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ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM (AML/CFT) NEWSLETTER FOR CENTRAL ASIA

Issue 23, September - October 2007
Available online at http://www.imolin.org

CALENDAR

October, 2007

1 Seminar on combating the financing of terrorism (CFT) for FIUs, National Banks, LEA of Central Asian Countries [regional]
   Date: 15-17 October, 2007
   Organizer: Financial Integrity Network
   Location: Switzerland
   Contact Information: Daniel Thelesklaf, thelesklaf@financial-integrity-network.com

2 Typologies Workshop and Consultations with Private Sector [regional]
   Date: 23-26 October, 2007
   Organizer: EAG
   Location: Almaty, Kazakhstan
   Contact Information: Victor Kochenov, info@euroasiangroup.org

3 Detection, Freezing, Confiscating and Sharing/Returning of Proceeds of Crime [national]
   Date: 2-4 October, 2007
   Organizer: UNODC in conjunction with US OPDAT (US Department of Justice)
   Location: Bichkek, Kyrgyzstan
   Contact Information: Jasmine D. Cameron, cameronjd@state.gov

4 Strengthening international legal cooperation among Central and East Asian countries to combat transnational organized crime [regional]
   Date: 14-16, November, 2007
   Organizer: UNODC in conjunction with US OPDAT (US Department of Justice)
   Location: Kuala Lumpur, Malaysia
   Contact Information: Sandra Valle, sandra.valle@unodc.org

5 Workshop for KG FIU and National Bank of KG to improve their capacities in combating terrorist financing [national]
   Date: October, 2007
   Organizer: IMF
   Location: Bishkek, Kyrgyzstan
   Contact Information: Giuseppe Lombardo, glombardo@imf.org

November, 2007

1 Financial Crimes Detection Course at Financial Police Academy [national]
   Date: 5-9 November, 2007
   Organizer: US Embassy
   Location: Astana, Kazakhstan
   Contact Information: Dinara Berdigulova, BerdigulovaD@state.gov

2 National workshop on Combating Money Laundering and Suppressing the Financing of Terrorism [regional]
   Date: 14-15 November, 2007
   Organizer: OSCE/Vienna
   Location: Minsk, Belarus
   Contact Information: Killian Strauss, Killian.Strauss@osce.org

3 Study tour for KG FIU to Kiev, Ukraine [national]
   Date: 19-21 November, 2007
   Organizer: UNODC
   Location: Kiev, Ukraine
   Contact Information: Simon Goddard, caractacus.consultancy@orange.net

4 Workshop for KG FIU to increase their analytical capacities in processing of large volume data [national]
   Date: 29-30 November, 2007
   Organizer: IMF
   Location: Bishkek, Kyrgyzstan
   Contact Information: Giuseppe Lombardo, glombardo@imf.org

5 7th EAG Plenary Meeting/ 3rd Donor Conference/ Working Group Meetings [regional]
   Date: 10-15 December, 2007
   Organizer: EAG
   Location: Hainan, China
   Contact Information: Victor Kochenov, info@euroasiangroup.org
AML/CFT Developments in Central Asia

AFGHANISTAN

Afghanistan has enacted an AML/CFT law in 2004. The Financial Intelligence Unit, established in 2005, is operational. Afghanistan has commenced the application process for Egmont membership; its sponsors are the USA and Malaysia.

Afghanistan is scheduled to undergo an APG Mutual Evaluation in the 4th quarter of 2008.

Afghanistan is an observer member of the EurAsian Group (EAG), and a member of the Asia Pacific Group (APG).

BELARUS

Belarus has an operational FIU and was accepted as a full member of the Egmont Group in May 2007. Belarus is scheduled to undergo a Mutual Evaluation by EAG in 2nd quarter of 2008.

Belarus is a member of EAG

CHINA

The AML/CFT law was adopted on 31 October 2006 and came into force 1 January 2007. China became a full member of FATF at the Plenary of June 27-29, 2007, following its first AML/CFT evaluation. The Summary of China’s Mutual Evaluation Report can be found on the FATF website.

China is a member of EAG and FATF.

