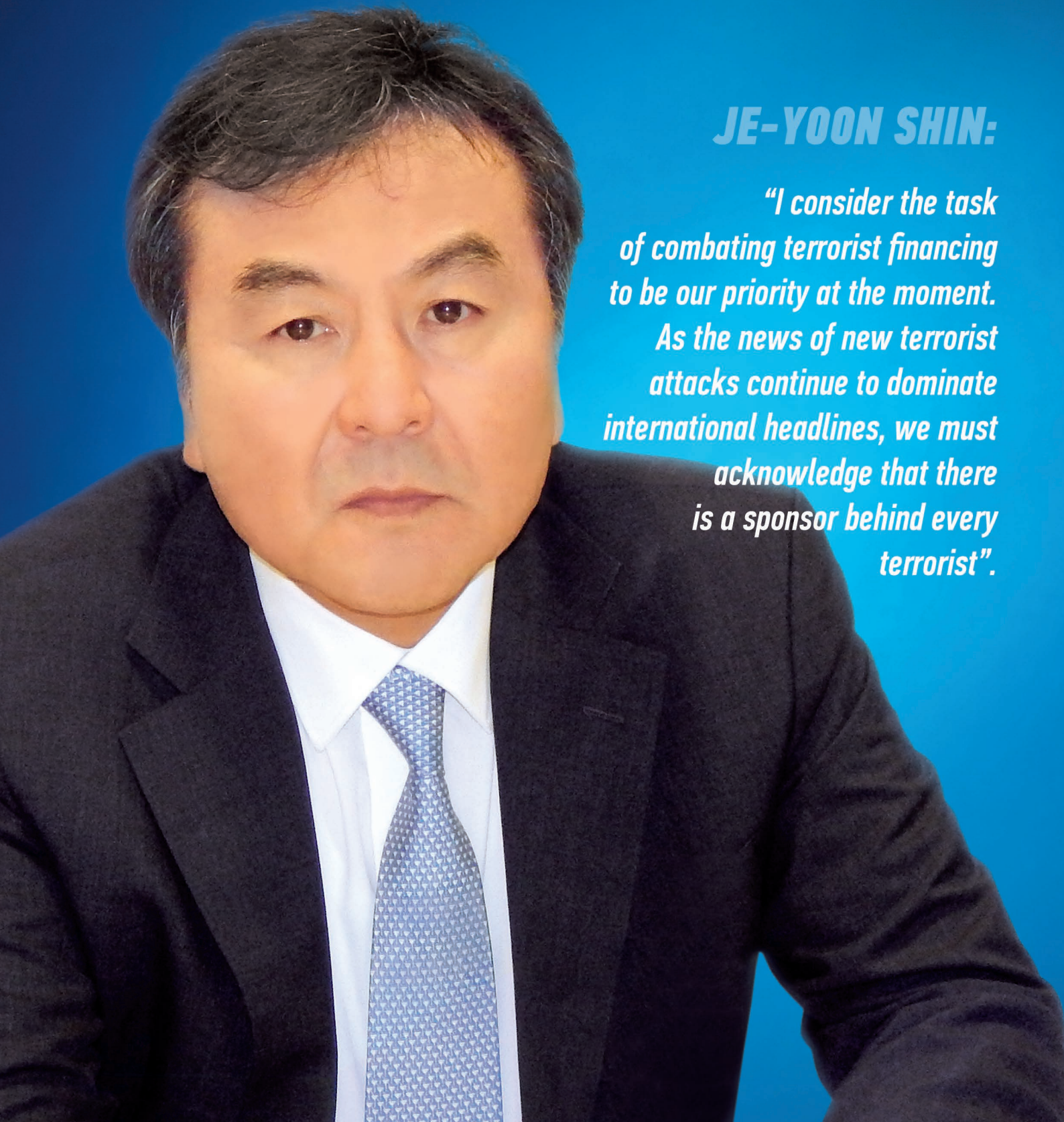


FINANCIAL SECURITY

NO. 10 OKTOBER 2015

JE-YOON SHIN:

"I consider the task of combating terrorist financing to be our priority at the moment. As the news of new terrorist attacks continue to dominate international headlines, we must acknowledge that there is a sponsor behind every terrorist".



FINANCIAL SECURITY

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DEAR READERS!



The latest issue of the *Financial Security* magazine comes out on the eve of the 23rd Plenary meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), to be held in Moscow. The meeting will take place at a time when

all of us are waging a war against our common foe: terrorism, whose threat has transcended the borders of individual states to assume truly global proportions. It is a challenge that the international community must confront by forming a united front capable of neutralizing the risks that threaten international security. I am, of course, referring to the increasingly aggressive actions of Islamic State, an outlawed in Russia terrorist organization that epitomizes the transformation of both terrorist organizations and threats emanating from them.

"Islamic State" phenomena represents a new type of terrorist organization with unique funding sources, consisting primarily of oil revenues, proceeds from seized assets and ruthless exploitation of controlled territories, and drug trafficking. It is this access to vast financial resources that has allowed ISIS to be successful both on the battlefield and at building a terrorist state.

We pay close attention to the emergence of terrorist threats in the EAG space, where the risk of use of migrant smuggling channels and cross-border financial flows from Central Asia and the Middle East for terrorist purposes remains high.

The importance of joint efforts focused on improving national systems for combating financing

of terrorism and extremism and implementing specific practical measures aimed at detecting and severing financing channels used by terrorists and extremists has never been greater.

The urgency of this task has been repeatedly emphasized by the Russian President V.V. Putin, who highlighted the importance of joining forces, improving effectiveness and strengthening coordination.

"The threats to our countries are not diminishing. In fact, we may even say they are becoming ever more serious as new problems are constantly being added to the old ones," said he.

This issue was discussed at a meeting of the National Anti-Terrorism Committee in October 2015. Among the outcomes of this meeting was the adoption of the 2016-2018 Comprehensive Interagency Action Plan to Combat the Financing of Terrorism and Extremism, whose implementation will allow us to:

- conduct a more in-depth study of terrorist and extremist financing channels and prevent the involvement in them of legitimate financial institutions;
- improve interagency cooperation in freezing assets of persons subject to criminal investigations, including through the use of the Terrorist and Extremist Lists;
- prepare the Russian Federation for the FATF mutual evaluation in 2018, including in the area related to the fight against financing of terrorism and extremism.

Rosfinmonitoring Director
Yury Chikhanchin

COVER STORY

RUSSIA PLAYS AN ACTIVE ROLE IN THE GROUP AND CONTRIBUTES TO ITS FUTURE

Mr. Je-Yoon Shin from Korea assumed the position of President of the Financial Action Task Force on Money Laundering (FATF) on 1 July 2015. During the FATF Plenary week in October 2015, the FATF President answered the questions of the Financial Security magazine

*Irina V. Ivanova,
Chief Editor*



Mr. Je-Yoon Shin

FS: *Mr. Shin, where do you consider the main areas of FATF's work lie today? What is the FATF's near-term strategy?*

Je-Yoon Shin: I consider the task of combating terrorist financing to be our priority at the moment. As the news of new terrorist attacks continue to dominate international headlines, we must acknowledge that there is a sponsor behind every terrorist, a person without whom a terrorist attack just will not happen. One thing I can say for sure is that the issue of combating terrorist financing will remain relevant for a long time.

FS: *FATF released its latest research on financing of the Islamic State of Iraq and the Levant in February 2015. Since then, the situation*



has become even more difficult. Are you planning to conduct another research in this area?

Je-Yoon Shin: Terrorist financing is a very complex set of problems. First of all, we need to understand what problems with the implementation of the FATF Recommendations different countries have, given the importance of an effective AML/CFT system in solving the problem of terrorist financing. This is especially true of those recommendations that pertain solely to the financing of terrorism, i.e., Recommendation 5 (the criminalization of terrorist financing) and Recommendation 6 (targeted financial sanctions related to terrorism and terrorist financing). Since every country has its own set of unique features, it is important for us address these issues first. We already understand the financing schemes used by terrorists, having conducted a typologies study to identify new terrorist financing risks. But we must go further.

FS: *The opinion that the FATF's potential should be utilized in the fight against ISIS is very common today. What's your view on that?*

Je-Yoon Shin: I totally agree. Despite the fact that the FATF's resources are limited, it nevertheless a body that makes strategic decisions and works

Reference

The four-month research project on ISIS financing sources determined methods for raising, distributing and using funds by terrorist organization. The aim of the study was to determine how its funding sources can threaten the safety of the international financial system and undermine global security and the rule of law.

According to the research, ISIS derives its revenue from five main sources, listed below in the order of importance:

- illegal proceeds extracted in the territories under its control (bank robberies, pillage, exploitation oil fields and refineries, theft of economic assets and illegal taxation of goods and cash transiting through its territory);
- kidnapping;
- donations, including made by or through NPOs;
- material support;
- social networks-based fundraising.

closely with the UN and other organizations. A lot is being done at the regional level. We need to coordinate our efforts with other organizations in order to mitigate the ISIS threat.

FS: *Financial capability features prominently in your programme as FATF President. Can training and skill upgrades in this area also help in fighting terrorism?*

Je-Yoon Shin: Indeed they can. After all, financial literacy is something that people need to know to prevent their own money being used to harm society. It is a basic concept. Another thing is to know how their personal finances are integrated into the structure of the financial system; it is important to understand how money end up in the pockets of those who spend it on achieving illicit objectives or committing acts of violence, how the money laundering process works, etc.

FS: *Can you give a rough estimate of the damage caused by such «uninformed» individuals?*

Je-Yoon Shin: I don't have any specific numbers with me, but we are planning to conduct a research into this phenomenon.

FS: *How do you see other countries' interaction with Russia within FATF?*

Je-Yoon Shin: Russia plays an active role within the Group. I appreciate its contribution, which has become particularly noticeable during my presidency. Russia has done much for the future, including fighting against Islamic State. In addition, I see great potential in joint education and research activities. When mentioning education, I mean the AML/CFT International Training and Research Center, which will open its doors in Seoul next June. Russia has vast experience in this field, which can be used worldwide.

FATF President's biography

Mr. Shin was born on March 25, 1958 and graduated from Seoul National University in 1981 with a degree in Economics. He passed the Higher Civil Service Examination with the highest score in 1981 and studied economics at the graduate school of Cornell University.

Mr. Shin held key posts within the Ministry of Finance and Economy, including director general of the International Finance Bureau. He was in charge of monitoring and managing exchange rates, advancing domestic foreign exchange systems, and ensuring stability in financial markets in the aftermath of the sub-prime mortgage crisis. From September 2002 to 2004, he served as director of the Financial Policy Division, where he headed the Task Force Team for restructuring LG Card.

In addition, he led efforts to establish the Korea Housing Finance Corporation and introduced long-term mortgage loans in Korea.

Mr. Shin was the Chairman of the Financial Services Commission (FSC) of Korea, a position he had held from March 2013 to March 2015. Prior to assuming the chairmanship, he had worked as first vice minister of the Ministry of Strategy and Finance (MoSF). He has been with the Korean government since 1982, holding a variety of senior positions, including vice chairman of the FSC in 2011 and deputy minister of the MoSF from 2008 to 2011. In 2010, he chaired the G20 Finance Deputies' Meeting, where important global issues such as financial safety nets, IMF reforms and global imbalances were addressed.

PARTICIPATION IN THE FATF PLENARY MEETING

Rosfinmonitoring employees within the government delegation headed by Yu. A. Chikhanchin, which included representatives of the Russian Foreign Ministry, Federal Security Service, Ministry of Internal Affairs, Ministry of Finance and the Bank of Russia, took part in the Plenary Meeting of the Financial Action Task Force on Money Laundering (FATF), held on 18-23 October in Paris

Alexei G. Petrenko,

Head of Rosfinmonitoring's International Cooperation Department

Counter terrorist financing issues dominated the agenda of the Plenary, just as they did the FATF previous meeting in Brisbane in June 2015.

Outcomes of the global research of jurisdictions' compliance with the FATF anti-terrorist recommendations, conducted by the FATF and FSRBs secretariats, formed the basis of a report to G20 leaders on measures taking by the international AML/CFT community to combat terrorist financing.

One of the outcomes of this work was the revision of the Explanatory Note to the Recommendation "Terrorist financing offence" designed to take account of the provisions of UN Security Council Resolution 2178 on foreign terrorist fighters.

The seriousness of the FATF's intentions to intensify anti-terrorist efforts is underscored by the completion in record time of a typologies research into new terrorist financing risks (last conducted in 2008), whose findings have been published on the FATF official website.

During the Plenary Meeting, participants updated the grey and black lists of jurisdictions with strategic deficiencies in national anti-money laundering and terrorist financing systems that pose a threat to the global financial system.

Following a review of progress achieved by jurisdictions under the FATF follow-up process since





June 2015, Algeria exited the black list, leaving in it only North Korea, Iran and Myanmar, while Ecuador and Sudan exited the grey list.

A discussion of the mutual evaluation report of Italy, which received relatively high ratings, went off as planned. It is worth noting that similarly to the previously heard reports of Australia, Belgium, Spain, Malaysia and Norway, the issue related to the use of comprehensive statistics as evidence of the effectiveness of the national AML/CFT regime proved to be a major stumbling block.

In this regard, the FATF adopted a guidance designed to clarify to jurisdictions exactly what statistics can help solve this problem.

The Plenary also approved the FATF Guidance on the Risk-Based Approach for Effective Supervision and Enforcement and typologies study titled "Money Laundering through the Physical Transportation of Cash".

A milestone event of the forum was the departure of FATF Executive Secretary Rick McDonnell, who had

occupied this position for over 10 years and become a key figure not only of the FATF but the entire international AML community. His responsibilities were taken over by UK representative David Lewis, who had previously held the post of co-chair of the FATF's Evaluations and Compliance Group.

The FATF recognized the Task Force on Money-Laundering in Central Africa (GABAT) as an FATF-Style Regional Body and admitted it as an associate member.

Seoul has become home to the AML/CFT International Training and Research Center.

A list of events taking place on the side-lines of the meeting included discussions with the heads of BRICS delegations, an EAG consultative conference and bilateral talks with the FATF and MONEYVAL management and heads of delegations of Australia, India, Kazakhstan, China, Kyrgyzstan, Poland, Tajikistan, Turkmenistan, France and Uzbekistan.

The next FATF meeting will be held in Paris in February 2016.

BRICS Cooperation in AML/CFT Education and Science

During the meeting of the heads of BRICS delegations attending the FATF Plenary on 21 October 2015 in Paris (France), participants discussed cooperation among BRICS countries in the field of AML/CFT education and science.

They were informed on the progress in implementing the Memorandum, signed in February 2015 in Paris during a similar meeting between the Network AML/CFT Institute and the Association of BRICS Business Schools.

In accordance with the Memorandum, representatives of the universities participating in the network AML/CFT Institute discussed possible AML/CFT programme exchanges with the deans of the Association of BRICS Business Schools (April 2015, New Delhi, India). In September 2015, the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation hosted a scientific conference dedicated to AML/CFT risks, attended by BRICS ambassadors. In November 2015, the National Research Nuclear University (MEPhI), Moscow, is scheduled to host a conference titled "Threats and Risks Facing BRICS Economies", organized at the request of Russian President V.V. Putin by the universities of the network



AML/CFT Institute and educational establishments comparing the Association of BRICS Business Schools.

Heads of delegations are invited to combine efforts of BRICS FIUs in ensuring information (cyber) security, as confirmed in paragraph 34 of the Ufa Declaration adopted at the 7th BRICS summit (July 9th, 2015, Ufa, Russia) and discussed during the 6th meeting of the BRICS heads of member states of the FATF (25 June 2015, Brisbane, Australia). In addition, participants will consider the possibility of establishing a Centre of Information (cyber) Security for BRICS FIUs on the premises of the network AML/CFT Institute and sharing the software for conducting financial investigations developed by the UN Office on Drugs and Crime.

RF PRESIDENT VLADIMIR PUTIN HELD WORKING MEETING WITH DIRECTOR OF FEDERAL FINANCIAL MONITORING SERVICE Yu. A. CHIKHANCHIN

The Head of the Federal Financial Monitoring Service briefed the President on the system for monitoring expenditure of funds in the process of awarding and performing public procurement contracts for the defense industry

V. Putin: Yury Anatolievich, I requested you to pay more attention to monitoring of expenditure of funds under public procurement contracts for the defense industry, as part of your work.

It is very important not just for ensuring the adequate defense potential of the country, which, itself, is one of the key priorities, but also for the economic development, since defense procurement contracts create jobs for many specialists and directly foster development of the high-tech sectors of the Russian economy. The government allocates huge amount of funds, which should be spent efficiently and, certainly, without any infringements.

I know that you have designed the system for monitoring expenditure of these funds, so, please, tell me about it.

Yu. Chikhanchin: Certainly, Vladimir Vladimirovich. Pursuant to your instruction [on implementation of

the measures outlined in the Presidential Address] to the Federal Assembly, which directly ordered the Defense Ministry and Rosfinmonitoring to develop [such] system, we have established it. The relevant law is in place, and it's safe to say that the most important thing is that this law works in practice.

We did it in the following way. We compiled the list of the designated banks authorized to open special accounts, and the funds are already flowing through these accounts. Besides that, we established the system for monitoring transactions carried out under the said law. Currently we create the registers of all contracts with certain reference codes which will allow us to monitor contract performance. We also compile the register of contractors and develop the mechanism of interagency coordination with all government authorities concerned.



Rosfinmonitoring directly contributes to these efforts in the following manner. Firstly, as for contracts, we have established the system for reviewing all contracts. We have developed, jointly with the Accounts Chamber, the Federal Antimonopoly Service, the Federal Treasury, etc., the range of indicators against which all contractors are reviewed. Besides that, we stay in contact with the designated banks and monitor performance of contractors outside the scope of the public procurement contracts.

The review of the contracts yielded the following results. We have identified over thousand contracts with the major prime contractors and, as of today, we closely monitor about two thousand corporate contracts. Around thousand contracts deserving special attention have been identified against the indicators, which, in our opinion, should trigger examination by the Defense Ministry (e.g. the previous year contract prices differs from the current ones), and have also identified the higher risk areas, such as contracts for services, construction and supply of equipment and materials.

The information related to contracts that raise questions and doubts is disseminated to the designated banks so that they can carry out more detailed scrutiny and closely monitor performance under such contracts.

Secondly, we consider [and review] contractors. As of today, we have identified around 700 contractors and divided them into three groups:

bona fide ones, contractors engaged in shady schemes and those involved in criminal activities (unfortunately, they still exist).

At present, we have identified around 100 business entities engaged in shady schemes and reported them to the Defense Ministry and banks so that they pay due attention to them – it is necessary to address this issue, as long as they have not started to perform the contracts yet.

V. Putin: Yes, if there clear indicators of violations of the law, it should be reported to the prosecutorial authorities and the Investigative Committee.

Yu. Chikhanchin: Yes, to the prosecutorial authorities. So far, no criminal proceedings have been instituted. At present, we say that they, for example, use fly-by-night companies, but we do not state that criminal offences have been committed, at least for now.

