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DEAR READERS!

In March 2019, FATF experts visited Russia to assess the effectiveness of the country's AML/CFT system, whose integrity has already been validated on numerous occasions by various sector-specific international organizations.



Besides Rosfinmonitoring, who plays a coordinating role, the focus of the assessors' attention was on all AML/CFT/CPF system stakeholders: law enforcement, supervisors and representatives of the private sector.

Not only did we explain to the assessors how we work, but we also demonstrated our work online: actual investigations, answering really tough questions, demonstration of the toolkit. I certainly hope we managed to create

a positive impression, convince and, perhaps, even surprise them.

I'd like to remind everybody that 2012 saw a major revision of the FATF Recommendations, followed, in 2013, by the approval of the methodology for assessing compliance with the revised international standards, including the effectiveness of AML/CFT measures. That's why the 2019 assessment will focus not only on technical compliance of the country's legislation with international standards, but also on the actual results of law enforcement practice.

The work is ongoing. We're aware of the elements of our AML/CFT system that need improvement, and that's what we all need to focus on in the coming months. Meanwhile, the findings of the effectiveness assessment will be made public by the FATF this fall.

Yury Chikhanchin
Rosfinmonitoring Director

MEETING PRESIDENT OF RUSSIA VLADIMIR PUTIN WITH HEAD OF FEDERAL SERVICE FOR FINANCIAL MONITORING YURY CHIKHANCHIN

Vladimir Putin had a working meeting with the Head of the Federal Service for Financial Monitoring Yury Chikhanchin to discuss the agency's current activities

March 11, 2019
13:40
The Kremlin, Moscow

President of Russia Vladimir Putin: Mr Chikhanchin, the FATF [Group for developing financial measures to combat money laundering] Assessment team is starting its work in Moscow. How do you plan to organise their work and what results do you expect?

Head of the Federal Service for Financial Monitoring Yury Chikhanchin: Indeed, the FATF Assessment team is starting its work here. As per your instruction, we created a large inter-agency commission involving representatives of ministries and other government bodies, as well as the Central Bank. We are prepared. I would like to speak about some of the results that we have achieved.

Vladimir Putin: Please, go ahead.

Yury Chikhanchin: The main work is based on the national risk assessment, which you approved for the most important areas, such as the credit and financial sector. This includes corruption, illegal drug trafficking, budgetary funds, terrorism and international risks.

What have we managed to get done? We conducted training for Russian experts. Some 2,000 law enforcement representatives attended our programme at our International Training Centre, as well as some 500 representatives of government bodies, 2,000 representatives from the credit and financial sector and some 500 people from the regulatory and supervisory authorities.

What else? Over this time, during the inspection period (from 2015 to the present), we have amended about 140 laws and regulations, such as intra-agency acts and bylaws. We have actually brought them up to the required standards. Of particular interest for the FATF Assessment team is our work to find beneficiaries, the actual owners of the businesses: does the country know how to find them?

As a result, we have succeeded in improving our performance indicators by a significant margin. In particular, I am referring to the legalisation of illegal incomes and their transfer to state income. It is shown on the graph.



We have increased the number of business entities that fall within our monitoring zone to more than two million.

Vladimir Putin: I believe the revenue returned to the state has increased sixfold since 2013, hasn't it?

Yury Chikhanchin: Yes, precisely, due to the legalisation. It used to be highly problematic, initially, and there were other predicate crimes...

The number of economic entities in our monitoring zone has increased. At the same time, their involvement in suspicious operations has reduced, that is, businesses are becoming increasingly law-abiding.

I would like to note, concerning your order to crack down on fly-by-night firms, the graph here shows that, working together with the tax authorities and law enforcement agencies, we have achieved a reduction to 500,000 a year. That is, we are mopping up the tax service's database. It is very important.

There is also greater compliance with law among financial institutions involved in the anti-money laundering system. Today we can say that about 80 percent of financial organisations are adequately

meeting the legal requirements. And, accordingly, the number of financial organisations that report on operations subject to mandatory control – as required by law – is growing.