KAZAKHSTAN

The draft AML/CFT law is being considered by Parliament, and is scheduled for vote in December 2007. The FIU will be established following the enactment of the AML/CFT law. Kazakhstan is scheduled to undergo an EAG Mutual Evaluation in 2nd quarter of 2009.

Kazakhstan is a member of EAG, and co-chairs the technical assistance working group.

KYRGYZSTAN

The FIU has been established and has commenced its application process for membership in Egmont, sponsored by the Russian Federation and Ukraine. EAG’s 1st round Evaluation Report of Kyrgyzstan was adopted at the EAG Plenary in June 2007 and can be found on EAG website.

Kyrgyzstan is a member of EAG, and Deputy Chair of EAG.

RUSSIA

Russia will undergo a Mutual Evaluation jointly conducted by FATF, Moneyval and EAG in November 2007.

Russia is a member of FATF, holds deputy chair of Moneyval and Chairs EAG.

TAJIKISTAN

The Agency for State Financial Control and Combating Corruption was established in Tajikistan in early 2007. An AML/CFT law is being drafted in the Office of the President.

Tajikistan is a member of EAG.

TURKMENISTAN

The current government action plans calls for the drafting of an AML/CFT law in the coming year.

UZBEKISTAN

Pursuant to Presidential Decrees issued in January, February and April 2007, implementation of the most substantive provisions of the AML/CFT law has been suspended until the year 2013. Uzbekistan is scheduled to undergo an EAG Mutual Evaluation in the 4th quarter of 2008. EAG plans to send a Technical Assistance Needs Assessment (TANA) mission to Uzbekistan in the 2nd half of 2007.

Uzbekistan is a member of EAG.

EurAsian Group (EAG)

Schedule of EAG Country Evaluations:

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<td>Uzbekistan</td>
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<td>-</td>
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</tbody>
</table>

Contact numbers of EAG have changed to: (495) 607 72 55 (f); (495) 607 72 55 (t)
EAG Chairman and Head of RosfinMonitoring named as Russian Prime Minister on September 14, 2007.

The Russian Duma confirmed Victor Zubkov as Russian prime Minister. Since 2000, Victor Zubkov led efforts to build the Russian AML/CFT system and became head of pf RosFinMonitoring, the Financial Intelligence Unit. He initiated the creation of Eurasian Group in 2000, the FATF-styled Regional Body, whose members are Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Under his leadership Russia has become a leading country in implementing international AML/CFT standards among CIS countries and actively participates in technical assistance programs with various international organizations.

www.eurasiangroup.org

Development of AML/CFT Training Curricula Based on Operational Standards

by: Kevin Whelan, US OTA Advisor to EAG

Standards are everywhere and affect many aspects of our lives, even though we may not always notice them. Industry standards are created, particularly when there is a strong need to inter-operate, and where the lack of standards impedes effectiveness. When standards are created on the basis of consensus, they can be successfully implemented on a volunteer basis. For example, without standards, internet would not exist. But when industry players cannot agree on standards, the costs can be high.

In the area of anti-money laundering and countering the financing of terrorism (AML/CFT) the Financial Action Task Force\(^1\) (FATF) has developed 40 Recommendations, plus 9 Special Recommendations on Terrorist Financing, which elaborate most AML/CFT obligations contained in relevant international treaties, as well as some best practices. In particular, countries must develop “… clear and effective gateways to facilitate the prompt and constructive exchange directly between counterparts, either spontaneously or upon request, of information relating to both money laundering and the underlying predicate offenses.”\(^2\)

The absence of ‘clear and effective gateways’ for information exchange among competent authorities in the international financial intelligence community, contrasted with the proliferation of gateways for international financial transactions has created a gap that is widely exploited by criminals. This gap is the single biggest advantage criminals have in laundering their illegal proceeds via layers of transnational transactions, which can take the form of trade transactions with false invoices, wire transfers, or currency smuggling where national boundaries are porous.

It is not entirely clear that effectiveness of methods for information exchange among competent authorities is catching up with the expediency of the private financial sector.\(^3\) As this gap continues to grow, it actually fosters criminals to abuse legitimate financial systems to launder their proceeds. If competent authorities do not close this gap – the consequences will be costly.