We have witnessed how the law is applied in practice to transactions. As of today, the business entities have opened about 2000 accounts and carried out 5bln worth transactions. Unfortunately, we have also encountered the attempts by the so-called shell fly-by-night companies to open accounts.

V. Putin: Is it still happening?

Yu. Chikhanchin: Yes, despite our stringent control system. We immediately notify the Defense Ministry and the designated banks and undertake joint measures for squeezing them out. We are in the process of establishing this mechanism.

And, thirdly, we address the issue pertaining to business operations of the contractors to which the defense procurement contracts are awarded. There are some companies, with the defense procurement contracts accounting for just 20-30 percent of their production volumes, while the rest of their business activities are not related to the defense industry.

This raises certain concerns, since in course of fulfillment of other purchase orders placed with them, companies may fall into bankruptcy or into even worse situation, and it is likely that the defense contract will not be performed.

We have identified a total of around 750 such companies, 40 of which are involved into shady schemes. We are taking measures to deal with these contractors and have alerted the Defense Ministry. There are also 20 companies against which criminal proceedings have been instituted. This is the priority area for us.

Besides that, we have identified the contractors, of which you have been advised by the minister and deputy minister of defense, that fall behind the

progress schedule. There are 28 such companies and we work closely with them to find out what is going on in each company in order to actually rectify the situation.

This is the main mechanism, but there are also some other issues that we need to address. First of all, a number of new designated banks should be engaged in the process. Secondly, it is necessary to implement, jointly with the ministries and agencies concerned, the risk assessment mechanism so that they can understand how we deal with the issues. And, thirdly, we need obtain access to the classified defense procurement contracts, since currently we may access only one third of the contracts which are not classified. It will take quite a long time, but we are working on it and will take necessary measures. This is, in brief, how the system works.

V. Putin: It is necessary to further improve it, and not to reduce but to augment the efforts undertaken in this area.

Yu. Chikhanchin: Yes, of course.

V. Putin: Agreed.

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AML/CFT EDUCATION AND SCIENCE

TRAINING AML/CFT PERSONNEL FOR THE BENEFIT OF NATIONAL ANTI-MONEY LAUNDERING SYSTEMS OF RUSSIA AND ITS PARTNERS

Ekaterina V. Butkeeva,

Deputy Head of the Department of Education & Science, ITMCFM



Ekaterina V. Butkeeva

Financial monitoring that aimed at anti-money laundering and counter terrorist financing (AML/CFT) requires combined efforts of the individual, society and the state, it should become their common priority and the most relevant in the current circumstances task.





The individual, society and the state – being the enduring tenets of the Russian Constitution – are essential to the effective functioning of national AML/CFT system, ensuring its successful development and operation.

Money laundering is inextricably linked to corruption, fraud, tax evasion, drug and human trafficking and other crimes, being both a cause and a consequence of these phenomena. Terrorism and its financing represent a real global threat to countries around the world. Illicit and hidden capital flows undermine stability of the global financial system and impede its sustainable development. Dirty money can be compared to a fully submerged iceberg that is drifting from the shores of one country to another, endangering the safe navigation of their economies.

In these circumstances, the role played by experts and subject matter specialists is of particular importance, just as the need for every country to train them. A modern professional represents a symbiosis of theory and practice, knowledge and skills, initiatives and experience, as well as educational and professional activities. It is this inextricable link existing between education and practical work that is embodied in the occupational standard «AML/CFT Financial Monitoring Specialist», developed by ITMCFM and approved by the Ministry of Labour and Social Protection of the Russian Federation in July 2015 (Decree No.512n dated July 24, 2015).

From a formal point of view, the occupational standard «Financial Monitoring Specialist»

constitutes a multifunctional regulatory instrument that defines the job functions of employees responsible for AML/CFT monitoring at various reporting entities; and from an informal one, a certificate of professional activity of an AML/CFT specialist. Occupational standards serve as a benchmark for knowledge and skills needed to remain relevant in a labour market, and to respond to new challenges and requirements affecting a given profession, essentially representing a modern view of a professional occupation, complete with its future potential and prospects.

Occupational standard acts as gauge for determining relevance of the applicant's qualification to the employer's requirements for a specific job position, as well as being used for job descriptions and employee advanced training. This document is used by both employers and educational institutions as a sort of tool designed to help them, on the one hand, tackle the challenges related to effective workplace and workforce management, and on the other, build professional competencies, develop specialized courses and modules, and plan and arrange practical trainings for students.

The universities that are members of network AML/CFT Institute use an occupational standard in the vocational training system for national anti-money laundering experts, including in the development of relevant educational programmes. Among the newest training programmes and courses offered by these educational institutions are «Financial Monitoring», «Combating Illegal Financial

Transactions» and «Information and Analytical Systems of Financial Monitoring» (Table 1).

In cooperation with FIUs and other concerned agencies of the partner countries' national anti-money laundering systems, universities of the network AML/CFT Institute have expanded the range of specialized training options available to students enrolling for the next academic year to include economic, legal, informational and international courses (Table 1). Training diversified AML/CFT specialists will satisfy needs of national AML/CFT systems, taking into account their specificity and regional characteristics.

The training course «Financial Monitoring» is included in the curricula of such areas of study as «Law», «Economics», «Management», «Trading Business», «Youth Engagement», «Applied Informatics», «Customs» and others. Studying AML/CFT themes will improve public financial capability and cultivate negative attitude towards money laundering and

related crimes. It becomes an important component of the fight against such phenomena.

This academic year institutes of the network AML/CFT Institute started training foreign students for national AML/CFT systems of Russia partner states. More than 70 persons from different countries decided to study as AML/CFT specialists. And 60 of them became students of the network Institute.

The future graduates of the network AML/CFT Institute will undoubtedly strengthen the HR potential of financial intelligence unit and law enforcement agencies, customs and judicial authorities, as well as banking, revenue collection and financial market services of both Russia and its partners around the world.

Training of personnel is one of the most promising areas of future cooperation and interaction between representatives of the national anti-money laundering systems, and as such deserves every possible support and encouragement.

Table 1. AML/CFT degree courses offered by educational institutions participating in the Network Institute

Courses and programmes	MEPhI	PNU	UNN	NSUEM	RSUE	SPbPU	UrFU	CFU	SevSU
BACHELOR PROGRAMME, 4 years									
Information Systems Security		+							
Financial Security					+				
Information Security				+	+	+	+		+
Information and Analytical Systems of Financial Monitoring				+					
Information Systems and Technology				+	+	+			
Analysis and Risk Management					+				
Applied Informatics	+			+		+			
Economics	+	+	+	+	+	+	+	+	+
MASTER PROGRAMME, 2 years									
Combating Illegal Financial Transactions				+					
Information and Analytical Support of Financial Monitoring	+								
Information and Analytical in Security Systems of State and Municipal Governments							+		

Courses and programmes	MEPhI	PNJ	UNN	NSUEM	RSUE	SPbPU	UrFU	CFU	SevSU
Information Technology and Analytical Methods of Business Processes Modelling and Optimization			+						
Information Security					+	+			+
Continuity and Information Security of Businesses	+								
Risk Management at Organizations and Financial Institutions					+				
Applied Informatics						+	+		
Strategic Planning and National Security						+			
Economic Security System Management					+		+		
Financial Monitoring		+	+		+				+
Economic Security	+								
Economic Security of Business			+						
International, Scientific and Technological Cooperation	+								
SPECIALIST PROGRAMME, 5½ years									
Security of Information Technology in Law Enforcement Sphere	+								
Financial Institutions Activity in Bank Servicing of State Security Authorities	+								
Information and Analytical Security Systems	+					+	+		
Information Security of Telecommunication Systems							+		
Information Security of Automated Systems						+			
Computer Security		+				+			
Legal Groundwork of National Security	+	+							
Legal and Economic Enquiry	+				+				
Economic and Legal Support of Economic Security	+				+				
Customs		+			+		+		
Economic Security	+	+					+		
Postgraduate Program, 3 years									
Global Economy	+								
System Analysis, Information Management and Processing	+								
Information Security					+				

List of acronyms of educational institutions

MEPhI	National Research Nuclear University
PNU	Pacific National University
UNN	Lobachevsky State University of Nizhny Novgorod
NSUEM	Novosibirsk State University of Economics and Management
RSUE	Rostov State University of Economics
SPbPU	Peter the Great St. Petersburg Polytechnic University
UrFU	Ural Federal University named after the first President of Russia B.N. Yeltsin
CFU	V.I. Vernadsky Crimean Federal University
SevSU	Sevastopol State University

ON ESTABLISHMENT OF AML/CFT TRAINING CENTRE IN SIBERIAN FEDERAL DISTRICT

Sergei Yu. Nekrasov,

Deputy Head of Rosfinmonitoring's SFD Inter Regional Department

Vladimir N. Romashin,

Acting Vice-Rector for Academic Affairs of the

Novosibirsk State University of Economics and Management, Ph.D.



Sergei Yu. Nekrasov



Vladimir N. Romashin

Today's international atmosphere and economic situation make the task of ensuring effective budget management particularly relevant. The situation connected with identifying and mitigating the risks of illegal financial transactions in various sectors of the economy and safeguarding budgetary resources require joint efforts of all anti-money laundering system participants, from supervisory and law enforcement agencies to government authorities and business community.

In Siberian Federal District, despite the difficulties affecting the country's economy, the number of private sector participants in the AML/CFT system has continued to grow. There are currently over 10,000 organizations and private entrepreneurs operating in the region: local banks and branches of Moscow-based credit institutions, insurance, leasing and factoring companies, securities market participants and microfinance organizations, credit cooperatives, real estate agents and others. All of them carry out transactions with funds and other assets and have the status of reporting entities.

Training of experts for the above institutions and businesses capable of not only ensuring compliance with the existing AML/CFT legislation but also successfully managing emerging risks is essential to the effective implementation of the country's Law «On Anti-Money Laundering and the Financing of Terrorism». According to monitoring data, the level of the labour market's annual requirements for such specialists is estimated at approx. 200,000 individuals.

Building economic cooperation with other CIS countries has always been one of the priority areas of Russia's foreign economic policy, whose relevance has become even more apparent in today's environment. Given the proximity of Siberian Federal District to Central Asia, the task of organizing joint AML/CFT trainings that combine the knowledge about the key economic fundamentals and current economic processes with the skills needed to use modern information technologies takes on added urgency. In this regard, the task of establishing in federal districts training centres acting as structural units of the network AML/CFT Institute appears to be of particular importance.

A list of the institute's representatives in the region includes the Novosibirsk State University of Economics and Management (NSUEM), the largest multidisciplinary educational and research facility in Western Siberia attended by over 12,000 students from 29 Russian regions and abroad.

Right at the start of the work on establishment of the network AML/CFT Institute, the NSUEM and Rosfinmonitoring's SFD Department were actively involved in this process. The decision to create within the structure of the NSUEM's Economics Faculty the Department of Financial Monitoring was taken by the Academic Council of the university on April 28, 2015 (order dated August 12). One of the objectives of the new department is to promote cooperation in



NSUEM

combating money laundering and terrorist financing. To date, a large volume of preparatory and organizational work carried out in this area has resulted in:

- finalization and approval by the Academic Council of the bachelor programme «Information Security» and curricular with specialization «Information Analysis Systems of Financial Monitoring»;
- finalization and approval of the master programme «Combating Illegal Financial Transactions» and curricula for «Economics»;
- development of a student recruitment campaign for new open undergraduate and graduate AML/CFT programmes/specializations for 2015;
- development of a training course based on further vocational education programmes in the field of AML/CFT for the 2015/2016 academic year;
- approval of the list of compulsory subjects and elective courses to be taught by Rosfinmonitoring experts, including «Financial Monitoring of Shadow Economic Processes», «Monitoring and Supervision in Combating Money Laundering and Terrorist Financing» and «Typologies of Suspicious Financial Transactions». Additionally, Rosfinmonitoring's SFD Department staff will oversee the process involving the preparation of final qualifying papers, participation in practical trainings

organized at the SFD Department facilities, holding group-based advisory sessions and workshops, and development of training programmes.

In 2015, the bachelor's programme «Information Security» (classroom studies) attracted 40 students (including 2 from CIS countries), approx. 10 of whom will select after two years of study the specialization «Information Analysis Systems of Financial Monitoring», 5 stay in the state-subsidized programme and another 5 opt for a paid course.

Meanwhile, the number of students enrolled in master's programme «Economics» in 2015 stood at 100 (40 for state-subsidized places and 60 for paid ones), 10 of whom have applied for the paid master programme «Combating Illegal Financial Transactions».

In addition, with a view to creating an effective training and retraining system for public and private sector employees, the NSUEM, once again, made

its facilities available for use by the AML/CFT Further Vocational Education Centre, which has been conducting workshops in the form of ad hoc briefings for all types of organizations and their employees under a cooperation agreement signed with the International Training and Methodology Centre for Financial Monitoring.

Consequently, Novosibirsk State University of Economics and Management has everything required for the training of AML/CFT specialists that possess advanced core competencies and are focused on research and development in the relevant field.

In the meantime, the university has already filed».

The NSUEM's future plans include the strengthening of its scientific and educational potential in this field with a view to positioning the university as an integral component of the Siberian and CIS financial monitoring system. In just two to three years, the university expects to begin accepting students from Brazil, India and South Africa.

INTERNATIONAL BLOCK

IMPROVING INTERNATIONAL COOPERATION AND SHARING EXPERIENCE IN AML/CFT SPHERE

The first meeting of the countries participating in the project to improve international cooperation and sharing experience in AML/CFT sphere, spearheaded by the Turkish Financial Intelligence Unit (MASAK), was held on 27–31 July 2015 in Antalya (Turkey)

*Jamila V. Sadikova,
ITMCFM Coordinator*



Jamila V. Sadikova

The meeting was attended by delegations from Azerbaijan, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan, Turkmenistan, Turkey, United States and Uzbekistan, with the total number of participants standing at over 50.

Participants noted not only the impressive work carried out by the event organizers but also a significant interest on the part of participating delegations, highlighted by the high turnout and enthusiasm of its participants.



The agenda for the meeting included, inter alia, the following items:

- conducting an analysis of data received by FIUs;
- implementation of the UNSC Resolutions for AML/CFT purposes;
- international AML/CFT standards and best practices;
- AML/CFT supervision, compliance and preventive measures;
- regional threats and the fight against organized crime.

Each day of the workshop was devoted to a discussion of a specific topic and included presentations and expert discussions. Delegates had the opportunity to ask questions of speakers and make comments.

During the workshop, the Russian delegation presented two reports: «Implementation of UNSC Resolution 1373 (2001) in Russia» and «Preparation Scheme and Plan for the FATF 4th Round of Mutual Evaluations», as well as took an active part in panel discussions of national risk assessment and new regional challenges and threats.

Meeting participants expressed particular interest in Russia's report on the country's preparations for the next round of mutual evaluations. This was undoubtedly due to the fact that all FATF member states and FSRBs will soon themselves have to undergo this difficult phase in the development of their national AML/CFT systems: to conduct a national risk assessment and to undergo a mutual evaluation.

The active participation of representatives of the Eurasian region in the event and the themes of their reports highlighted the EAG countries' considerable efforts, backed up by a clear political will, aimed at ensuring progressive development of the national AML/CFT systems, as well as revealing the accumulated AML/CFT expertise and robust legal framework.

Meeting participants also paid special attention to the issues of bilateral and multilateral cooperation between financial intelligence units in countering the emerging challenges and threats to regional stability and fighting organized crime in a changing world. Delegations noted the transnational nature of contemporary criminal manifestations, including the active use of new technologies by criminals, and highlighted the need to consolidate efforts.

Turkey's initiative in organizing this regional project has created a basis for the establishment of yet another important venue for practical



cooperation between national financial intelligence units of the Eurasian region, which will undoubtedly give new impetus to the development of regional and international AML/CFT-related cooperation.

By holding this event on the eve of the Egmont Group's Istanbul Summit, scheduled for 17-22 July 2016, Turkey, an EAG observer country, has not

only been able to iron out the technical aspects of organizing large-scale international events but also to emerge as a de facto leader of one of the regional AML/CFT forums. This is especially important given the difficult situation in the Middle East and Central Asia connected with the rise of terrorism.

EAG CONTINUES TO PLAY A KEY ROLE IN FIGHTING AGAINST DRUG TRAFFICKING

A joint EAG/UNODC/ITMCFM interregional workshop on strengthening cooperation between financial intelligence units and law enforcement agencies in combating laundering of illicit drug trafficking proceeds was held from 2 to 4 September in Moscow with the assistance of the Regional UNODC Programme for Afghanistan and Neighboring Countries

*Konstantin V. Litvinov,
Deputy Chief Editor*





A list of the workshop participants included delegations from member states of the Eurasian Group on Combating Money Laundering and Financing of Terrorism, along with delegations from Afghanistan, Iran and Pakistan, representatives of the UN Office on Drugs and Crime, the Federal Financial Monitoring Service, and the International Training and Methodology Center for Financial Monitoring.

The opening ceremony included welcoming remarks by representatives of the workshop organizers: EAG Executive Secretary Vladimir Nechaev, UNODC Regional Representative in Afghanistan and neighboring countries Andrei Avetisyan, and General Director of ITMCFM Oleg Ivanov.

V. Nechaev: *"Given that the Eurasian Group conducts its evaluations on the basis of the FATF Recommendations and Methodology, it's easy to see why the theme of today's workshop is so important. After all, let's not forget that the initial purpose of the FATF Recommendations was to combat specifically drug-related money laundering, which is a predicate offense for money laundering. In view of the oversized impact this type of criminal activity has on our region, it's very important for all of us to learn from the best experience of different countries in this field that will be showcased at this workshop".*

A. Avetisyan: *"As you all know, Afghanistan still remains the largest opiates supplier. What, however,*

exacerbates this problem even further is the fact that it undermines the stability, security, public order, and the wellbeing of many countries. Despite this, we've already made significant progress in strengthening regional cooperation in combating drugs and precursors trafficking, as well as in mitigating social and economic impact caused by these activities. Meanwhile, Eurasia and Central Asia will, of course, continue to play a key role in addressing these challenges".

O. Ivanov: *"I believe joint events like this one underscore the international community's commitment to improving the global system for detecting dirty money, neutralizing new schemes for injecting it into our economies, and suppressing the existing money laundering channels. I'm confident that the theme of this workshop will be further expanded and discussed by experts at numerous future events".*

During the workshop, participants discussed new trends in legal regulation of the fight against laundering illicit drug trafficking proceeds, the priority areas of cooperation, experience of participation in the operation "Channel", and best practices in combating laundering of drug proceeds. Particular attention was paid to the main pillars supporting organized crime, i.e., issues related to the use of drug proceeds, their transportation, storage and subsequent investment, as well as to possible ways of undermining its structure.

Kyrgyzstan delegation awarded a medal "Honorary Member of State Drug Control Service" to Deputy Head of Rosfinmonitoring's Anti-Money Laundering Department K.I. Gobrysenko.

