

# FINANCIAL SECURITY

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NO. 9 JULY 2015

## **SERGEI SHOIGU:**

*"Preventing various types of defence procurement system abuse is one of the Russian Defence Ministry's top priorities."*







# FINANCIAL SECURITY

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## DEAR READERS!

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Although various problems of interagency cooperation in combating fraud and abuse in the state procurement system have been discussed in Russia for years, today we are standing at the threshold of a qualitative breakthrough in this area. This June saw our Agency's remit expanded further to include powers to prevent suspicious transactions and assess financial risks based on the information on companies engaged in fulfilling state defense orders. Rosfinmonitoring will execute this function in close cooperation with the Ministry of Defense and other agencies. His take on the process of building cooperation between our agencies is presented on the pages of the journal by Russian Defense Minister Sergei Shoigu.

Rosfinmonitoring's work to build partnerships has been carried out both at the national and

international level. In the context of Russia's recent focus on strengthening cooperation with its BRICS partners, the group members met on the sidelines of the FATF plenary meeting, held in Australia in June 2015, and agreed to establish the BRICS AML/CFT Council. This initiative was supported at the BRICS 7<sup>th</sup> Summit, held in Ufa on July 8-10.

The venue of the Commonwealth of Independent States remains strategically important for our country. In May 2015, Russia assumed the presidency of the Council of Heads of Financial Intelligence Units of the CIS Member States. In light of the deteriorating situation with ISIL in the regions adjacent to the CIS, extra attention will be paid to the problem of combating the financing of terrorist and extremist activities. We plan to tackle this task together with our partners within the international AML/CFT system.

***Rosfinmonitoring Director  
Yury Chikhanchin***

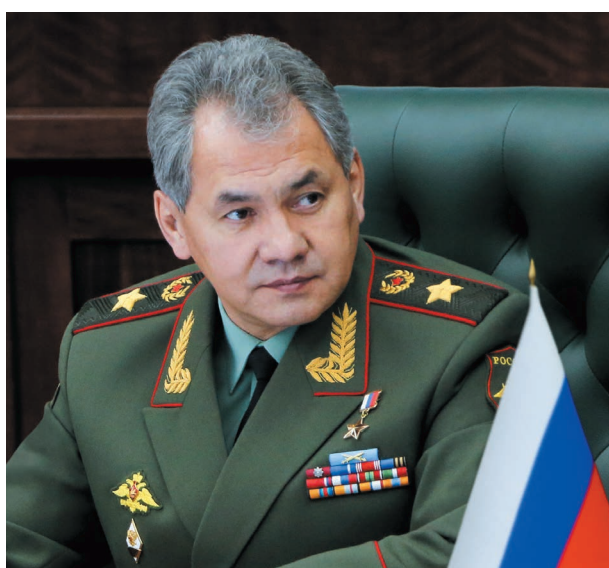
**COVER STORY**

# ***A NEW SYSTEM FOR FINANCIAL MONITORING OF DEFENCE PROCUREMENT AS A KEY TOOL FOR ADDRESSING NATIONAL SECURITY THREATS***

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*Sergei Shoigu,*

*General of the Army, Minister of Defence of the Russian Federation*



*Sergei Shoigu*

On 29 June 2015, Russian President Vladimir Putin signed Federal Law No. 159-FZ, substantially amending (as of 1 July 2015) Federal Law No. 275-FZ of December 29, 2012 «On Defence Procurement» (hereinafter the «Federal Law»).

The amended Federal Law has created a legal framework for the establishment of a national system for financial monitoring of defence procurement, outlined a mechanism for interagency collaboration and monitoring, specified the additional rights and obligations of state customers, contractors and credit institutions, and introduced the concept of a unified defence procurement information system (UDPIS).

It is no secret that our country is investing considerable resources in rearmament programmes and research

work designed to give our military the most modern and promising weapons and equipment. This strategy makes the task of monitoring the expenditure of every rouble allocated for defence procurement particularly relevant, as well as placing it at the top of the country's list of national defence priorities.

In 2015 alone, Russia is set to allocate for defence procurement over 2 trillion roubles.

A selective review of defence procurement-related expenditure, conducted jointly with the Federal Financial Monitoring Service, revealed instances involving the misuse of advance funds allocated to defence contractors under the contracts for the manufacture of specific products.

Prior to being amended, the Federal Law placed the responsibility for overseeing the proper use of budget funds by contractors on the state procurement authority, without specifying the tools needed to enforce such supervision.

In his Address to the Federal Assembly of the Russian Federation of December 4, 2014, Russian President Vladimir Putin stated that the abuse of the defence procurement system constitutes «a direct blow to national security». Accordingly, V. Putin instructed government officials to develop a new system of financial control over the use of budget funds allocated for defence procurement.

## International Experience

A review of international experience of exercising financial control over defence procurement has revealed that many countries long ago established specialized agencies tasked with financial monitoring of the defence procurement system. In most cases, these agencies are integrated into the country's law enforcement and supervisory structures, or, occasionally, function as independent entities or under the jurisdiction of the Ministry of Defence.

In particular, we studied the experience of the Eurasian Economic Community, where the responsibility for financial monitoring of defence procurement is jointly shouldered by the Ministry of Defence, the financial intelligence units and other government agencies.

Although prior to the enactment of the Federal Law, this responsibility had also been assigned in Russia to several ministries and agencies, there was no federal regulatory framework laying down the procedure for information sharing and interaction between all parties concerned in implementing the necessary rapid response measures.

## Interagency Control System

According to our estimates, the establishment of an interagency mechanism providing for a clear delineation of responsibilities among all participants has allowed us to attain the objectives set by Russian President V. Putin.

At the same time, in view of the planned budget sequestration, it was important to avoid establishing yet another supervisory state authority by optimizing the powers of the existing ones.

Consequently, by utilizing the experience of the Federal Financial Monitoring Service, taking into account the functional requirements of the Defence Ministry and involving the specialists of the Federal Anti-Monopoly Service, the Bank of Russia and the banking sector, the Ministry of Industry and Trade and the Accounts Chamber of the Russian Federation, we were able to create a new type of state financial control mechanism.

It provides for equitable involvement of all concerned government agencies, contractors and credit institutions, as well as for the exchange of necessary information between them.

The main purpose of the interagency control system is to «colour» each cash flow feeding the defence procurement pool and ensure its transparency throughout the chain of contractors.

The new requirements of the Federal Law help create a set of effective tools that can be used not only for monitoring but also preventing the abuse of the defence procurement system.

One such tool is a ban on the use of defence procurement accounts for unrelated transactions. A list of such transactions was compiled based on the number of registered financial violations.

So, for example, funds earmarked for defence procurement can no longer be used to finance the purchase of securities and other financial instruments, charity projects or as payment to individuals (except payroll), etc.

Banks with experience in dealing with money laundering are responsible for enforcing the ban on such transactions.

Meanwhile, the responsibility for carrying out administrative functions has been assigned to the Federal Anti-Monopoly Service, and for co-operation with law enforcement agencies on criminal cases, to Rosfinmonitoring.

## UDPIS

The Unified Defence Procurement Information System was established with the goal of enabling





*Ministry of Defence of the Russian Federation*

effective analysis and processing of information on defence procurement transactions.

The UDPIS represents a mixture of defence procurement transaction data, specialized information technology, analytical tools, hardware and software.

The system is intended primarily for the collection, processing and analysis of defence procurement transaction data, as well as for the assessment of risks of inefficient or inappropriate use of budget funds.

It will receive data on transactions from banks and on settlement participants from banks, government agencies and external sources.

The system of interagency co-operation is constructed in such a way as to allow each participant within its scope of authority to gain access to the data contained in the system.

The maintenance of the UDPIS is carried out by the National Defence Management Centre.

### **Analytical Work and Risk Assessment**

UDPIS will make it possible to analyze payment data, select payments based on specific criteria, or a set of criteria (e.g., transaction type, amount or purpose), and review the accompanying documents (e.g., a contract or a handover certificate).

The UDPIS contains details of all defence contractors, which form the basis for co-operation carried out under each contract.

If a financial transaction is deemed suspicious, its details are referred to Rosfinmonitoring.

The system allows for greater diversity in terms of sampling and scheme options, thereby speeding up the analytical work and increasing objectivity.

This tool will allow the Russian Defence Ministry in its role as a state customer to:

- pursue a more balanced policy for advance payment allocation taking into account the production and technological cycle of products manufacturing, including by adopting a stage-based system for advance payment allocation;
- determine the degree of readiness of products ordered under state contracts and the effectiveness of co-operation scheme-based expenditure;
- keep the military representative offices located at industrial enterprises updated on the level of the actual expenditure of funds allocated under each state contract;

- assess the financial risks arising in the course of implementation of public contracts;
- take appropriate management decisions aimed, among others, at reducing the amount of overdue receivables.

### **Legal and Methodological Work**

The Federal Law calls for the drafting of new regulations and amendments to the existing ones.

This work is extremely important, given that new regulations should not only be in line with the Federal Law but also avoid placing unreasonable burden on the defence industry contractors and lending institutions.

In order to ensure the proper functioning of the established system, it is also necessary to enter into co-operation agreements with the federal authorities.

We understand that any innovation creates certain difficulties. To help address them, the Ministry of Defence is ready to provide advisory assistance. To this end, we have set up a hotline on our website at [www.mil.ru](http://www.mil.ru), where each participant in the defence procurement system can ask a question and receive a reply within 24 hours.

In conclusion, I would like to stress the importance of ensuring reliable operation of the defence procurement financial monitoring system, developed under the instruction of Russian President Vladimir Putin, as a key component of the financial and military security of our country.

## CONTROL OVER DEFENCE PROCUREMENT WILL IMPROVE

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*A meeting of the Interagency Working Group on Combating Illegal Financial Transactions of the Collegium under the plenipotentiary envoy of the President of the Russian Federation in the Central Federal District on law enforcement, defence and security was held on 8 July in Moscow*

*Konstantin V. Litvinov,  
Deputy Editor in Chief*

A list of agenda items included issues relating to the prevention, detection and suppression of violations and offences committed in the defence industry and defence procurement sector.

The meeting began with the opening remarks by deputy plenipotentiary representative of the President of the Russian Federation in the Central Federal District (CFD) Nikolay P. Ovsienko and deputy director of Rosfinmonitoring Vladimir I. Glotov.





In his opening speech, head of Rosfinmonitoring's CFD Directorate Evgeny Legostaev reiterated Rosfinmonitoring's commitment to improving the defence procurement system and allowing executive authorities within their scope of competence to access it in order to monitor the expenditure of funds.

The meeting was attended by head of the Legal Department at the Federal Antimonopoly Service Igor V. Bashlakov-Nikolaev, deputy head of the Prosecutor General's Office in the Central Federal District Vladimir G. Lapitsky, Moscow military prosecutor Victor E. Ivanov, deputy head of Rosfinmonitoring's AML Directorate Mikhail V. Sedov and others. A list of the meeting participants attending via videoconferencing included deputy governors, prosecutors, police chiefs and chief federal inspectors of the constituent territories of the Russian Federation in the Central Federal District.



*N. P. Ovsienko*

Following a discussion of the agenda items, the Interagency Working Group prepared a number of proposals and recommendations for the CFD agencies involved in defence procurement.

### *V.I. Glotov:*

"This is the first meeting dedicated to such an important topic as defence procurement to be held in the region. According to the country's open registry of defence companies, out of a total of 1342 enterprises involved in defence procurement in Russia, 596 are located in the Central Federal District. I'd like to highlight the importance of preventive action for the success of the defence procurement system, of which Rosfinmonitoring is now an integral member.

The magnitude of the challenges imposes special requirements on the activities of all CFD executive bodies, including law enforcement and supervisory authorities, and calls for coordinated action. For its part, Rosfinmonitoring wishes to express its readiness to support the concerned authorities in the reorganization of this important area of the economy."

### *N. P. Ovsienko:*

"I believe the format of the event proposed to us by Rosfinmonitoring's CFD Directorate is a viable one. And although due, perhaps, to the novelty of the format, we didn't hear many questions from the territories, much was done by them today to analyze the latest legislative initiatives and instructions of the President. That said, I'm convinced that the CFD regions will now delve into the problems and tasks assigned to them and we'll see more feedback from the territories already at the next meeting.

Due to the fact that no agency is capable on its own of successfully addressing the tasks

assigned to us by the President, consolidation of efforts appears to be the only way we should follow in order to achieve positive results. I'd like to separately add that our level of interaction with Rosfinmonitoring in general and its CFD Directorate in particular is, without a doubt, highly commendable. At the most recent meeting of the District Board, E. Yu. Legostaev presented a report, which was enthusiastically received by all participants and served as the basis for the development of administrative decisions.

I'm satisfied with the level of our interaction and expect it to deepen even further in the future".

## ***RUSSIA PRESENTS ROADMAP FOR CAPITAL AMNESTY TO FATF***

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*While attending the Plenary session of the Financial Action Task Force on Money Laundering, held on June 21-26, the Russian delegation answered the international expert community's questions concerning the country's strategy for implementing a mechanism for voluntary reporting by natural persons of assets and bank accounts*

***Pavel V. Livadny,***

*State Secretary and Deputy Director of Rosfinmonitoring*

On 8 June, Russian President V. Putin signed a law on offshore assets amnesty titled "On Voluntary Declaration of Assets/Deposits by Individuals and on Amendments to Certain Legislative Acts of the Russian Federation."

"This Federal Law aims to establish a legal mechanism for voluntary declaration of assets and accounts (deposits), provide legal guarantees for the preservation of individuals' capital and property, protect their property interests, including those located outside Russia, and reduce the risks associated with the possible restrictions on the use of Russian capital abroad."

As pointed out during the document review process by Prime Minister Dmitry Medvedev, the new law creates a legal framework for integrating the property that was previously in a grey area into the economy and registering it to its real owners.

**V. Putin:** *"I propose a full amnesty for capital returning to Russia. I insist, a full amnesty. This means that if people legalize their assets, they get a firm legal guarantee that they won't be bothered by any authorities, including law enforcement, won't be asked about how and where they acquired it, won't be exposed to criminal investigations, and there will be no question from the tax and law enforcement bodies put to them. Let's do it now, but only once. If anyone wishes to take advantage of it, they definitely should."*

First of all, before we begin our discussion of amnesty, it should be noted that this is not a unique phenomenon; many countries in the past faced the challenge of finding ways to legalize the hitherto hidden from the taxman capital in exchange for a partial forgiveness of tax debt. Russia, for one, is not new to this experience either.

One of the most successful examples is the tax amnesty carried out in Ireland in 1988. As a result, the country's budget received approx. \$700 million in additional revenue, while its citizens were able to settle their income tax liabilities without having to pay any penalty.

Also considered to have been effective is the 2001-2002 amnesty in Italy, resulting in the repatriation of 61 billion euros in the first few months. Participants were given the opportunity to legalize their funds by paying 2.5% of the total amount in taxes or by purchasing government bonds worth 12% of the value of the concealed property.

The first Russian tax amnesty took place in 1993, when, according to a decree of then-Russian president B. Yeltsin, natural persons and legal entities were given 1 month and 3 days to voluntarily settle their unpaid taxes without fear of prosecution. The move, however, failed to live up to the government's expectations – only about 2000 individuals took advantage of it.

In 2007, the country passed the law «On a Simplified Procedure of Declaring Income of Natural Persons», which granted natural persons and individual entrepreneurs a period until the end of the year during which to report their income and pay taxes on it at a rate of 13%. The initiative generated only 3.7 billion roubles, and was deemed a failure.

On 4 December 2014, in his Address to the Federal Assembly, President Vladimir Putin presented a new initiative capable, according to experts, of raising \$2 billion for the budget and facilitating the repatriation into the country of a total of \$100 billion. The main difference between the current amnesty initiative and those proposed in the past is the absence of a mandatory fee payable by those wishing to take part in it. The Russian president, mindful of the sanctions pressure being exerted on the country, urged business leaders to return capital to Russia in exchange for a waiver of the mandatory fee.

### The Four «Pillars» of Amnesty

The main subject of a heated amnesty-focused debate involving both members of the public and the media revolved around the apprehension that

the mechanism for it would not be acceptable to the international community and rejected by the FATF. It is now necessary to refute this preconception.

To begin with, we must understand that the Financial Action Task Force has no objections to capital amnesties per se. In fact, its standards provide for such a mechanism. What is important to its experts, however, is that all relevant procedures must be complied with.