The international AML/CFT standards are policy level standards which “set out the principles for action and allow countries a measure of flexibility in implementing these principles according to their particular circumstances and constitutional frameworks”. Whereas these standards are intended to achieve universal policy goals and thus allow great latitude, operational standards are intended to achieve inter-operability and compatibility goals, and are therefore restrictive aiming at less flexibility. Although there is tension between these two goals, they are not incompatible.

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1. [http://www.fatf-gafi.org](http://www.fatf-gafi.org); Russian version available at [www.eurasiangroup.org](http://www.eurasiangroup.org)
2. Evaluation Criteria 40.4, FATF Methodology for Assessing Compliance with FATF 40 Recommendations and 9 Special Recommendations, revised Feb. 2007. Russian version to be posted on [www.eurasiangroup.org](http://www.eurasiangroup.org)
3. SWIFT (system of the Society for Worldwide Interbank Financial Telecommunication) connects more than 8,000 financial institutions in more than 200 jurisdictions.

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In the area of information exchange, best practices have demonstrated that it is necessary to establish a financial intelligence unit (FIU) recognized by the Egmont Group, which concludes bilateral agreements on sharing information and, when possible, to participate in one of the established systems facilitating information exchange (e.g. Egmont Secure Web, FIU-Net). But these steps are by no means sufficient. Simply having the legal ability or mechanisms to exchange information by no means guarantees that information will be exchanged. And if it is exchanged, there is no guarantee as to the quality, consistency, or timeliness.

Interpol continues to develop and effectively use systems and standards for operational law enforcement information sharing, and the US has developed the Global Justice Sharing Initiative. This comprehensive program provides greater integration and information sharing among US law enforcement agencies by development of:

- a comprehensive XML-based data model for information sharing
- a national criminal intelligence sharing plan
- analytic standards for law enforcement personnel and systems, and
- training and certification standards for law enforcement personnel

At the EAG plenary in June 2007, a proposal for development of operational standards [for example: Training for FIU analysts] among EAG member countries was presented, and is currently under consideration. This proposal calls for the creation of a working group whose main task would be defining a process for development of standards, identifying priority areas for standards development, and managing the actual standards development process.

Reciprocity requires not just a legal ability and willingness to exchange information, but also a technical ability to collect and competently analyze information. Therefore, the standards would not dictate how internal systems are developed; rather they would describe required characteristics of information at the point where information exchange. In other words, they would address the form, as well as informational and analytic contents of the information.

The ultimate goal of these operational standards will be an inter-operable system of information exchange where each jurisdiction collects a compatible set of information, where the collected information is analyzed according to a consistent and effective process by qualified analysts, and where information is exchanged rapidly through a well-defined and measurable mechanism. The ultimate result should be a system that reduces the gap in information exchange efficiency and results in reduced money laundering activity and greater financial system integrity. Possible areas for development of operational standards include the following:

**Data Collection:** these standards might address content and form of data collection, like format for collection of physical address information (e.g. street name, street type, house number, entrance number, etc.), and method for validation, filing and storing for efficient retrieval.

**Data Analysis:** these standards might address analysis procedures, triggers for performing analysis, applications of typologies, or checks against various watch lists (UN, internal, or regional lists), or against government databases (e.g. customs, tax, criminal, property). Standards to fulfill information requests might require categorizing requests according to type and urgency.

**Analysts:** these standards might describe requirements for fulfilling the ‘analyst’ role, like addressing minimal educational requirements, basic training requirements, criteria for accreditation (e.g. junior analyst, analyst, senior analyst), or criteria for various specialty areas (e.g. trade analysis, forensic financial analysis, strategic analysis, etc.).

**Data Exchange Mechanism:** these standards would apply to the message formats for requests and responses, also statistical reporting requirements so effectiveness of the system can be benchmarked and measured.

**Terminology:** these standards would supply glossaries in relevant official languages containing agreed definitions for terminology used in the AML/CFT sphere. The lack of consistent terminology can limit the efficiency of information sharing.

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4 US Department of Justice (http://www.it.ojp.gov/topic.jsp?topic_id=8).
Information Security: these standards would define the kinds of controls and safeguards, like authorization, and how authorizations are documented and communicated, as well as privacy and data protection.