*Jeremy Milson, UNODC senior programme coordinator, and
David Copley, UNODC AML expert and consultant:*



“The workshop deserves a high mark. And although not all presentations matched the stated theme of the event, they were thought-

provoking, which is a good thing in itself. Therefore, it appears that all participants contributed to it in one way or the other, not only through presentations but also through discussions of the presented material, including on the sidelines.

It must be said that the countries in this region are doing everything they can to address the problems featuring among the themes of the workshop. Although it's clear that we all have different problems and different laws to deal with them, our job is to search for cross-over points, the common denominator with which to suppress the activities of criminal groups, including drug

traffickers. We're already doing a lot in this direction, but can do even more, hence we must work harder. And this is why it's very important that all those present share with us not only their achievements but also failures.

It would be wrong to single out just one case without shining some positive light on other examples of successful work of law enforcement in seizing large quantities of drugs. On the other hand, there're instances where the number of seizures is not huge but where there're clear signs of strengthening cooperating, which is no less important for our work. Public demands from us to remain proactive. But in order to act, we first need to chart our path. And when we see examples of people who struggled to figure out how to cooperate begin to engage with one another and move along this path, for us it's just as important in terms of future progress as examples of success stories”.

Vladimir Nechaev, EAG executive secretary:



“This workshop has allowed us to expand the traditional list of attendees for this event, comprising nine EAG member states, by adding several countries most affected by the problem of Afghan drugs.

When two years ago Russia took over the FATF presidency, one of our priorities was to conduct a research of financial flows related to the trade of Afghan opiates. This research was conducted in the FATF with the participation of both the Eurasian Group and other FSRBs, completed last June, and published. Its principal point was that only a small fraction of drugs gets confiscated and destroyed, while the share of drug proceeds seized from

criminals is even smaller, it stands to reason that by reducing the profitability of drug trafficking business, we'll render the task of defeating it altogether a lot easier. For this reason, I believe that the need to conduct financial investigations should be one of the issues looked at in more detail in the future. However, it's one thing when law enforcement authorities seize drugs, catch criminals, and bust criminal networks, and quite another when they seize drug proceeds, thereby depriving criminals of the opportunity to invest them in their business.

Of course, I support the idea that such workshops should be held regularly, because they allow their participants to familiarize themselves with the best experience of other countries and use it at home”.

SHARING BEST EVALUATION PRACTICES

A regular training workshop for EAG assessors and analysts dedicated to a review of changes to the mutual evaluation process, theoretical explanations and practical aspects was held from 16 to 22 August 2015 in Kyrgyzstan as part of preparation for the next round of mutual evaluations of the national AML/CFT systems

Irina Yu. Shilina,

Head of the Department of Education and Science, ITMCFM



Irina Yu. Shilina

The EAG training workshop was organized and conducted with technical assistance from Kyrgyzstan's FIU, the International Training and Methodology Centre for Financial Monitoring (ITMCFM), the OSCE and the Council of Europe. It was attended by representatives of FIUs, prosecution, law enforcement, national security and supervisory (ministries of finance or national banks) authorities of EAG member states, international experts, representatives of EAG observer countries and employees of the ITMCFM and EAG Secretariat.



The workshop aim was to make aware participants (representatives of different AML/CFT agencies from EAG member states) of Methodology for assessing technical compliance with the FATF Recommendations and the effectiveness of AML/CFT systems as well as its practical application.

The training was conducted by the EAG Secretariat staff and Council of Europe experts, who shared with attendees a unique practical experience of participation in mutual evaluations.

As part of the training, participants were split into teams of assessors (four teams with seven-eight people in each) and asked to evaluate a fictional country. This involved conducting all real-life stages of the evaluation process: risk assessment, analysis of technical compliance, and interviews with representatives of government agencies and the private sector. Particular attention during the training was paid to the evaluation of effectiveness, an element of the evaluation process that was previously assessed in the context of other procedures rather than separately.

One of the outcomes of the workshop was a greater awareness among participants of the procedures for conducting mutual evaluations; drafting, presenting and defending a report; and requesting, if necessary, a review of the existing rating at FATF plenaries.

Workshop participants stressed the importance of holding such events in the future in order to share experiences and learn to understand the assessment process not only from the evaluators' perspective but also from that of the evaluated country.

At the end of the workshop, trainers expressed hope that the acquired knowledge and skills would help participants better prepare for participation in the mutual evaluation.

All participants thanked the host country, Kyrgyzstan, as well as the ITMCFM, the OSCE and the Council of Europe, for their excellent work in organizing the workshop and professionalism of the people involved in this process. Their participation made workshop informative and interesting.

ON PARTICIPATION IN THE 48TH MONEYVAL PLENARY MEETING

Rosfinmonitoring employees within the interagency delegation comprising representatives of the Russian Foreign Ministry, Federal Security Service, Finance Ministry and the Bank of Russia took part in the 48th Plenary Meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism (MONEYVAL), held from 14 to 18 September of this year in Strasbourg

Alexey G. Petrenko,

Head of Rosfinmonitoring's International Cooperation Department

Among the meeting highlights was the officially announced retirement after 13 years of service of MONEYVAL's highly regarded executive secretary, John Ringguth, and the appointment of Mathias Klott of Germany, who had previously held senior human rights positions within the structures of the Council of Europe.

Priority attention was once again devoted to measures to improve the effectiveness of counter terrorist financing. In his opening remarks, director

of the Council of Europe's Information Society and Action against Crime Directorate Jan Kleijssen urged all member countries to expedite the implementation of the intrastate procedures necessary for early accession to the Warsaw Convention and the additional Protocol to the CE Convention on the Prevention of Terrorism, as regards the use of foreign militants.

A European Commission representative reported on the adoption in May of this year of the 4th EU Directive on the prevention of the use of the financial system for money laundering and terrorist financing purposes, which means that EU countries have two



years to implement it at the national level. Pursuant to the Directive terms, each EU country should create its own register of ultimate beneficial owners of companies accessible by the competent authorities of all EU member states. In addition, it requires e-money providers to ensure strict compliance with AML/CFT standards, as well as establishing an obligation to identify, analyse and minimize money laundering risks.

A discussion of the Mutual Evaluation Report of Guernsey, which received very high ratings, went off as planned. With regard to a similar report on Bosnia and Herzegovina, due to the continued presence of some significant shortcomings in this country's AML/CFT regime, it will continue to be monitored not only by the MONEYVAL but also the FATF's International Cooperation Review Group (ICRG),

which implies its presence in the FATF's grey list. The country is due to present its next full-fledged report to the plenary in September 2016. The plenary also heard reports on the steps taken to improve the national AML/CFT systems of Albania, Andorra, Bulgaria, Hungary, Latvia, Malta, Slovakia, Ukraine, Croatia and the Czech Republic.

Following a review of Ukraine's report, the plenary decided to remove this country from the MONEYVAL follow-up process until its next mutual evaluation in March 2017.

On the side-lines of the plenary, discussions of the topical issues of mutual cooperation were held with the FIUs of Azerbaijan, Andorra, Armenia, Bulgaria, Latvia, Moldova, Slovenia, France, Montenegro and Estonia.

The next MONEYVAL Plenary meeting will be held in Strasbourg in December 2015.

BRICS

BRICS COUNTRIES IN THE FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

The joint Federal Financial Monitoring Service/Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation conference titled “The Role of the BRICS in Changing the World Order” was held on September 30. The event brought together representatives of scientific institutions and government agencies, experts and practitioners specializing in BRICS-related matters, and BRICS ambassadors to Russia

*Inessa A. Lisina,
Editor and Correspondent*



Inessa A. Lisina

The key themes of the conference were the role of the BRICS in the current political and economic system, specifics of external economic cooperation, information security, and cooperation among BRICS countries in addressing global and regional security threats as well as in education and science. Sergei Ryabkov, deputy Russian foreign minister, said that the conference programme reflected the priorities of Russia's BRICS presidency in the current year.



As stressed in his welcoming speech by Yevgeny Bazhanov, rector of the Diplomatic Academy, the underlying objectives of the BRICS activities are very important for Russia, as well as being one of the priorities of the country's foreign policy. The BRICS grouping is made up of five of the world's fastest-growing and resource-rich economies that are home to over 43% of the world population. These factors determine the strategic importance of the BRICS for the global financial and political systems, as well as for ensuring their security.

The BRICS nations see their objective in strengthening cooperation and coordination. The last few years have seen the BRICS put their weight behind several joint projects and extend support to such issues as financial security and combating money laundering and terrorist financing (AML/CFT) within the group.

Rosfinmonitoring Director Yury Chikhanchin reminded the participants that one of the group's objectives is to promote security, prosperity and development in a multipolar and interdependent world. The BRICS members represent different regions of the world, a fact which lends special value and significance to their association.

Since all BRICS participants are members of the FATF, it comes as no surprise that the issue of combating money laundering and financing of terrorism was on the agenda for the BRICS Summit in Ufa, Russia, in July 2015. At this summit, held under the Russian Presidency, the BRICS countries voted to establish the BRICS AML/CFT Council, thereby bringing to a next natural stage the cooperation in this sphere that the group's members had been engaged in for over eighteen months at various meetings and industry-specific forums.

The Rosfinmonitoring director noted that a list of on-going collaborative efforts included projects to promote information sharing between financial intelligence units (FIUs), ensure information security of the New Development Bank and prepare for a new round of mutual evaluations of the national anti-money laundering systems. Another highly relevant project that may be implemented by the Council involves cooperation in improving international mechanisms for the confiscation and recovery of criminal assets.

Given the importance of such issues as international terrorism and cross-border crime to the international community, the BRICS have identified the task of developing measures and sharing experience in combating the emerging challenges and threats related to the activities of terrorist organizations and money laundering as one of their priorities. Other priorities of the joint work should include the strengthening of cooperation in conducting financial investigations.

Another possible area of joint work may become combating drug trafficking. In 2014, the FATF Plenary approved the report covering the outcomes of the Russia-initiated typological research "Financial Flows Linked to Afghan Opiates Trafficking", which included China and India among its active contributors. One of the main results of this work was the mapping of the key trafficking routes for Afghan opiates. The study of drug-related financial flows and their link to terrorist financing may be continued with the involvement of all BRICS members. Meanwhile, Russia has initiated a number of educational and research projects that are expected to include among its participant's BRICS students and experts. To this end, a cooperation agreement between the network AML/CFT Institute and the Association of



BRICS Business Schools was signed in February 2015. In this context, the parties plan to conduct joint educational and research activities as well as researches of relevant problems. Yury Chikhanchin expressed hope that BRICS students would soon receive training at the universities comprising the network Institute.

At the end of the conference, participants highlighted the international community's need for new forms of cooperation in today's world, one of which is the BRICS. The adoption by the BRICS of

joint decisions on such issues as conflict resolution, combating drug trafficking, terrorism, corruption and proliferation of weapons of mass destruction are intended to further improve global security.

Discussions of the key aspects of BRICS activities will be continued at future events, such as the First International Scientific and Practical Conference "The Threats and Risks Faced by the BRICS Economies", scheduled to be held from November 10-13 at the National Research Nuclear University in Moscow.

EAG COUNTRIES REVIEW

ALTERNATIVE CASH TRANSFER SYSTEMS AS MAIN SOURCES OF TERRORIST FINANCING IN KAZAKHSTAN

Dynamically developing economic environment of Kazakhstan and its integration with the international financial system evidences the increase in the amount of money transfers into/out of the country

Esen S. Barikenov,

Expert of the Department for Counter Terrorism and Extremism under the Financial Monitoring Committee of the Ministry of Finance of the Republic of Kazakhstan



Esen S. Barikenov

Wire transfers represent prompt and effective method of electronic money transfer in everyday life as well as for the purpose of illegal activities, including financing of terrorism. Thus, national security is under threat of organized crime. Currently, it is widely recognized all over the world that fight against organized crime should not be limited just to identification and disruption of its manifestations. Now we are facing much broader task: to disrupt activities of an organized criminal group itself, the existence of which significantly depends on its financial basis, which provides opportunities for expanding human and material resources.

According to the 14-th FATF Recommendation Money or Value Transfer Services: *“Countries should take measures to ensure that natural or legal persons that provide money or value transfer services (MVTs) are licensed or registered, and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations. Countries should take action to identify natural or legal persons that carry out MVTs without a license or registration, and to apply appropriate sanctions”*. FATF emphasizes obligatory registration and licensing of all money transfer systems along with imposing a wide range of obligations on them relating to entities carrying out transactions with funds or other assets.

Based on the FATF Recommendation, Anti-Money Laundering and Combating the Financing of Terrorism Law of the Republic of Kazakhstan (the AML/FT Law) has been developed and adopted. The authorized body for coordinating activities in this area is the Financial Monitoring Committee of the Ministry of Finance of the Republic of Kazakhstan.

Two types of money transfer channels are frequently used in Kazakhstan: local and international. For domestic money transfers, two payment systems are mainly used: Interbank Money Transfer System (IMTS) and Interbank Clearing System (ICS). IMTS is real time gross settlement system in which each transfer is processed and calculated individually. IMTS is designed for processing the most high-value and priority payments within the country. ICS is a clearing system for small-size retail payments (maximum amount of a single payment is five million tenge).

International transfers are effected via SWIFT. SWIFT is the Society for Worldwide Interbank Financial Telecommunications, a system enabling safe and secure financial information exchange among participating banks and other financial institutions.

In fact, common characteristics of wire transfers have been revealed which are often used for financing of terrorism: the use of straw men to conduct a transaction, breakdown of a large amount into equal small amounts not exceeding the threshold. Moreover, recently alternative cash transfer systems have been used. Their main convenience is the sender's and the beneficiary's being out of view of financial monitoring systems and law enforcement authorities.

According to the reports of second-tier banks and Kazpochta JSC submitted to the National Bank of the Republic of Kazakhstan, the following (more commonly used) money transmitters have conducted cash transfer transactions through banks



Ministry of Finance of the Republic of Kazakhstan

and departments of Kazpochta JSC: Western Union, MoneyGram, Contact, Coinstar Money Transfer, Anelik, Unistream, Faster, Golden Crown, Xpress money, etc. Their activities represent nothing more than informal cash transfer network not covered by the financial control system for anti-money laundering and combating the financing of terrorism and represents a convenient channel for cash transportation.

In general, the provision of financial services in non-banking sectors, the use of the latest information technologies - payment terminals, prepaid cards, e-wallets, mobile phones - represent high risk of laundering illegally gained proceeds and financing of terrorism.

Subject to the AML/FT Law, to prevent and disrupt money laundering and terrorist financing, the reporting entities shall inform an authorized body of a suspicious transaction before it is committed.

From 50 to 100 suspicious transactions reports are submitted daily to the republican database in the sphere of combating legalization (laundering) of criminal proceeds and the financing of terrorism.

The Committee selects and analyzes primary information against suspicious transaction indicators. For example, there are grounds to suspect that a certain transaction is aimed at the financing of terrorism and/or extremism, if the conduction of a transaction with cash and/or other assets involves a country of high risk of terrorist financing or a non-commercial religious organization.

Transactions of individuals and/or legal entities included in the list of entities and persons involved in the financing of terrorism and extremism are monitored with the same level of thoroughness. The same is true about transactions directly or indirectly (through third parties) involving individuals and/or organizations which are, subject to information available to the law enforcement and judicial authorities of the Republic

of Kazakhstan and international organizations recognized in the Republic of Kazakhstan, included in the list of entities and persons involved in the financing of terrorism and/or extremism, etc.

During the analysis of reports delivered to the database according to the above mentioned indicators, it is often impossible to identify the sender/recipient of money in an international transaction, which complicates more precise tactical analysis during financial monitoring. The same complications arise in case where in both countries accounts have been opened on behalf of persons having no direct connection with a terrorist organization but which are relatives of its members, have the same place of residence, age, date/time of crossing the border of a certain country.

For example, ordinary system of money transfer to terrorists may take into account the differences of monitoring regimes in different countries. If there is no requirement as to the preservation of information about the transaction initiator in the country of the wire transfer remitter, or this information is not communicated further by intermediaries in the course of processing of this transaction, then investigation bodies will have no access to the information which might help in the determination of relations with persons possibly involved in the financing of terrorist activities.

According the FATF terminology, alternative cash transfer systems are financial services systems where cash, cheques, other cash instruments or values are accepted in one place while the relevant amount is paid out in cash to the beneficiary in another place, through transmitting a message through a mutual settlements network.

This system may operate outside the banking system due to some advantages, including, first of all, cost and mobility, as well as cultural traditions, accessibility, and absence of class discrimination. The majority of alternative cash transfer systems transfer money at a lower price and during a shorter period of time. Some of them are able to provide services in the absence of traditional banking channels.

Alternative money transfer operators, seeking to maximize profit and, hence, to attract new customers, act according to their own rules. Most transactions are performed anonymously - this aspect is of particular importance for terrorists. And this is the main challenge for the financial monitoring and law enforcement authorities of the Republic



Hawala

of Kazakhstan during the identification of persons possibly involved in the financing of terrorism.

It is necessary to mention that alternative cash transfer systems are in great demand with individuals conducting transactions within the country as well as with other countries. Also, out of control are other money flows, more often representing informal network for cash accumulation and cross-border transfers.

Hawala (Hawala in Arabic means "to transfer" or "to telegraph"), which has appeared at the times of caravan trade, is still in demand today, in the age of globalization, increasing migration, explosive development of international relations of small- and medium-size businesses caused by the communications breakthrough. This system is based on money transfers with one-time notifications and confirmations vial e-mail, fax, or telephone. Recently, skype has been used as the communications leader in this sphere, as it is the most confidential communications method. Material values in the form of cash, gold, and precious stones are transferred from one country to another, with no accompanying financial documents. Considering the fact that all financial transactions are carried out by means of offsetting or during personal meetings (the latter occurs much more rarely), government supervisory authorities are frequently unable to trace these flows.

It is worth noting that Hawala is not the only informal cash transfer system. Similar systems under different names are known in China (Fei-Ch'ien), Pakistan (Hundi), Hong Kong (Hui Kuan), Somalia (Ksa Vilaad), Thailand (Phei Kwan), Philippines (Padala). All together they form a global network covering practically all the world.

Thus, the analysis of a single non-banking sector of cash transfers received for further legalization of

proceeds from crime and terrorism financing shows that the task of identification and disruption of shadow money flows in Kazakhstan is far from being solved. The 14-th FATF Recommendation only stipulates the possibility of elaboration of legal basis for ML/FT countering, while real circumstances require further legal regulation of these systems' operation. Thus, the following steps are necessary:

- to oblige main regulators controlling cash flows in the country to supervise activities of alternative cash transfer systems and non-banking e-money institutions;
- to take measures to ensure licensing of all cash transfer operators;

- to determine obligatory requirements as to recording of identification information (relating to the sender as well as to the beneficiary) pertaining to cash transfer transactions;
- to conclude cooperation agreements with money transfer operators such as Western Union, MoneyGram, Contact, Coinstar Money Transfer, Anelik, Unistream and others in order to receive and exchange important information for thorough financial monitoring.