There are four basic principles related to the voluntary tax compliance programmes developed by the FATF several years ago. They boil down to the following: countries implementing such programmes must not under any circumstance forego any AML/CFT requirements and obligations undertaken by them. Financial institutions that receive funds under such voluntary tax compliance programmes must take all steps necessary to determine the origin of these funds.

Another principle concerns confidentiality guarantees and, above all, the need for the information gathered in the course of such programmes to be referred to the competent authorities that may be involved in investigations of money laundering and terrorist financing, and particularly to the authorities involved in international co-operation.

The document cited by the FATF is called the «Best Practices Paper». It contains the core principles on which any amnesty should be based and constitutes a summary of worldwide practice in this area.

**Principle 1.** The effective application of AML/CFT preventive measures is a prerequisite for addressing and mitigating the money laundering and terrorist financing risks associated with implementing any type of voluntary compliance programmes.



**Principle 2.** The FATF Recommendations do not allow for full or partial exemptions from AML/CFT requirements in the context of implementing a voluntary tax compliance programme.

**Principle 3.** When implementing a voluntary tax compliance programme, it should be ensured that all relevant domestic competent authorities be able to co-ordinate and co-operate, and exchange information, as appropriate, with a view to detecting, investigating and prosecuting any ML/FT abuse of the programme. This is where the issue of confidentiality is specifically addressed.

The **4<sup>th</sup> principle** is viewed in the context of the 3<sup>rd</sup> and concerns international co-operation.

It is important to understand that while focusing on the FATF standards, we should not view this international organization only as a strict teacher who can punish its pupil for the wrong answer. For us, any possible accusations coming from the international expert community represent risks that are avoidable, which is the point emphasized by the President.

Rosfinmonitoring's history began with the FATF blacklist, which once featured Russia. Today, however, Russia is among the Group's key partners. It is for this reason that the President instructed specifically Rosfinmonitoring and not any other agency to oversee compliance of our capital amnesty mechanism with the FATF international standards, to spearhead a dialogue with this organization and to take part in the drafting of the relevant bill. This work was carried out in close collaboration with the Government of the Russian Federation, the Ministry of Finance and the State Duma.

In April, the level of transparency of this process was praised by the Council of Europe, at whose



### V. Putin:

"The mechanisms of which I speak should be simple, clear and, of course, fully in line with the FATF requirements. This is also very important because everything that concerns amnesties of this kind is under FATF's control and therefore must be totally legitimate and understandable from the international legal point of view. No one should have any doubt that everything that is happening in Russia is fully consistent with international law and international practice, including in terms of prevention of money laundering."

meeting the information on the draft version of the document was communicated in accordance with all applicable procedures to MONEYVAL.

On 21-26 June 2015, the final version of the law, previously endorsed by the President of the Russian Federation, was presented by the Russian delegation to the expert community at the FATF plenary week in Brisbane (Australia). Rosfinmonitoring was represented at this plenary by its director Yu. A. Chikhanchin and state secretary and deputy director P. V. Livadny.

### Amnesty, Russian Style

The law aims to establish a legal mechanism for voluntary declaration of assets and accounts (deposits), provide legal guarantees designed to preserve individuals' capital and property, protect their property interests, including those located outside Russia, and reduce the risks associated with the possible restrictions on the use of Russian capital abroad and the adoption by the Russian Federation of a mechanism for automatic exchange of tax information with foreign countries.

In accordance with the law, individuals may only once submit to tax authorities a declaration containing information on the property and foreign companies controlled by them, as well as on accounts (deposits) in banks located both in Russia and abroad. In turn, tax authorities cannot refuse the declarant who has taken such a decision, provided, of course, that all requirements stipulated in the law are met.

All information concerning the sources of funds (method of formation of such sources) used to

purchase the property, origin of funds, as well as the documents confirming the declarant's and (or) nominee's rights in respect of the property objects, may be provided in any form.

In addition, the law amends Federal Law No. 115-FZ of August 7, 2001 «On Combating Money Laundering and Terrorist Financing» by granting organizations carrying out transactions with monetary funds or other assets the right to undertake reasonable and available in the given circumstances measures to determine the source of funds and (or) other property of the customer.

The law guarantees the declarant exemption from criminal (Art. 193, part 1 and 2 of Art. 194, Arts. 198, 199, 199.1 and 199.2 of the Criminal Code), administrative and tax liability within the limits established by this law in relation to acts committed before 1 January 2015, provided the committed offences are linked to the formation (acquisition) of declared assets. All information contained in the declaration and documents, along with the information appended thereto, is classified as tax secret the access to which is subject to the procedure to be determined by tax authorities.

One important innovation introduced by the law is that it allows individuals participating in a voluntary declaration programme to register the property formerly held by a nominee in their name.

The provision of guarantees is not subject to the repatriation to Russia of the assets described in the declaration.

In addition, the law contains a special provision stating that it in no way affects, restricts or provides for any exemptions from the obligations undertaken by the Russian Federation under international treaties of the Russian Federation, including those related to combating money laundering and terrorist financing, as well as the provisions of Federal Law No. 115-FZ of August 7, 2001 «On Combating Money Laundering and Terrorist Financing» and any other regulations adopted in accordance therewith.

The implementation of the President's instruction should not, however, lead to complacency. Instead, we will need to start work aimed at mitigating other risks, such as the abuse of amnesty arrangements and the risks of legalization of the wrong type of income. No one intends to abolish anti-money laundering legislation. On the contrary, it should be fully utilized, while the results of our joint work must be honest.

Our work towards obtaining the FATF's approval is not finished, as the Group will continue to monitor



our actions there. And if they see that the practical aspects of the amnesty implementation are ineffective, they may ask us some questions.

I am confident that the joint work of financial institutions and public authorities will allow us to use this unique opportunity to grow our economy, strengthen domestic business and protect national security.

### *V. Putin:*

"First. How much capital do we plan to repatriate? The answer is that we have no such plans. It's neither a question of capital repatriation nor a fiscal initiative. It's more a question of legalization. If a business wishes to keep its funds and property abroad, let it do it. The point of legalization is in getting businesses to show up here and register. That's the most important thing, and I want everyone to be clear about it.

Second. I will personally see to it that there're no violations of any mechanisms and guarantees. I want to warn all my colleagues, including those from law enforcement agencies, of our determination to adopt the most severe measures against all those who violate the principle I have just mentioned."

## ROSFINMONITORING'S PARTICIPATION IN FATF PLENARY IN BRISBANE

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*Russian government delegation headed by Rosfinmonitoring director  
Yu. A. Chikhanchin attended FATF plenary session in Brisbane (Australia)  
on 21-26 June 2015, chaired by FATF president Roger Wilkins (Australia)*

*Alexey G. Petrenko,  
Head of International Cooperation Department of Rosfinmonitoring*

Among the issues considered by the session participants were:

- the findings of the FATF President-initiated horizontal review of the member states' compliance with international counter financing of terrorism standards (CFT);
- a study of the latest FT trends;
- approval of the Virtual Currencies Guidance;
- a public statement on the phenomenon of de-risking;



- updating of grey and black lists;
- the Mutual Evaluation Report of Malaysia;
- the outcomes of the FATF high-level missions to Brazil and Saudi Arabia;
- approval of the priorities of the upcoming Korean presidency and, in particular, the initiative to establish an international AML/CFT training centre.

The themes related to global terrorism escalation and the effective use of FATF tools to combat its financing dominated the meeting agenda. The findings of the horizontal review of the level of



implementation by jurisdictions of the 5<sup>th</sup> and 6<sup>th</sup> FATF Recommendations relating to CFT, conducted in the inter-sessional period, will form the basis of a report by G20 financial ministers, to be presented by October 2015. The key objective of this monitoring work is to mobilize the remaining countries towards completing the implementation of these standards.

Following a review of the countries' progress in implementing national action plans to correct the strategic AML/CFT deficiencies made since February 2015, Ecuador has exited the blacklist and will soon be visited by a verification mission for onsite confirmation of the declared results in the area of standards implementation. This development means that there are only four countries – Algeria, Iran, North Korea and Myanmar – left on the FATF blacklist.

With regard to Iran, the situation remains unchanged due to the country's persistent failure to pass a law criminalizing terrorist financing. North Korea, on the other hand, has achieved considerable progress in implementing the action plan to exit the follow-up process, developed jointly by the FATF and the Asia-Pacific Group.

As regards FATF expansion, Malaysia and Saudi Arabia have made significant progress towards gaining membership of this organization following the successful defence by the former of the Mutual Evaluation Report, which will allow it to join the Group in October 2015, and the granting to the latter of observer status in the wake of the May 2015 high-level mission to this country.

Brazil, on the other hand, submitted to the FATF, shortly before the start of the plenary, a letter of guarantee signed by its minister of finance and minister of justice containing commitments to criminalize by the end of this year the financing of terrorism in accordance with international standards. Without it, the FATF would have been forced to issue a public statement regarding this country, which is tantamount to it being added to the blacklist.

A review by the FATF Secretariat of the Russian capital amnesty law, entered into force on July 1,



2015, exposed no violations of international anti-money laundering standards. None of the member states commented on the document.

Among the good news was the retention by Russia of its membership of the Management Group, underscoring the country's positive reputation in the international AML/CFT community.

A list of priorities of the upcoming Korean presidency includes the initiatives of its predecessors, including Russia's (V. P. Nechaev). Delegates unanimously supported South Korea's initiative to establish in its territory a FATF training centre for AML/CFT experts. At the same time, some delegates, including Russian representatives, stressed the importance of co-ordinating efforts in this area with similar centres in other countries.

Bilateral talks on the sidelines of the plenary were held with the incoming FATF vice president J M. Vega (Spain) and FATF president J. Shin (South Korea), FATF executive secretary R. McDonnell, as well as the delegations of Argentina, Armenia, Holland, India, Spain China, Poland, USA and France. In addition, interagency agreements on information exchange were signed with the heads of financial intelligence unit of Australia and Algeria.

Another important event occurring on the sidelines of the FATF plenary was a traditional meeting of the heads of BRICS delegation.

The next FATF plenary meeting will be held in Paris in October 2015.

## BRICS AML/CFT COUNCIL

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*The 4<sup>th</sup> meeting of BRICS delegations took place on the sidelines of the FATF plenary*

*Konstantin V. Litvinov,  
Deputy Editor in Chief*

Participants congratulated the representatives of Brazil and South Africa on the successful defence of the follow-up reports during the current FATF Plenary week. Among the main highlights of a discussion dedicated to the preparations for the 4<sup>th</sup> round of FATF mutual evaluations was the agreement on the future BRICS activities, mutual participation and experience sharing.

Russia presented a report on the participation in the 7<sup>th</sup> BRICS Academic Forum in Moscow on May 22-23. According to the Russian delegation, the task of organizing interaction with the BRICS national expert centres should be given priority. One such centre, the BRICS National Research Centre, is operating in Russia.



The proposed initiative to set up a closed information-sharing network for BRICS FIUs provides for an equal participation of member states in the network formation process. Such a network, with its simplified accession requirements and flexible participation terms, could become a universal information-sharing system also for other international organizations.

One of the items on the meeting agenda was the task of ensuring information (cyber) security of the New BRICS Development Bank, which is currently in the process of being established. The initiative to consolidate the efforts of BRICS national Financial Intelligence Units in addressing this problem is aimed, among others, at creating the necessary conditions for the de-dollarization of mutual payments and boosting of mutual investment in various infrastructure projects.

During participants' discussion of the initiative to establish an international mechanism for the confiscation, distribution and recovery of criminal assets within the BRICS, state secretary and deputy director of Rosfinmonitoring Pavel V. Livadny proposed to draft a universal agreement setting out the general requirements, principles and operating procedures of such a mechanism.

Prior to the adoption of the Ufa Declaration at the 7<sup>th</sup> BRICS Summit (July 8-10, Ufa, Russia), Russia proposed during a meeting to add paragraph 23 to the 4<sup>th</sup> section of the Declaration titled «New Challenges and Threats».



*Brisbane*

The main point of this paragraph is to establish the BRICS AML/CFT Council while continuing to strengthen cooperation within the FATF and displaying commitment to the FATF Recommendations.

## ***ROSFINMONITORING DIRECTOR ATTENDS A MEETING OF THE PRESIDIUM OF THE RUSSIAN ACADEMY OF SCIENCES***

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*On 21 April 2015, director of the Federal Financial Monitoring Service Yury Chikhanchin participated in a meeting of the Presidium of the Russian Academy of Sciences and presented a scientific report titled “Challenges Linked to Ensuring Transparency of the Russian Economy”*

*Irina V. Ivanova,  
Editor in Chief*





Head of the Russian Financial Intelligence Unit reminded participants of the key role played by modern financial instruments in creating real risks and threats to not only economies but also entire countries, irrespective of their level of development and degree of involvement in the international financial system:

"The situation is aggravated by economic sanctions imposed against Russia in 2014-2015 aimed at:

- destabilizing the country's market economy and monetary system;
- severely restricting Russian economic agents' access to the global capital markets;
- deforming the structure of the national economy, increasing the share of gray and black sectors and criminalizing specific areas of activity;
- weakening the established social foundations."

The overarching theme of Yu. A. Chikhanchin's address to the scientific community is a call for the consolidation of efforts against financial risks

to protect the country's national interests. The solution to this problem today requires joint efforts of the financial monitoring agency and academic community in the establishment of the national financial security system. This system provides for the development of specific programmes designed to facilitate financial transparency, establish industry-specific methodology and develop scientifically sound proposals for improving AML/CFT legislation. Its first step would be the RAS Presidium's fundamental research programme titled «Financial and Legal Mechanisms for Ensuring Transparency of Doing Business».

In his report, the head of the Financial Intelligence Unit outlined last year's achievements of the national AML/CFT system, of which Rosfinmonitoring is a member, in its fight against dirty money:

*"According to statistics, in 2014 we prevented the misuse of approx. 300 billion rubles of public funds, seized property worth more than 3 billion rubles and recovered 16 billion rubles in taxes and other mandatory payments."*

In conclusion of his speech, the Rosfinmonitoring director reminded participants that although there are numerous strategies, concepts and programmes operating in Russia designed to strengthen the international, political, economic, military and other areas of national security, none of them can exist without financial stability underpinning the vitality of state and society.

### *Rosfinmonitoring director Yu. A. Chikhanchin:*

"It should be emphasized that the implementation of this strategy cannot be limited to the Russian borders. Instead, it should, above all, encompass all countries members of the Eurasian Economic Union; otherwise, all Russia's efforts will be in vain.

In essence, we're talking about creating a common Eurasian mechanism for ensuring

transparency and safeguarding the business environment against financial risks, a task which is impossible to achieve without the concerted efforts on the part of countries members of the Eurasian Economic Union and their more active involvement in the development of global legal standards for conducting business and regulating financial markets."

## ***RUSSIA IN THE INTERNATIONAL AML/CFT SYSTEM***

# ***YURY CHIKHANCHIN: “WE PROPOSE TO ESTABLISH AN INFORMATION SHARING NETWORK FOR EEU”***

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*On 19 May 2015, Director of the Federal Financial Monitoring Service Yury Chikhanchin took part in a high-level mission to Kazakhstan's capital Astana. The aim of the visit was to consolidate efforts within the Eurasian Economic Union (EEU) and synchronize AML/CFT activities*

*Evgenia N. Kalikhova,  
Editor-Columnist*

The Rosfinmonitoring director held a meeting with Majilis (Lower House of Parliament) speaker K. K. Dzhakupov as well as deputy speaker and leader of the Nur Otan faction D. N. Nazarbayeva.

The main topic of the meeting was the fight against illegal financial transactions and the financing of terrorism, especially at the legislative level. The two sides stressed the importance of transparency of financial flows, especially in the context of increased threat from international terrorism.

Yu. A. Chikhanchin visited the Majilis of the Parliament of the Republic of Kazakhstan, where he spoke to the deputies about Russia's experience in

### ***D. N. Nazarbayeva:***

"I hope our co-operation will continue to improve. Especially it concerns the legislative initiatives aimed at harmonizing legislations within the Eurasian Economic Union. I would also like to thank our colleagues from Russia for helping us avoid those mistakes and hidden pitfalls that you yourself probable encountered in the course of the establishment of your financial intelligence service. I believe this was a highly useful contribution from our friends."



combating money laundering and terrorist financing, the specifics of formation and development of the Russian financial intelligence agency, its areas of activity, tools and forms of co-operation with other state bodies. A particular emphasis was placed on the national assessment of risks and possible areas of international co-operation.