In 2018 alone, we successfully shut down 27 shadow platforms in a joint effort with the FSB, the Interior Ministry and the Central Bank. The total amount of shadow money was about 245 billion rubles.

Now, what do I have to say about shady transactions? This is one of the main elements. Here we are working jointly with the Central Bank, and the drop in the number of such transactions is clearly visible.

I would like to say that the number of transactions via technical intermediaries has also decreased, I mean firms that do nothing except transfer money. That is, mopping-up has led to specific results.

At the same time, I would like to note that shadow cash circulation still exists, but it is now shifting from the banking sector to other industries, in particular, to commerce.

Major stores sell goods for cash, and then begin to sell it quietly, without collecting. Now we are working with the Central Bank and law enforcement agencies in this area.

This is a big problem, and one of your instructions is to deal with it. The banking sector has shrunk significantly...

Vladimir Putin: It is not the banking sector that has shrunk, but its use.

Yury Chikhanchin: Yes, I mean its use, sorry. The use of the banking sector.

Unfortunately, a number of industries remain the main consumers of the shadow sector – primarily the construction sector, and here we have one of the most serious issues.

One thing I would like to note, pursuant to your instructions on the rehabilitation of clients who have been denied the opportunity of opening a bank account or conducting operations, we have achieved a sharp decline here. I would like to say that in fact, we have forced the banks to take action and consider the complaints themselves.

Here are the figures for this year alone – the banks have considered about 3,000 complaints. On the whole, there has been speedy consideration of the complaints submitted to the specially created commission, which includes representatives of the Central Bank and Rosfinmonitoring [Federal Financial Monitoring Service]. This year, 70 such complaints were received. Half of the decisions were made in favour of the banks, the other half, in favour of the clients.

I would like to spend a moment discussing government contracts. We are continuing work in this area, and the total value of contracts which we are monitoring, as you can see, is almost 7 trillion rubles. The total number is about 3.6 million contracts. That is, the growth is significant.

It must be said that the banking monitoring, which we have put in place, makes it possible to keep a lid on the participation of sham businesses. The dynamics are fairly good here as well.

Vladimir Putin: “Funds transferred to offshore accounts” – is that about revenue or some kind of machinations?

Yury Chikhanchin: To a greater extent, this represents machinations and an attempt to wire to

offshore accounts money disguised as something else. In other words, it is about games and temporarily withdrawing funds from circulation, that is, tax avoidance. But the decline is fairly strong.

Vladimir Putin: Yes, half of what it was in 2016.

Yury Chikhanchin: I would also like to discuss the state defence order. The situation has changed as well. First, the number of organisations that we are now monitoring has increased. Here, too, we have managed to cut down the number of sham businesses involved in the state defence order activities.

Vladimir Putin: Almost by a quarter, but there is still a lot.

Yury Chikhanchin: We are working on it, Mr. President. The work is underway. I think that the fact that we are now transferring defence orders to Promsvyazbank and leaving other banks (we are working very closely with this bank and have regular meetings with Pyotr Fradkov) will allow us to return, little by little ...

About a third of all defence orders have already been transferred to Promsvyazbank. I do not want to give you an incorrect number, but I believe that about 9,000 clients have already moved to Promsvyazbank.

True, there are certain problems, and we are working to resolve them. Some of the new clients that have transferred to Promsvyazbank are high-risk customers in two respects: firstly, the contracts that they execute as part of the state defence order are associated with risk and, secondly, these are the non-contractual activities which we discussed in May. We are now sorting things out with each client in order to identify ways to improve these enterprises.

Vladimir Putin: The state defence order contractors who may be involved in suspicious operations deserve, of course, special attention.

Yury Chikhanchin: We have just assigned a group of people who are working with Promsvyazbank's compliance control, training them so they can work efficiently and resolve these issues.

If we look at the results of our activities in general – I will not give details on each, but I can say that in 2018 alone, our service, working jointly with the law enforcement agencies, has saved around 90 billion rubles and returned about 20 billion to the state. We consider them separately by area.

I would like to thank you very much for supporting the continued operation of the Interdepartmental Working Group on Countering Illegal Financial Transactions led by Mr Vaino [Chief of Staff of the Presidential Executive Office].