These measures, as auxiliary levers, will contribute to the identification of the most vulnerable links of cash transfers among individuals and other entities, possibly involved in the financing of terrorism in Kazakhstan.

ANALYSIS OF KAZAKHSTAN LEGALIZATION CAMPAIGN EXPERIENCE

From September 1, 2014 till December 31, 2015 property legalization campaign takes place in the Republic of Kazakhstan

*Anna V. Bulaeva,
reporter*



Anna V. Bulaeva

The basis for the property legalization campaign is Law of the Republic of Kazakhstan “On Amnesty to Citizens of the Republic of Kazakhstan, Repatriates (Oralmans), and Persons Who Have a Residence Permit in the Republic of Kazakhstan due to the Legalization of Property” dated June 30, 2014 (further - the Property Legalization Law).

The property legalization campaign is governed by:

- The Property Legalization Law;
- Resolution No. 134 of the Board of the National Bank of the Republic of Kazakhstan dated July 16, 2014 “On Approval of Rules of Issuance to the Legalization Entities of Documents

Confirming Money Deposit (Transfer) to Savings Accounts and Accounting Money on Savings Accounts, and Particular Issues Associated with Opening and Maintaining Savings Accounts by Second-Tier Banks of the Republic of Kazakhstan and the National Mail Operator”;

- Resolution No. 953 of the Government of the Republic of Kazakhstan dated August 27, 2014 “On Approval of Rules for Investment Into the Economy of the Republic of Kazakhstan by Purchasing Privatization Facilities, Assets of Joint-Stock Company National Welfare Fund “Samruk-Kazyna”, Including Shares in the Framework of the Program on Transfer of Portfolio of Shares of Subsidiaries and Affiliates of National Welfare Fund “Samruk-Kazyna” (People’s IPO), as Well as in the Framework of Initial Offering of Government Securities of the Republic of Kazakhstan, Bonds of National Managing Holdings, Shares of National Companies, National Development Institutes of the Republic of Kazakhstan, Second-Tier Banks, and Other Securities Listed in the Kazakhstan Stock Exchange”.

Deadline for the submission of documents relating to legalization of property (excluding money) is November 30, 2015.

Entities entitled to take part in this campaign are citizens of in the Republic of Kazakhstan, oralmans, and persons having residence permits in the Republic of Kazakhstan who legalize property in the manner established by the law.

The following property may be legalized:

- money, securities, participation interest in the authorized capital of a legal entity;
- buildings (structures) that comply with the intended use and construction rules and regulations. The land plots occupied by the facilities being legalized shall be owned by the legalization entities.
- buildings (structures) registered in the name of an ineligible person;
- real estate located outside the territory of the Republic of Kazakhstan.



Government of the Republic of Kazakhstan

The property received (purchased) prior to the beginning of the legalization campaign, that is, prior to September 1, 2014, is subject to legalization.

The main activities, income (money) from which can be legalized as part of the amnesty, are the following:

- entrepreneurial activity conducted without official registration (no registration, no license, etc.) and, hence, untaxed;
- officially registered entrepreneurial activity, income from which has been concealed from taxation by different means or non-declared.

Property received as a result of committing certain types of crime cannot be legalized. Such crimes include offences against the person, crimes against constitutional and other human rights and freedoms, foundations of the constitutional system and government security, as well as corruption and other offences against the interests of the civil service. Also, money the right to which is being challenged in court or money received under loan agreements are not subject to amnesty.

Advantages of the campaign:

1. The campaign allows legalization entities to re-legalize money and other property which have been withdrawn from the legal economy earlier; this issue is particularly topical in the light of forthcoming transition to general declaration of income and property and world-wide trends of increasing the transparency of cross-border transactions and intensification of mutual exchange of tax-related information among countries.

2. Legalized money and property are not recognized as income for the taxation purposes and, hence, are not subject to income tax.
3. The procedure of property legalization (except money) makes it possible to register property (buildings, structures, etc.) not registered earlier or change the registration data (intended use of a land plot, etc.) according to a simplified procedure, by submitting one application to the legalization commission.
4. Money legalization mechanism stipulates placing the money to a savings account (deposit); this allows receiving interest.
5. If money is not withdrawn from the deposit account and is not transferred to another account within sixty calendar months from the date of its initial depositing (transfer) to that account, the legalization entity shall not be obliged to pay the legalization fee. Moreover, besides keeping the money on deposit, there is the possibility of investing the money in the country's economy by way of:
 - Acquisition of state securities, obligations of second-tier banks, shares of national managing holdings and companies, development institutes, and shares under the People's IPO Program, as well as other securities listed in the Kazakhstan Stock Exchange;
 - Acquisition of property as part of the second wave of privatization.

If a legalization entity is not willing to use the said investment mechanisms, it is entitled to dispose of its money at its own discretion, with payment of 10% fee of the amount being legalized into the budget.

6. Confidentiality of information received during the legalization campaign is guaranteed to legalization entities.

7. Legalization entities are released from criminal and administrative liability in respect of legalization of property covered by the Legalization Law, as well as from disciplinary liability for failure to submit or submission of incomplete, unreliable declarations and information in accordance with Law of the Republic of Kazakhstan "On the Fight Against Corruption".

To legalize property (except money), one has to submit an application to the legalization commission under local executive bodies (akimats). Applications for legalization of property located outside the territory of the Republic of Kazakhstan shall be submitted to the commissions under territorial subdivisions of the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan.

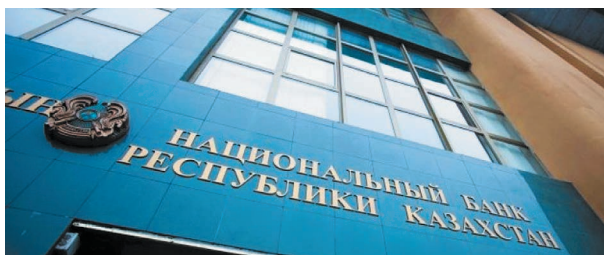
To legalize money, one has to apply to a branch of a second-tier bank or Kazpochta JSC. It should be remembered that savings accounts for this campaign may be opened only by the banks included in the list at the Internet site of the National Bank of the Republic of Kazakhstan.

It is recommended that legalization entities, which intend to invest money placed in bank accounts for the purpose of legalization, use the list of brokers authorized to conclude agreements for the investment money under the legalization campaign; the said list is available at the Internet site of the National Bank of the Republic of Kazakhstan.

Intermediary results of the property legalization campaign for 12 months, according to the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan¹

1. As to property located at the territory of the Republic of Kazakhstan, the commissions under local executive bodies received 47,661 applications for legalization of property amounting to 456.2 bln tenge:
 - 39,692 residential facilities amounting to 332.9 bln tenge;

¹ <http://kgd.gov.kz/ru/news/news/itogi-goda-akcii-s-nachala-legalizacii-imushchestva-1>



- 20,299 non-residential facilities amounting to 118.5 bln tenge, including 4,942 commercial facilities amounting to 84.6 bln tenge;
 - 15 stakes in legal entities amounting to 0.8 bln tenge;
 - securities amounting to 4.0 bln tenge; 35,284 facilities and securities were legalized in the amount of 245.1 bln tenge.
2. As to property located outside the territory of the Republic of Kazakhstan, the state revenue bodies received 21 applications for legalization of property amounting to 654.2 bln tenge:
- 17 residential facilities amounting to 647.6 mln tenge;
 - 2 non-residential facilities amounting to 3.7 mln tenge, including 1 commercial facility amounting to 1.5 mln tenge;
 - 2 stakes in legal entities amounting to 3.0 mln tenge;
 - Securities amounting to 670 tenge; 21 facilities and securities were legalized in the amount of 654.2 mln tenge.
3. According to the report of the National Bank of the Republic of Kazakhstan, as of 28.08.2015, second-tier banks have opened 161 savings accounts for the legalization of money to the total amount of 74.7 bln tenge, of which 29.2 bln tenge have been withdrawn from the savings accounts with payment of 2.9 bln tenge as fees for money legalization. 38.4 bln tenge have been invested in the economy of the Republic of Kazakhstan.

4. According to report in form 1-H, from the beginning of the legalization campaign till 28.08.2015, the budget had actually received 3.0 bln tenge as per code 206110 "Fee for Property Legalization".

In conclusion, it should be mentioned that legalization campaign is conducted in the Republic of Kazakhstan for the third time.

For the first time legalization campaign was held in summer 2001 and had lasted for just one month. As a result, over 480 mln US dollars were returned to the legal economy, and three thousand individuals used legalization.

The second legalization campaign had taken place from July 3, 2006 till August 1, 2007; it lasted a bit longer. The legalization procedure was governed by Law of the Republic of Kazakhstan No. 157-III dated July 5, 2006 "About Amnesty in Connection with Legalization of Property" (further - the Law 2006). According to the Law 2006, citizens and legal entities legalizing property were released from liability for committing certain crimes, administrative offences and disciplinary offences stipulated by the laws of the Republic of Kazakhstan. And the Law 2006 stipulated fee for property legalization amounting to 10% of the price of the legalized property. Practically, fee for real estate has never been paid.

According to the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan, as a result of the campaign of 2006-2007:²

- property amounting to 844.7 bln tenge or 6.8 bln US dollars was legalized (8.3% of the GDP in 2006), including money 538.4 bln tenge (63.7% of all property), real estate in the amount of 236.2 bln tenge;
- the republican budget received 59.6 bln tenge or 483 mln US dollars (legalization fee).

Thus, Kazakhstan, with positive experience of such campaigns, demonstrated by personal example that such event has positive impact on welfare of the Kazakhstan citizens and the development of the country's economy as a whole.

² <http://kgd.gov.kz/ru/content/itogi-proshlyh-legalizatsiy-v-strane-1>

SHADOW BANKING AS A THREAT FOR NATIONAL FINANCIAL SYSTEM

Eugeny L. Loginov,

Doctor of Economics, two-time RF Government prize winner for science and technique, Deputy Director for Scientific Work of the Institute of the Market Problems in the Russian Academy of Sciences (Moscow)



Eugeny L. Loginov

China's financial crisis of June-July 2015 with stock market price collapse clearly revealed that threats posed by the development of shadow banking exceeded the estimates of the majority of western and Russian experts; during the Chinese stock market crash, that came close to crucial loop of management. Afterwards, the Chinese economy was at risk of sharp decrease of manageability of the national financial system with possible transition to financial collapse, political and social problems. The consequences could have resulted in peak aggravation of financial crisis in the global economy.

In the presence of tough government control structure, during the deregulation of the financial system, large “black holes” emerged in the PRC economy, primarily in the form of shadow banking. These financial enclaves in the national economy, poorly controlled by the government, are closely affiliated with structures integrated with the most speculative financial organizations of the world economy, in recent years concentrated in Hong Kong and Singapore.

The basis of Chinese economic growth model in the last decade was all-possible growth of investments which resulted in the increase of debts of all national economic sectors.

Increasing government and corporate investments and generating tax revenue for local budgets, this approach temporarily has positive impact on GDP growth.

However, this model also incorporates significant burdens. To ensure economic growth, the PRC Government has to increase export and domestic demand by increasing investments and debts (Table 1).

It is clear that such money amounts injected by the government into the national economy were used in the most profitable way, which favored increased speculations in real estate at the stock exchanges of China.

China faces the same problems as its commercial partners in the West, when the growth of economic development indicators is ensured artificially, due to the increase of real estate prices, the increase of stock value and excessive production capacities. Although measures taken by the PRC Government pertaining to infrastructure-related programs contributed to the preservation of 7.5% Chinese economy growth rate, GDP growth rate is steadily decreasing, and the share of artificially inflated financial and stock market indicators in the GDP continues growing.

While export is still the source of financial revenue for the Chinese economy, 20-30% of GDP indicators growth in the last period was due to growth of real estate prices, financed mostly through debt products (as part of shadow banking), which are not subject to regulation and information disclosure requirement.

According to McKinsey, since 2007 total debt of China has increased four times and reached 28 trn dollars. Probably, without regular debt-based injections, Chinese economy is not able to demonstrate decent economic growth, like developed Western economies. Lending dependence became global¹.

That is why China currently has abandoned all efforts to strengthen lending conditions.

Table 1. Dynamics of Chinese Debt²

	2000	2007	2014
Total debt, trn USD	2,1	7,4	28,2
Total debt, % of the GDP	121	158	282
Including:			
National debt	23	42	55
Financial sector debt	7	24	65
Corporate debt	83	72	125
Households sector debt	8	20	38

¹ Warner J. Only mass default will end the world's addiction to debt // <https://uk.finance.yahoo.com/news/only-mass-default-end-worlds-190410053.html>

² Katasonov V.Yu. China - Possible Epicenter of the Second Wave of the Global Financial Crisis // <http://reosh.ru/kitaj-potencialnyjyepicentr-vtoroj-volny-mirovogo-finansovogo-krizisa.html>

Since May 2014, the Chinese have taken out loans amounting to 7,000 bln yuan monthly (over 110 bln dollars) all the year round, but used them for speculations at the stock market rather than for consumption or development of small businesses. In May 2015, lending achieved 900 bln yuan. As a result of measures taken by the Chinese regulator to stimulate lending in 2015 (as an instrument for economic growth stimulation), banks received additional liquid assets, but these funds were not mostly invested in the real sector (for granting loans to manufacturing enterprises) - they were sent to the stock market through borrowers. Banks used this money to finance brokers (financial agents of shadow banking) which purchased stocks.

That is, the policy of economy growth stimulation by monetary measures lead China to a credit bubble, supplemented firstly by a bubble at the real estate market and then by a bubble at the stock market.

One of the main reasons of significant growth of real estate investments and, further, of stock market investments was the country's monetary and credit system, based on so-called "financial repressions". Population of China, bank savings of which form one of the main financial sources for expansion of production, is unable to receive income earned on deposits exceeding fixed

interest rate determined by the government. In the last decade, nominal deposit interest rate has never risen above 4.1%. Inflation-adjusted real rate of return on deposits has been close to zero, and in some periods even negative.³

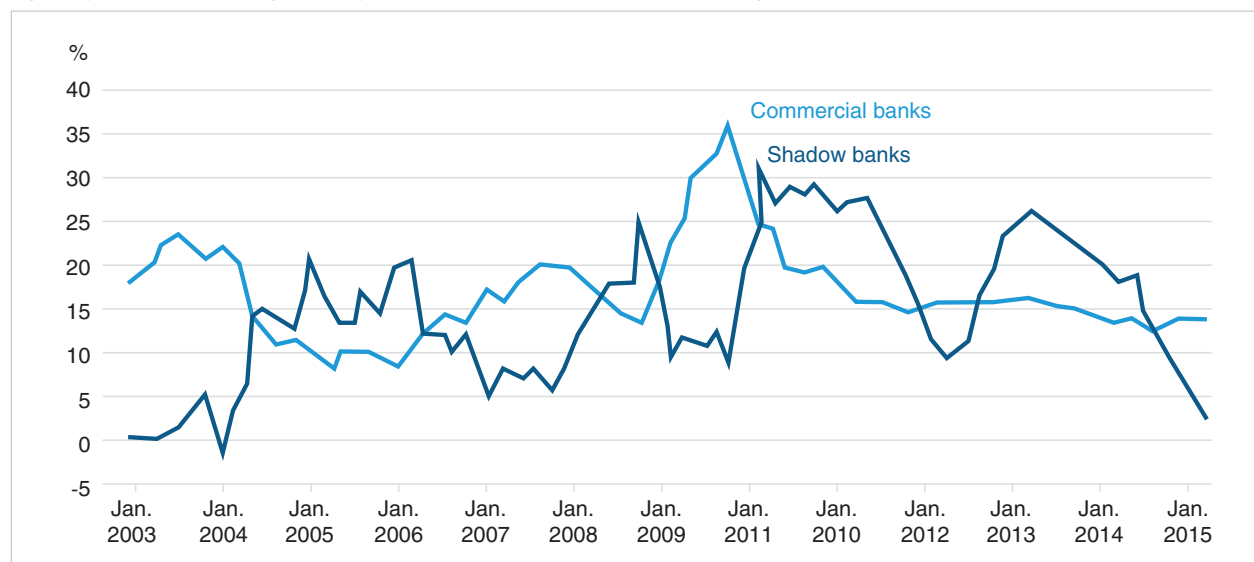
That is why shadow banking has started developing at a huge speed since 2009. Companies operating in this sphere fulfil certain bank functions, affording opportunity for population to invest in funds which grant loans to companies of the real sector. Amount of funds in shadow banking of China is growing by 20-30% yearly.

Artificially low deposit interest rates in the traditional banking system resulted in demand for credit and deposit products provided by trusts (shadow banking).

According to estimates of the Financial Times, in the period from 2008 till 2013 the amount of shadow banking transactions in China increased approximately four times and reached 20 trn yuan; this is equivalent to 3.2 trn dollars and 40% of the GDP of China (Fig.1).

Earlier, Chinese authorities winked at activities of trusts and other shadow banking entities, because they helped to increase the real estate market and maintain Chinese high economic growth rate. Today Chinese authorities see that trusts have transformed from an economic growth factor into

Fig. 1. Dynamics of Granting Loans by Commercial Banks and Shadow Banking Entities of China⁴



³ Actions Map to Re-Balance Chinese Economy / Financial Group Dokhod // http://www.dohod.ru/files/research/pdf/research_53bbcbab5c406.pdf

⁴ What's going on in China? // <https://insider.pro/ru/article/38384/>

an economic destabilizing factor, and take efforts to restrict shadow banking.⁵

Many financial products offered to individual investors in China are more like collateralized debt obligations (CDOs) sold in the USA before the financial crisis. These products are non-transparent, have complicated structure, and appear to be related to high risk of the main investments, they lack regulatory framework, and they are vulnerable to secondary risks⁶.

In the last year, fivefold increase of the number of stocks purchased using borrowed funds has become a new aspect of the Chinese stock market development.

Chinese banks were prohibited from conducting such transactions (and due to that very reason they were less affected by the financial crisis). Private investors applied for loans to financial entities which were not subject to traditional bank regulation (shadow banking). In the non-banking sector, loans can be obtained from brokers dealing in stocks, from various hedge funds, numerous microfinance companies, and from each other.

Loans were taken with a view to rapid growth of stock prices and implied their rapid return. And, like during the USA stock market crash of 1929, when the market breakdown began⁷, these investors had to get rid of recent purchases urgently, in order to pay off debts to the creditors. As a result, the market crash became "cascade"-type.

Several years ago, in China there were practically no purchases of stocks and other stock market instruments using borrowed funds. However, in March 2010, the Commission for Financial Markets Regulation launched a pilot project. Since October 2011, such transactions have become standard practice, and in 2013 the regulator made initially established standards for such transactions much less strict.

In spring 2015, small private investors dominated at the stock exchanges of Shanghai or Shenzhen, dramatically increasing crucial nonequilibrium in the market.

According to estimates of American investment bank "Goldman Sachs", by the beginning of June 2015, the

amount of stocks purchased using borrowed funds in China has exceeded 355 bln dollars, which amounted to 12% of total value of all stocks traded in the Chinese market, or 3.5% of annual GDP of China. Both figures are extremely high even in comparison to developed stock markets.