The Federal Financial Monitoring Service director held working meetings with prime minister of the Republic of Kazakhstan K. K. Maksimov, finance minister B. K. Sultanov and chairman of the Financial Monitoring Committee of the Ministry of Finance of the Republic of Kazakhstan B. Sh. Tadzhiyakov, during which special attention was devoted to the strengthening of co-operation between Russia and Kazakhstan within various international organizations. The Rosfinmonitoring director noted the importance of bringing the national legal framework into line with international standards and boosting information sharing capabilities. The two sides agreed that this work was of particular relevance to the EEU.

### *Yu. A. Chikhanchin:*

"Our information sharing mechanism is in need of updating. We propose to set up a closed information sharing system in 5 countries for use within the Eurasian Economic Union. In our opinion, our top priority should be to ensure transparency of financial institutions and financial transactions. Another important step is to harmonize our legislations."

The Rosfinmonitoring director praised the level of the Kazakh-Russian relations in general and the countries' co-operation in combating economic crimes in particular. Following the talks, both sides expressed interest in sharing experiences in countering corruption and agreed to continue to expand co-operation in the future.

## ***RUSSIA ASSUMED THE PRESIDENCY OF THE COUNCIL OF HEADS OF FIUS OF CIS MEMBER STATES***

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*The 5<sup>th</sup> meeting of the Council of Heads of Financial Intelligence Units of CIS Member States (CHFIU CIS) was held on 16 May 2015 in Kyrgyzstan's capital city Bishkek*

*Pavel V. Kukushkin,  
Executive Secretary*

The Council meeting was chaired by Melis T. Mambetzhannov, head of Kyrgyzstan's FIU.

The meeting was attended by representatives of Financial Intelligence Units and states parties to the Agreement on the establishment of CHFIU CIS: Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. The Russian delegation was headed by Rosfinmonitoring deputy director Vladimir Glotov.

Among those contributing to the work of the Council were Albert Druzhinin, director of the Department of Cooperation on Security Issues and

Combating New Challenges and Threats of the CIS Executive Committee; Bolotbek Mukashev, director of the Department of Integration Associations of the Kyrgyz Interior Ministry; ambassador Sergey Kapinos, head of the Bishkek OSCE Centre; and representatives of the ITMCFM. The head of the Kyrgyz FIU expressed hope for the development and strengthening of AML/CFT cooperation with other industry-specific CIS councils.

In his opening remarks to meeting participants, Sergey Kapinos called on all stakeholders to join efforts in combating such threats as money laundering and terrorist financing:

*"In the context of Kyrgyzstan's accession to EEU, we should prepare ourselves for the possible*





*emergence of new threats and challenges brought about by the changes in customs borders, revision of the legal framework and other developments. That's why it is important to give a strong impetus to cooperation with neighbouring countries in countering the threats posed by the illicit movement of goods, services and capital."*

Director of the Department of Security Cooperation of the CIS Executive Committee Albert Druzhinin spoke of the challenges facing the CIS in the field of international security due to the attempts by «certain power brokers» to ratchet up tensions in their favour. In addition, he identified the escalation of fighting in Afghanistan, North Africa and the Middle East "caused by extremist militants" as yet another serious threat to both the CIS and the global community as a whole.

In light of the deteriorating situation with the Islamic state (ISIL) in the regions bordering with the Commonwealth countries, special attention was devoted to combating the financing of terrorist and extremist activities across the CIS.

With the goal of contributing to information sharing between Financial Intelligence Units in this area, participants of the meeting approved the statistical and analytical reporting forms as part of the Council's Action Plan on the implementation of measures

### **M. T. Mambetzhonov:**

"During Kyrgyzstan's presidency of the Council, a qualitatively new level of cooperation between the CIS Antiterrorist Centre and the CHFIU CIS was attained in the field of AML/CFT information sharing, in particular the work with the list of persons wanted by the CIS countries for involvement in terrorist activities."

aimed at combating the financing of terrorism and extremism.

Participants approved the composition of the Working Group on Risk Assessment, appointing Ani Melkonyan of Armenia as its head and Alexander Shamin from Rosfinmonitoring as its deputy head.

In order to find solutions to various theoretical and practical issues of AML/CFT, much attention has been devoted in recent years to fundamental sciences. During the meeting, participants approved and signed a collaboration protocol with the Council for cooperation in the field of fundamental sciences between CIS members.



Another issue discussed by the meeting participants concerned cooperation between Financial Intelligence Units in combating the laundering of proceeds derived from the trafficking of drugs and their precursors. In particular, participants approved a roadmap designed to facilitate the rapid sharing of information between CIS members in this area.

At a meeting in Bishkek, the heads of financial intelligence units examined a total of 12 issues, including the Council's Work Plan to establish a system for the exchange of information between FIUs of the CIS, the Regulations on the Working Group on AML/CFT Risk Assessment and a protocol of cooperation with the Coordinating Council of Heads of Tax/Financial Investigation Authorities, a CIS working body. All these documents were approved by the Council.

ITMCFM representative Sergey Zhirkov presented a model of the Situation Centre for CIS Financial

Intelligence Units. The implementation of this project will greatly assist countries in undergoing the 4<sup>th</sup> round of FATF mutual evaluations and the 2<sup>nd</sup> round of EAG mutual evaluations, as well as contributing to the rapid exchange of information of a general nature. Statistical data on certain activities will be compiled separately for distribution among CIS FIUs.

During the meeting, Kyrgyzstan handed over the presidency of the Council of the CIS Heads of FIUs to the Russian Federation. Rosfinmonitoring director Yury Chikhanchin became the new Council chair, and Malice Mambetzhannov (Kyrgyzstan) and Shamsiddin Nurov (Tajikistan) the new co-chairs. The post of head of the Secretariat was filled by state secretary and deputy director of Rosfinmonitoring Pavel Livadny.

The next meeting of the Council will be held in November 2015 in Moscow.

## ***COOPERATION AS A KEY ELEMENT OF INTERNATIONAL SECURITY***

*Consultations with the private sector “Risk Assessment and the Role of the Private Sector. Guiding Principles and Feedback” were held during the 22<sup>nd</sup> EAG Plenary week on May 20 in the Uzbek capital city Tashkent*

*Konstantin V. Litvinov,  
Deputy Editor in Chief*





The duties of the Consultations moderators were performed by representative of Uzbek FIU Vyacheslav Pak, international strategic advisor on financial security Giuseppe Lombardo, representatives of the International Training and Methodology Center for Financial Monitoring (ITMCFM) Evgeny Volovik and Konstantin Sorokin, and deputy head of the Department for Financial Monitoring and Currency Control of the Russian Central Bank Andrey Gasanov.

In his welcoming remarks, **EAG executive secretary Vladimir Nechaev** spoke of the importance of the annual dialogue between the private sector and EAG member states:

*"The format of annual consultations is standard for both the FATF and FATF-style regional bodies. While the Financial Action Task Force acts as a developer of international standards, whose guidelines, best practices and possible amendments thereto are the subject of the current discussions, our task is to monitor their implementation, identify the problems that arise and find solutions. We're establishing a dialogue and will refer the questions asked during these consultations to the FATF."*

**Acting head of the Department for Combating Tax, Currency Crimes and Money Laundering under the Prosecutor General's Office of the Republic of Uzbekistan Bahodir Zilyaev** spoke of the importance and timeliness of this forum, which is held on the eve of the 2<sup>nd</sup> round of EAG mutual evaluations. Mr. Zilyaev emphasized Uzbekistan's strong commitment to the AML/CFT issues, as

evidenced by the establishment on instructions of Uzbek President Islam Karimov of the Interagency Working Committee for review and implementation of the revised FATF Recommendations:

*"The Committee is working hard to integrate the revised FATF Recommendations, including the requirement for the implementation of a risk-based approach, into the country's legislation."*

*"I would also like to note that the current processes of globalization, financial markets integration, emergence of new services and the widespread use of information technologies are, unfortunately, occurring against the backdrop of increased activities by various transnational criminal groups and rapid growth in drug trafficking and cybercrime, rendering the task of combating money laundering increasingly urgent. The scale of the problem calls for an adequate and timely responses from the entire international community. There can be no doubt that the adoption in February 2012 of the revised FATF Recommendations was a major step in countering these threats."*

Mr. Zilyaev thanked the OSCE Project Co-ordinator's office in Uzbekistan for its unwavering, longstanding support of the country's FIU in strengthening the national anti-money laundering and terrorist financing system. In turn, **representative of the OSCE Project Co-ordinator's office in Uzbekistan György Szabó** identified cooperation as a key element to ensuring security on an international scale:

*"Although the main role in the fight against money laundering should be played by government and law enforcement agencies, everybody, including the private sector, must be involved in this ongoing work. In this sense, such consultations are very important"*







*for us. I wish to thank our partners for organizing this event and providing excellent working conditions, as well as all the experts who came to the forum from many OSCE member countries."*

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Participants of the session titled «International Experience in Risk Assessment. Prospects and Trends» listened to the reports by Giuseppe Lombardo («The Role of Financial Institutions in the National Assessment of ML/FT Risks»), Evgeny Volovik («Virtual Currencies: Risks and Regulation») and Alexander Vuichich, AML/CFT expert and head of Serbia's FIU until 2012 («The Role of DNFBPs in the National Assessment of ML/FT Risks»).

The session titled «The Sectoral Assessment of Risks» began with a report by Valery Lopatin, advisor to the chairman of the non-commercial partnership National Financial Market Council («ML/FT Risks in the Payment System Risks Structure»). Among other speakers were Vladislav Ponamorenko, assistant professor at the Department of Monetary and Credit Relations and Monetary Policy of the Financial University under the Government of the Russian Federation («Assessment of the ML/FT Risks in the Banking Sector in the Context of Regional Integration») and Mato Meyer, advisor for economic cooperation and public administration at the Bureau

of Coordinator of OSCE Economic and Environmental Activities («National Assessment of ML Risks: OSCE's approaches and tools»).

A list of speakers at the final session titled «Country-based Approach to Risk Assessment. Best Practices and the Role of the Private Sector» included Alexey Stepanov, head of the Department for Macro Analysis and Typologies at Rosfinmonitoring («Issues of Importance in the Establishment of the National Risk Assessment and Russia's Experience»), Arda Igembayev, head of the F1 Department of the Financial Monitoring Committee of the Ministry of Finance of the Republic of Kazakhstan («The Role of Reporting Entities in the Management of ML/FT Risks») and Buned Esanboev, head of the Department for Internal Control over International Banking Transactions and Remittances of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan («The Experience of Risk Assessment and Application of a Risk-based Approach by the National Bank for Foreign Economic Activity of the Republic of Uzbekistan»).

All declared discussion topics proved to be of great interest to the participants and were accompanied by lively discussions. Summing up the outcomes of the Consultations, Vladimir Nechaev noted the relevance of the topics discussed and constructiveness of the dialogue.

### *Giuseppe LOMBARDO - International Strategic Advisor, Financial Integrity:*



"On May 20, the EAG held a consultation with the private sector during its ..... Plenary in Tashkent. The main topic was National Risk Assessment (NRA) of Money Laundering (ML) and Terrorist Financing (TF), one of the key new FATF Recommendations. The discussion of this topic was quite relevant for two reasons: on the one hand, EAG members are in the process of conducting NRAs, on the other the private sector is one of the key actors in this process, being a key source, as well as the end user of the NRA. This double role of the private sector is very important in the context of a NRA. In fact, the new FATF recommendation 1 requires not only countries, but also financial institutions and designated non-financial businesses and professions (DNFBPs) to identify, assess and understand risk. Therefore the private sector can add great value in feeding the NRA with its views on threats and vulnerabilities. The Recommendation also requires countries to have mechanisms to provide information on the results of the risk assessment, not only to all relevant competent authorities, but also to self-regulatory bodies and financial institutions and DNFBPs. The event was very well received, and several interesting questions were raised by the representatives of the private sectors, as well as from the EAG members: how to involve the private sector in a NRA? How to communicate the findings of the NRA to the private sector?

One of the criticisms faced by some of the 4 countries that have already been assessed by the FATF was that the private sector was only peripherally involved in the NRA and that the findings of the NRA were not made available to the private sector. The question is not an easy one to answer, and the answer will depend on country context and on the methodology utilized for conducting the NRA: countries that set up working groups to assess threats and vulnerabilities, may consider inviting on a need basis representatives of the private sectors (for example industry associations) when non-confidential items are discussed; if a wider sample is preferred, surveys and questionnaires can be disseminated across the private sector. Another interesting issue that was raised is how often should a country update its NRA to meet the FATF requirement that risk assessments should be up-to-date. While the 2013 FATF Guidance on ML/TF NRA suggests that the authority or mechanism designated to assess ML/TF risks proposes after the first national-level ML/TF risk assessment when the next risk assessment should be carried out, for example, within the next three to five years, it also stresses that the frequency with which a risk assessment is updated is determined by the country, based on a number of factors, including how quickly (and how significantly) the risks may change. These topics could be discussed more deeply in an ad hoc consultation with the private sector, and EAG members could share their experience on how they have addressed these issues".

### *Ambassador György Szabó, OSCE Project Coordinator in Uzbekistan:*



"Consultations with the private sector held in Tashkent are just one of a series of events organized by the OSCE in conjunction with the EAG. Our organization attaches great importance to its joint work with the FATF and other FATF-style regional bodies aimed at assisting OSCE

member countries in strengthening their national AML/CFT systems.

I'd like to note that these consultations and lively discussions that accompanied them underscored the relevance of the issues discussed and the need for closer cooperation with the private sector in carrying out national assessment of ML/FT risks."

*Aleksandar Vujičić, Financial consultant Expert for AML/CFT:*

"Strengthening of cooperation between private and public sector in developing AML/CFT Sector is encouraging as a sign of determination to fulfill international standards and national legislation. Such meetings are very effective, due to possibility that participants take active role and exchange experience, knowledge and identify challenges and ways to overcome them.

National Risk Assessment is organized and systematic effort of the country to establish: ML/FT sources and methods; deficiencies in the AML/CFT system (legislative, institutional and operational level); direct and indirect vulnerabilities of specific sectors; work plan and recommendations for future actions.

Before National Risk Assessment is started, it is essential at the beginning that it is clear why an

assessment need to be conducted, the questions which should be answered, the criteria that will be used to answer those questions and the possible decisions that the assessment will feed into. Where information gaps exist or difficulties in reaching conclusions arise, it should be recognized in the risk assessment and then become areas where more work is required in the future.

Private sector as a part of AML/CFT system is capable to provide valuable information to FIU, supervisory authorities and law enforcement. It can provide understanding of the nature of the business which is in many situations necessary to determine existence of ML/FT.

Regional cooperation is crucial for identification of typologies and trends of ML/FT with special attention to the operational coordination of the FIU, law enforcement and supervisory authorities".

## MUTUAL UNDERSTANDING IS KEY TO EAG'S SUCCESS

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*On 21-22 May 2015, Tashkent hosted the 22<sup>nd</sup> Plenary meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)*

*Irina V. Ivanova,  
Editor in Chief*

*Konstantin V. Litvinov,  
Deputy Editor in Chief*

In his welcoming speech, EAG chairman Ajay Tyagi thanked the host party, Uzbekistan, for hospitality and excellent work in organizing the event. Ihtiyor Abdullayev, general prosecutor of Uzbekistan, addressed the meeting participants on behalf of his country: "One of the prerequisites of the EAG's successful work is its ability to find common ground on any difficult issues, while respecting the interests of all members of the Group. At the same time, I'm convinced of the EAG's ability to move beyond the attained results towards the full integration of international anti-money laundering and terrorist financing standards into national legislations. For my part, I'd like to add that the Anti-Money Laundering

and Terrorist Financing Department of the General Prosecutor's Office of the Republic of Uzbekistan is working towards the implementation of the revised FATF Recommendations, carrying out the national risk assessment, and further development and strengthening of international cooperation. We're always open to dialogue and willing to work hand in hand with our partners from other countries."

India's representative **Rajiv Mehrishi** spoke about the EAG's achievements during the Indian presidency of the Group, highlighting in particular the increase in the number of assessors following Moscow and New Delhi workshops and the strengthening of the EAG Secretariat. Mr. Mehrishi stressed that the Secretariat had made significant





achievements that ought to be taken into account when planning the Group's future activities.