Standards-Based Training Curricula: implementation of standards will require development of a comprehensive curriculum with clearly defined elements. Elements of the curriculum may have different audiences, which view materials in a different way, although they address similar standards. A feedback process will also need to be developed in order to ensure continuous improvement of course content and delivery.

Measurement and Expected Results: As basic development of such programs can take several years, it is important to strategically prioritize the development of standards and training material so the first results have the highest impact. Measurement systems should be put in place to gauge the effectiveness. Operational standards will greatly simplify measuring effectiveness.

AML/CFT international policy standards are well-developed and largely implemented in national legal and regulatory frameworks. It makes sense to use similar tools and techniques employed by private information exchanges to close the 'efficiency gap' that is exploited by financial criminals and creates risks to financial systems.

## # # # #

CASE STUDY: TERRORISM FINANCING

The FIU of a European country (Country Z) were made aware of suspicious transactions on a bank account, over which Mr. A held power of attorney. The account was held for a non-profit organization established in country Z and was receiving large amounts of cash. Mr. A was vague in his explanation as to the source of funds and intimated that it was from donations. As Mr. A did not go to the branch office where the account was held, the bank refused to accept the deposits and advised Mr. A to attend the branch office where the non-profit organization's account was held, however he failed to do so.

The FIU analyzed the account and found that the debit transactions included a cheque that had been made out to a notary for the purchase of real estate.

This cheque was covered by the alleged donations and a transfer by order of Mr. A. The analysis of Mr. A’s personal account revealed multiple cash deposits that corresponded to donations from private individuals. The debit transactions consisted of transfers to the non-profit organization and international transfers to Mr. B. Mr. A was connected to individuals who were thought to be linked to terrorist activities, including Mr. B. It was revealed that Mr. A used the non-profit organization to raise funds and filtered these through his personal account, whilst siphoning some of them to Mr. B, where they were possibly intended for terrorism financing.

Indicators:
- Frequent cash deposits
- Abuse of non-profit organizations.

This case has been adapted from the “FIU’s in Action,” a compilation of 100 sanitized cases from Egmont Group members. The full version is available at [www.egmontgroup.org](http://www.egmontgroup.org)

ATTENTION!!!

Please note that the following websites are FAKE. They should NOT be accessed or relied upon:

- http://www.eurofatf.com
- http://www.fatf-org.com
- http://www.efatf.com

Here are official contacts of FATF:

Website: [http://www.fatf-gafi.org](http://www.fatf-gafi.org)

Email: contact@fatf-gafi.org

Post: 2 rue Andre-Pascal
57775 Paris Cedex 16
France

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News on IMoLIN: The Inter-Governmental Action Group Against Money Laundering and Terrorist Financing in West Africa (GIABA) joins the International Money Laundering Information Network (IMoLIN) as the 11th Partner Organization. GIABA, a recognized Financial Action Task Force-Style Regional Body (FSRB) comprises of the following 15 Member States: Benin, Burkina-Faso, Cape Verde, Coted’Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Togo, Senegal, and Sierra Leone.
TECHNICAL ASSISTANCE UPDATE

AML/CFT awareness-raising seminar for representatives of law enforcement agencies aiming at improving inter-agency cooperation: UNODC-GPML hosted a 2-day seminar in Cholpon Ata, Kyrgyzstan on 25 and 26 September, 2007 for 45 representatives of the Financial Intelligence Service [FIS] and law enforcement agencies operating within the northern oblasts of the country; Financial Police, Drug Control Agency, Ministry of Interior [9th Directorate], General Prosecutor’s Office, and National Security Service.

The objectives of the seminars were:

⇒ To improve general awareness of money laundering and terrorist financing issues;
⇒ To inform of the applicable international standards and standard setters;
⇒ To raise the profile of the Financial Intelligence Service;
⇒ To explain the system of national AML/CFT controls.
⇒ To examine mechanisms for effective cooperation between agencies taking account of international best practices.
⇒ To compare the approach adopted by Ukrainian FIU [State Committee for Financial Monitoring -SCFM] with that being developed in Kyrgyzstan.

A further, smaller event comprised a half-day seminar was conducted in Bishkek, KG on 28 September for 20 participants.