And considering funds borrowed by private investors from shadow banking entities, the total share of transactions conducted using borrowed funds may turn out to be even greater.

According to calculations of HSBC, non-bank funding might have brought 1.4 trn yuan (225 bln dollars.) to the market, or 60% of all funds of brokers⁹.

Thus, the development of shadow banking in China reached self-organized criticality¹⁰, when a non-linear system in the course of its development inevitably approaches the bifurcation point, its stability decreases, and conditions are created when a slight push may cause an avalanche in an unpredictable place, with unpredictable consequences changing the whole system, no matter how large it is.

Organizing mechanism which facilitated the stock market crisis was the formation of joint trading floor for stocks floating in stock exchanges of Shanghai and Hong Kong – "Shanghai – Hong Kong Stock Connect", the structure which allows Chinese investors to buy stocks traded in Hong Kong and international investors - to perform transactions with stocks listed in Shanghai. In general, stocks of continental China attracted greater interest of investors than securities of Hong Kong companies. However, for professional stock jobbers this provided an opportunity of beforehand planning as well as exiting risky securities of companies of continental China and purchasing less risky securities of Hong Kong companies affiliated with western transnational corporations.

Since October 2014, Beijing allowed foreign investors to trade, via brokers, with more than 500 largest companies of the main stock exchange of China - the Shanghai Stock Exchange. Simultaneously, Chinese investors were allowed to buy large companies listed at the Hong Kong Stock Exchange. Thus, in contrast to earlier existing procedure, movement of

⁵ Katasonov V. Will China hold out? // <http://reosh.ru/ustoit-li-kitaj.html>

⁶ Whitney I. China's Shadow Bankers and the Vampire Squid // <http://www.counterpunch.org/2013/03/29/chinas-shadow-bankers-and-the-vampire-squid/>

⁷ Ageev A., Loginov E. "New Deal – 2008 – "New Surrender". Prodigal Students of Franklin Roosevelt" // *Economic Strategies*, 2009, No.2. C. 30-36.

⁸ Dragon Mart // <http://www.svoboda.org/content/article/27120253.html>

⁹ Sharoyan S. "Chinese Madness": How Millions of Private Investors Blew Up a New Bubble // <http://top.rbc.ru/finances/09/07/2015/559dca919a79475cc74f15c7>

¹⁰ The theory of self-organized criticality // http://www.ideationtriz.com/ZZLab/Nonlinear_phenomenon/Self-organizing_criticality.htm

capital between China and the rest of the world was significantly simplified (with some limitations which are easy to overcome).

As a result, a group of Honk Kong financial operators, somehow affiliated with American and post-American large financial groups, invested large amounts in companies of continental China, having heated the market (within less than 12 months, since summer 2014, stock indices of China have increased by 160–230%). Then, knowing exactly that the market will crash later, it invested money in stocks listed at the Hong Kong Stock Exchange, when their price was maximal. After that, the stock market of continental China crashed. By the end of the first week of July 2015, Shanghai Stock Exchange Composite Index dropped by more than 33% as compared to maximal 5178.19 points of June 12, 2015. Shenzhen Stock Exchange Component Index dropped nearly by 40%.

Chinese markets capitalization decreased from the peak level of June 12, 2015 by 3.5 trn dollars (Fig. 2).

Due to large-scale financial methods available to the government and still existing administrative and criminal instruments for regulation of activities of operators and the largest stock market participants, the PRC authorities managed to suspend the crisis, and it didn't trigger collapse of the whole financial system of China.

Thus, shadow banking expansion is not resulting in unavoidable crash of the Chinese economy, though it poses severe risks to the stability of the Chinese financial system. The main problem here is low

interoperability of the Chinese financial system: the PRC has already abandoned Soviet-type centrally planned economy, but hasn't approached to a balanced market-based economy, like developed countries (which represent managerial "templates" for reforms in China).

A way out is increasing transparency of non-bank activities of financial entities, which primarily stipulates identification of evident and hidden beneficiaries which directly or indirectly control legal entities. Beneficiaries shall be identified, particularly, due to expanding international exchange of information, with increasing its significance threshold in relation to the examined entities - legal persons and individuals.

Thus, the example of critical risks and threats to the national financial system of China due to the expansion of shadow banking demonstrates the necessity of systematic integrated interaction of different authorities in Russia, particularly, on the basis of the Uniform Information System and the Unified Transport Service of Rosfinmonitoring, with the necessity of creation of a network-centric information management system, which integrates segments of the information and telecommunication infrastructure of the state administration authorities, fiscal and law enforcement bodies.

For example, experience of the USA shows that these are exactly information analysis technologies that create radically new earlier unachievable transparency of financial and other transactions of legal entities and individuals. In the USA, a high-

Fig. 2. Dynamics of Chinese Stock Market¹¹



¹¹ Chinese collapse // <http://verola.livejournal.com/134572.html>

capacity group of intelligence, communications and computation systems is created which provides radically new capabilities for analysis of nearly any operative space, in particular, simulation and revelation of latent relations among dynamic systems with no external interlinks, reflecting any characteristics of interest.¹²

New scales of threats to the Russian financial system dictate the necessity of Rosfinmonitoring becoming the key knowledge and competence concentration point for anticriminal and anticorruption activities during the implementation of efficient anti-

money laundering and combating terrorist financing regime. This implies the implementation of radically new information technologies and analytical services in Rosfinmonitoring and in agencies cooperating with it. It is required that Rosfinmonitoring generate a basic competence pool, including ordinary management, fiscal management, investigative activities, within the implementation model of efficient anti-money laundering and combating the financing of terrorism regime for Russian economy, with its prospective extension to the member states of the Eurasian Economic Community.

¹² Loginov E.L. New Information Technologies to Conduct Supervision in the Sphere of Government and Corporate Control // "Informatsionnoe Obschestvo", 2011, No.6. №.32-39.

INTERAGENCY COOPERATION

ISSUES OF COOPERATION OF INTERREGIONAL DEPARTMENT OF ROSFINMONITORING IN VOLGA FEDERAL DISTRICT WITH EXECUTIVE AUTHORITIES

Spreading of illegal proceeds is one of the factors undermining stability of financial and economic systems, which poses a direct threat to national security of a state. In this connection, combating shady money laundering is one of the main tasks and priorities of the state policy in the context of modern reforms

Viktor S. Tsyganov,

Head of the Interregional Department of Rosfinmonitoring in Volga Federal District

Alexey V. Antsygin,

Consultant of the Department for Financial Investigations of the Interregional Department



Viktor S. Tsyganov



Alexey V. Antsygin

Illegal proceeds in the economy disrupt normal operation of economic entities and weaken the ability of governmental authorities and administration bodies to control the financial system of the country. In the Russian Federation the duty of coordination of activities of federal executive bodies in the sphere of combating legalization (laundering) of criminal proceeds and the financing of terrorism are imposed on Rosfinmonitoring [1], subject to

the provisions of Order of the RF President No. 808 "Issues of the Federal Service for Financial Monitoring" dated 13.06.2012. In the Republic of Bashkortostan, Mari El, Udmurtia, Chuvashia, as well as in Kirovsk, Nizhny Novgorod, Orenburg, Samara, Saratov, Penza regions and Perm Territory these duties are carried out by the Interregional Department of the Federal Service for Financial Monitoring in Volga Federal District (further - the IRD of Rosfinmonitoring in VFD).

Crisis phenomena in the economy require coordinated action of the state authorities, for effective execution of their duties. Scientists emphasize that rational system of cooperation will allow timely address to the challenges faced by the society [2] and will facilitate elimination of contradictions in the law enforcement practice [3]. In this respect, one of the priorities for the IRD of Rosfinmonitoring in VFD is improvement quality of information exchange with law enforcement authorities. According to A.Yu. Arefiev, joint tasks of ensuring legitimacy and objective need for integrated approach to information collection, processing and analysis require interaction of law enforcement and supervisory authorities [4]. That is why joining efforts and instrumentalities is more promising in the following fields:

- creation of work groups and commissions to elaborate coordination decisions and to prepare analytical materials pertaining to specific tasks;
- implementation of coordinated solutions with clear allocation of functions and responsibilities of the parties;
- generalization of the joint work best experience and using it in subsequent work.

Currently, one of the promising areas of joint work of the IRD of Rosfinmonitoring in VFD and law enforcement authorities is the detection of cases of legalization of proceeds derived from drug trafficking. Urgency of the selected area is supported by close proximity of some entities of the district to countries engaged in drug trafficking with unstable social and political situation in the neighbouring republics. The said circumstances highlighted the necessity of solving practical tasks

of counteracting laundering of drug proceeds, financing of drugs supply channels in Volga Federal District (further - VFD) and to Russia in general, which determined close cooperation with territorial bodies of the Federal Drug Control Service of the Russian Federation (further - FDCS).

In 2014, over 680 requests and notifications about activities of drug dealers were submitted to the IRD of Rosfinmonitoring in VFD. The results of analytical research conducted by specialists of the IRD of Rosfinmonitoring in VFD show that most commonly the offenders used non-contact method of drugs supply (hiding in different places), and the buyers deposited money to virtual accounts (QIWI, Yandex. Money, etc.), having no notion of their owners. Subsequently, after completing a number of financial transactions, non-cash money were credited to bank cards (including those issued in the name of front men) held by the criminals, and then withdrawn in cash. As a result, the Department revealed the most typical features indicating the preparation and execution of transactions aimed at drug proceeds legalization (laundering):

- a large number of bank cards (accounts), virtual wallets used by the criminals which are issued or opened in the name of front men as well as in the name of persons being checked;
- receipt of non-cash money from a large number of persons without specification of the purpose of payment;
- significant number of transit financial transactions with no apparent economic sense among accounts of the group members;
- intentional use of technologies which makes it possible to avoid reliable identification of financial transactions actors (depositing cash amounts not exceeding 15 th. rub. to third-party bank cards without identification (cash-in) and/or splitting of amounts transferred) in order to hinder the control authorities from tracing the payer;
- a large number of cash withdrawal transactions without substantiating the purpose.

In cooperation with investigative subdivisions of FDCS of Russia and guided by examples of the investigative practice, the IRD of Rosfinmonitoring

in VFD prepared a number of conclusions about committing financial transactions aimed at drug proceeds legalization (laundering); one of the examples is described below.

"Citizens K., O. and other criminal group members are accused of repeated illegal sale of drugs. It is ascertained that in order to receive money for the sold drugs, K., O. and other persons used bank accounts and virtual Qiwi wallets registered with electronic payment system Qiwi in the names of front men. Transactions with illegal proceeds were conducted according to the following scheme: the buyers transferred money to accounts specified by the drug dealers and then - to bank cards held by the group members. Financial flow management was carried out by the criminals, and the latter also withdrew cash and performed other financial transactions.

This implies that the named persons developed a scheme for disguising the origin of funds received from drug trafficking and observed secrecy in order to conceal traces of the crime. To create the appearance of legitimacy for the funds received from drug trafficking, K., O. and other persons used bank and payment systems (plastic cards, e-money) which make it possible to avoid reliable identification of beneficial owners of the accounts and persons conducting the specified financial transactions..."

As a result of information exchange with law enforcement authorities following the criminal proceedings, actions of K., O. were additionally classified as legalization (laundering) of money or other property obtained as a result of a crime. At present, the case papers with accusation subject to Art. 228.1, 174.1 of the RF Criminal Code are referred to a court.

However, talking about formed investigative practice in relation to the specified categories of crimes is premature: conducts similar in form often get different legal treatment. For example, in connection with case No. 41-O13-1, the Judicial Chamber on Criminal Cases of the Supreme Court of the Russian Federation rendered a cassational ruling dated January 31, 2013 on the presence of signs of crime, stipulated by Art. 174.1 of the RF Criminal Code, in actions of Yakovenko P.G. - the criminal sold drugs using non-contact method, money were transferred to virtual Qiwi wallet accounts. The appearance of legitimacy for owing, using and disposal of criminal proceeds was created through financial transactions of transferring non-cash funds among bank accounts of the criminal group

members [5]. However, in relation to similar criminal episodes, on April 28, 2014 the Judicial Chamber on Criminal Cases of Ulyanovsk Region Court recalled the sentence of Zheleznogorsk District Court dated February 14, 2014 as related to conviction of Farutin V.V. pursuant to Part 1, Art. 174.1 of the RF Criminal Code for financial transactions with funds received from drugs sale (the same non-contact method of sale, settlements through virtual and bank accounts), according to Clause 2, Part 1, Art. 24 of the RF Criminal Procedure Code in the absence of the event of the crime [6]. We suppose that conflicting court decisions hamper the formation of law enforcement practice, which affects the prevention and disruption of episodes of criminal proceeds legalization.

The UN Convention "Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" dated 1988 (ratified by Resolution of the Supreme Soviet of the USSR No. 1711-I "On Ratification of the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances") determined that "laundering" of criminal proceeds means the concealment or disguise of its illicit source. Also, the document determined the principles of unified approach to understanding of the process of criminal proceeds laundering, which stipulates transactions of transportation or transformation of property in other seemingly legal forms. Such actions are motivated by making profit as a result of the offence. Negative consequence of criminal proceeds legalization (laundering) is their penetration into the economic system of a state (states), which prevents its normal development, distorts market performance, creates conditions for expanding criminal control over legal economic sectors.

In the opinion to foreign experts shared by national scientists, the principal behavior pattern of a criminal during legalization (laundering) criminal proceeds comprises three phases: placement, splitting, integration. The first phase represents the process of placement of criminal proceeds into financial systems for their depersonalization. The second phase is characterized by mixing of legally and illegally obtained values. And during the integration stage, the criminal introduces criminal proceeds legalized in different ways into the economy, claiming them to be legally obtained.

I.A. Kiselev and E.S. Lekhanova specify the suggested model more precisely. They mention that the structure of money laundering process is characterized "... at the first stage - as criminal accumulation (of income) and creation of conditions

for subsequent laundering; at the second - as placement of illegal proceeds into legal economy; at the third - as declaration of laundered proceeds as legal" [9]. In spite of different external presentation of actions in the examined models at each of the stages, they have common principles - illegally gained income is depersonalized, that is, its "criminal origin mark" is deleted, and then it is placed into legal economy.

The issue of impact of numerous stages of the legalization process, often long-lasting by the moment of the completion of the crime, has been repeatedly raised by scientists. V.M. Aliev remarks that illegal proceeds laundering may be deemed finished not only from the moment of solving of economic tasks, but also from the start of the transaction regulated by civil law (for instance, funds transportation and their accumulation at a bank account or in cash, etc.) [10]. O.G. Karpovich agrees with this opinion, reasonably believing that the legalization stage is not important for the determination of the crime completion, even if the performed transaction has been just the initial stage of this process [11].

Thus, on the basis of conclusions of scientists and international experience, financial transactions with funds derived from sale of drugs (in the criminal cases provided as examples) in the form of repeated transfers among accounts of the criminal group members should be treated as legalization (laundering) of illegal proceeds. Evidences state of mind in the said crime are statements of the defendants - financial transactions were performed by them in secrecy (bank and virtual accounts were opened in the names of front men, real purposes and reasons for money transfers were concealed) in order to escape from control of law enforcement and supervisory authorities.

Another urgent problem of exercising of powers of Rosfinmonitoring during cooperation with law enforcement authorities is determining of the scope of crimes, proceeds from which can be legalized. The majority of them - crimes stipulated by Chapter 21 of the RF Criminal Code - are deemed completed only when the guilty person gets real opportunity of disposing of criminal assets. Due to this reason, arguments of the prosecution about the intention of the criminals to conduct financial transactions for the purpose of legalization (laundering) of illegal proceeds were often rejected by courts as groundless and were qualified as the consummation of crime. This also applies fully to laundering drug proceeds.



The problem of heterogeneity of the law enforcement practice concerning cases of legalization (laundering) of money or other assets obtained as a result of a crime and difficulty of bringing guilty persons to responsibility was indicated by the RF General Prosecutor's Office in 2010. Based on the analysis of practice of bringing to the criminal responsibility pursuant to Art. 174, 174.1 of the RF Criminal Code (in pursuance of Clause 5 of the List of Assignments of the President of the Russian Federation No. Pr-586 dated 08.03.2010), specialists of the Service made a conclusion about the necessity of compiling a list of crimes, legalization of proceeds from which may be criminalized (for example, since 2001 up to date, the IRD of Rosfinmonitoring in VFD has received no requests about committing corruption-related crimes stipulated by Art. 184 of the RF Criminal Code). As a result of implementation of new FATF Recommendations adopted in February 2012 [12], according to Federal Law No. 134-FZ "On Amendments to Certain Legislative Acts of the Russian Federation Concerning the Prevention of Illegal Financial Transactions" dated August 28, 2013 [13], predicate offences for legalization shall include deeds stipulated by Art. 193, 194, 198, 199, 199.1, 199.2 of the RF Criminal Code. However, some scientists believe [14] that proper idea will not be implemented because of inter-industry miscoordination. According to Articles 174, 174.1 of the RF Criminal Code, legalization is performing financial operations (transactions) with property gained illegally (Art. 174 of the Criminal Code), or as a result of a crime (Art. 174.1 of the Criminal Code), which contradicts tax legislation provisions, stating that "tax is mandatory, individually gratuitous payment collected from organizations and individuals in the form of alienation of their right to property, economic or operational management of funds for financial support of the state and (or) municipalities"

[15]. The Constitutional Court emphasizes legitimate origin of funds, a part of which is deducted from income of organizations and individuals according to unconditional requirement of the government: "A taxpayer may not at its own discretion dispose of the part of its property which, in the form of a certain money amount, is to be contributed to the treasury..." [16]. In other words, funds to be paid to the budget are obtained legally, and their concealment from the government constitutes failure to fulfil the obligations. The above stated is substantiated by the absence of law enforcement practice - during 2013, 2014 the IRD of Rosfinmonitoring in VFD has received no information about institution of criminal proceeding at the territory of Volga Federal District pursuant to Art. 174, 174.1 of the RF Criminal Code, for predicates stipulated by Art. 199, 199.1, 199.2 of the RF Criminal Code.

In conclusion it should be noted that law enforcement authorities conduct operative actions and open criminal cases based on the results of inspections conducted by the Federal Service for Financial Monitoring. Rosfinmonitoring is not empowered to take procedural decision in the order stipulated by Art. 144, 145 of the RF Criminal Procedure Code based on information obtained during the inspections. That is why the implementation of submitted information reports depends on efficiency of cooperation with law enforcement authorities. In this connection, creation of conditions for the formation of uniform law enforcement practice of taking decisions based on materials of the Federal Service for Financial Monitoring determines the implementation of effective mechanism to block channels of shady money penetration into the legal economic sector.