While commenting on the Plenary agenda, **Yury Chikhanchin**, the head of the Russian delegation and director of Rosfinmonitoring, noted Uzbekistan's status within the Eurasian Group:

*"This is a well-deserved Plenary for Uzbekistan. The country is a very important partner not only for Russia but also all the countries of the EAG. I'd like to express my gratitude to the General Prosecutor's Office of Uzbekistan for its contribution to organizing this event. Shortly before the Plenary, I had met with the country's general prosecutor to discuss all current issues characterizing the relations between our countries, as well as certain specific cases and areas of future work. We also met with the first deputy prime minister of the Republic of Uzbekistan to discuss the potential use of financial intelligence capabilities for preventing the misuse of budgetary funds both in Russia and Uzbekistan, and explored further ways of improving cooperation and facilitating information sharing, including within the Eurasian Group."*

The head of the Russian Financial Intelligence Agency pointed at the EAG's role in AML/CFT

matters not only at the regional level but also within the FATF:

*"In essence, the EAG is one of the few groups to rise within the FATF the issues concerning specific matters and activities affecting not only the national security of its members but also individual countries and the whole region. These joint efforts allow us – FATF members Russia, China and India (which are also members of the EAG) – to defend a wide range of common interests."*

During the meeting, participants discussed the reports by the co-chairs of the EAG Working Group on Mutual Evaluations and Legal Issues, a report by Turkmenistan and Uzbekistan on measures taken to improve the national AML/CFT systems (as part of the procedure for exiting the EAG's follow-up process), the 5<sup>th</sup> Follow-Up report of the Republic of Belarus, and the Schedule for the 2<sup>nd</sup> round of EAG mutual evaluations; listened to reports by Group members on the method and timing of the upcoming national risk assessment and amendments to national AML/CFT legislations in the run-up to the 2<sup>nd</sup> round of mutual evaluations; and considered a number of other issues included in the agenda.

The 22<sup>nd</sup> EAG Plenary meeting concluded with the adoption of a Public Statement.

## *Bahodir Zilyaev acting head of the Department for Combating Tax and Currency Crimes and Money Laundering of the General Prosecutor's Office of the Republic of Uzbekistan:*



"Over the years of its independence, Uzbekistan has implemented a range of measures designed to improve its national anti-money laundering and terrorist financing system. Today's problems of money laundering

and terrorist financing are global in their nature, requiring global solutions and international cooperation. Uzbekistan, for one, is playing an active role in finding solutions to these problems, including through its constructive engagement with the Financial Action Task Force on Money Laundering, the International Monetary Fund, the World Bank, the OSCE and other international institutions.

It should be noted that the effectiveness of our national AML/CFT system has been recognized by many international organizations of high repute, including the Basel Institute on Governance. Uzbekistan, along with Italy, Spain, Canada, South Korea and the United States, has

been referred to a group of countries with the lowest money laundering risk.

Once again, the Plenary has demonstrated a high level of awareness of the tasks and challenges faced by the international community and regional groups in the proper implementation of the FATF standards.

It is particularly noteworthy that not only the participating delegations but also representatives of the private sector were able to become acquainted with latest trends in this area in the course of consultations. This fact is of great importance for growing businesses and will certainly contribute to a constructive engagement with the private sector.

I'd also like to express my sincere appreciation to all delegations for their active and fruitful participation in the activities, and wish them success in their future work. It gives us great pleasure to know that we were able to create favourable conditions for the successful hosting of the Plenary week."



*Ajay Tyagi, chairman of the EAG (India):*

"First of all, I'd like to thank all delegations for their cooperation. We managed in a short time to submit for consideration and review a large number of serious questions. I also wish to thank the participants for their substantiated comments.

A special thanks goes to the EAG Secretariat for prompt replies. And, of course, on my own behalf, I thank the distinguished hosts of the event – the Republic of Uzbekistan – for the excellent work in organizing the event and providing such a comfortable environment for work and stay in the country."

*Bisengali Tadzhiyakov, deputy chairman of the EAG (Kazakhstan):*

"The 22<sup>nd</sup> EAG Plenary gave all members of the Group the opportunity to speak about their amendments to AML/CFT legislation, many of which are connected with the 2<sup>nd</sup> round of mutual evaluations and the tough requirements applicable to this process. Kazakhstan has already begun this work by submitting the required amendments to its parliament. Incidentally, our country was recently visited by Rosfinmonitoring director Yuri

Chikhanchin, who, among others, met with the prime minister and several members of parliament. At these meetings, the head of the Russian Financial Intelligence Unit highlighted a number of important issues currently facing the FIU. I'd like to emphasize that although today we are talking about eliminating deficiencies in our legislations, the upcoming mutual evaluations themselves will focus on assessing the effectiveness of application of these laws, a task that all EAG members should be ready for."

## **CONCERNING RUSSIA'S PARTICIPATION IN 47<sup>th</sup> MONEYVAL PLENARY**

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*Russian Government delegation, led by Rosfinmonitoring Deputy Director V. I. Glotov, participated in the 47<sup>th</sup> Plenary meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering and Financing of Terrorism (MONEYVAL), held 14–17 April 2015*

*Irina V. Ivanova,  
Editor in Chief*

In light of the current international situation, efforts aimed at combating terrorist financing were given priority. In his opening remarks, Jan Kleijssen, director of Information Society and Action against Crime at Council of Europe, presented the CE 2015-2017 Action Plan against extremism and radicalization leading to terrorism. The Action Plan is intended to further improve legislation in

this area and to encourage its effective implementation. It also calls for assistance to member states in early accession to the Council of Europe international mechanisms, in particular the Warsaw Convention and the additional Protocol to the CE Convention on the Prevention of Terrorism on foreign terrorist fighters, which is in the process of being drafted.





Particular attention should be devoted to the European Union's report on the progress in adopting the so-called 4<sup>th</sup> EU Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. According to the draft version of this document, each EU country will have a national register of information on the ultimate beneficial owners of companies, accessible by the competent authorities of EU member states. The issue of granting access to these registers to countries outside the EU remains unresolved. The new Directive also abolishes the so-called «white list» of countries whose AML/CFT systems are aligned with the EU requirements.

A discussion of the mutual evaluation report of Montenegro went on as planned. Due to the identified significant shortcomings, this country was placed on MONEYVAL's enhanced follow-up process.

Following the consideration of Bosnia and Herzegovina's report, due to the now constant lack of progress in eliminating the shortcomings of the national AML/CFT regime, the Plenary decided to refer this country's «dossier» to the FATF for monitoring.

Participants were also presented reports on progress in improving the national AML/CFT systems of Andorra, Georgia, Lithuania, Malta, Poland, San Marino, Slovenia and the Czech Republic.

Several bilateral meetings were held on the sidelines of the session. Negotiations concerning the topical issues of field-specific cooperation with the FIUs of Cyprus, Slovenia and Estonia were conducted. The AML/CFT Cooperation Agreement with the FIU of Azerbaijan was signed.

The next Plenary meeting is scheduled to be held in Strasbourg in September 2015.

## ON RESULTS OF THE 23<sup>rd</sup> PLENARY OF THE EGMONT GROUP

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*In the period from 7 to 12 June 2015, the Russian delegation led by deputy director of the Federal Financial Monitoring Service V. I. Glotov attended the 23<sup>rd</sup> Plenary session of the Egmont Group in Bridgetown (Barbados), which coincided with its 20<sup>th</sup> anniversary*

**Igor A. Alexeev**

*Deputy Head of International Cooperation Department of Rosfinmonitoring*

295 participants from 110 countries and 10 observer organizations discussed the modern challenges facing financial intelligence units (FIUs) in the areas of international co-operation, exchange of analytical information and improving its quality. The Russian delegation signed co-operation agreements with the FIUs of Armenia, Bangladesh, Gabon, Saint Vincent and the Grenadines.

The heads of FIU endorsed the prepared for publication Communiqué, which reiterates the Egmont Group's (EG) commitment to use its unique global network to fight the Islamic state and foreign terrorist militants.

Participants elected Mr. Sergio Espinoza (Peru) as the Group chair until 2017. A list of the Group's newest members includes Cambodia, Cuba, Nepal and Nigeria, all of which managed to meet the new, more stringent membership requirements (effective as of 2014). The annual contest for the best financial investigation was won by the FIU of the Philippines.

Following the meeting of EG regional representatives with representatives of FSRBs and the FATF Secretariat, participants proposed to hold a joint meeting of FSRB and EG Secretariats and representatives of various regional FIU forums to discuss issues of mutual interest.



## INTERNATIONAL COOPERATION

## MOSCOW MEETING OF BRICS DELEGATIONS

*On 23-24 April 2015, the International Training and Methodology Centre for Financial Monitoring in Moscow hosted a meeting of BRICS delegations in the FATF, where participants discussed preparations for the next round of mutual evaluations of the national anti-money laundering and terrorist financing systems and coordinated their positions at the international level*

*Irina V. Ivanova,  
Chief Editor*



As part of a consultation process, representatives of the relevant expert communities took part in a roundtable discussion titled "National Assessment of Money Laundering and Terrorist Financing Risks".

During the meeting, Yu. A. Chikhanchin, the head of the Russian FIU, spoke to BRICS participants about Rosfinmonitoring's modus operandi, areas of activity, tools and forms of cooperation with other government agencies and international partners.

Given the important role interstate engagement within the BRICS plays in the activities of all countries participating in the event, their FIUs, law enforcement and regulatory authorities, as well as due to the fact that global economic growth entails the intensification of criminal manifestations in the money laundering and terrorist financing field, participants, following the conclusion of the meeting, pledged to continue their

engagement also within the FATF, FATF-style regional bodies and other international forums.

While pursuing the goal of intensification of cooperation with BRICS partners, Rosfinmonitoring played a key role at the FATF Plenary meeting in Paris in February 2015 in the signing of the first BRICS AML/CFT instrument – Memorandum of Understanding between the network AML/CFT Institute and the Association of BRICS Business Schools (ABBS). Also in February, the two sides agreed to explore the possibility of holding joint workshops to share experiences on coordination and cooperation, discuss the problems associated with conducting national risk assessment and develop joint training programmes.

BRICS participants met with the staff of the Federal Financial Monitoring Service and, via video conference, employees of its regional offices. They discussed issues relating to the history and formation of the operating principals used by the FIUs of Brazil, India, China and South Africa.



## BANKING SECTOR

## OUR COMMON GOAL IS TO ENSURE TRANSPARENCY OF FINANCIAL FLOWS

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*On April 29, Moscow hosted the 13<sup>th</sup> International Conference “Topical Issues Relating to Compliance by Credit Institutions with Russian Anti-Money Laundering and Terrorist Financing Legislation (AML/CFT)”. The event was organized by the Association of Russian Banks (ARB), the Bank of Russia and Rosfinmonitoring*

*Irina V. Ivanova,  
Editor in Chief*

The international conference was opened by ARB president Garegin Tosunyan, who spoke of the role joint efforts between banks and regulatory authorities play in addressing the biggest challenges facing the financial sector: money laundering, fraud and terrorist financing.

*“It’s important not to overdo it,” said Tosunyan, urging oversight authorities not to view Federal Law No. 115-FZ as a license to strip banks of their licenses. “Instead, our task is less about revoking licenses and more about ensuring stability of the system.”*

In turn, state secretary and deputy director of Rosfinmonitoring Pavel Livadny highlighted Russian banks’ discipline in submitting to Rosfinmonitoring reports on suspicious transactions:

*«The provided [in 2014] by them reports covered transactions totalling approx. \$100 billion. There’s is one problem with this process however: the information is often delayed, meaning its value for law enforcement purposes is degraded. That’s why it is our job to find a way to get round that problem and ensure more rapid information sharing.»*

According to P. V. Livadny, cash flows exiting the country (6.5 billion rubles) and entering it again (5.4 billion rubles) represented some of the biggest challenges faced by Rosfinmonitoring in 2014.



"The joint measures undertaken by the Bank of Russia, law enforcement and other concerned agencies enabled us to reduce the dubious cash flows almost by half, without affecting legitimate transactions," said P. V. Livadny, reminding the participants that the joint work carried out by the Financial Intelligence Unit and the mega regulator was primarily aimed at restoring the health of the financial system and its institutions.

"And although some people may question the practical results of this work, in general, we're happy with the way it is done and the level of professionalism involved in doing it," said deputy director of Rosfinmonitoring. Indeed, this work has enabled us to cleanse the banking sector of those credit institutions that used illegal schemes and abused the system, while allowing honest banks to feel the benefits of such work.

This idea was expatiated upon in a speech by deputy chairman of the Board of the Central Bank Dmitry Skobelkin, who noted the Central Bank's increased oversight over large banking institutions:

*"There exists a tendency for unscrupulous participants to try to hide their actions behind the backs of major lending institutions, the risks of whose involvement in suspicious transactions has increased significantly. That's why one of our tasks, the importance of which can't be underestimated, is to strengthen supervision over the activities of major banks."*

Summing up the outcomes of the first session of the conference, the ARB president noted the significant contribution made by Rosfinmonitoring and the Bank of Russia to the fight against ML/FT.

*"A joint and constructive approach to the task of drafting and improving the country's legal and*

*regulatory framework will enable us to make our AML/CFT system more effective and cost efficient, as well as improving the work of credit institutions in this area and significantly reducing the number of license revocations for AML/CFT violations."*

Information on the practical results of the crime-fighting efforts was presented by Dmitry Katkov, head of the Chief Directorate for Economic Security and Anti-Corruption of the Russian Interior Ministry: *"The unfavourable climate existing in the banking sector contributes to higher risks and social tensions, while the financial sector continues to remain the target of economics entities running various illegal schemes. In this context, the Interagency Working Group on Combating Illegal Financial Transactions, headed by presidential aide Evgeny Shkolov, acts as a coordinator of all AML/CFT efforts."*

Data compiled by the Interior Ministry shows that in 2014 it identified 30,500 violations committed in the banking sector, including fraud, theft of funds from accounts, etc.; investigated and referred to the court criminal cases covering a total of 8500 offences; uncovered damages linked to completed criminal investigations totalling over 53 billion rubles; provided redress to the tune of 22 billion rubles; and launched criminal proceedings resulting in the conviction of 3900 individuals.

A close study of these processes has exposed criminals' desire to engage in money laundering either in or outside the country, through the use of sophisticated money laundering schemes that often involve not only the former but sometimes even the current bank employees. As a result of measures undertaken by law enforcement officials on the territory of Russia in 2014, a total of 774 instances

of money laundering were uncovered; investigations into 618 offences were completed; 531 criminal cases were referred to the court; 448 individuals were convicted; more than 1 billion 800 million rubles in legalized funds was uncovered; aprx. 600 million rubles in funds linked to criminal investigations was either frozen or seized; and the illegal banking activities of 110 entities were terminated.

The second session of the conference was devoted to practical issues. In particular, Olga Raminskaya, head of supervision at Rosfinmonitoring, highlighting the practice of enforcement of Federal Law No. 134-FZ, urged banks to abandon the formal approach: *"In the period since the beginning of the year, Rosfinmonitoring has received approx. 36,000 reports, including 21,000 reports of refusal to enter into a bank account/deposit agreement, 14,000 reports of refusal to carry out the customer's order to terminate a transaction, and 253 reports of termination of a bank account agreement."*

In his 2014 Address to the Federal Assembly, which was combined with a budget message, Russian President Vladimir Putin highlighted the need to develop the concept of public supervision based on risk assessment, an approach currently used by the FATF to assess the anti-money laundering systems of its members as part of the 4<sup>th</sup> round of mutual evaluations.

Summing up the outcomes of the conference, participants emphasized the need to strengthen the system from a regulatory, institutional and, above all, practical point of view.

*«The assessment score issued by the FATF is meant to show the level of its confidence in our banking*

*system and our economic activity,» reminded Pavel Livadny. «And for this reason, we can't allow this score to be low. Therefore, we must work together to bring our anti-money laundering system into a proper shape, a shape that would allow us to present it to our visiting foreign colleagues in 2018 without any discomfort».*



The conference was also attended by Larisa Zalomihina, head of compliance at the Savings Bank of Russia, Elena Ladozhina, deputy head of trade restrictions, currency and export control at the FCS, Alexey Timoshkin, deputy head of financial monitoring over customer transactions at VTB 24, Yury Kormosh and Vladimir Kievsky, vice-presidents of the Association of Russian Banks, and others.

**ANTI-CORRUPTION FIGHT**

## **AML/CFT MECHANISMS AND THE FIGHT AGAINST CORRUPTION**

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*The 4<sup>th</sup> Eurasian Anti-corruption Forum was held in Moscow from 23 to 24 April 2015. The theme of this year's gathering was new approaches in the field of corruption prevention. A list of the forum organizers traditionally included the Institute of Legislation and Comparative Law under the Government of the Russian Federation (IZiSP) and the Accounts Chamber of the Russian Federation with the support of the State Duma*

*Inessa A. Lisina,  
Editor and Correspondent*

For several years, the forum has been a meeting place for anti-corruption experts and practitioners. In his welcoming remarks, IZiSP director T. Y. Habrieva noted that this year's forum was attended by representatives from 26 Russian regions, 20 foreign countries, heads of 19 federal agencies and the staff of 40 research institutes.

