML/CFT vulnerabilities in the country makes it possible to undertake corresponding measures towards the elimination of vulnerabilities facing these threats and the prevention of potential abuse of these vulnerabilities.

21. The findings of this assessment will serve for the revision of the AML/CFT national strategy, further improvement of the AML/CFT legislation, more effective use of the resources in the institutional framework, and comprehensive implementation of AML/CFT requirements by reporting entities.

22. The users of the ML/FT national risk assessment are:

- Competent authorities responsible for development and implementation of high-level policies,
- National financial intelligence unit,
- Authorities responsible for carrying out operational intelligence, investigation and other law enforcement activities,
- Authorities responsible for exercising licensing, regulatory and supervisory functions,
- Financial institutions and DNFBPs that are reporting entities,
- Non-profit organizations,
- International structures and organizations responsible for carrying out mutual evaluations of AML/CFT systems,
- General public, the community of subject matter experts and specialists.

23. The expectation is that domestic users of this assessment will consider the findings herein when developing and implementing measures (including, action programs) for improving the effectiveness of AML/CFT regimes in their respective areas of remit.

KEY FINDINGS

24. The ML/FT national risk assessment in the Republic of Armenia was conducted by way of identifying, assessing and understanding **potential ML/FT threats** on one hand, and **potential AML/CFT vulnerabilities** facing these threats on the other hand.

25. The analysis and assessment of **potential ML threats** was conducted by looking into convictions from 2010-2013 for crimes prescribed to the 'list' of ML predicate offences, since these convictions are the best reflection of crimes in the country with proven or potential elements of ML offence. Moreover, proceeds generating crimes were first separated from other crimes, which was followed by re-focusing of the analysis on crimes that generated particularly large amounts.[14]

26. In particular, 20% of all convictions in 2010-2013 for ML predicate offences had no potential elements of ML offence since no criminal proceeds could be generated, whereas another 12% had such potential but did not generate criminal proceeds due to absence of mercenary purposes in the crime. From the remaining 68% of all convictions for ML predicate offences with potential elements of ML offence, the most significant where the crimes in particularly large amounts, constituting 9% of all convictions for ML predicate offences. In the same time period, the total amount of proceeds generated from these crimes was approximately 42 billion Armenian drams (equivalent to about 106 million US dollars, calculated by using annual average exchange rates) or approximately 10.5 billion Armenian drams a year (equivalent to about 26.5 million US dollars, calculated by using annual average exchange rates).

Key finding: potential ML threats in the Republic of Armenia are rated medium, with a declining trend going forward.

27. The analysis and assessment of **FT potential threats** was conducted by looking into the favourability of conditions in the country to commit acts of terrorism, operate terrorist organizations, or finance terrorism on one hand, and any possible information on FT involvements either on national or international level on the other hand. The analysis suggests that the likelihood of individual terrorists or terrorism organizations operating in the Republic of Armenia is very low due to the absence of conflicts on religious, ethnic, and other grounds, breaches of minority rights, and promotion of extremism, while the implemented effective and preventive mechanisms make it practically impossible for misuse of financial and non-financial systems for FT purposes. This is evidenced by the fact that, in the time period covered by this Report, no examination, investigation, or criminal prosecution for terrorism or terrorism financing has been carried out in relation to the Republic of Armenia either on national or international level.

Key finding: potential FT threats in the Republic of Armenia are rated very low, with a stable trend going forward.

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[14] The threshold for crimes against property with particularly large amounts is 3,000-fold of the minimum salary in the Republic of Armenia, which currently stands at 3 million Armenian drams

28. **Potential AML/CFT vulnerabilities** – when considered from the perspective of withstanding potential ML/FT threats – were analysed in the context of various areas of social, political, and economic life of the country, such as circumstantial and structural elements, contextual factors, legislative and institutional frameworks, as well as in the context of participants of the AML/CFT system and other relevant legal/corporate entities, such as reporting entities, legal persons and arrangements, and non-profit organizations.

29. Below are the key findings from the analysis of **circumstantial elements**:

- *Geographic circumstances:* the Republic of Armenia has an adequate border control regime in place with its neighbouring countries, aimed at the prevention of potential cross-border transportation of criminal proceeds and funds intended for terrorism financing. The risks arising from vulnerabilities in the AML/CFT systems of neighbouring countries are manageable, being at an acceptable level, again – considering the fact of having closed borders with two out of four neighbouring countries.