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EXPERT OPINION

COLLECTION AGENCIES' ROLE IN THE DEBT MARKET

Andrey V. Reznikov,

*Dean of the Faculty of Economics and Management
of the non-commercial partnership for the development of education
and science "Institute of Education and Science", PhD*

Yekaterina V. Dovgaya,

a leading bids expert at Hewlett-Packard



Andrey V. Reznikov



Yekaterina V. Dovgaya

As the interest in the market of bad debts, and in particular transactions with past-due indebtedness, continues to grow, so does the tendency to view these liabilities as a separate economic category and a force that gives rise to the emergence of various institutions in this market segment, such as the institution of financial ombudsman, personal bankruptcy, collection agencies, professional associations, etc. Hence, more and more operators are drawn to this market, whose profit potential they find increasingly attractive.

It is hard today to find a single segment in the Russian economy that is completely free of debt. For obvious reasons, the growth of any business is often accompanied by an increase in the volume of overdue debt. Consequently, the need to find effective and professional solutions to debt problems contributed to the rapid development of the market of collection services in Russia.

According to the estimates of the major Russian collection market players, the total value of debt put up for sale by banks in 2014 reached RUR 292.4 billion, up 46% compared to 2013¹. Despite this, the value of the banks' overdue debt portfolios continues to decline: the average portfolio value in 2014 was 1.55% vs. 2.7% in the previous year.

The first quarter of 2015 saw an upsurge in the activities related to the disposal of bad debts as banks tried to offload an estimated RUR 185 billion in overdue debts to collection agencies, or about 63% of the entire previous year's total. The main reason for this was the economic crisis engulfing the Russian economy, which forces banks to clean their balance sheets to gain access to more capital.

The number of Russian banks willing to use the services of collection agencies is growing: a total of 22 banks offered their portfolios of bad debts for sale in 2014, including state-run Sberbank and VTB 24.

Notably, Russian banks have also become increasingly keen on selling consumer debt, whose sales have increased by approx. 15% each year since 2012, mirroring the growth in the volume of debt being transferred to collection agencies.

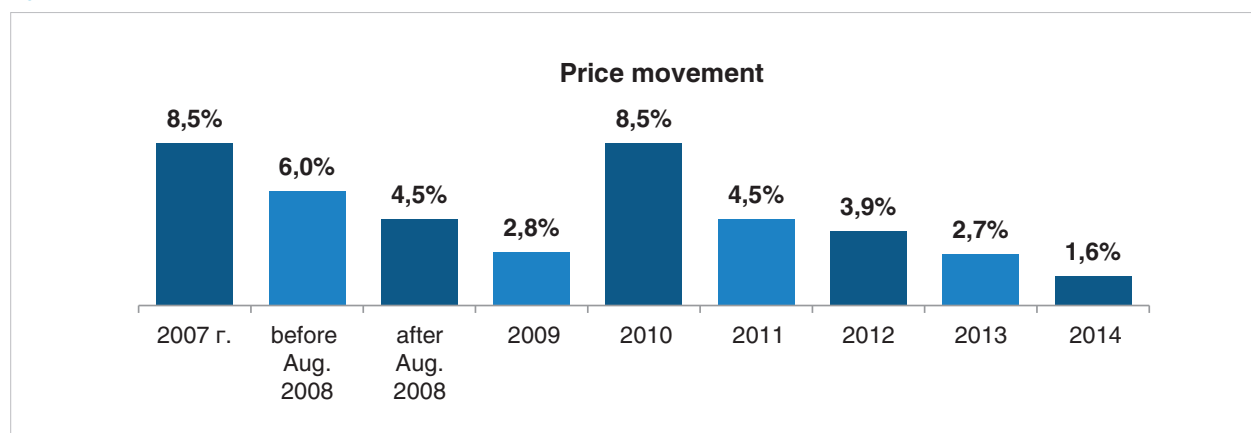
Today, collection agencies are considering several new schemes for the purchase of bad debt portfolios:

- profit-sharing: the purchase of debt portfolios with a minimum initial investment and the subsequent sharing of profits with the seller;
- instalment purchase: payments are made in equal instalments until the end of the year or as a lump sum at the end of a specified period;
- purchase with the return of difference: purchase of the portfolio with the expected quality at a maximum price, but in the event of reduction thereof the difference between the actual and anticipated receipts on the portfolio will be compensated;
- purchase using securities (bonds).

The number of collection agencies in Russia is growing rapidly and currently stands at over 1,000, not counting numerous branches of major collection agencies.

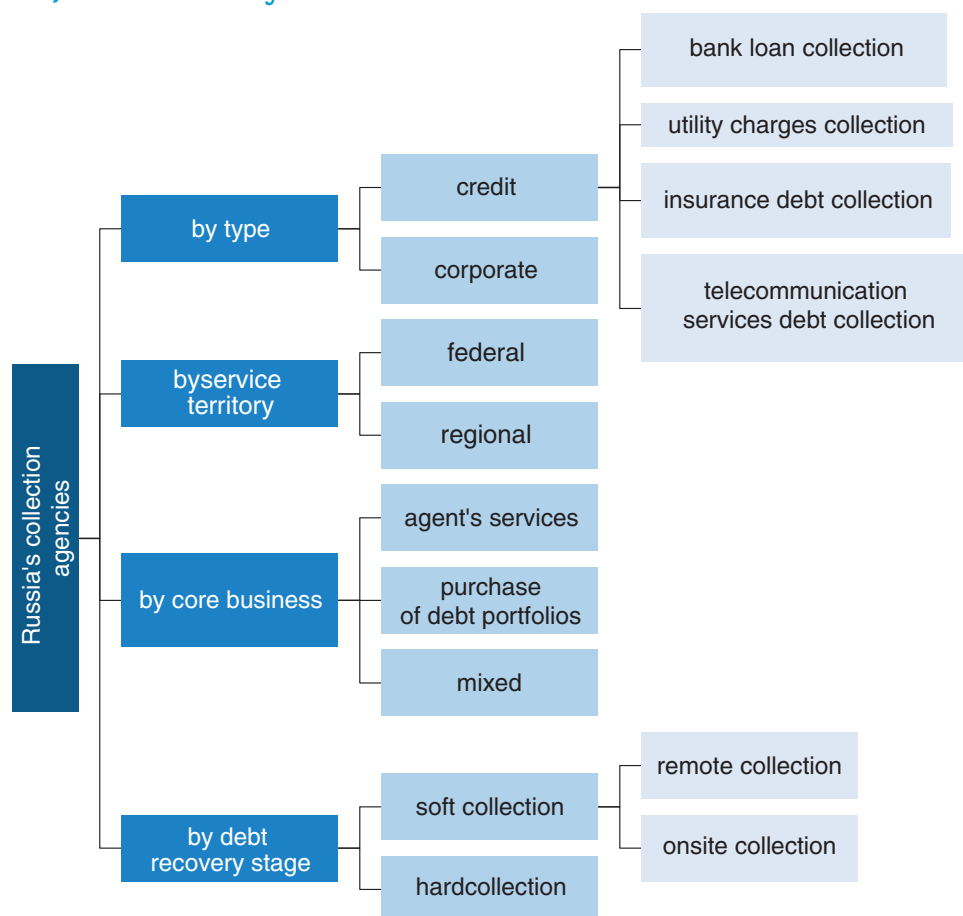
Besides banks, a list of collection agencies' customers also includes a large number of businesses representing various sectors of the economy whose operations resulted in delay in payments for goods or services. The need to find effective solutions to debt problems while taking into account the specifics of individual sectors of the economy has led to the creation of industry-specific debt recovery schemes designed to help businesses recover their debt.

Fig. 1. Banks' debt portfolio price movement



¹ In 2014 put up for sale RUR 292.4 billion worth of bad debts <https://www.collector.ru/news/20150319/2014-46>

Fig. 2. Breakdown of Russia's collection agencies



That said, this segment of the Russian debt collection market remains poorly developed. For example, according to the Association of Corporate Collection Agencies, the practice of debt buying only began to take root in 2014, with the volume of repurchased debt and successful debt recoveries still at a low level. Despite this, the algorithm for the selection of prospective debts offered for sale as part of the bankruptcy proceedings at approx. 1% of the nominal value has already been established.

Despite the slow pace of development seen in this segment of the debt collection industry, the total value of overdue arrears and recovered debt was higher in 2014 than in all previous years, with examples of both fast-track, including through the use of the new Debt Recovery Contract Notice, and protracted debt recovery proceeding, where corporate legislation was used in conjunction with legal procedures².

In addition, Russian collection agencies are actively involved in the development of international cooperation by offering their services to companies whose foreign counterparties have, in whole or in part, defaulted on their contractual obligations. In fact, cross-border debt collection, a process whereby foreign companies hire collection agencies to recover debt owned by Russian companies and vice versa, now accounts for 5% of the Russian collection agencies' total debt portfolio.

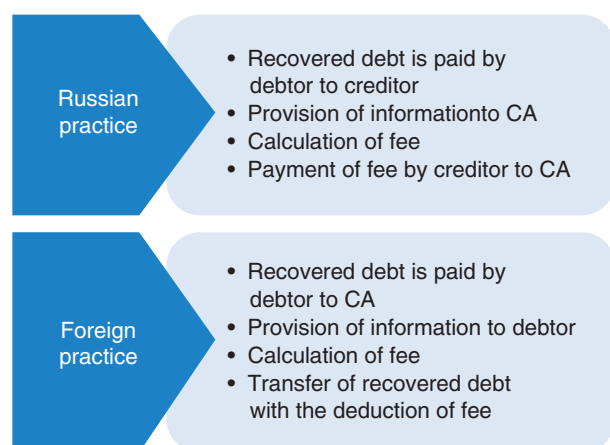
According to a rough estimate of the debt collection industry, collection agencies purchased approx. RUR 2 billion-worth of past-due debts accumulated by Russian consumers during their foreign trips – or about 1% of total liabilities – which are split evenly between the private and corporate sector. In 2014, the average amount of foreign debt

² Development of Corporate Collection Services: 2014 year in review <http://corpcoll.ru/razvitie-korporativnogo-kollektorstva-itogi-2014-goda.html>

owned by the country's businesses reached RUR 2 million, up from RUR 900,000 in 2013.

According to statistics compiled by the National Association of Professional Collection Agencies (NAPCA), the U.S. accounts for a large chunk of foreign consumer debt sold to Russian collection agencies, followed by such popular with Russian tourists European destinations as Italy, Poland, Germany, Greece and Spain, with Asia bringing up the rear. NAPCA estimates that about 50% of this debt is attributable to medical expenses, 30% to fines for traffic offences, 10% to rent and utility charges, and roughly the same amount to education-related arrears³.

Fig. 3. Outsourcing schemes



The emergence of a secondary market for debt collection services in Russia took place in 2011, when businesses began to sell each other portfolios of the previously acquired bad debts. This process was primarily due to the territorial preferences of companies as well as the emergence of major players.

Starting 2010, many collection agencies specializing in specific debt recovery services, such as recovery of corporate debt, outsourcing of services, purchase of debt portfolios, etc., began to form strategic partnerships through the process of mergers and acquisitions. For example, in 2014 First Collection Bureau and National Debt Recovery Service, two of the largest players in the overdue debt and outsourcing market, announced their merger through share swap⁴.

The debt collection market is typically represented by the following players:

- collection agencies;
- creditors (suppliers of debts);
- debtors;
- professional associations (the National Association of Professional Collection Agencies, the Association for the Development of Collection Business, the Association of Corporate Collection Agencies, IFC, ACA, and others).

Importantly, the Ministry of Labour decree dated March 19 2015 approved occupational standards for use by collection agencies, paving the way for the official recognition of the profession of a collector. The new skills are expected to be taught at Russian universities starting 2017-2018, with first graduates expected in the early 2020s⁵.

However, despite the fact that the collection services market has existed in Russia for over 10 years, while most collection agencies operate in the credit segment, the legal status of this market participants remains undetermined. In their activities, collection agencies are guided by the Civil Code and, starting 1 July 2014, Art. 15 of Federal Law No. 353-FZ dated December 18, 2013 «On Consumer Credit,» which sets out a procedure for the recovery of credit debt.

The general economic purpose of collection agencies is to speed up the movement of money in the economy by stimulating debtors' business activity. At the same time, a collection agency is a business entity whose purpose is to facilitate the repayment of debt by individuals and entities.

By nature of their activities, collection agencies perform the functions of banks in the area of debt recovery services through the use of the following bad debt management tools: debt restructuring, delayed repayment and forgiveness of part of the debt.

By collecting overdue debts purchased, say, from banks, collection agencies provide services related to the acceptance of payments from debtors, both individuals and legal entities. In this case, payments may originate either directly from the debtor or from third parties in favour of the debtor.

³ Crossed the Border <http://www.nrservice.ru/press/centr/publication/?id=5260>

⁴ FCB and NDRS Joint Forces <https://www.collector.ru/news/20141202>

⁵ Collector Job to Get Official Recognition in Russia <http://www.collector.ru/main/1069-v-rosii-oficialno-pojavitsja-novaya-professija.html>

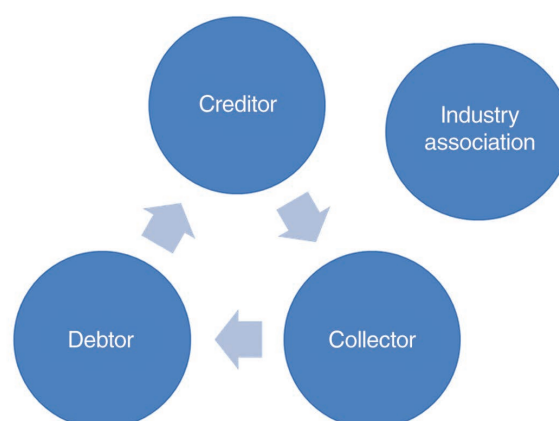
By managing bad debts and working towards their recovery, collection agencies ensure that these funds are not lost either for the creditor or the real economy. The main purpose of collection agencies' activities, as financial market participants, is to achieve a full and speedy repayment of debt by influencing the debtor's repayment ability. Collectors' work is primarily aimed at facilitating the debtor's financial recovery by stimulating his business activity and optimizing costs. As a result, the debtor once again becomes a fully functioning economic entity, the creditor retains his business partner with restored credit worthiness, and the collection agency gets a potential debtor it can deal with in the future.

This means that the market of collection services has become an integral part of the modern financial system, where collection agencies have earned the right to be considered full-fledged financial institutions with influence on:

- the speed of capital turnover in the real economy;
- the growth of business activity and the development of entrepreneurial skills;
- financial recovery of businesses entities.

Still, collection agencies currently receive no government support, their market remains unregulated, while the activities are largely beyond anyone's control. And although many people believe that the existing legislative framework is just about sufficient to allow unrestricted operation of collection agencies, the present regulations do

Fig.4. Interaction between market participants



not take into account all the specifics of modern collection activities, thereby restricting this industry's growth in the most desirable for the national economy areas and curtailing its pace.

For example, Russian legislation does not provide for effective mechanisms for the recovery of debt owned by companies subject to bankruptcy proceedings or shell companies, nor does it allow the prosecution of their managers or owners.

By drafting a dedicated debt recovery legislation and defining the status of collection agencies, we will create the conditions conducive to the repayment of loans and other arrears such as unpaid traffic fines, penalties and overdue utility payments, which, in turn, will lead to the reduction in the cost of credit and contribute to the collection of taxes, fees and charges.

Establishing control over this market segment will also help reduce the risk of it being used for money laundering and fraud.

THE BASIC RISKS OF ECONOMIC LOSSES GENERATION

Vyacheslav V. Slezko,

candidate of economic sciences, Advisor of Rosfinmonitoring's

Department of Macroanalysis and Typologies, Associate Professor of Property

Management and Business Development Department at State University

of Management



Vyacheslav V. Slezko

The reduction of economic losses of financial resources is becoming a vital element in the state's economic policy. For the last five years foreign financial markets have become the key source of long-term financing of the domestic financial and economic structures. Current geopolitical escalation has led to a «de facto access termination of most Russian companies to debt financing at foreign markets...». [2] Therefore, the domestic savings has become the main sources of Russian companies' investment needs. They will be also used to repay the accumulated external debt. All above gives a strategic importance of economic losses' (hereinafter – EL) combating especially in defense procurement sphere.

The Russian President Vladimir V. Putin addressed this issue to the Federal Assembly in December 2014: *“The misuse or theft of the defense procurement budget allocations should be considered as a direct blow to national security, the response on such facts should be as serious and strict as the suppression of the terrorism financing”*. [3]

The amount of financial resources' economic losses mainly depends on the level of the following four risks, which are rigidly linked to economic losses and all-Russia's financial security:

1. The risk of obtaining income by criminal means.
2. The risk of criminal proceeds laundering.
3. The risk of anti-criminal proceeds receipt.
4. The risk of anti-criminal proceeds laundering.

The skilful use of a risk-based approach to the problem of reduction of financial resources' losses will ensure the effective use of available tools of economic crimes combating.

Taking a common definition of risk as actions aimed at overcoming uncertainty in the conditions of compulsory limited choice and the definition of risk's subject and object, defined in the article by Baranov I. and Slezko V. [1], subjects and objects of above listed risks are described in the following. In this work we consider four highly aggregated risks, which include a certain number of subjects and objects, and economic losses of different consequences.

The risk of obtaining income by criminal means (CMO) is a criminal action aimed at income earning.

The RISK'S OBJECT: illegal entrepreneurship, illegal banking, illegal money withdrawals, theft of budget funds by transferring it to affiliates, etc. In accordance with the FATF Recommendations these objects are risks referred to as predicate crimes. For example, Criminal Code of the Russian Federation has a section VIII «Economic sphere Crimes» which is divided into several chapters: 21. «Crimes against property»; 22. «Crimes in the sphere of economic activity»; 23. «Crimes against interests of service for commercial and other organizations». The clauses from 158 to 204, except 174 and 174.1 better reflect the full range of CMO risks objects.

The RISK'S SUBJECT: individuals, legal entities, criminal group, criminal community.

Consequences for the subject of risk: positive – significant growth of individuals' and legal entities' income, an unreasonable increase in the competitiveness of market entities; negative – penalty, imprisonment, compulsory labour, deprivation of the right to engage in certain activities, etc.

The risk of criminal proceeds laundering (CPL) – a criminal act directed at the introduction crime proceeds into legal turnover.

The RISK'S OBJECT: withdrawal of income to offshore territories, investment activities, real estate and antiques purchase, etc. In the Criminal Code there are two clauses related to the legalization (laundering): 174 «Legalization (laundering) of money and other property obtained by criminal means», and 174.1 «Legalization (laundering) of monetary funds or other property obtained by commission of a crime».

The RISK'S SUBJECT: individuals, legal entities, criminal group, criminal community.

Consequences for the subject of risk: positive – significant growth of individuals' and legal entities' income, an unreasonable increase in the competitiveness of market entities; negative – penalty, imprisonment, compulsory labour, deprivation of the right to engage in certain activities, etc.

The risk of anti-criminal proceeds receipt (ACPR) – an action aimed at the suppression of criminal proceeds.

The RISK'S OBJECT: actions aimed at the suppression of criminal proceeds – combating prostitution and drug addiction, supervision arms trading, organization of field work in the sphere of economic crimes, etc.