According to the organizers, such a wide range of participants will enable all of us to systematically analyze the existing problems related to corruption,

change the existing public stereotypes about corruption and, if possible, suggest a number of measures that will be useful in the fight against corruption.

While welcoming the participants of the forum, T. A. Golikova, president of the Accounting Chamber, noted the key role played by the financial sector in preventing corruption. Our key objective is to eliminate the causes of the negative manifestations, which is a much easier task than dealing with their consequences.

One element of the anti-corruption fight is de-offshorization of the economy. To this end, the Accounting Chamber and Rosfinmonitoring compile



a registry of beneficial owners of offshore jurisdictions who are recipients of various forms of budget assistance. The aim of this work is to cleanse the public procurement system of offshore companies, because we believe that companies registered in tax havens should not be given undue preferences.

The importance of anti-corruption measures for the development of the national economy and improvement of the national anti-money laundering system was noted by Rosfinmonitoring director Yu. A. Chikhanchin in his speech: «*The level of attention devoted by the international community to the problem of corruption underscores the importance of the work dedicated to improving the existing mechanisms and developing new methods and approaches to combating corruption.*» The joint work carried out by these agencies as part of inter-agency groups is focused on preventing corruption both in economic sectors and individual companies with state participation.

According to Yu. A. Chikhanchin, to reduce corruption, it is necessary to establish within high-risk industries special structures capable of monitoring the distribution of resources. While the introduction of a system of income declaration in companies and corporations with state participation will contribute to the successful implementation of this task. It is also necessary to continue the work on establishing a network of authorized banks carrying out transactions with public money.

To ensure a better understanding of the problems of corruption, scientists conduct comprehensive studies on this subject. T. Y. Habrieva spoke in her speech of the need to study corruption through the use of a variety of methods and approaches. Such a comprehensive analysis will allow us to determine the relationship existing between corruption and various political, social, economic and other factors.

For the purpose of updating the country's international legal policy, a bill establishing criminal liability of legal persons has been submitted to the State Duma. IZiSP has been conducting research on this subject since 2010. And although there are some difficulties relating to the implementation of this mechanism, it can nevertheless work as a highly effective preventive measure.

A report by the chairman of the Central Election Commission, V. E. Churov, was devoted to the integration of the anti-corruption standards developed by the Group of States against Corruption (GRECO) into the Russian electoral law. The Group



has prepared a number of recommendations for our country, including the establishment of criminal liability for any type of corruption, confiscation of the proceeds of corruption, elimination of the practice of acceptance of valuable gifts, etc.

Activities to counter corruption in the country's electoral process are not limited to the implementation of these recommendations though. Under Russian law, the Electoral Commission is responsible for exercising financial control over the income and expenditure of political parties and individual candidates running for legislative and executive posts, as well as over the accuracy of the information contained in the candidates' income and personal property declarations. The verification of submitted data is carried out jointly with Rosfinmonitoring.

The second day of the forum was held in the form of roundtable discussions and breakout sessions dedicated to the most urgent anti-corruption topics, such as the effectiveness of international standards for the prevention of corruption, the criminal and legal anti-corruption model, the role of state control and audit in the prevention of corruption, as well as anti-bribery prohibitions and obligations.

The forum ended with the adoption of recommendations containing a number of anti-corruption measures proposed by its participants. The document contains provisions designed to enhance the effectiveness of the implementation of international anti-corruption standards, identify priority areas of research, and improve national legislation and educational standards.

## ***AN ESSENTIAL CONDITION FOR STRENGTHENING THE GLOBAL AML/CFT SYSTEM***

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*On 14 May 2015, Moscow hosted the International scientific and practical conference “The Fight against Corruption as an Essential Condition for Strengthening the Global AML/CFT System”*

*Konstantin V. Litvinov,  
Deputy Chief Editor*

The purpose of the forum, as indicated in the welcoming speech of Rosfinmonitoring deputy director Vladimir Glotov, is to join efforts in combating corruption and money laundering, identify new approaches to dealing with these crimes, and facilitate experience sharing between representatives of various departments, educational and scientific organizations in improving the effectiveness of joint action.

Also, V. I. Glotov stressed the importance of understanding the strategic objectives of the fight against corruption, which served as the impetus for the creation of both international anti-corruption institutions and mechanisms and national systems:

*“Anti-money laundering and anti-corruption systems constitute elements of the same state policy. Today, Russia is an active member of the Financial Action Task Force on Money Laundering (FATF). The Group’s recommendations represent an important tool designed to strengthen the fight against corruption, as well as enabling competent*



*authorities to identify, seize and return corruption proceeds. The first FATF recommendation states that countries should apply a risk-based approach to ensure that measures to prevent money laundering are commensurate with the risks identified. This is also important in the anti-corruption field."*

The conference was attended by representatives of public authorities, specialists from Russian and international organizations, leading Russian and foreign experts, and representatives of scientific and educational institutions involved in the training of specialists for national anti-money

laundering systems. Participants discussed the current challenges associated with the fight against corruption and most effective anti-corruption mechanisms, international best practices and scientific approaches to the fight against corruption manifestations, examined the specifics associated with the development and implementation of anti-money laundering and anti-corruption training programmes, as well as the development of international co-operation in this area.

Following the conclusion of the forum, the organizers published conference proceedings papers.

# ***SUPERVISORY AND PREVENTIVE ROLE OF THE RUSSIAN PROSECUTION AUTHORITIES IN DETECTING AND SUPPRESSING VIOLATIONS OF THE LAW ON PUBLIC PROCUREMENT CONTRIBUTING TO THE SPREAD OF THE PRACTICE OF KICKBACKS***

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*Timur A. Tuhvatullin*

Any deviation from the requirements of the law on public procurement – no matter how insignificant it is – may contribute to the commission of a crime, including the one involving the illegal transfer of funds received as payment for the fulfilment of a government or municipal contract, the so-called «kickback»<sup>1</sup>.



<sup>1</sup>The Academy of the Prosecutor General's Office of the Russian Federation has been conducting in 2014-2015 a study titled «Criminological Characteristics of an Illegal Transfer of Funds Paid for the Fulfillment of a State or Municipal Contract from the Contractor to a State or Municipal Official for the Awarding of such Contract («kickback»)».



To prove the above point, let me give you a simple example. A state or municipal customer, in violation of the law, fails to post, or delays the posting of, this year's procurement schedule on its website. A trivial offence, you may think. Far from it, as it is well known that the easiest way to award a contract to the «right» person is to bypass the established competitive methods for selecting suppliers, including by depriving potential bidders of access to the up-to-date and reliable information about the upcoming tenders.

Although the above violation may have been the result of a simple oversight on the part of the person in authority, since regulations in this area are amended frequently, it may just as well have been due to the government official's deliberate action intended to reduce the number of potential bidders by depriving them of access to the information on the planned procurement. Should the latter scenario be correct, both the customer and supplier stand to benefit from the conclusion of a contract between them: the customer will receive from the supplier a commission in the form of a kickback for the «service» rendered to him, while the supplier will get a reliable business partner willing to turn a blind eye to any deficiencies related to the late or inadequate performance of the contract, or even its non-performance, which is by no means uncommon. All this leads to the misuse, mismanagement or embezzlement of public funds through the use of various corruption schemes at the heart of which lies the practice of kickbacks.

In recent years, our country has been taking major steps aimed at combating corrupt practices, including by improving the regulatory framework. It is now more than a year (Jan. 1, 2014) since Federal Law No. 44-FZ of April 5, 2013 «On the Contract System in the Procurement of Goods, Works and Services for State and Municipal Needs» (hereinafter «Law No. 44-FZ»), whose purpose was to establish an integrated and transparent public procurement system, came into effect.

Despite the fact that the provisions of the said law are generally aimed at improving the efficiency and effectiveness of the public procurement system, ensuring its openness and transparency, as well as preventing corruption and other abuses, it has

nevertheless failed to become a foolproof barrier against abuses in this area.

Still, the adoption of Law No. 44-FZ helped increase the level of prosecutorial supervision over the enforcement of public procurement legislation, because, in addition to financial oversight authorities, prosecution authorities<sup>2</sup>, which uncover tens of thousands of corruption offences every year<sup>3</sup>, also play an essential role in strengthening the rule of law in this area. While in the three years (2011-2013) prior to the enactment of Law No. 44-FZ, prosecution authorities had identified and eliminated approx. 170,000 violations of procurement legislation, in 2014 alone, that number was already over 116,000, resulting in over 2000 legal claims for a total of over 500,000,000 rubles, approx. 24,500 warnings and other measures of prosecutorial response.

Prosecutorial practice shows that the new requirements of the law have given birth to numerous new ways of circumventing them, often resulting in the stifling of competition and increasing corruption. When it comes to the practice of prosecutorial responses to violations in the contract system, we believe that almost any wilful violation of the law on the contract system – no matter how small it is (as mentioned above) – may be classified as corruption, as the information provided below shows.

We are recording instances of widespread non-compliance with the requirements of Law No. 44-FZ concerning the mandatory and timely online publication of procurement schedules, information on the awarded and fulfilled contracts, and records of purchases. It is also quite common to see contracts being awarded to the sole supplier in violation of the law, including without providing a proper justification for the initial (maximum) contract price. Not uncommon are violations of the contract awarding and winner selection procedures, including the ones that result in the acceptance for consideration of bids that should have been rejected. Tender committees were found guilty of unlawful rejection of participants' applications and bids. Conducted checks revealed instances of inclusion into tender documents of unlawful requirements designed to impose administrative barriers and restrict competition. Other common

<sup>2</sup>See «Determining the Priorities of Prosecutorial Action in the Economic Sector» by T. A. Tuhvatullin // Reporter of the Academy of the Prosecutor General's Office of the Russian Federation. 2014. No. 4. Pg. 58-65

<sup>3</sup>As per RF Prosecutor General's Office Reporting Form 501 «Information on the Prosecutor's Activities Related to the Monitoring of Compliance with the Anti-corruption Law and on the Outcomes of Anti-Corruption Investigations».

practices involve the provision by bidders of fictitious bank guarantees, unlawful modification of the terms of the contracts resulting in the prolongation of the deadlines for the completion of works or provision of services, or deliberate expansion of the range of goods to be supplied as a means of increasing the contract price. There are also instances involving the improper performance by contractors (suppliers) of their contractual obligations and inadequate monitoring of such performance by customers, as well as the lack of action intended to impose penalties or terminate the contract.

And now, let's examine several specific examples of violations of Law No. 44-FZ identified by prosecution authorities in the activities of customers, contractors and other participants in the state or municipal procurement process, including those featuring kickbacks.

As before, there exist instances involving the awarding of state and municipal contracts without tenders, a practice that runs contrary to the basic principle of market economy: fair and open competition. In one instance, administrative proceedings under Part 1 of Art. 14.9 (restriction of competition by state and local authorities) of the Administrative Code were initiated against the chief of the Municipal Department of Transport and Communications for awarding 12 public transportation contracts without tender. Similar charges were brought against the head of one municipality and his first deputy, who had failed to issue invitations to tender prior to awarding contracts for the construction of a sports facility and preparation of design estimates for kindergartens totalling more than 21 million rubles; both these individuals were subsequently fined 15,000 rubles each.

A legal action taken by the deputy district prosecutor resulted in the annulment of the contract of sale of heating equipment entered into by the district administration without tender.

Administrative proceedings providing for the payment of a fine of 50,000 rubles were initiated by environmental prosecution authorities under Part 2 of Art. 7.29 (non-compliance with legal requirements in selecting a supplier) of the Administrative Code against the director of a national park, who had authorized the purchase of a diesel generator costing over 1 million rubles without inviting tenders. In another case, similar charges were brought against one school principal for awarding a contract for the capital repairs of the school buildings totalling almost 10 million rubles without tender.

Prosecution authorities uncovered evidence of avoidance by one regional minister of the established tendering requirements by means of unlawful transfer of the customer's functions to state-owned enterprises exempt from such tendering requirements. It was found that managers of these state enterprises, while acting on the instruction of the former regional minister, had entered into contracts for the provision of construction supervision services with a company controlled by the minister, whereas the actual work was performed by the employees of an organization subordinated to the ministry.

As a result of the above illegal activities, the regional budget lost 15 million rubles. The former minister and two other government officials were charged under Part 2 of Art. 285 (abuse of public office) of the Criminal Code.

Another convenient way to enter into a contract with the «right» person is to award it to a sole (affiliated) provider by invoking Art. 93 of Law No. 44-FZ, which sets out the grounds and procedure for such awards. Whereas, according to par. 25 of Part 1 of Art. 93 of Law No. 44-FZ, this can be done only in coordination with the authorized body in the area of procurement supervision.

For example, failure to comply with the requirements of the said law by a contract official of Rosselhoznadzor in one of the republics, who had awarded state contracts without the consent of the regional department of the Federal Antimonopoly Service, resulted in the initiation of administrative proceedings against him under Part 2.1 of Art. 7.29 of the Administrative Code. In another case, the director of a state budgetary institution who had awarded a contract for the supply of food products without the consent of the supervisory authority was, at the initiative of the inter-district prosecutor, fined 30,000 rubles under Part 1 of Art. 7.29 of the Administrative Code.

Violations of the aforementioned provisions of Law No. 44-FZ are also identified by prosecution authorities in the activities of regional authorities. For example, the Logistics Office of one republic's Ministry of Health, following the failure of the electronic auctions, awarded contracts to the sole supplier without the consent of the procurement supervision authority (republican Ministry of Finance).

It often happens that requirements of the law on the contract system and combating corruption are ignored for the benefit of affiliated entities.

For example, the district prosecutor's office in the Yaroslavl region identified a conflict of interest in the awarding of a contract for the provision of funeral services between the head of a municipal institution and the director of a business entity, who happened to be his mother. In another instance, prosecution authorities of the Chelyabinsk region uncovered the fact of conclusion by the head of one municipal institution of a contract for the supply of food products with a business entity whose CEO was his own brother and the sole shareholder his father.

Numerous violations were identified by prosecution authorities in the Ivanovo region during an audit of the activities of one local government, which had awarded 60% of its procurement contracts in 2014 to just two business entities. It was revealed that among the holders of large stakes (35%) in the share capital of each of those winning business entities were listed the spouses of the officials from the procurement department of the local government. Following an investigation by prosecution authorities, the head of the local administration was issued a warning, while 11 administrative charges under Parts 2 and 6 of Art. 7.30 (violation of procurement procedures) of the Administrative Code were brought against the officials of the Procurement Office. Furthermore, the audit findings were referred to investigative authorities for a decision regarding the initiation of criminal proceeding against the above officials.

There are cases when the initial (maximum) price of the contract is set based on the amount available in the budget, despite the fact that the actual market value of the procured goods may be much lower. Thus, in several Russian regions prosecution authorities identified instances involving the acquisition of housing for the privileged categories of citizens and property for municipal needs at a price much higher than their real market value.

It is not unusual to encounter practices involving the unjustified inflation of the contract price. For example, the Investigative Department of the Investigative Committee of Russia's Arkhangelsk region and Nenets Autonomous District initiated criminal proceedings against the head of the administration of one of the municipalities under Part 4 of Art. 159 (a large-scale fraud committed by an organized group of individuals) and Part 1 of Art. 285; the head of the local Procurement Department under Part 5 of Art. 33, Part 4 of Art. 159 and Part 1 of Art. 285; and against a number of local officials under Part 5 of Art. 33 and Part 4 of Art. 159 of the Criminal Code of the Russian Federation.



A preliminary investigation conducted by prosecution authorities revealed instances involving the awarding of state contracts for the supply of food products for the needs of municipal educational and medical institutions to affiliated municipal entities at inflated (by 2%-10%) prices. According to investigators, in two years of the scheme operation, the defendants defrauded the state to the tune of almost 4 million rubles.

Meanwhile, acceptance of, and payment for, goods (works, services) whose delivery has been made only on paper remains one of the most criminalized areas of public procurement. For example, prosecution authorities uncovered evidence of payments made by the regional Department of Reclamation for imaginary construction work totalling over 165 million rubles. The uncovered evidence was used as the basis for initiating criminal proceeding against the acting head of this department under Part 1 of Art. 285 of the Criminal Code.