The mission was undertaken by Simon Goddard UNODC/GPML AML/CFT Expert with the assistance of Ms. Aigerim Yesetova WB/UNODC Mentor’s Office, Almaty, Kazakhstan and Ms. Madina Sarieva, Project Assistant, UNODC Office, Bishkek. In addition, Mr. Vitalii Moskaliuk, Deputy Head, Analysis Department, Ukrainian FIU [SCFM] participated at the invitation of the UNODC.

International Anti-Drug Trafficking Conference for Caspian Sea held in Turkmenistan: An international Round Table for Conference on Anti-Drug Trafficking in the Caspian Sea and the Caucasian Regions was held on 17-19 September 2007 at Hotel Serdar, in Turkmenbashi, Turkmenistan. The Working Group on counter narcotics enforcement analysed traffic in Afghan opiates to and through the Caspian Sea and the Caucasian regions and identified counter narcotics enforcement priority actions and targets in the concerned countries, as well as in the region. The Working Group on drug demand reduction assessed the drug abuse situation in the region and identified priority actions to enhance national and regional responses for prevention, treatment, rehabilitation of dependent persons, and monitoring of responses.

The meeting was co-chaired by Mr. Murod Islamov, Deputy Chairman, State Drug Coordination Commission, Government of Turkmenistan, and James Callahan, Representative, Regional Office for Central Asia (ROCA), UNODC. Turkmen representatives stated that the fight against drugs is one of the priorities of the Government, and expressed their support for Paris Pact Initiative and other constructive initiatives to fight drug trafficking, including joint operations to curb activities of organized criminal groups and related money laundering and financing of terrorism. Recommendations adopted by the conference included urging Turkmenistan to join the Eurasian Group as a full-member, and fully implement all international AML/CFT standards, including creating an FIU and seeking membership in the Egmont Group.

Full-Day AML/CFT Technical Training Sessions in Central Asia: The World Bank/UNODC Mentor Program held full-day AML/CFT Technical Training sessions during the week of Sept 24th in Astana & Almaty, Kazakhstan and Tashkent, Uzbekistan. In Kazakhstan Mr. Kevin Whelan, USA/OTA Advisor to Eurasian Group in Moscow participated as guest speaker and delivered presentations on the experience of building the FIU in Afghanistan and the proposed EAG Operational AML/CFT standards. The training in Tashkent covered drafting of a National AML/CFT Strategy, as well as presentations by Ms. Albina Yakubova of the UNODC Central Asia Regional Office on countering terrorist activity and terrorist financing.
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<td>Official website of the UNODC. (In English, Russian, Spanish)</td>
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<tr>
<td><a href="http://www.amlctf.org">http://www.amlctf.org</a></td>
<td>World Bank’s AML/CFT website. (In English)</td>
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<tr>
<td><a href="http://www.imolin.org">http://www.imolin.org</a></td>
<td>International Money Laundering Information Network administered by UNODC Global Program against Money Laundering (GPML) on behalf of a partnership of nine international organizations and offering model laws, legal library, calendar of key events and other AML/CFT related information. (In English, with some Russian)</td>
</tr>
<tr>
<td><a href="http://www.euroasiangroup.org">http://www.euroasiangroup.org</a></td>
<td>The EurAsian Group is the FATF-Style Regional Body serving Central Asia. (In English and Russian)</td>
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<td>UNODC Model Law in Russian</td>
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<tr>
<td><a href="http://www.fatf-gafi.org/dataoecd/43/46/38960576.pdf">http://www.fatf-gafi.org/dataoecd/43/46/38960576.pdf</a></td>
<td>The Guidance on the Risk-Based Approach to combating Money Laundering and Terrorist Financing adopted by the FATF. It outlines the high-level principles involved in applying the risk-based approach, and indicates good public and private sector practice in the design and implementation of an effective risk-based approach.</td>
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<tr>
<td><a href="http://www.euroasiangroup.org/rus/index-5.htm">http://www.euroasiangroup.org/rus/index-5.htm</a></td>
<td>Russian version of 40 FATF Recommendations [AML]</td>
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<td>Russian version of 9 FATF Special Recommendations [CFT] with Interpretive Notes</td>
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