  Key finding: potential AML/CFT vulnerability from geographic circumstances in the Republic of Armenia is rated low, with a stable trend going forward.

- *Economic circumstances:* in the time period covered by this Report, the macroeconomic situation in the Republic of Armenia was relatively stable. Constituting around 20% of the country's GDP, the agricultural sector posed low AML/CFT risks. The economic activity in other sectors of the economy was in compliance with the requirement to have reasonable economic and legal rationale, where the underlying volumes were commensurate with cross-border wire transfers with relevant countries. The current shadow economy, cash circulation, and high level of dollarization were identified as factors with a potential to affect AML/CFT vulnerability of the economy in the Republic of Armenia. Therefore, the measures necessary to mitigate these factors were identified as priority policy areas for relevant state authorities.

  Key finding: potential AML/CFT vulnerability from economic circumstances in the Republic of Armenia is rated medium, with a declining trend going forward.

- *Demographic circumstances:* the demographics in the Republic of Armenia is highly homogeneous in terms of ethnicity and religion. The legislation of the Republic of Armenia and the implementation mechanisms thereof ensure that fundamental rights of national minorities are protected and fully exercised, which is evidenced by the fact of having organised communities and groups of national minorities that take active part in the social life of the country and the absence of any disputes or conflicts on religious or ethnic grounds.

  Key finding: potential AML/CFT vulnerability from demographic circumstances in the Republic of Armenia is rated very low, with a stable trend going forward.

30. Below are the key findings from the analysis of **structural elements**:

- *Political stability:* political system in the Republic of Armenia is considered stable, represented by state authorities, the formation and activities of which are governed by

the *Constitution of the Republic of Armenia*. In the time period covered by this Report, there has been notable progress in strengthening the political stability of the country, as evidenced in the findings of reputable international organizations[15].

Key finding: potential AML/CFT vulnerability from political stability in the Republic of Armenia is rated low, with a stable trend going forward.

- *High-level commitment:* the Republic of Armenia has ratified all key AML/CFT international instruments, has adopted relevant laws and derivative secondary legislation for the implementation of these instruments, has become a member of and has been actively cooperating with relevant AML/CFT international organizations. Established by the Decree of the President of the Republic of Armenia, the high-level Interagency Committee coordinates and provides course of direction to the efforts towards the effective implementation of the AML/CFT system in the country.

Key finding: potential AML/CFT vulnerability from high-level commitment in the Republic of Armenia is rated very low, with a stable trend going forward.

- *Stable institutions:* the Republic of Armenia has the necessary legal/political institutions for exercising the principle of democracy. The most important state authorities in the country – the National Assembly and the President of the Republic of Armenia – are appointed through direct elections held at regular intervals, and there are clear mechanisms for supervisions of activities by state authorities. The *Constitution of the Republic of Armenia* and derivative laws manifest the human rights and freedoms specified by major international instruments and ensure mechanisms for the protection thereof.

Key finding: potential AML/CFT vulnerability from stable institutions in the Republic of Armenia is rated low, with a stable trend going forward.

- *Rule of law:* the *Constitution of the Republic of Armenia* provides guarantees for this principle, which is exercised through its supreme power. The legislative framework (including the AML/CFT legislation) is derived from the *Constitution*, whereas the secondary legislation is derived from relevant laws. Legislative, executive, and judiciary powers of the state are clearly separated, excluding the possibility for fusion of powers to take place. In the time period covered by this Report, there has been notable progress in strengthening the rule of law in the country, as evidenced in the findings of reputable international organizations[16].

Key finding: potential AML/CFT vulnerability from rule of law in the Republic of Armenia is rated low, with a stable trend going forward.

- *Appropriate judicial system:* there are legal guarantees to ensure the independence and stability of the judicial system in the Republic of Armenia, while the capability of the

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[15] See the indexes developed by the *Global Economy* using the World Bank data.
[16] See the indexes developed by the *Global Economy* using the World Bank data.

judicial system is ensured by the Council of Justice of the Republic of Armenia and the Judicial Department State Administration Institution of the Republic of Armenia. Nevertheless, there are certain risks in relation to the practical independence of the judicial system in the Republic of Armenia, as evidenced in the findings of reputable international organizations[17]. However, certain measures are being undertaken to improve the identified weaknesses, which is an evidence of the political will to reduce the risks in the judicial system.