Prosecution authorities of the Kurgan region discovered that the director of one state-owned child day-care facility had awarded a contract for the capital repairs of the building totalling over 15 million rubles. Subsequently, the child institution officials appropriated almost 5 million rubles from the total amount by issuing false documents (handover certificate and schedule of values) for unfinished works. Following an investigation, criminal proceedings were brought under Part 3 of Art. 327 (use of fake documents) of the Criminal Code.

There are numerous instances involving the misuse of public funds resulting in large losses for the state. An audit conducted by prosecution authorities of one of the republics helped uncover evidence of allocation by the director of the Department of General and Transportation

Services of the Presidential Administration and the Republican Government of public funds for carrying out repairs and construction work on a non-existent guesthouse. Subsequently, the said official awarded a contract for the reconstruction of the guesthouse, which resulted in unjustified expenditure of public funds totalling over 13 million rubles. In addition, in the absence of the grounds and without the prior approval of the Federal Antimonopoly Service, the director decided to hold restricted tenders for the performance of reconstruction and other works with a total value of 37 million rubles. Following an investigation, the Investigate Department of the Investigative Committee of the Russian Federation initiated criminal proceedings under Art. 285.1 (misuse of public funds) of the Criminal Code.

A significant number of violations of the law on the contract system committed by various state and municipal authorities in discharging their functions in the area of procurement are often linked to the practice of kickbacks. It should be noted that a «kickback», as viewed in the current context, is not a reward for accessing the tender process and (or) for winning it, but rather for the inaction on the part of an official expressed in the form of dereliction of one's duties during an audit, failure to record the identified violations and the absence of further steps aimed at bringing offenders to book.

The current system of state and municipal control over procurement has a multi-level structure. This is necessary to ensure effective control over each separate level of public authority. Thus, control over procurement lies, by virtue of Art. 99 of Law No. 44-FZ, within the jurisdiction of federal, regional and municipal public authorities.

Studies have shown that the procurement supervision system, introduced by Law No. 44-FZ and the Budget Code, is cumbersome and provides for no clear delineation of powers between the supervisory authorities listed in Art. 99 of Law No. 44-FZ. Moreover, the powers of some of these officials are enshrined in the law itself, while others in the regulations adopted by the central, federal, regional and local governments and executive authorities. The existence of these circumstances means that, in practice, it is not always possible to organize effective and efficient operations. The absence of a transparent structure with a clear division of powers between multiple levels of government (municipal) supervisory authorities tends to contribute to the spread of corruption practices and the use of kickbacks.

Besides the problem of clear delineation of responsibilities between various supervisory authorities overseeing the state procurement sector, frequent instances of failure by supervisors to enforce legal requirements – a practice that often points at the presence of corruption or affiliation of officials with the providers and performers of public contracts – represents a serious shortcoming in the activities of these bodies, as the experience of prosecution authorities shows.

These conclusions are corroborated by poll findings, which show that 27.5% of prosecutors and 16.3% of businessmen identified «ineffective system of state control (supervision)» among the factors giving rise and contributing to the practice of kickbacks. When asked to identify the biggest shortcomings in the activities of state supervisory authorities, 57.4% named «low quality of inspections».

As noted above, wilful violations of the state and municipal procurement legislation are typically committed for the purpose of awarding a state or municipal contract to the «right» bidder. It is obvious that in this case both the customer and contractor wish to conceal the fact of deviation from the requirements of the said law. The task of uncovering abuses of the procurement system in the course of inspections by prosecution authorities poses certain challenges, given that a vast majority of such abuses are detected during the inspection of deliverables; that is, after the receipt of state funds by corrupt contractors.

In view of the above, it is necessary, as the first step, to intensify operational and investigative activities targeting middle- and high-ranking state and local officials in order to identify cases of bribery, especially in the preparation for, and conduct of, tenders. Thanks to this kind of work and effective interagency cooperation, prosecution authorities in one autonomous region were able to successfully investigate reports of bribe taking by the deputy head of the Procurement Department of the Office of Capital Construction. By taking advantage of his official position, as well as having access to information on planned tenders and lists of registered participants, he created conditions that enabled an affiliated company to win a state tender, for which he was presented with a gift (a BMW passenger car). Uncovered evidence was used by the Crime Investigation Unit of the Investigative Department of the Investigative Committee of the Russian Federation to initiate criminal proceedings



under Part 6 of Art. 290 (large-scale bribery) of the Criminal Code.

Secondly, in order to put an end to the acceptance, directly or indirectly, by state officials of illegal remuneration for assistance in winning state and municipal contracts, it is necessary to step up monitoring of their activities; impose tougher legal requirements on the candidates for the relevant public offices; and intensify the corruption prevention initiatives of recruitment agencies.

Finally, it should be noted that prosecutorial oversight over the implementation of public procurement legislation, while being integral to the enforcement of economic laws, also plays

an important role in combating the practice of kickbacks in the area of public procurement. This is due to the fact that prosecution authorities have at their disposal very specific and often unique powers and legal mechanisms designed to assist in detecting and suppressing illegal activities, as well as in prosecuting the culprits and recovering damages.

At the same time, we should not forget that, in addition to the above functions, prosecution authorities are also responsible for preventing abuses of the state procurement system, a task that is essential to the success of the fight against corruption.

## INTERAGENCY COOPERATION

# USE OF MACRO-ANALYTICAL RESEARCH FINDINGS IN THE PROCESS OF INTERAGENCY COOPERATION AT THE REGIONAL LEVEL

*Routine operation of Rosfinmonitoring and its Inter-Regional (Local) Offices shows that macro-analytical techniques are the most efficient tool for identifying ML-related risks*

*Dmitry E. Shott,*

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*Dmitry E. Shott*

The efforts aimed at minimizing the identified risks require joint interagency decisions. In this context, in 2014, a number of macro-analytical research findings were submitted for examination and consideration of the financial monitoring and risk assessment expert panel in the Siberian Federal District (SFD). Later on, these findings were discussed at the meetings of the Interagency Working Group (IWG) on combating illicit financial transactions established under the Plenipotentiary Representative of the RF President in the Siberian Federal District.

In course of macro-analytical studies conducted by Rosfinmonitoring Interagency Working Group in the Siberian Federal District in 2014, being identified were three high-risk areas that were discussed at the meeting of the IWG in the Siberian Federal District:

- Use of the instant payments market for illegal cashing-out of funds;
- Provision of informal services for cashing-out multiple-child allowances;
- Risks related to illegal transfer of funds abroad by fly-by-night companies.

One of the examples of the effective use of the macro-analytical research findings through interagency cooperation (by the Interagency Working Group) was disruption of the scheme designed for cashing-out funds with the use of payment terminals. This scheme was the largest one detected in Siberia.

The conducted research revealed the following typology. Cash accumulated, through the payment terminals, by the payment agents was exchanged for “non-cash” money by receiving large amounts of funds on own accounts from various organizations on the grounds other than those related to operation of the payment agents. However, not all received cash was collected and credited to the payment agents’ accounts.

The accounts of the largest payment agent in Siberia were maintained by the affiliated regional non-bank credit institution.

The cooperative interagency efforts undertaken by Rosfinmonitoring Interagency Working Group in the Siberian Federal District and the Branch of the Bank of Russia in Novosibirsk Region succeeded in disruption of this illegal scheme by withdrawing the license of the non-bank credit institution that supported operation of this scheme. Besides that, inspections conducted by the Branch of the Bank of Russia in Novosibirsk Region revealed that various credit institutions committed multiple breaches of the regulations involving unlawful use of special accounts by the payment agents.

## EDUCATION AND SCIENCE IN AML/CFT SPHERE

# NRNU MEPhI AS SYNTHESIS OF EDUCATIONAL, SCIENTIFIC AND INNOVATIVE ACTIVITIES

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*Mikhail N. Strikhanov*

### The History of MEPhI

The history of the University descends from the Moscow Mechanics Institute of Ammunitions (MMIA). Decree No. 1871-872s of the USSR Council of People's Commissars on establishment of the Moscow Mechanics Institute of Ammunitions (MMIA) of the People's Commissariat for Ammunitions (PCA) on the basis of the Moscow Ammunitions Works No. 398 of PCA was signed on November 22, 1942.

The prime target of the Institute was training of specialists for military and atomic programs of the Soviet Union.

Eminent scientists took part in the establishment and rise of MEPhI, including academician Igor Vasilievich Kurchatov – the leader of USSR's Atomic Energy Project. Six Nobel prize winners





worked for MEPHI – academicians N.G. Basov (MEPHI graduate), A.D. Sakharov, N.N. Semenov, I.E. Tamm, I.M. Frank, P.A. Cherenkov.

In 1945, the Higher Education Institute was renamed the Moscow Mechanics Institute, and in 1953 the Moscow Engineering Physics Institute (MEPHI).

In 1967, MEPHI was awarded the Order of the Red Banner of Labor. In 1993, MEPHI was renamed the Moscow State Engineering Physics Institute (Technical University) by Order No. 364 of the Russian Federation State Committee on Higher Education of 22.11.1993.

In 2001, two ministries were authorized to serve the functions of the founding parties of MEPHI by Resolution of the Government of the Russian Federation – Ministry of Education and Ministry of Atomic Energy. In the same year, MEPHI was granted the status of a Technical University.

In 2009, MEPHI was reorganized and renamed the Federal State Budgetary Educational Institution of Higher Professional Education «National Research Nuclear University MEPHI» (NRNU MEPHI) on the basis of Edict No. 1448 of the President of the Russian Federation «Regarding implementation of the pilot project for establishment of National Research Universities» of October 7, 2008, and Executive Order No. 480-r of the Russian Federation Government «Regarding implementation of Edict of the Russian Federation President « of April 8, 2009.

The University has been the Federal State Independent Budgetary Educational Institution of Higher Professional Education «National Research Nuclear University MEPHI» (NRNU MEPHI) since November, 2011.

As a result of the reorganization, the state educational institutions falling within the jurisdiction of the Ministry of Education and Science of the Russian Federation and the State Atomic Energy Corporation Rosatom and located in host cities of the atomic energy industry enterprises have been affiliated to NRNU MEPHI as economically autonomous structural subdivisions.

In July 2013, NRNU MEPHI joined the ranks of the winners of a contest among Russian Universities for becoming a participant to the State Program for Higher Education Institute Competitiveness Enhancement among the leading international research and education centers. 15 best Higher Education Institutes of the country were selected in total (4 Universities from Moscow).



### NRNU MEPHI today

Today, the National Research Nuclear University MEPHI is one of the leading Russian Higher Education Institutes, known as a base for training of specialists for the atomic energy industry in the first place. The University is renowned for the synthesis of the applied technical education with scientific studies. Today, NRNU MEPHI represents a geographically dispersed research and education holding integrating 21 education institutions and purposefully training personnel for the atomic industry.

NRNU MEPHI is a strategic partner to the Rosatom State Atomic Energy Corporation and part of the Association «Consortium of the Rosatom State Atomic Energy Corporation key higher education institutions». Leading scientists and specialists from hi-tech industries are involved in the educational process here.

The mission of NRNU MEPHI is stuffing and scientific & innovative support to the national economy hi-tech industries: staff training and retraining in the sphere of modern high-end technologies for securing Russia's national interests, including those in the sphere of energy supply and scientific & technological security; satisfaction of staffing needs of the domestic nuclear energy and nuclear defense complexes; of the nuclear radiation safety complex and science and technology sector; scientific studies in a wide range of priority advancement fields of the science and technology etc.

At the present time, NRNU MEPHI is held as a world center for education, research, and innovations in the field of nuclear physics, nuclear and radiation technologies, subnano- and nanoscale technologies.

The primary areas of scientific activities and education include:

- Humanitarian studies and technologies.
- Particle fundamental studies and physics;
- Fusion, laser science and technologies;
- Nanostructural electronics;
- Applied mathematics and theoretical physics;
- Nuclear systems and materials;
- Cyber security;
- Atomic energy;
- Non-equilibrium atomic systems and composite materials;
- Humanitarian studies and technologies.



The results of cooperation of NRNU MEPhI with foreign academic teaching specialists include new collaborations, new universities and scientific centers, articles, new ideas and proposals.

The NRNU MEPhI scientists participate in global physical researches and in the development of world-level high technologies. NRNU MEPhI is the participant of international collaborations on Megascience-class installations: ATLAS, ALICE in CERN (Switzerland); FAIR, XFEL in DESY (Germany); ITER (France); PAMELA (Italy); STAR (the USA); T2K (Japan) etc. In 2014, NRNU MEPhI was formally granted admission to new international collaborations – CMS (CERN), ICECUBE (Italy). Negotiations have been held for admission to collaborations SHIP, NSW (CERN), LZ (Dark matter, the USA), BELLE (Japan).

The main scientific achievements of world collaborations with participation of NRNU MEPhI in 2014 include:

- Detection and measurement of a neutrino flux from the central areas of the Sun (this achievement was included among the top achievements of the year according the magazine Physics World);
- Detection of a new charmonium-like exotic resonance;
- The first experiment in the world regarding detection of thermal neutrons of extensive air showers;
- Development of the model of Universe re-ionization due to the Hawking radiation of primary black holes;
- Spectrometry of helium protons and nucleuses with energies up to 10 teraelectron-volt/nucleon;
- Development of new technologies for plasma hardening of material surfaces;
- Development of non-equilibrium states of unordered nanoporous medium hybrid systems etc.

NRNU MEPhI conducts joint researches with 62 institutes and scientific centers of the Russian Academy of Sciences, such as:

- Institute of Physics of the Russian Academy of Sciences;
- Space Research Institute of the Russian Academy of Sciences;
- General Physics Institute of the Russian Academy of Sciences;
- Institute of Crystallography of the Russian Academy of Sciences;
- A.N. Frumkin Institute of Physical Chemistry and Electrochemistry of the Russian Academy of Sciences;

- Institute of Computational Mathematics of the Russian Academy of Sciences;
- Institute of Chemical Physics of the Russian Academy of Sciences;
- Institute of Atmospheric Physics of the Russian Academy of Sciences etc.

The University works in coordination with the enterprises of the Rosatom State Atomic Energy Corporation, Ministry of Education and Science of the Russian Federation, Ministry of Industry and Trade of the Russian Federation, Rostec Corporation enterprises, Russian Federal Space Agency, Ministry of Defense and other defense and law enforcement agencies.

Word-level laboratories have been created in NRNU MEPhI with the participation of leading foreign scientists:

- Laboratory of theoretical nuclear physics (jointly with University of Tennessee, the USA);
- Laboratory of nanobioengineering (jointly with University of Rheims, France);
- Laboratory of electromagnetic methods for manufacturing of new materials (jointly with University of San-Diego, the USA);
- Laboratory «Engineering of application-specific integrated circuits» (jointly with the Petersburg Nuclear Physics Institute (Russian Nuclear Center «Kurchatov Institute»));
- Laboratory of silicon photomultipliers (jointly with University of Kansas, the USA);
- Laboratory «Interaction of plasma and surface (jointly with University of San-Diego, the USA);

NRNU MEPhI is engineering and producing the following pilot production samples of innovative products for the use of Russian industries or commercial use:

- «Landysh» endoscopic system for automated identification of pathologies and morphological changes in the digestive tract;

- «SCHIT» hardware and software complex for protection of automated process control systems;
- «Avtovizor» hardware and software complex for data acquisition on vehicle CAN-bus security level;
- Software for protection of mobile systems against data theft and wiretapping;
- «BlackBeeTrack» electronic tag for monitoring of the state of the environment during transit of goods;
- «Gamma-radar» project for intraoperative diagnostics of sentinel lymph nodes and non-invasive diagnostics of superficial spreaded carcinoma etc.

The key feature to the education in NRNU MEPhI is nonseparability of educational, scientific, and innovative activities. Training of students is based on the use of unique experimental installations and centers: «Nanocenter», «Laser center», «Nevod», «IRT MEPhI Nuclear reactor», «Institute of Astrophysics», «Institute of functional nuclear electronics», «Institute of marginal applied electronics», «Simulator center with functional and analytical simulators for VVER-12000, RBMK-1000, BN-800 reactors», a unique laser ablation plant with a device for manufacturing of second-generation high-temperature super-conductivity ribbons etc.

NRNU MEPhI has a number of leading-edge university laboratories. They include a laboratory for molecular-beam epitaxy of nano-scaled heterostructures (Riber 21 T3-5 plant), a university laboratory for direct nuclear energy conversion for research of conversion processes into coherent electromagnetic radiation energy in nuclear pumped lasers and research of thermionic transducers, including those for spaceworthy nuclear power facilities, a laboratory based on the DWL 66 FS maskless laser lithography system, a laboratory based on the PVD 250 PVD 75 thin film cooling system, an electron microscopy laboratory, a scanning tunnel and atomic force microscopy laboratory based on three tunnel microscopes and a nanohardness tester, a laboratory «Atomic Power Station control and safety» with a control simulator for VVER -1000.