The RISK'S SUBJECT: the state as a subject of market, law enforcement agencies (the main subject of the risk), Federal Financial Monitoring Service, Bank of Russia, supervisory authorities, other ministries and departments of Russia, individuals and legal entities.

Consequences for the subject of risk: positive – reduction of crime rate, social tension and corruption, motivated labour productivity growth and competitiveness of the Russian economy, strengthening of national security, growth in living standard of public officials; negative – escalation

of the crime situation, the slowdown in growth of public production, a significant decrease in the public funds spending efficiency, emergence of social tensions, falling in the living standard of public officials.

The risk of anti-criminal proceeds laundering (ACPL) – an activity aimed at prevention of legalization (laundering) of criminal assets.

The RISK'S OBJECT: actions aimed at prevention of legalization (laundering) of criminal proceeds: organization of field work in the sphere of economic crimes, monitoring of financial flows, supervision, organization of internal control, etc.

The RISK's SUBJECT: the state as a subject of market, law enforcement agencies, Federal Financial Monitoring Service (the main subject of the risk), Bank of Russia, supervisory authorities, other ministries and departments of Russia, individuals and legal entities.

Consequences for the subject of risk: positive – motivated labour productivity growth and competitiveness of the Russian economy, strengthening of national security, growth in living standard of public officials; negative – the slowdown in growth of public production, a significant decrease in the public funds spending efficiency, emergence of social tensions, falling in the living standard of public officials.

Giving a description of risks with respect to their subjects, objects, and consequences, the theory and practice of risk assessment needs to be elaborated by two concepts: the risk's outspreading zone and the risk consequences' outspreading zone. This will allow to make a clear distinction between subjects at risk and the subjects within the zone of risk consequences' outspreading. This

is needed to conduct qualitative risk assessments and develop measures to neutralize them.

All of the above risks have a certain level of existence or probability. Moreover, the levels of these risks are interconnected. And if the CMO and CPL risks have a direct correlation – the higher the level of one risk, the higher the level of the other – in case of ACPL risk's level the index is opposite to the first two. The higher ACPL risks level - the lower CMO and CPL risks levels. In other words, if the CMO and CPL risks levels are low, the number of crimes in the economic sphere will grow significantly, as it will be more easy to do. Thus, only reduction of the ACPL risk level will be able to change this negative trend. The relationship of risks in the anti-money laundering sphere, can be represented as a diagram of the interaction of risks and economic losses in ACPR and ACPL sphere.

The scheme shows that at the state's financial policy priority is low levels of ACPR and ACPL risks. This task can be accomplished by allocation of resources to the most vulnerable objects of the above risks. This fact puts forward the need for risk assessment by all the risks' subjects, both by major and minor.

In accordance with the functions of the Federal Financial Monitoring Service [4], it's the main subject of ACPL risk. According to Presidential Decree Rosfinmonitoring implements functions of [4] the national center for the assessment of threats to national security arising from legalization (laundering) of crime proceeds, financing of terrorism and proliferation of weapons of mass destruction and for development of measures to counter these threats. Consequently, the Service should evaluate risks associated with the legalization (laundering) of crime proceeds (CMO, CPL, ACPR and ACPL risks).



The main subjects of ACPR risks are law enforcement authorities. Therefore, their competence should include risk assessment associated with criminal proceeds receipt.

Thus, it seems appropriate to supplement the system economic losses reduction by the estimation subsystem of the above-mentioned risks, based on the risks' subjects and objects, the subjects of the zones of risks outspreading and assessment of their positive and negative consequences.

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COMBATING FINANCIAL STATEMENTS FALSIFICATION BY LOAN COMPANIES

Alexander N. Sukharenko,

*Director of the Study Center for the new challenges and threats
to the national security of the Russian Federation (Vladivostok)*



Alexander N. Sukharenko

Currently many Russian companies prepare financial statements in accordance with International Financial Reporting Standards (IFRS). One of the statement's main goals is to attract additional assets through the placement of the company shares (or depositary receipts) on the leading stock exchanges. Establishing relations with foreign partners many companies assess the contractor's degree of reliability, inclusive of the financial statements being submitted.

At the same time there is a high risk that the statements may contain corrupted data. As a rule, potential investors and other external users of statements pay attention on three main indicators of the company's activity, being disclosed. They are the revenue, net profit and total assets. In order to meet the expectations of investors, the company's management often distorts profits and losses report and the balance sheet data or not fully disclose it in the notes to statements.

Recently financial institutions have made a practice of their statements falsification. According to Bank of Russia, in 2010-2012 at 74 out of 64 (86%) bankrupt banks were revealed facts of false statements. In 2013 banks with revoked license assessed the value of their assets at 313 billion Rubles, however this figure was inflated to 180 billion Rubles, and their negative equity amounted to 100 billion Rubles¹.

In 2014 the Central Bank revoked 84 licenses of banks and credit institutions total assets of which amounted to about 450 billion Rubles. Therefrom the information about 274 billion Rubles was corrupted².

According to article 59 of the Federal law No. 86-FZ "On the Central Bank of the Russian Federation (the Bank of Russia d/d 10.07.2002)" the Bank of Russia has an exclusive right of the banks' licenses withdrawal. As far as the banking activity is a licensed type of business activity it is prohibited to carry out it without proper authorization (Article 13 of the Federal law No. 395-1 "On banks and banking activity d/d 02.12.1990").

Article 20 of Federal law No. 3951 allows the Bank of Russia to withdraw from a loan company the license to conduct banking operations in case of revealing facts of significant unreliability of reporting data. But the criteria for determining "significance" were not established by law and applicable regulations. In this regard in 2009 the regulator established an exhaustive list of significant violations.

In accordance with the instructions of the Central Bank of the Russian Federation dated 17.09.2009 No. 2293-U, a fact of significant unreliability of reporting data is considered to be established, if the represented statements of the

loan company: contain data on compliance with mandatory standards, while the Bank of Russia established facts of non-compliance; does not reflect actual failure to perform any obligation to creditors and (or) duties on obligatory charges payment; does not reflect actual transactions to be conducted under the Federal law No. 115-FZ "On Combating Money Laundering and Financing Terrorism" d/d 07.08.2001 as well as other transactions in an amount equal to or exceeding 3 million Rubles. Moreover the facts of significant unreliability of reporting data can be confirmed by loan companies' certificate of inspection, documents on operations (transactions) being conducted but not reflected at accounting and reporting data, other documents received by the Central Bank upon supervision. The Bank of Russia is entitled to revoke the banking license of the financial institution that has not fulfilled orders to eliminate revealed violations within prescribed period³.

In order to prevent such facts a Federal law dated 21.07.2014 No. 218-FZ⁴ establishing criminal liability for falsification of financial institutions' Financial Accounting & Reporting documents was adopted. Today not only loan organizations but also insurance, clearing and microfinance institutions, non-state pension funds (NPF), administration companies of investment funds, unit investment funds, stock exchanges, credit consumer cooperatives, mutual insurance societies, joint-stock investment funds fall under the article 172.1 of the Criminal Code.

The crime components involve: entering into the documents the accounting or reporting registers which include incomplete or knowingly inaccurate data on transactions, obligations, organization's property, including trust property, or the data on the organization's financial health, as well as submission of information to the Central Bank of Russia, publication or disclosure of information, if these actions committed with the aim of concealment of organization's bankruptcy signs or grounds for mandatory revocation of a license or appointment of temporary administration stipulated by the legislation of the Russian Federation.

¹ E-resource. URL: <http://www.finmarket.ru/news/3778650> (accessed date: 10.01.2015).

² Tofanyuk E. Bank Stripping Encyclopedia. // RBC-daily. 26.12.2014.

³ The Bank of Russia Bulletin. 2009. No. 63.

⁴ Rossiyskaya Gazeta. 30.07.2014.

Unlike part 1 of article 195 of the Criminal Code, the article under considered does not provide such a qualifying sign as “large-scale damage”.

The commitment this crime incur a fine in the amount from 300 thousand to 1 million Rubles or in amount of wages or other income of a given convict for a period from two to four years, compulsory works for a term of up to 5 years with deprivation of the right to occupy certain positions or engage in certain activities for a term up to 3 years or without said deprivation, as well as deprivation of liberty for a term up to 4 years with deprivation of the right to occupy certain positions or engage in certain activities for a term up to 3 years or without such.

In accordance with section 1.2. of Article 140 of the Russian Federation Code of Criminal Procedure the

reason for initiation criminal proceedings on crimes envisaged by article 172.1 of the Criminal Code of Russian Federation, may be only those materials that are sent by the Central Bank of the Russian Federation in accordance with Federal law “On Central Bank of the Russian Federation (Bank of Russia)” No. 86-FZ d/d10.07.2002 as well as by bankruptcy trustee (liquidator) of the financial institution.

It should be noted that since June 2014 the Central Bank of the Russian Federation has began to disclose on its website information on banks with revoked license having falsified their statements. The Regulator assesses the size and causes of the gaps between the volumes of assets and liabilities and files the reports to law enforcement agencies on materials of banks’ top managers and owners suspicious transactions.

FINANCIAL MARKETS

PERCEIVED SAFETY AND RELIABILITY AS INDICATORS OF FINANCIAL SERVICES AVAILABILITY

Irina Lobanova,

the head of the Research Department of the NAFI banking sector



Irina Lobanova

Global partnership for financial inclusion of the Group of Twenty (G20) has recognized financial inclusion as a key element, giving the opportunity to fight poverty and achieve inclusive economic development. Russia is among the countries where financial inclusion was identified among the priorities of the internal policy of the country since 2007. As the Group estimated, more than 40% of the population had no access to banking services in the above period, and outside Moscow this rate was only 4% against the Russian capital.

In 2012, the Consultative Group to Assist the Poor (CGAP) conducted a research on financial services inclusion in Russia to form a coherent picture of performance that are evaluated on availability, level of use and quality.

The research showed that compared from 2007 to 2012 Russia has made significant progress in the field of financial inclusion. The number of those who did not use banking services, decreased to 22%; the provision of financial services has grown five times, and the number of bank branches per 100,000 adult population exceeded 37. Due to these indicators Russia was ahead of some highly-developed countries. In the field branchless banking the advancement was even more rapid. Almost absolute absence of such services a few years earlier Russia was able to develop a variety innovative delivery channels of financial services, which today about 50% population is using.

However, the research also revealed the need for full and detailed data on the situation of financial inclusion in the country to better understand the characteristics and needs of those population groups that are not covered or insufficiently covered by financial services.

Thus, in April-June 2014 the National Agency for Financial Researches with the support of CGAP and the Russian Microfinance Center (RMC) implemented a project on "Financial inclusion in Russia: the demand-side perspective". This research was conducted with the aim of outlining the financial reality from the point of view of

consumers and providers of financial products and services tailored to the specific target audience. In other words, its purpose was an attempt to understand how current and potential customers of financial organizations evaluate their products from the point of view of inclusion and what factors influence their use.

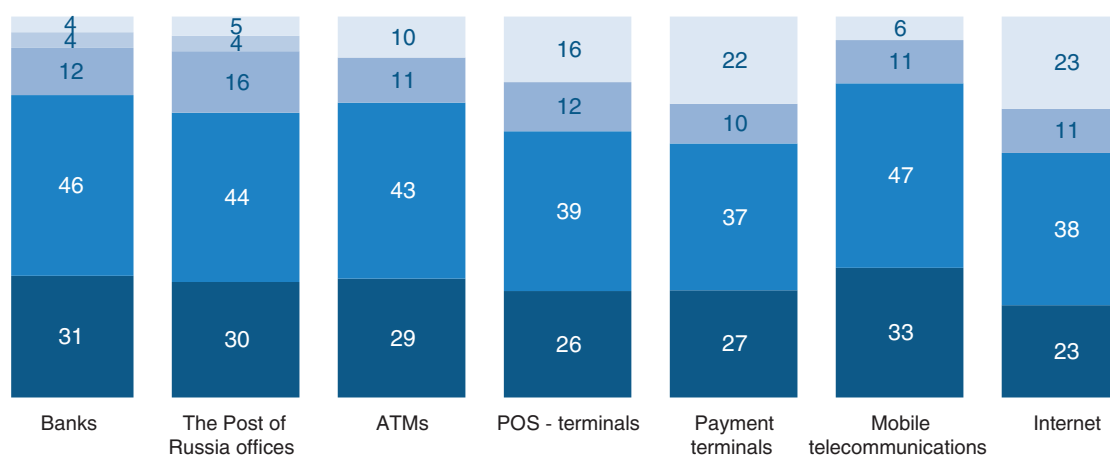
The results were obtained on the quantitative national representative survey of current and potential users of financial services, focus group discussions with representatives of various segments of the population and in-depth expert interviews with financial service providers (banks, insurance companies, microfinance institutions, mobile operators, payment services providers)¹.

The problem of infrastructure

As shown by the research further development of retail financial market now requires solutions of a number of problems mainly affecting such interaction between financial organizations and their customers as formats of communication, transparency of internal processes of financial companies from the point of view of consumers and the creation of opportunities to produce the product without consuming additional time and other resources.

Satisfaction by payment infrastructure

Distribution of answers to the question "Speaking about your city how are you satisfied with number and the location of spots providing financial services and channels communication?", in % of all respondents, n=2800



¹ <http://www.cgap.org/sites/default/files/Working-Paper-Financial-Inclusion-in-Russia-Aug-2014-Rus.pdf>.

One of the significant barriers to access financial products and services is actually poor physical access to them, despite the active development of banking services channels involving direct customer interaction and employees of the financial institutions or financial transactions through banking equipment, such as terminals or ATMs (according to IMF research on access to financial services (Financial Access Survey²), the number of Bank branches per 100,000 of the adult population in 2012 was 38,22, while the number of ATMs was 182. For these indicators Russia is ahead of some highly developed countries: in 2012 in Germany per 100 000 adult population was 13,9 Bank offices, in the USA - 35,26). Coverage of the remote and rural areas remains very low which impact on the satisfaction level of infrastructure among consumers. In rural area level of satisfaction is by 11% lower than the Russian average while in administrative centers of federal districts it is higher by 5-15%. This is confirmed by some other statistics related to the infrastructure: in Russia per 1,000 sq km there are only 2,83 bank branches and ATMs 13,49, that is four to five times less than in countries comparable to Russia by size such as China or the USA.

The usage practice – a matter of trust?

At the same time paradoxically, the consumers tend to believe that physical access to services is not the main criterion to assess their availability. Much more important for current and potential customers of credit and financial institutions is the assessment of the reliability and security of various channels and products primarily, the reliability and security of financial product, whether a loan, credit card, savings account or channel of payment (including electronic). In other words talking about the criteria by which consumers assess affordability should be considered an indicator such as reliability of the companies offering products and services. The reliability of the financial organization from the consumers point of view includes multiple parameters. In the first turn it includes the transparency of the activities of market participants, which consumers tend to understand as predictability of the organization actions and the ability to predict them without additional cost of time and effort. For example, by using a well-developed feedback system by which the supplier informs the

client about what is happening inside the company (when considering the application or claim). State participation is also important for clients. It can be expressed in the presence of the state among the shareholders of the company and the regulator, who supervises the participants market and protection of consumer rights. The absence of a regulator or a low level of awareness often leads the credibility of the players of any segments of the market reaches extremely low level, and the interaction with them is considered unsafe for their own financial well-being. For example such a situation has developed in the insurance market. An activity insurance companies is often described by consumers as non transparent and the rights of their clients are insufficiently protected, which affects the use of appropriate financial services.

Finally, the third most important factor determining the reliability of any category of providers is the sustainability of this market segment in the unstable external environment. However, this parameter is estimated by current and potential clients of financial institutions arbitrary – on the frequency of bankruptcy or licenses recall of the large market players. So this parameter is often less important than the transparency and public participation².

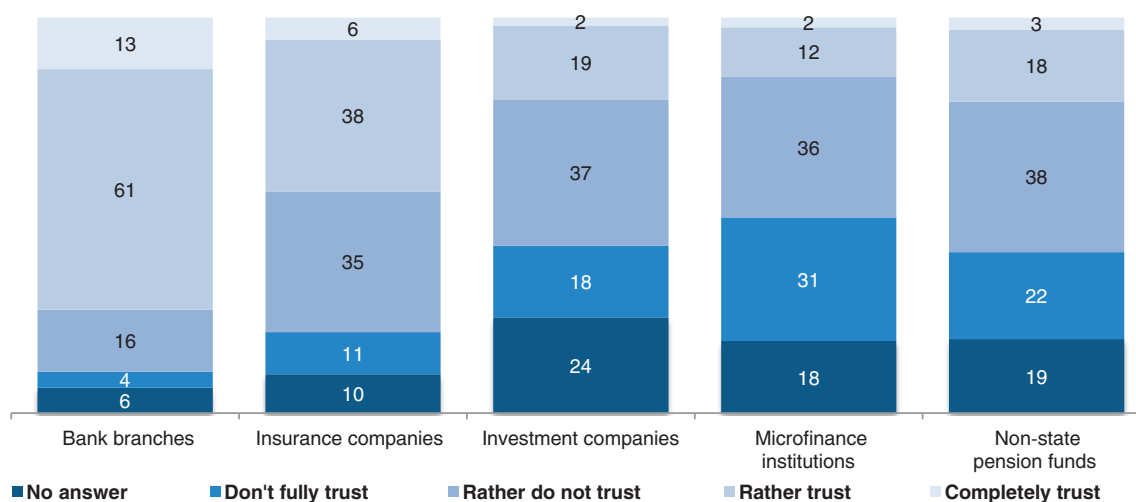
Reliability and safety – theory and practice

Despite the relatively high rates of usage and awareness of existing financial services and channels of payments implementation (the percentage of users of different banking, insurance and payment services is more than three-quarters of the working population of the country and is 77% and the part of those who intends to apply for the most popular products in the coming year, reaches 20-30%), the Russian market is difficult to call developed in connection with the presence of many hidden problems (each of which can have a serious impact on players of the Russian banking, payment or insurance sector), which are easily found at a deeper analysis of the situation. One of these pitfalls remains the persistent tendency to use traditional delivery channels and payments suggesting a direct interaction of the customer with the employee of a financial institution, rather than innovative and transitional, when operations are carried out remotely via ones own device or vendor equipment respectively.

² <http://fas.imf.org/>.

The level of trust to the financial and insurance organizations

Distribution of answers to the question: How much do you trust the following financial institutions?", in % of respondents, n=2800



Financial services delivery channels

The research showed that Russians are more aware of traditional delivery channels (81 to 91% of the respondents are well aware of them) and are less familiar with innovative channels (only 33-43% believe that they are well informed: the remote channels still remain the prerogative of a small part of the population – the proportion of users does not exceed 15% in terms of the most popular products). On the one hand, a lower degree of awareness on the innovative channels of services provision may be associated among other things, with the high prevalence of cash transactions: only 16% of Russians regularly make non-cash transactions and 50% of the population use only cash (the Central Bank of the Russian Federation 2014 data). On the other hand, the majority of Russian consumers is not lacking in financial services and payment channels, as they do not perceive such products as a tool to improve the quality of life. Therefore, a high level of awareness does not lead to increased levels of use.