We consider a lot of issues that are later translated into action; we have just held a meeting devoted to preparations for the visit of the FATF on-site mission to Russia.

I would like to say a few words, if I may, on our work in cooperation with the other departments.

Vladimir Putin: Just a second. The “Funds subject to confiscation in civil cases” on this graph – that is quite a lot, I see, more than three billion. How quickly are decisions made by the courts?

Yury Chikhanchin: Quickly enough.

If you look at confiscation, we have two levels here. One is actual confiscation, when there is a criminal act. But the so-called voluntary compensation mechanism is also well established.

That is, once we get involved, it becomes known either through a financial investigation or a criminal case, and the criminals – or not yet criminals, just offenders – return the money. The amount of funds returned is even slightly higher than the amount confiscated in criminal cases.

Here we are actively helping to find the assets. The most important thing is to find the assets and then confiscate. Now things are going a little better.

I would like to say a few more things. One concerns cooperation with the Prosecutor General’s Office. That has worked well when the shadow sector tried to snap up the notaries. This year alone, we were able to withdraw about two billion from the shadow sector. Overall, since that joint operation,

suspicious transactions have decreased by a third. Now we are making legislative changes to streamline the powers of the notaries and their responsibility.

We did a good job with the Investigative Committee. There are two cases that I would like to share with you. One of them has to do with Promsvyazbank. We worked with 27 countries as we searched for the assets. We managed to locate these assets, to seize them and even to repatriate some of them. We seized about 7 billion worth of assets. Most importantly, we were able to prove that about \$350 million were not just stolen, but legalised as well.

We are working with the Interior Ministry in many areas, primarily, lending and financial operations. I would like to say a few words about drug trafficking. We have worked with almost 10 countries to expose a major scheme. We are now working on it. It involves narcotic cocaine. In total, about 1,000 people were involved in this international plot.

We are working quite well with the Tax Service and the Federal Customs Service. That is, we are looking for VAT, charges, and return. The amounts are indicated.

We implemented a project on the fuel and energy complex in the North Caucasus totaling about 13 billion rubles.

Vladimir Putin: Have this 13 billion been assessed?

Yury Chikhanchin: Yes, and a portion of this amount has already been recovered.

With regard to the Supreme Court, I told you the last time we met that we continue to thwart the attempts to involve the courts in shadow schemes. In total, we have jointly managed to prevent about 130 billion being siphoned off into the shadow sector.

The FSB is also our key partner in countering terrorism, not to mention economic, lending and financial crimes. Of course, we are working to counter the financing of terrorism.

Several cases have been implemented, especially with regard to the cells that finance the ISIS component, that is, everyone who goes there. The mechanism for freezing the assets of those who come into our field of vision is working very well. It involves extrajudicial asset freezing.

I would like to say a few words about NGOs. Foreign funding continues to pour in, and not all of it is for good causes. We are tracking about 80 billion as we are trying to understand...

Vladimir Putin: 80 billion came from foreign sources?

Yury Chikhanchin: Yes, from abroad. It came from foreign sources, including those that engage in activities associated with a certain degree of destructiveness.

We are working closely with the FSB on each of them. There are areas, industries that are the recipients of the bulk of such financing, such as the education system, that is, educational institutions and so on. There is an image here that shows which regions are most susceptible to receiving these funds.

I would like to say a few words about the work on your instructions on decriminalising Article 282. Its first part is about extremism, when we put people on our list of terrorists and extremists.

The article on decriminalisation entered into force on January 7. We removed about 60 names from the list of terrorists, revising our approach. Now we are continuing our work with the Prosecutor General's Office and other law enforcement bodies.

I would also like to speak briefly about our international efforts. As of today, we have introduced our system of freezing the assets of terrorists on our list in 12 countries. In other words, we have been exchanging lists. We sent a list with about 1,500 names to Central Asian countries and France, to name a few.

Some of our projects have become international, for instance, a project on countering ISIS funding. Today, 40 countries have joined our project on an international scale.

Regarding typology on laundering corruption incomes, about 35 countries are taking part in this project.