The students have an opportunity to implement pilot projects on the basis of 13 students' design

offices»: SKIB-2 «Automatic equipment in nuclear industry», SKIB-3 «Modern electronic apparatus for «nuclear industry», SKIB-9 «Development of new amorphous and nano-crystalline materials for nuclear engineering», SKIB-10 «Students' design office for molecular-selective instrument-making industry», SKIB-12 «Information technologies», SKIB-27 «Nano- and microelectronics», SKIB-29 «Intelligent control systems», SKIB-36 «Information systems and technologies», SKIB-A of the automatic equipment and electronics faculty of NRNU MEPhI, SKIB of Institute of economics and analytics of NRNU MEPhI, SKIB of Dimitrovgrad Institute of Technology, SKIB of Institute of Technology, NRNU MEPhI, SKIB of Trekhgorny Institute of Technology, NRNU MEPhI.



*Mikhail N. Strikhanov and Yu. A. Chikhanchin*

The Institute of financial and economic security of the National Research Nuclear University MEPhI trains specialists for the National system for combating legitimization {laundering} of proceeds of crime, and financing of terrorism (AML/CFT). The Institute of financial and economic security of MEPhI is a basic education institution in the structure of the network Institute in the AML/CFT sphere. At the present time, students from Armenia, Belarus, Kazakhstan, Kyrgyzstan, Chinese Peoples Republic, Moldova, Tajikistan, Ukraine are studying in the Institute of financial and economic security beside students from the Russian Federation.

Training of specialists of this discipline requires interdisciplinary knowledges and provides for in-depth professional education in the field of creation and use of modern software and information systems, computing technologies in business,

as well as the adequate training in the field of economics, jurisprudence, information security. A specialist of this discipline should be familiar with banking, taxation, and customs industry, know the elements of bookkeeping, be well read in foreign languages. Training of such well-informed generalists can only be based on the knowledge of fundamental sciences as a methodological basis for the analytical thinking required for implementation of the system-wide approach.

The services to the cause of training of specialists in the AML/CFT sphere were honored in 2014 by awarding the NRNU MEPhI rector M.N. Strikhanov with a Certificate of Merit on behalf of the Kremlin chief of staff for a major contribution to the advancement of education, training of highly qualified specialists in the sphere of combating legalization (laundering) of proceeds of crime and financing of terrorism.



## EDUCATION AND RESEARCH AGENCIES ALLY IN ML/FT ACTIVITIES

*On April 22 a meeting of the Council of a network AML/CFT Institute was held in the conference hall of the Federal Service for Financial Monitoring. The event was participated by chiefs and representatives of education and research institutions, members of a network Institute, as well as the Central Office and inter-regional departments of Rosfinmonitoring (via videoconferencing)*

**Konstantin V. Litvinov,**  
Deputy Chief Editor

In his opening remarks the Deputy Chief of the RF Ministry of Education, **A.A. Klimov** noticed that the Ministry regards the initiative for establishment of a network AML/CFT Institute as very important, as network interaction in this field allows training the own personnel by all educational institutions engaged in implementation of the currently developed programs:

*"I believe the network Institute is a leader in term of using formats for interaction between educational institutions. Of course, we face certain troubles related to the regulatory system, but we have a very effective team of members, a clear vision of the goals and objectives to be achieved, for which I would like to thank Yury Anatolyevich (Chikhanchin – editorial comment). It allows us not only effectively interacting*

*and providing solutions for critical tasks assigned to educational institutions in terms of training, but also using the positive experience accumulated during day-to-day operations for improvement of the RF*

*higher education system. In this sense we support the network Institute, and will struggle to overcome any obstacles."*

The Deputy Chief of the Federal Agency for Affairs of the Commonwealth of Independent States, of compatriots residing abroad, and for international humanitarian collaboration, **L.I. Efremova**, told that this year the Rossotrudnichestvo together with the





Rosfinmonitoring and Moscow Engineering and Physics Institute has started to elaborate the model for selection of foreign citizens for training:

*"Currently we have got the first positive results. In many countries where the Rosfinmonitoring's interests are declared, I see an interest from ministries and departments in training of such specialists. The new law of education also allows a network form of collaboration. Our first experience was establishment of the CIS network Institute with later experience of establishment of the SCO network Institute. Today we speak of the CSTO network Institute under the program for training in financial intelligence. And currently another field is being developed, i.e. network collaboration under the program for training of specialists in financial intelligence. I believe the government and interested departments thereby have found a priority field, i.e. professions demanded by the labor markets both in Russia and abroad. Taking into account that we have become a single center for selection of foreign citizens, we will have to select talented students for educations under joint programs to be developed by you."*

The work plan for a network AML/CFT Institute for the period from 2014 to 2016 has been declared during the meeting including development of educational programs, profiles/specializations, education materials and sharing of research and education resources for organization of education at the network Institute; Training of foreign students. Organization of research and practical conferences and Olympiads for students in AML/CFT Activities.

The Director in development of the system for professional standards of the Research Institute for

### ***Yu.A. Chikhanchin, Director of Rosfinmonitoring:***

*"Countering money-laundering and terrorist financing requires not only joint efforts from specialized departments but also from agencies for education and research. And we believe that the main components of this issue include training in AML/CFT, persistent professional improvement of active specialists, and development of researches and performance of studies in this field. Only by joining efforts by all departments and by a comprehensive approach for solution of any problems we can achieve positive results of operation of our system."*

Labor and Social Insurance, **I.A. Voloshina** told that the development of the professional standard for specialists in financial monitoring is coming to an end, and we shall consider how this standard would be applied in the educational system and labor system:

*"Your professional standard will guide HR activities of businesses where specialists in financial monitoring work. And of course it must be applied for development and adaptation of new educational programs: this field is currently elaborated by the RF Presidential Council with the Ministry for Education and Science that has developed the corresponding guidelines."*



The Agenda of the Meeting has also included several issues including establishment and development of basic divisions of the members of a network AML/CFT Institute in collaboration with the Interregional Inspection of the Rosfinmonitoring, and

training of foreign students in educational institutions, members of the network Institute. The symbols of the network Institute, including the logo, forms and the prize paper, have also been adopted.

**PRIVATE SECTOR**

## **THE USE OF MODERN PAYMENT METHODS IN AML/CFT CONTEXT**

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*Valery A. Lopatin,*

*Deputy Head of the Department of International Settlements  
of Vnesheconombank and advisor to the chairman of non-profit  
partnership «The National Financial Market Council»*



*Valery A. Lopatin*

The growing influence exerted by electronic and computer technologies on the payments industry has brought about a major change in the way we pay for goods and services nowadays, giving rise to such new payment systems as payment terminals, which allow consumers to make instant payments for such popular services as wired and wireless communications, TV, public utilities, etc. A list of services significantly affected by the changes includes postal orders (address-based and addressless), which can now be delivered almost anywhere in Russia within minutes.



Yet, the most profound changes were reserved for traditional money transfers, which have evolved to allow the use of alternative currencies, means of payment and types of cashless settlements. One such important development was the advent of electronic payment tool (EPT), which allow transfers of money to be made remotely and without the need for the payer to visit the bank. Despite their apparent advantages, the EPT introduction immediately created a number specific difficulties associated with the enforcement of anti-money laundering and combating the financing of terrorism (AML/CFT) legislation.

In this article, we take a closer look at some issues related to the use of modern payment methods in the AML/CFT context, with the main focus being placed on electronic means of payment. It is assumed that the process of making money transfers and using electronic means of payment is governed by Federal Law No. 161-FZ «On the National Payment System» of June 27, 2011 (hereinafter «Law No. 161-FZ») and other regulations adopted in accordance therewith, while the AML/CFT context is determined in accordance with Federal Law No. 115-FZ «On Combating Money Laundering and Terrorist Financing»

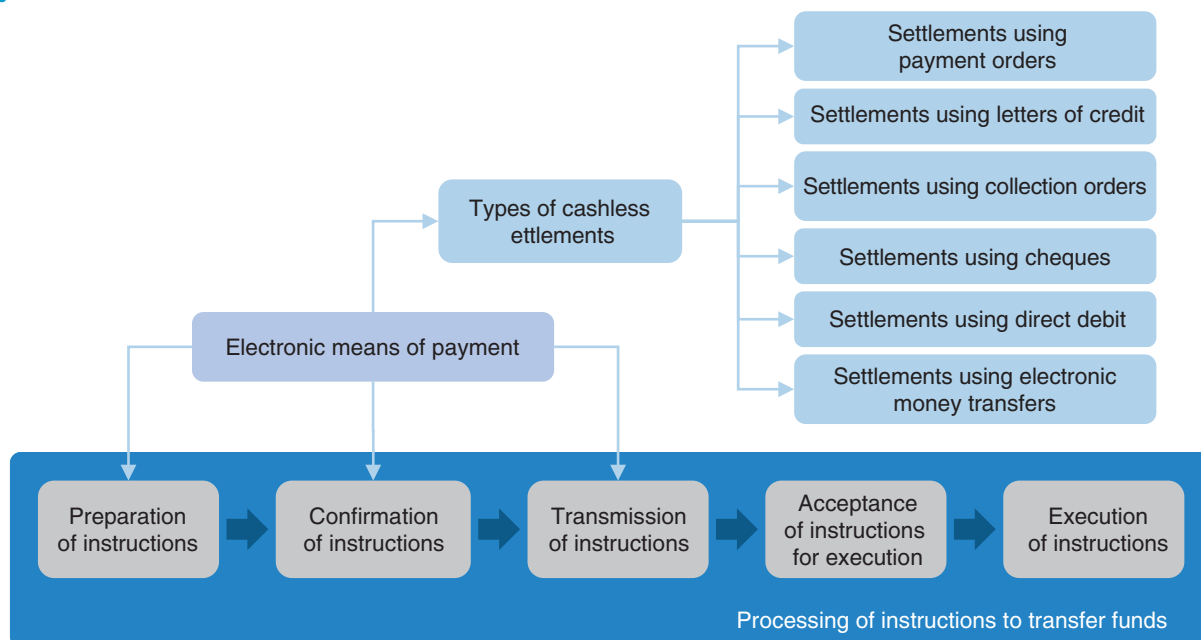
of August 7, 2001 and other regulations adopted in accordance therewith.

### Modern Methods of Funds Transfer

According to Law No. 161-FZ, a funds transfer is the activity of money transfer operators (in the context of the types of cashless settlements being used) involving the transfer of funds from a payer to a payee. In general, however, the process of making a funds transfer comprises the following activities of the client and operator related to the transfer of funds: the preparation, confirmation and transmission by the client in favour of the operator of instructions to transfer funds, as well as the acceptance by the operator of such instructions for execution and execution thereof<sup>1</sup> (see Fig.1).

According to Federal Law No. 161-FZ, electronic means of payment is a means and/or method which enables a client of a money transfer operator to prepare, confirm and transmit instructions to transfer funds (in the context of the types of cashless settlements being used) via information and communication technologies, electronic data carriers (including payment cards) and other technical devices.

Fig. 1. Funds transfer scheme



<sup>1</sup>See, for example, S. V. Krivoruchko, V. A. Lopatin. National Payment System: structure, technologies, regulation. International Experience and Russian Practice. M.: KNORUS: CIPSiR, 2013. – p. 456

In this regard, the current funds transfer methods involving the use of electronic means of payment can be classified by:

- the type of funds being transferred;
- the means of electronic payment used; and
- the type of cashless settlements used.

Funds transfers can be made using either traditional cash and deposit<sup>2</sup> funds, or electronic money, introduced by Law No. 161-FZ. In general, we can distinguish nine types of money transfers (Fig. 2)<sup>3</sup> involving:

- the debiting of funds from the payers' bank accounts and the crediting of funds to the payees' bank accounts;
- the debiting of funds from the payers' bank accounts and the issuance of cash funds to individual payees;
- the debiting of funds from the payers' bank accounts and increasing the payees' electronic money balances;
- the acceptance of cash funds, individual payer's instructions and the crediting of funds to the payee's bank account;

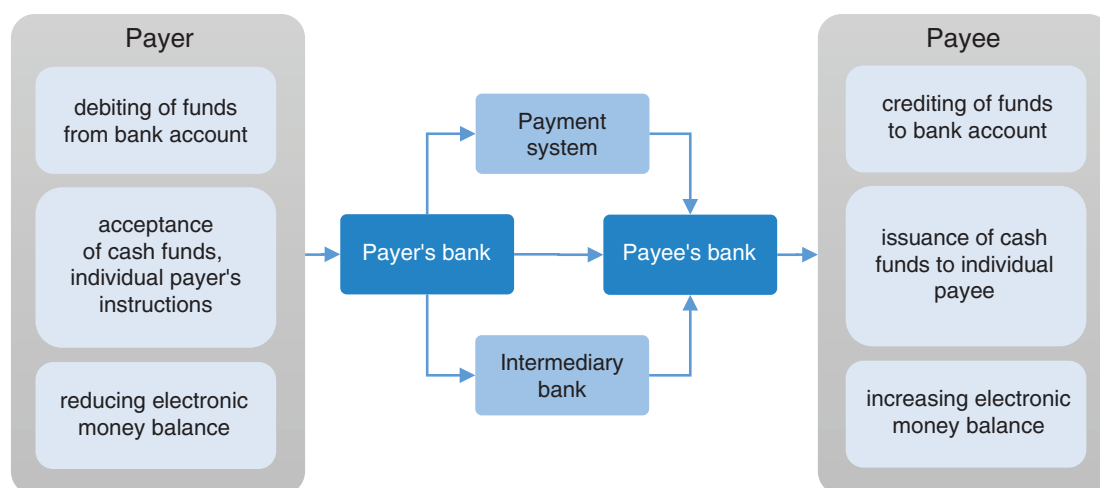
- the acceptance of cash funds, individual payer's instructions and the issuance of cash funds to the individual payee;
- the acceptance of cash funds, individual payer's instructions and increasing the payee's electronic money balance;
- reducing the payer's electronic money balance and the crediting of funds to the payee's bank account;
- reducing the payer's electronic money balance and the issuance of cash funds to the individual payee;
- reducing the payer's electronic money balance and increasing the payee's electronic money balance.

It should be noted that of the nine funds transfer methods referred to above, only five are new methods based on the use of electronic money. As for the rest, they have been in use for centuries.

When it comes to electronic means of payment, the most common funds transfer methods involve the use of:

- a payment terminal, i.e. an electronic terminal which accepts cash and/or payment cards and allows users to prepare, confirm and transmit instructions to transfer funds;

Fig. 2. Funds transfer methods



<sup>2</sup>Deposit funds means the funds in a deposit account that can be withdrawn on demand

<sup>3</sup>Bank of Russia Regulations No. 383-P dated June 19, 2012 «On the Funds Transfer Guidelines»

- a payment card, i.e. a credit, debit or prepaid card (either in electronic or physical form) used to prepare, confirm and transmit instructions to transfer funds in conjunction with a payment terminal;
- online banking, i.e. a PC with an Internet browser used to prepare, confirm and transmit instructions to transfer funds in conjunction with the payment services provider's website;
- mobile banking, i.e. the subscriber's mobile communication device with text messaging functionality and/or a special application used to prepare, confirm and transmit instructions to transfer funds in conjunction with the payment services provider's mobile-friendly website.

When it comes to mobile banking, its functionality has been expanded lately through the use of Near Field Communication (NFC), which allows users to make contactless payments with the help of their mobile phone (similar to contactless payment cards).

Importantly, all electronic money transfers are made exclusively using e-payment tool, which, depending on the type of AML/CFT identification used and the legal status of the EPT holder, are divided into personified, non-personified and corporate EPT.

With regard to cashless settlements, they can be made using:

- payment orders;
- letters of credit;
- collection orders;
- cheques;
- direct debit;
- electronic money transfers.

That said, the chosen type of cashless settlement largely determines the rights and obligations of the transaction participants as well as the type of payment documents used.

It should be noted that all of the above payment methods can be considered modern in the sense that they are still used to a lesser or greater extent

in modern banking practice. However, most of these methods are not new and have been used for many decades. The only exception is the last method, introduced following the legal recognition of electronic money.