Key finding: potential AML/CFT vulnerability from the judicial system in the Republic of Armenia is rated medium, with a declining trend going forward.

31.   Below are the key findings from the analysis of **contextual factors**:

- *Corruption:* the fight against corruption was identified as a primary policy area for the Republic of Armenia Government, where a concept paper and a strategy were developed accordingly. The monitoring exercise of the action plan under the anti-corruption strategy of the Republic of Armenia has recorded notable progress in meeting the objectives in the context of the AML/CFT system. Nevertheless, as evidenced in the findings of reputable international organizations[18], corruption risk is still prevalent in the judicial system, police and public services in the Republic of Armenia.

    Key finding: potential AML/CFT vulnerability from corruption in the Republic of Armenia is rated medium, with a declining trend going forward.

- *Financial inclusion:* as an important element for stable and seamless operation of the financial system, financial inclusion is one of the priority policy areas for the CBA. The level of financial mediation in the Republic of Armenia is constantly growing. Nevertheless, despite the consistent effort by the CBA, there are still weaknesses in this space, such as the unsatisfied demand for financial services, high transaction costs, and inadequate financial awareness among the population.

    Key finding: potential AML/CFT vulnerability from financial inclusion is rated medium, with a declining trend going forward.

32.   It is worth mentioning in relation to the **legislative framework** that, during the decade-long history of the AML/CFT system in the Republic of Armenia, the legislative pillar of the system has undergone continuous development through several amendments and improvements in order to best reflect the current international requirements. The latest development in this space was the adoption on 21 June 2014 of amendments to the *AML/CFT Law* and related 14 other laws. According to the current legislation, ML/FT offences are criminalised in compliance with FATF Recommendations and international conventions, and there is a capable system of preventive measures in place. As part of this assessment, specific issues related to the legislative framework were studies, taking into

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[17] See the report of the *Transparency International*.
[18] See the report of the *Transparency International*.

consideration the analyses conducted and recommendations proposed by international experts, as well as the experience accumulated and problems identified by relevant competent authorities in the course of their activities.

Key finding: potential AML/CFT vulnerability from criminal liability of legal persons and from LEA access to banking secrecy is rated low, while potential AML/CFT vulnerability from proper mechanisms for managing property seized, frozen, or confiscated and from non-conviction based confiscation is rated medium, with a stable trend going forward in both cases.

33.   Several quantitative, qualitative, and other indicators, which describe the activities by all participants of the AML/CFT system, were considered for assessing the **institutional framework**, including the functions and processes of each participant, their financial, technical, and human resources, AML/CFT-related knowledge, skills, and experience of the relevant staff, as well as the effectiveness of activities, measured by AML/CFT statistics. Below are the key findings from the analysis:

- As the national financial intelligence unit, the FMC receives, analyses, and disseminates ML/FT information to corresponding recipients, while engaging in national and international cooperation to serve that purpose, and exercises limited supervisory functions. Several indicators were considered to assess the effectiveness of AML/CFT activities by the FMC, such as quantitative and qualitative characteristics of notifications made based on analyses of STRs collected from reporting entities and notifications received from national and international counterparts, and of information provided in response to queries received from national and international counterparts. From that perspective, the adequate exercise of limited supervisory functions assigned to the FMC by legislative amendments in 2014 will gain further importance.

  Key finding: potential AML/CFT vulnerability from the FMC in exercising its function of receiving, analysing, and disseminating ML/FT information, as well as of cooperating on national and international levels, is rated very low, with a stable trend going forward.

- *The LEAs,* such the NSS, Police, MoF, and GPO provide for the exercise of pre-trial (operational intelligence and investigation) proceedings, while judicial authorities – Common Jurisdiction Courts of First Instance of the Republic of Armenia, Criminal Court of Appeal of the Republic of Armenia, and Criminal Chamber of the Court of Cassation of the Republic of Armenia – are responsible for in-trial proceedings. Several indicators were considered to assess the effectiveness of law enforcement and judicial authorities in the context of AML/CFT, such as the number of instigated criminal cases and those forwarded by subordination to other authorities, criminal cases brought to the court with indictment, convictions and appeals, as well as the amount of property seized and confiscated. The analysis highlighted the importance of efforts to improve practices in instigating and investigating of criminal cases with potential elements of ML offence (especially for sub-categories thereof, such as standalone ML, predicate offence committed in another jurisdiction, third party ML), bringing of criminal cases

to the court with indictment, imposing of preventive measures on property subject to confiscation, and producing of convictions for these crimes by judicial authorities.