It is interesting to note that the reasons for the refusal of usage of different categories of service channels represent the mirror image of each other. If traditional channels are mostly regarded as inconvenient in terms of their location, except for

payments by cash directly to the service provider (e.g., utility companies), the significance of this barrier to innovation and transient channels is almost insignificant. However, traditional channels are considered as the most credible method of payment. Transient channels can be called “compromised” solution for users. On the one hand, they are considered sufficiently reliable, on the other - convenient in terms of the location and process of payment.

This can be explained by the fact that consumers often prefer to pay through a third party, to be sure: if something goes wrong, the third party will be in charge of it (for example, if the payment for utilities failed it will be the bank's fault). In this respect terminals, ATMs, and DBS channels significantly lose out to the banks and agent networks.

Thus, the perceived level of reliability and security of payment instruments and financial products at the present time is not so much a technical issue related to software or hardware means of protection from fraud as a problem that lies in the sphere of formation of a competent financial behaviour and consumer awareness about the different ways of ensuring the safety of their finances.

When choosing the financial institution consumers are not going to think about how close is a bank to their homes or how handy is to use its mobile the

app, as it is much more important for them to know that the payment will be received by recipients and the estimated financial instrument (e-wallet or plastic card) will be in any way protected from fraud. For the majority of Russians personal comfort has not become a significant advantage of financial services provider, however, the need to trust the Bank or paying agent is becoming one of the leading.

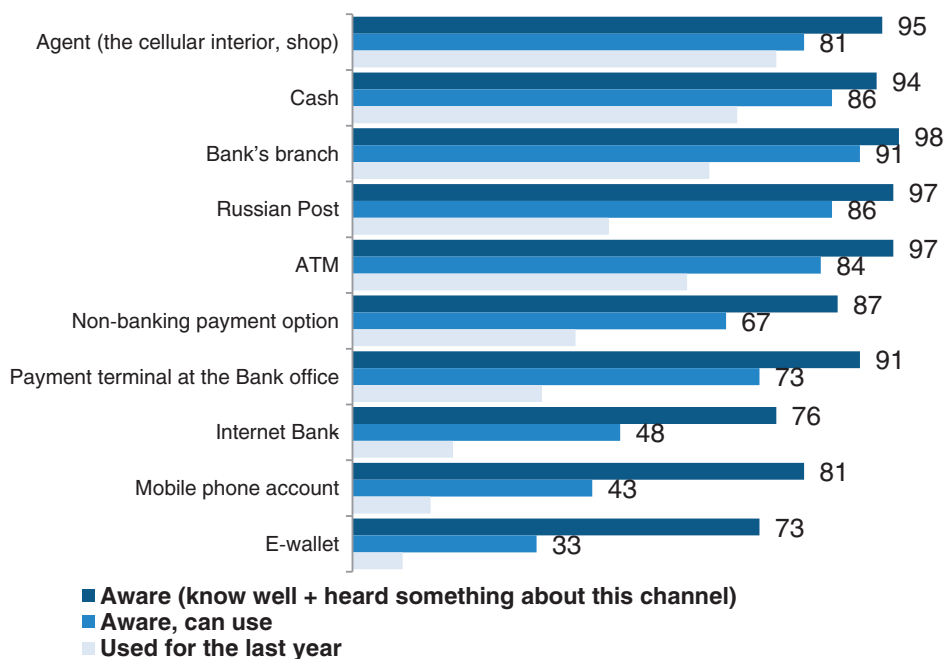
This trend can be described as positive, as it shows that the Russians have a demand for high-quality financial products and channels operations, which is confirmed by the growth of the proportion of financial services users for the last ten years (from 32% in 2004 to 77% in 2014, according to the NAFI), and now a lot depends on market participants and their strategies of communication with consumers.

Delivery channels of financial services

Traditional channels (clients carry out operations by the help of the financial institutions workers)	Bank branches
	The Post of Russia offices
	Cash payment (i.e. payment directly to the provider – e.g., at public utility services, mobile operators offices, etc.)
	Agent (e.g., the mobile phone stores, supermarkets, etc.)
Transitional channels (clients carry out operations using financial institutions' equipment)	ATM
	Payment terminal at Bank
	Other payment terminal
Innovative channels (customers exercise operations using their own equipment)	Mobile phone account: transactions are made using the mobile phone balance
	Internet banking: access to bank account through the applications for Internet/smartphone/tablet
	Electronic wallet: the electronic money account in the Internet

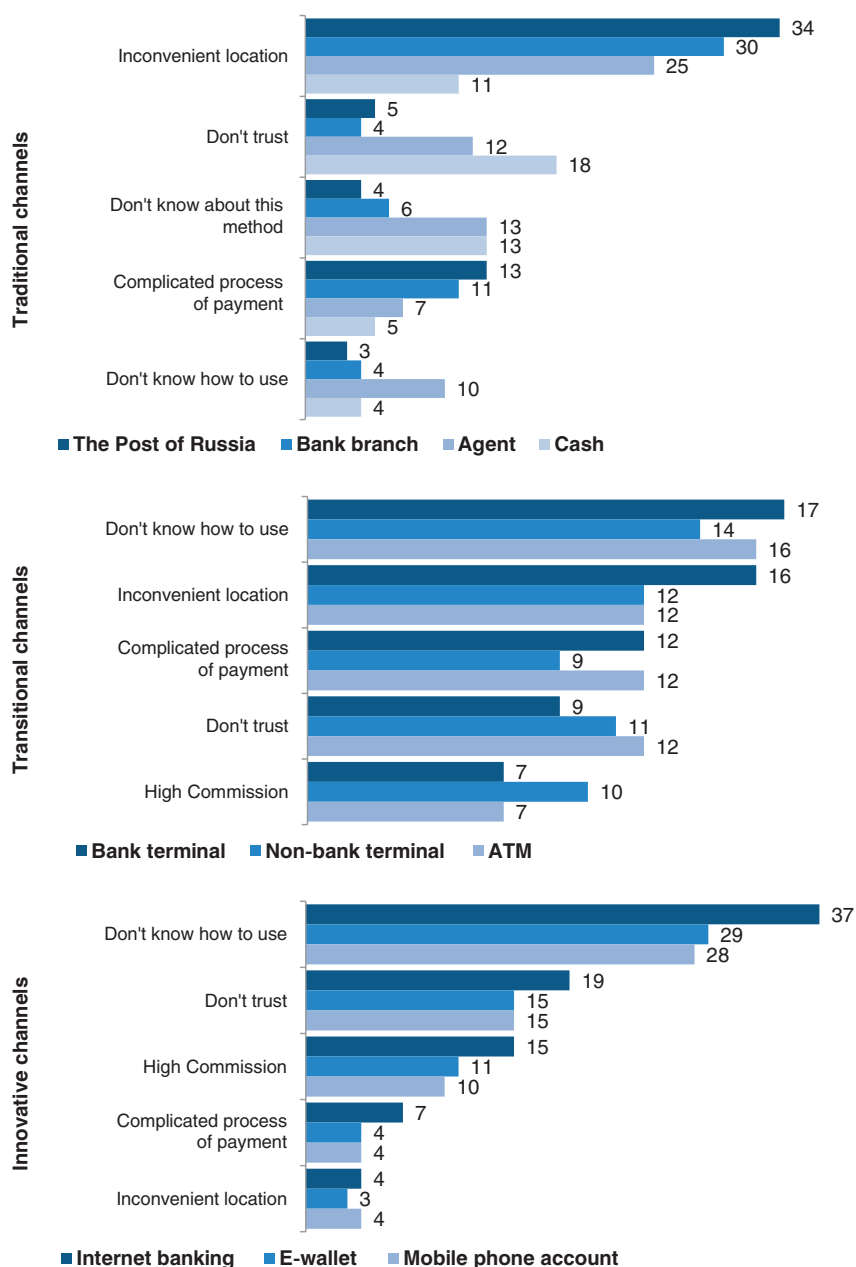
Use and intention to use the financial products

Distribution of answers to the questions “Which financial products (services) do you know?”, “What is the probability that you (your family) will seek the following financial services in the next 12 months?” in % of respondents, n=2800



Five main reasons for not using different channels

Distribution of answers to the question "Why don't you plan to use the following channels of services provision in the next 12 months?", in % of total respondents who do not plan to use the appropriate channels



Source: National Agency for financial researches (NAFI),
CGAP

NEWS BLOCK

Rosfinhmonitoring`s objective is to ensure adequate control over budget spending

An international research-to-practice conference «Public and internal financial supervision: the issues of organization and interaction in terms of Russian economics modernization» took place in Moscow on September, 23 at Plekhanov Russian University of Economics.

The event was attended by Glotov, V. I.- Deputy Director of the Federal Financial Monitoring Service; Beskhmel'nitsyn, M. I - Deputy Minister of Economic Development of the Russian Federation/ Head Deputy of the Russian Federation Presidential Control Directorate; Danchikov, E.A. - the Head of the Moscow city Main Control Directorate; Dvurechenskikh, V.A. - Chairman of Moscow Chamber of Control and Accounts; Artyukhin, R.E. - the Head of the Federal Treasury; Smirnov A.V. - the Head of Federal Service for Financial and Budget Supervision; Grishin, V.I. – Rector of Plekhanov Russian University of Economics. The event was also attended by experts from Russian regions, the UK, Germany and Lithuania.

The forum participants discussed problems in the sphere of financial control and their solutions, practical aspects of control events organization and implementation, training and advanced training of public and internal financial supervision specialists.

During the event Glotov, V. I. - Deputy Director of the Federal Financial Monitoring Service has identified the main areas of the Service's activities and its main task which is to ensure the transparency of the state budget expenditures:

«In the current situation of the state budget's reduction, the issue of public financial supervision improvement is of particular importance. This task was given to us by the President. This is



true because proper control over the budgetary funds expenditure is able to directly improve the transparency, quality and effectiveness of their expenditure.

The Federal Financial Monitoring Service has a potential to become the focal point for the building of mechanisms of public financial control effective system. Similar work is conducted within the framework of the Service's coordinating authority in the sphere of anti-legalization (laundering) of criminal proceeds and terrorism financing in accordance with international standards adopted by the Financial Action Task Force on Money Laundering (FATF)».

The progressive experience and best practices exchange, as well as elaboration of proposals on improvement of Russia's public and internal financial control under modern conditions took an important place in the event's program.

In the framework of the UN Convention Against Corruption (UNCAC) implementation

On August 31, 2015 at the UN headquarters (Vienna, Austria) representative of the Federal Financial Monitoring Service (FFMS) being in the Russian Federation delegation, took part at the meeting of the Open-ended Intergovernmental Working Group on the Prevention of corruption, acting in the framework of UNCAC implementation.

During this meeting the representative of Rosfinmonitoring presented a report on implementation by the Russian Federation measures provided by the Article 14 of the UNCAC (money-laundering prevention measures):

"Russia seeks to develop multi-level cooperation between judicial and law enforcement authorities and financial regulators to combat money-laundering. So, at the national level operate an

Interdepartmental Working group on Combating Financial Transactions, established by RF President's order, and Anti-money laundering and terrorism financing Interdepartmental Commission, established by Financial Intelligence Unit order. These coordinative bodies are established to ensure effective cooperation and agreed actions of the anti-money laundering system's of the Russian Federation participants, including private sector.

It should be noted that serious law making work aimed at bringing Russian anti-money laundering legislation in line with international standards being carried out over the last year, has received a positive assessment by the European community, namely, in September 2014 at the MONEYVAL meeting Russia successfully presented third follow-up report".

The Sixth conference of UNCAC member states is planned to take place in November 2015 in St. Petersburg.

On Agreement between Rosfinmonitoring and the State Corporation Roscosmos



On 9 October 2015, the Federal Financial Monitoring Service and the state space corporation Roscosmos (hereinafter «Roscosmos») signed a cooperation agreement.

The Agreement was signed on behalf of Rosfinmonitoring by Rosfinmonitoring Director Yu. A. Chikhanchin and on behalf of Roscosmos by Roscosmos General Director I.A. Komarov.

The signing ceremony was also attended by Rosfinmonitoring Deputy Director V.I. Glotov,

Roscosmos Deputy General Director and Official Secretary S.N. Dubik, Roscosmos Deputy General Director of Finance O.V. Lobanov, and Director of the federal state unitary enterprise Agat D. V. Homaza.

The Agreement paves the way for a long-term and mutually beneficial cooperation aimed at achieving the most efficient execution of the state space policy, strengthening anti-money laundering engagement and promoting information sharing through participation in joint workshops, conferences, consultations, round table discussions, etc.

Interagency Cooperation Agreement between Rosfinmonitoring and the Federal Tax Service

Director of the Federal Financial Monitoring Service Yu.A. Chikhanchin and Head of the Russian Federal Tax Service M.V. Mishustin signed a new Cooperation and Information Sharing Agreement between the Federal Tax Service and the Federal Financial Monitoring Service.

“By assisting our central and regional offices in coordinating their efforts, sharing information and establishing interagency working groups, we’ll be improving the effectiveness of the work carried out by both the Federal Tax Service and the Federal Financial Monitoring Service,” said FTS Director M.V. Mishustin.

“The Russian Federal Tax Service and its taxpayer database are key to solving strategic tasks. Together with Rosfinmonitoring’s database, they should increase the effectiveness of joint activities,” added Rosfinmonitoring Director Yuri Chikhanchin.

The agreement will enable the parties to improve the effectiveness of interagency cooperation in preventing, detecting and suppressing illegal financial transactions, which, in turn, will contribute to combating illegal tax minimization and improve tax collection.

For example, in 2016 Rosfinmonitoring and FTS identified the main areas of joint cooperation



in the context of industry-specific, regional and sectoral risks. As the first step, the two agencies will continue the joint work on the implementation of the taxpayer behaviour management model in the most vulnerable sectors of the economy. In 2015, the focus of this work, carried out jointly with other regulatory authorities, was on the home appliances, electronics and precious metals sectors. The next area of cooperation is analysis of the trade and financial flows with the help of the new software suite VAT-2, designed to improve the quality of

tax supervision and combat the illegal activities of unscrupulous taxpayers.

Signing of the Agreement took place during a joint meeting of the boards of the Federal Tax Service and the Federal Financial Monitoring Service, where participants summed up the outcomes of the joint cooperation between Rosfinmonitoring and FTS in 2015 and set goals for 2016.

The meeting of the boards was also attended by A.K. Kleschev, advisor of the Presidential Civil Service and Personnel Department, the heads of FTS interregional inspectorates and Rosfinmonitoring interregional departments in the federal districts, and the chiefs of the structural subdivisions of the FTS and Rosfinmonitoring central offices.

Working Visit of Australia's FIU Delegation



Paul Jevtovic, head of Australia's FIU, and Craig Robertson, head of intelligence department at Australia's FIU, paid a working visit to Moscow from 26 to 27 October 2015.

During the visit, they met with the management and employees of the Federal Financial Monitoring Service and held a roundtable discussion with members of the Russian agencies involved in the preparation of the upcoming mutual evaluation of Russia. Australia is one of the countries that have already undergone the 4th round of the FATF mutual evaluations (July - August 2014) and received praise for their national AML/CFT system, making its experience particularly valuable for Russia.

At the FATF Plenary meeting in Brisbane (Australia) in June of this year, the financial intelligence units of two countries signed a Memorandum of Understanding, bringing to an end a 8-year period spent preparing the document, which is now being used as a framework for building a working relationship between our countries. The issues of further cooperation featured prominently at the meetings held during their visit. Also in the spotlight were questions of counter terrorist financing, national experience of interagency AML/CFT cooperation, the outcomes of the two countries' FATF presidency, the key aspects of the APG activities and other.

Further details of the meeting at Rosfinmonitoring will be made available in the next issue of the journal.

Exhibition in memory of the Saint Joseph Volotsky in Rosfinmonitoring



On 31 July 2015, the Federal Financial Monitoring Service hosted an exhibition dedicated to the 500th anniversary of the repose of St. Joseph Volotsky, an Orthodox ascetic, educator, teacher of the monastic life and the founder of Joseph Volokolamsk Monastery.

Led by Rosfinmonitoring Deputy Director V.I. Glotov, Rosfinmonitoring employees held a meeting with Archimandrite Sergius, the abbot of Joseph Volokolamsk Stavropegial Monastery for men.

V.I. Glotov: *"Today is a very important social and cultural event for Rosfinmonitoring: the opening of the exhibition dedicated to the 500th anniversary of the repose of St. Joseph Volotsky, an outstanding figure of the Russian Orthodox Church and a man to whom we owe the preservation of the unity of the church and the strengthening of the power of the Moscow principality and the Russian state."*

Archimandrite Sergius told Rosfinmonitoring staff of the most significant periods in the history of Joseph Volokolamsk Monastery and, in particular, of its founder – St. Joseph Volotsky.

"Founded in the late 15th century by St. Joseph Volotsky, Joseph Volokolamsk Monastery is one of Russia's most famous monasteries. In the 16th century, the monastery played a key role in the life of the Muscovite state, projecting its influence not only on the Church but also the state-building process. Although the monastery's later history is interspersed with the periods of ascension and decline, its preeminent status was never questioned and it always remained faithful to the precepts of its founder: do not withdraw into yourself, but rather carry the light of spiritual enlightenment to the world around you."

After the lecture, Rosfinmonitoring employees were given the opportunity to view the exhibition dedicated to the memory of St. Joseph.

Exhibition of Elena Pavlovskaya at the Federal Financial Monitoring Service

The Federal Financial Monitoring Service actively promotes and supports the development of modern art. For several years it has held exhibitions of the Russian artists, enabling employees and visitors to enrich their inner world and to raise the level their spiritual, moral, cultural and aesthetic education.

Elena Pavlovskaya is honored cultural worker of the Russian Federation was born in Severodvinsk of Arkhangelsk region. In 1985 Elena graduated with honors from the Painting Department of the Moscow Art school in memory of 1905, and in 1991 she graduated Art & Graphic faculty of the Moscow Pedagogical Institute. The artist is a participant and award winner of many local, regional and international exhibitions. She was awarded by UNESCO medal and diplomas of the contest named after Victor Popkov for participation in international exhibitions in Athens and Montenegro.

On July 29, 2015 Rosfinmonitoring hosted Elena's personal exhibition. The exhibition included more than 40 works run in oil painting and gouache techniques.

"The works presented here were all painted from life. I travel with a sketchbook, work with nature. Therefore, as has been repeatedly noted by critics,



the works manage to convey a certain modicum of life", Pavlovskaya E. said.

Small towns, such as Kolomna, Pereslavl-Zalessky, Tutaev, Rybinsk, Veliki Ustyug are Russian provincial towns that are one of the main themes of the artist's works. Elena Pavlovskaya is a strong advocate of the Russian realist school of painting (the so-called Moscow school), which is characterized by the creation of a complex compositional design, and deep development of the palette within one work.

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Address: The International Training
and Methodology Center for Financial Monitoring
31, building 1, Staromonetny Lane,
Moscow, Russia, 119017. E-mail: info@mumcfm.ru.

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