A close study of the aforementioned funds transfer characteristics allows us to identify for the purpose of this article the following features of modern payment methods:

- the process of preparation, confirmation, transmission, acceptance for execution and execution of instructions to transfer funds is conducted using computer equipment and telecommunication channels;
- the process of EPT and EPT user identification during each individual payment transaction is carried out remotely and automatically;
- the transfer of funds in the retail payment services sector is carried out quickly (almost instantly), around the clock and to a wide choice of geographical locations;
- most funds transfers require no face-to-face contact between the payers/payees and the payment operator's employees;
- electronic money transfers are made without bank accounts by using personified, non-personified and corporate EPT;
- when using non-personified EPT, customers among EPT holders are either not identified at all or identified using a simplified procedure.

## Funds Transfers in AML/CFT Context

As is well known the word «context» is generally understood to mean a set of facts or circumstances that surround a situation, event, object, etc<sup>4</sup>. For this reason, we will examine the specifics of funds transfers in the AML/CFT context in two stages.

First, we will define the AML/CFT context as a set of basic facts and circumstances related to AML/CFT that surround the use of modern payment methods.

<sup>4</sup><https://ru.wiktionary.org/wiki/>

Second, we will examine the specifics of the modern payment methods described in the previous section, taking into account the facts and circumstances determining the AML/CFT context. The purpose of this review is to identify the most important features of modern funds transfer methods in terms of AML/CFT.

It is obvious that the nature of this article precludes us from examining all the facts and circumstances relevant to the AML/CFT. For this reason, we will restrict the AML/CFT context to the following key provisions:

- a) all organizations listed in Law No. 115-FZ are obliged to undertake AML/CFT measures required by law;
- b) undertaking AML/CFT measures involves:
  - carrying out the identification of customers, customer representatives, beneficiaries and beneficial owners;
  - managing ML/FT risks, including customer and product risks;
  - identifying in customers' activities transactions subject to mandatory control and transactions in respect of which there is a suspicion that they are carried out for the purpose of ML/FT;
  - applying measures aimed at reducing ML/FT risks and preventing transactions carried out for ML/FT purposes.

Within the given AML/CFT context, one can draw the following conclusions with regard to modern funds transfer-based payment methods whose characteristics are given in the previous section of this article.

Firstly, since all money transfer operators and payment system settlement centres are credit institutions, they belong to a category of organizations required to undertake AML/CFT measures. This means that money transfer operators must undertake AML/CFT measures in respect of payers and payees, and settlement centres in respect of payment system participants.

Secondly, the process of making funds transfers using EPT substantially hinders the identification procedures conducted as part of AML/CFT. This is due to the challenges associated with remote identification

of the designated EPT and its designated user<sup>5</sup>. In particular, customer identification procedures carried out by a money transfer operator in accordance with the requirements of Law No. 115-FZ (during a face-to-face meeting in the operator's office) does not guarantee that the identified customer will be the designated EPT user during a transfer of funds using a remote channel.

It should be noted that in the case of payment systems, the task of identifying customers – most of whom are credit institutions participating in the payment system – is less of a problem, since a limited number of participants and the high level of cooperation within the payment system – between participants, providers of payment infrastructure services and payment system operators – render the identification process highly accurate, despite the use of remote access channels.

Thirdly, the outlined identification problems significantly complicate the process of ML/FT risks management, especially in the area of customer and product risk analysis and assessment. It is obvious that the possibility of substitution by the customer of the original EPT for its copy significantly alters the risk parameters of a product (funds transfer using EPT), while the possibility of an EPT use by a person other than the designated user alters the risk parameters of the customer itself (EPT user).

Fourthly, the emergence of new funds transfer methods based on computer data processing and telecommunication systems tends to impose certain requirements on the AML/CFT compliance process. This means that, in the case of modern funds transfer methods being used, AML/CFT procedures must also be carried out automatically in accordance with applicable algorithms. This is especially true for mandatory control procedures, which lend themselves to the process of algorithmization rather well.

It is obvious that manual implementation of AML/CFT procedures largely deprives modern funds transfer methods of those advantages they possess due to high level of automation. In particular, it concerns such benefits of automation as the speed of the transfer and the lack of restrictions on working hours (transfers can be made 24/7).

At the same time, the existence of a poorly structured system of factors determining suspicious transactions and ML/FT risks means that, as a rule, a full automation of AML/CFT processes is not possible and the processing of some exceptions must be

<sup>5</sup>V. A. Lopatin Problems of Identification of Electronic Means of Payment // Financial Security – 2014 (#4).



done manually. In particular, a list of such exceptions may include procedures for the application of certain ML/FT risk mitigating measures (closing accounts, blocking of funds) requiring the implementation of formal procedures with the involvement of persons in authority.

Fifthly, the most problematic in terms of customer identification process and, consequently, the ML/FT risk assessment, are electronic money transfers that use a non-personified EPT (NEPT), where NEPT identification is not carried out. For this reason, the amount of such transfers is limited to 15,000 rubles per transaction and 40,000 rubles

per month. In this case, transfers of electronic money using NEPT without identification can only be made in favour of legal entities or individual entrepreneurs that are subject to mandatory identification under Law No.115-FZ.

That said, if an NEPT user undergoes a simplified identification process provided by Law No 115-FZ, a choice of transactions available to it will increase significantly to include electronic money transfers in favour of individuals, while the value of transactions made in favour of legal entities and individual entrepreneurs will increase to 60,000 rubles and 200,000 rubles, respectively.

## FIU'S CONTRIBUTION TO ARTS AND CULTURE

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*Rosfinmonitoring actively promotes and supports the development of modern art. For many years, its premises have served as a venue for numerous exhibitions of Russian artists, enabling its employees and visitors alike to become closely acquainted with the work of contemporary artists, to enrich their inner world, and to raise the level of their spiritual, moral, cultural and aesthetic education*

*Evgenia N. Kalikhova,  
Editor and Columnist*

In the period from 2013 to 2015, Rosfinmonitoring hosted four exhibitions of renowned artists: Pavel Petrov, Dmitry and Galina Grigorovich and Konstantin Petrov.

**Pavel Petrov** was born in 1963 in Moscow. He graduated from the Moscow College of Arts in 1985 and, since 1991, has been a member of the Union of Artists and Graphic Designers of the UNESCO International Federation of Artists.

At the Federal Financial Monitoring Service, the artist presented two of his exhibitions dedicated to Russian landscapes. In his paintings, 70 of which were presented at the event, the artist depicts Moscow

countryside, mountains and the much loved by all of us streets of Moscow.

According to Mr. Petrov, in his paintings he tries to achieve the effect of completeness, as well as accuracy of form and colour. His works have an active and lovely beginning that leads viewers into a joyous, sunlit world.

A joint art exhibition of **Galina and Dmitry Grigorovich** opened on February 21, 2014. Its selection of paintings included over 40 works spanning multiple art genres. Visitors had the opportunity to view several paintings inspired by various historical and social themes, as well as works ranging from Renaissance and timeless pastoral scenes to contemporary art pieces.



Dmitry Grigorovich was born in 1951 in the city of Kholmsk (Sakhalin Island). In 1978, he graduated from the V. I. Surikov Krasnoyarsk Art College. He has been a member of the Artists Union of Russia since 1989. His works can be found in private collections in Russia and abroad.

Galina Grigorovich was born in 1961 in Krasnoyarsk, where she attended the Surikov Art College and spent two years at the Krasnoyarsk Institute of Arts. She has been a member of the International Art Foundation since 1996.

*"It gave us great pleasure to be able to use Rosfinmonitoring's premises as a venue for our exhibition. We witnessed people's live reaction and interest, spoke to them about art and revealed some of the artists' secrets," they said.*

The works of the husband and wife Grigorovich, although notable for their common desire to convey to the audience warm and positive emotions, still display their own individual, unique characteristics, *"Today's world is full of negativity. It's a place where people suffer from information overload... Our paintings offer them a slice of silence, a pause, a place where they can relax and rediscover themselves."*

On 4 June 2015, Rosfinmonitoring hosted the «Paintings and Drawings» exhibition by **Konstantin Petrov**, a distinguished artist of the Russian Federation, vice-president of the Creative Union of Russian Artists and a member of the Russian Academy

of Arts. K. Petrov's artworks adorn numerous museum collections in Russia and abroad.

The artist showcased about 30 of his works, representing different periods of his life and work: a few paintings from both the «Spanish» and «Bratislava» series along with watercolours dedicated to Moscow, Derbent, central Russia and Russian monasteries. *"It's a great honour for me to be able to exhibit my works within the wall of a state institution, especially such an important one as this,"* said the artist.

Konstantin Petrov spent several years of the 90<sup>s</sup> era in Spain, where he honed his professional skills while enriching his works with new experiences, discoveries and images. During this period, he held five solo exhibitions, while his works began to attract the interest of collectors, gallery owners and museums. Nowadays, the artist spends much of his time travelling across Russia, working and organizing solo exhibitions.

In his work, Konstantin Petrov gives preference to easel paintings, as well as unique graphics and painting styles. The artist's favourite materials are watercolour and pastel; genre priorities are landscape, still life and portrait.

K. Petrov: *"Art should bring forth good and positive feelings in people, as well as love for their homeland, ancestors and country's history. These are the values that are not subject to incessant change. In my work, I try above all to be guided by these principles."*

## PROMOTING CORPORATE SPORTS

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*On 30 May 2015, Russia hosted the 1<sup>st</sup> Spartakiad for financial authorities dedicated to the 70<sup>th</sup> anniversary of Victory in the Great Patriotic War*

*Nicolay P. Dubchak,*

*Deputy Chairman of the Central Sports Club of the financial authorities  
and organization Dynamo No. 33*

Activities in the field of physical education and sports at the Ministry of Finance, the Federal Service for Financial and Budgetary Supervision, the Federal Financial Monitoring Service, the Federal Treasury, the Central Bank of the Russian Federation and the state corporation «Deposit Insurance Agency» are overseen by the organization Dynamo No. 33 and the Central Sports Club of the financial authorities.







The organization Dynamo No. 33 of the sports and fitness society «Dynamo» and the Central Sports Club of the financial authorities were established in 2014. The supervisory board of the organization is chaired by Rosfinmonitoring director Yuri Chikhanchin. The purpose of the organization is to create the most suitable conditions for physical and spiritual development of employees of state financial institutions by organizing regular health, fitness and sports events.

The Sports Ministry of the Russian Federation supported the initiative of the Central Sports Club of the Russian financial authorities to hold annual competitions (Spartakiad) among employees of Russian financial agencies, as well as activities designed to meet the requirements of the physical culture training programme «Ready for Labour and Defence» (GTO). The Sports Ministry provides technical and organizational assistance to employees of the Russian financial authorities in meeting these requirements.

Greetings to the competition participants were sent by sports minister V. L. Mutko; finance minister A. G. Siluanov; chairman of society «Dynamo» V. E. Pronichev; State Duma deputy, the Hero of Russia and three-time Olympic champion Alexander Karelin; head of the Federal Service for Financial and Budget Supervision A. V. Smirnov;

### *V. L. Mutko:*

"On behalf of the Sports Ministry of the Russian Federation and myself, I congratulate the employees of the Russian financial authorities on the start of the 1<sup>st</sup> Spartakiad.

The promotion of physical culture and sports and the effective use of the opportunities created by it to improve the nation's health, educate youth and promote healthy lifestyles among our employees and the public at large is one of the key objectives of Russia's socio-economic policy. While taking part in the Spartakiad, all participants will be able to benchmark their sporting achievements against those of their colleagues and try to meet the requirements of the national sports training programme (GTO).

I'm absolutely delighted that you, despite the heavy work load, still find time for physical exercise. I wish sports to become a constant presence in the life of every Spartakiad participant!"

head of the Federal Treasury R. E. Artyuhin; director general of the Deposit Insurance Agency Yu. O. Isayev; deputy chairman of the Central Bank of the Russian Federation V. V. Chistyuhin;

chairman of the Supervisory Board of FC Dynamo S.V.Stepashin; and chairman of the Central Sports Club of the Russian financial authorities «Dynamo» No. 33 O. V. Shabunevich.

### *S. V. Stepashin:*

"The revival of the mass sports movement in Russia and the promotion of physical culture and sports among workers is one of our country's top priorities. It's important to remember that involvement in sports makes us all stronger, helps instil the desire to prove ourselves, set high goals and achieve the desired results. I feel confident

that the 1<sup>st</sup> Spartakiad of the Russian financial authorities will help promote sports among government employees and healthy lifestyles among the public, all of which play a key role in the social development of our society. The key to the Spartakiad's success lies in its participants, organizers and spectators."

### *Yu. A. Chikhanchin:*

"Despite the challenges existing in the world and difficulties in the lives of ordinary people, we continue to pay close attention to the development of sports among Rosfinmonitoring employees, regarding this task as one of the most important elements of our in-house policy. Sports strengthen the health of an individual

person and the entire work team by allowing each employee to be part of a big, strong and united community. I sincerely hope that our Spartakiad will give a powerful impetus to the proponents of healthy lifestyles and become a good annual tradition which we will continue to develop further."

## NEWS BLOCK

## *International Scientific and Practical Conference “Combating Economic Crimes”*

The international scientific and practical conference titled «Combating Economic Crimes» was organized in accordance with the Investigative Committee's H1 2015 Activity Plan and Investigative Committee Academy's 2015 Research Schedule.

The conference, held on 24 April 2015, was attended by employees of the Investigative Committee, the Ministry of Interior and Prosecutor's Office, scientists and lawyers from Moscow, St. Petersburg, Volgograd, Orel and other Russian cities, as well as foreign guests from the CIS (Belarus, Kazakhstan and Tajikistan) and Europe (Lithuania, Poland, Slovakia, the Czech Republic, Germany and Belgium).

The conference was opened by A. M. Bagmet, acting rector of the Investigative Committee Academy, associate professor and major-general of justice, who informed participants about the latest



developments in the areas related to the conference theme, noting the success achieved by investigative authorities in this field and outlined the problems arising in the investigation of economic crimes.

Among the contributors to a roundtable discussion, held in the aftermath of the conference plenary meeting, was S. M. Irlitsa, advisor to the Department of Education and Science of ITMCFM.

## *Concerning the Agreement between Rosfinmonitoring and Rossotrudnichestvo*

On 2 July 2015, the Federal Financial Monitoring Service and the Federal Agency for Commonwealth of Independent States, Compatriots Living Abroad and International Humanitarian Cooperation (Rossotrudnichestvo) signed a co-operation agreement.

On behalf of Rosfinmonitoring, the agreement was signed by Rosfinmonitoring director Yu. A. Chikhanchin,

and on behalf of Rossotrudnichestvo, by its head L. N. Glebova.

**Yu.A. Chikhanchin:** "Dear colleagues, we're now witnessing a special moment in our relationship, when, thanks to our co-operation, a large number of foreign students have the opportunity to study in Russia. We sincerely hope that in the future they will become our representatives capable of meeting the challenges of combating money laundering and terrorist financing."

**L. N. Glebova:** *"We've identified the possible areas of co-operation to be implemented under the agreement we're about to sign today. We realize that this agreement means more work for us, but this work is good."*

The event was also attended by deputy director of the Federal Financial Monitoring Service V. I. Glotov, director general of the International Training and Methodology Center for Financial Monitoring O. A. Ivanov, vice-rector of MEPhI V. V. Ovchinnikov, head of the Legal Department of Rosfinmonitoring G. Y. Neglyad as well as representatives of Rossotrudnichestvo.

The agreement provides for long-term and mutually beneficial co-operation in the preparation and holding of joint integrated programmes and separate activities designed to strengthen the positive image of the Russian Federation in foreign countries and help advance Russia's interests abroad in the field of science and education.

Co-operation between parties under the Agreement will be carried out on the premises of



Rossotrudnichestvo's overseas offices through cultural, scientific and educational activities such as exhibitions, festivals, competitions, conferences, scientific seminars, roundtables, lectures and presentations, with the participation of individual Russian and foreign scientists and education experts as well as science and educational groups, and by sharing information on long-term and ongoing programmes.

## Graduates from IFES MEPhI

In the period from 30 June to 1 July 2015, graduates from the Institute of Financial and Economic Security MEPhI defended their theses at Rosfinmonitoring via videoconferencing.

A total of 28 students who attended specialist and master courses at the Department of Financial Monitoring of IFES received their diplomas this year. Among them, three students were from EAG member and observer states: Kyrgyzstan, Moldova and

Ukraine; two students defended their dissertations in English and French languages; and another four graduates being eligible to graduate with honours.

The subjects of the graduation theses cover the most relevant AML/CFT problems, ranging from state contract review methods and financial monitoring information resources, to crypto currencies and identification of suspicious indicators in financial and economic activities, to the creation of specialized databases and development of automated systems for ML/FT risk assessment.



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