Key finding: potential AML/CFT vulnerability from law enforcement and judicial authorities in exercising their function of criminal prosecution is rated medium, with a declining trend going forward.

- Through its corresponding departments, the CBA exercises its licensing, regulatory, and supervisory functions in relation to all financial institutions in the Republic of Armenia, including banks, credit organizations, insurance companies, investment firms, money transfer services, foreign exchange bureaus, and pawnshops. Several indicators were considered to assess the effectiveness of the CBA in the context of AML/CFT, such as the numbers, types and scope of supervisory examinations, numbers and types of identified breaches, as well as types and amounts of sanctions imposed. The analysis highlighted the importance for the CBA to fully implement and consistently apply the risk-based supervision approach and relevant supervisory tools.

Key finding: potential AML/CFT vulnerability from the CBA in exercising its licensing, regulatory, and supervisory functions is rated low, with a declining trend going forward.

- As the supervisory authority for various categories of DNFBPs, such as licensed auditors, casinos, organisers of games of chance and lotteries, the MoF ensures the compliance of these DNFBPs with corresponding AML/CFT requirements. Several indicators were considered to assess the effectiveness of the MoF in the context of AML/CFT, such as the numbers, types and scope of supervisory examinations, numbers and types of identified breaches, as well as types and amounts of sanctions imposed. The analysis highlighted the importance for the MoF to provide for trainings and knowledge building for its relevant staff involved in AML/CFT, to improve the weaknesses hindering the effective implementation of off-site supervision, to update the toolkit for carrying out on-site examinations, to improve the supervisory regime of organisers of online games of chance, and to continue undertaking measures in order to ensure the compliance of supervised entities with relevant AML/CFT requirements.

Key finding: potential AML/CFT vulnerability from the MoF in exercising its function of regulating and supervising the activities of various categories of DNFBPs is rated medium, with a declining trend going forward.

- The MoJ has two mandates in the context of AML/CFT – supervision (only in relation to exercising judicial procedures for criminal cases brought to the court) of the competent authority responsible for mutual legal assistance, and of notaries and non-profit organizations. Several indicators were considered to assess the effectiveness of the MoJ in the context of AML/CFT, extradition requests involving a ML predicate offence by persons wanted for criminal prosecution, the numbers, types and scope of supervisory examinations, the numbers and types of identified breaches, as well as the types and amounts of sanctions imposed. The analysis highlighted the importance for the MoJ to allocate necessary resources for the supervision over non-profit

organizations, to harmonise the legislation regulating non-profit organizations, to introduce and improve accountability requirements for non-profit organizations, and to continue undertaking measures in order to ensure the compliance of supervised entities with relevant AML/CFT requirements.

Key finding: potential AML/CFT vulnerability from the MoJ in exercising its functions of providing mutual legal assistance, as well as of regulating and supervising the activities of various categories of DNFBPs is rated medium, with a stable trend going forward.

- The Chamber of Attorneys exercises supervision over attorneys (except for sole proprietor lawyers and law firms) qualified and certified in the manner specified by the law, including for the purpose of ensuring their compliance with AML/CFT requirements. When assessing the effectiveness of the Chamber of Attorneys in the context of AML/CFT, it was acknowledged that due to the nature of activities carried out by attorneys, it is very rare for them in practice to become involved in activities that can potentially be subject to AML/CFT requirements and accountability, the supervision over which is under the remit of the Chamber of Attorneys.

Key finding: potential AML/CFT vulnerability from the Chamber of Attorneys in exercising its function of regulating and supervising the activities of attorneys is rated very low, with a stable trend going forward.

34.   Below are the key findings from the assessment of **reporting entities**:

- *AML/CFT system:* AML/CFT requirements are applicable to all financial institutions and DNFBPs in the Republic of Armenia. The AML/CFT system is governed by the *AML/CFT Law* and derivative secondary legislation, as well as by internal rules and procedures of financial institutions. Reporting entities are subject to comprehensive requirements on CDD and enhanced CDD, and other requirements[19] and capable mechanisms for identification of suspicious transactions or business relationships, reporting of STRs to the competent authority, refusal or termination of transactions, and freezing of terrorism-related property.

- After considering several operational characteristics inherent to financial institutions and DNFBPs, such as market share, products, services, and delivery channels, high-risk customers and transactions, reporting of STRs and CTRs, the analysis suggests that ML/FT risks in the financial system are predominantly concentrated in the banking sector (this is attributed to the fact that banks control 90% of assets in the financial system, while providing the widest scope of financial products and services in relation to other categories of financial institutions), where these risks are adequately identified, assessed, managed, and mitigated. In the DNFBP sector, risks are relatively higher with real estate brokers, lawyers, dealers in precious metals and stones, casinos, organisers of games of chance and lotteries (this is attributed to the fact that the amount of cash

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[19] These requirements may vary for DNFBPs depending on the characteristics of their activities and the corresponding differences in the regulation thereof

transactions in this space is not commensurate to the level of supervision), although several factors contribute to the technical elimination or effective mitigation of these risks.

Key findings: potential AML/CFT vulnerability from financial institutions and DNFBPs is rated low and high, respectively, with a declining trend going forward in both cases.

35.   **Legal persons** are subject to state registration in the manner specified by the law. The State Register Agency of Legal Persons at the MoJ and the Central Depository maintain sufficient information (in terms of volume and content) on the ownership of legal persons pursuing commercial purposes, which are available to all state authorities in the context of AML/CFT, to financial institutions and DNFBPs, as well as to the general public. The current legislation and operational measures provide for the availability of consistent, accurate, and up-to-date information on beneficial ownership and persons exercising control over legal persons.

36.   Trusts and other **arrangements** are not defined in the legislation of the Republic of Armenia. However, reporting entities are required to comply with CDD requirements (or enhanced CDD in case of high risk) when executing transactions or establishing business relationships with foreign trusts, thus providing for early identification of transactions posing high ML/FT risks, when carried out by foreign trusts through the financial or non-financial systems in the Republic of Armenia.

Key finding: potential AML/CFT vulnerability from legal persons and arrangements is rated low, with a stable trend going forward.

37.   According to the *Civil Code*, **non-profit organizations** cannot operate unless registered as legal persons, to which all the requirements for legal persons apply, including transparency rules around nominee and beneficial ownership. Non-governmental and charitable organizations are required to maintain information on the use of their funds commensurate to objectives of their organizations. The main areas of public benefit in the Republic of Armenia, where such organizations can operate and direct their funds are education, culture, social security, sports, healthcare, and agriculture.

38.   Several gaps in regulation, accountability, and supervision over non-profit organizations have an impact on the effectiveness of the AML/CFT regime in this space, such as disharmonised legislation, absence of accountability rules for certain categories of non-profit organizations, operational issues related to supervision, etc. Nevertheless there are also positive factors and developments, such as the absence of favourable conditions in the Republic of Armenia for terrorist activity and terrorism financing due to the inherent geographic and demographic circumstances, which all act to reduce the risk of non-profit organizations being misused for FT purposes.

Key finding: potential AML/CFT vulnerability from non-profit organizations is rated medium, with a declining trend going forward.

39.   All the findings of this ML/FT national risk assessment are summarised in Annex 1 of this Report.

Annex 1. ML/FT National Risk Assessment Findings

	Rating					Trend		
	1	2	3	4	5	Declining	Stable	Growing
Potential ML/FT Threats								
Money Laundering Potential Threat			X			X		
Terrorism Financing Potential Threat	X						X	
Potential AML/CFT Vulnerabilities								
Circumstantial Elements								
Geographic Circumstances		X					X	
Economic Circumstances			X			X		
Demographic Circumstances	X						X	
Structural Elements								
Political Stability		X					X	
High-Level Commitment	X						X	
Stable Institutions		X					X	
Rule of Law		X					X	
Appropriate Judicial System			X			X		
Contextual Factors								
Corruption			X			X		
Financial Inclusion			X			X		
Legislative Framework								
Criminal Liability of Legal Persons		X					X	
Law Enforcement Access to Banking Secrecy		X					X	
Management of Property Seized, Frozen or Confiscated			X				X	
Non-Conviction Based Confiscation			X				X	
Institutional Framework								
Financial Monitoring Centre	X						X	
Law Enforcement and Judicial Authorities			X			X		
Central Bank		X				X		
Ministry of Finance			X			X		
Ministry of Justice			X				X	
Chamber of Attorneys	X						X	
Reporting Entities								
Financial Institutions		X				X		
Designated Non-Financial Businesses or Professions				X		X		
Other Participants								
Legal Persons and Arrangements		X					X	
Non-Profit Organizations			X			X		