One more topic that is making rapid headway – countering the funding of the proliferation of weapons of mass destruction. We initiated this as well and are actively working within FATF.

In line with your instructions, we are cooperating with the Academy of Sciences and the Ministry of Education on creating artificial intelligence to help prevent money laundering.

We have completed R&D and are starting on the design. We are actively working with our technical industrial partners, such as the VTB and Gazprom, and have already attained good results.

Vladimir Putin: Have you already conducted tests?

Yury Chikhanchin: Yes, we already see some approaches today. In short, there is a certain model of terrorist behaviour that has already been described and given to banks.

In the course of subsequent work on crime and financial inquiries, the machine itself makes selections and adds based on its attributes. It is working and adding on its own.

Our network institute is working. As of today, seven countries have already joined it. We have our own chairs, institutes and a common training programme, so our work is very intensive.

<...>

“CRIMINALS ARE AFRAID TO INCORPORATE MONEY INTO OUR COUNTRY’S FORMAL FINANCIAL SYSTEM”

Pavel Livadny, State Secretary – Deputy Head of the Federal Financial Monitoring Service, tells about Rosfinmonitoring’s 2018 performance and its plans for 2019

*Vladimir Averin,
a radio personality on Vesti FM*



Pavel Livadny

Vladimir Averin: *Greetings, Mr. Livadny. Could you tell me about the scope of individuals and entities that fall within Rosfinmonitoring’s purview?*

Pavel Livadny: Some people think that we actually monitor all financial and economic activities, asking us for protection in situations that fall within the supervision of the General Prosecutor’s Office, the Central Bank and other agencies. The main job of Rosfinmonitoring – Russia’s financial intelligence agency – however, is to identify money laundering and terrorist financing transactions.

Vladimir Averin: *Wherever such activities happen?*

Pavel Livadny: Wherever they happen, because what criminals actually want is to channel the stolen funds into the official economy. To do that they naturally use banks, professional securities market participants or insurance companies. Participants in illicit schemes may include real estate agents, lawyers, notaries, pension funds, traders in precious metals and stones, and pawnshops.

At all events, we proceed from the presumption that these entities are our friends and allies of the state in the fight against money laundering. As such, they have certain responsibilities, in particular, they must identify among their customers persons carrying out suspicious transactions, analyze these transactions and report them to Rosfinmonitoring. I'm talking about transactions that are potentially aimed at laundering criminal proceeds or terrorist financing. I said "potentially", because the state naturally has no intention of delegating its basic functions, including law enforcement, to the financial sector. Having identified these transactions, financial institutions report them to Rosfinmonitoring, which, in turn, uses its proprietary analytical tools, methods and resources to determine whether there're any links to a criminal conduct. And if it finds one, it refers this intelligence to law enforcement. In this regard, I should probably say a few words about the AML/CFT system of which Rosfinmonitoring is a stakeholder.

Vladimir Averin: *But first about the timescale. Let's imagine a certain company reports to you – within three days, if I remember correctly from the guidance posted on your website – a potentially dangerous transaction. "Potentially" means that it's either a money laundering or terrorist financing transaction. First, your analyst will spend some time figuring out whether this is indeed the case. Next, this intelligence will be passed on to law enforcement, which will also take some time to respond. In the meantime, at least five working days have passed. During this time, the transaction will have been completed, the money moved from one account to another and from there to a bunch of other accounts, and then it becomes completely untraceable. Then what's the point of all this?*

Pavel Livadny: First, let's start with the fact that the government has really paid attention to the need for financial institutions to react rapidly to transactions whose non-compliance with applicable regulations is obvious, by allowing banks and other financial institutions to refuse to carry them out.

These are the so-called "blacklist" stories. Whenever a financial institution has reasonable grounds to doubt the legitimacy of a transaction, it simply won't carry it out; instead it'll freeze and report it. In the most difficult from their point of view cases, they'll end their relationship with the customer, by closing

the bank account (deposit) or any other agreement they've entered into with them.

This is the first layer of prevention designed to keep dirty money away from the financial system, and, as experience shows, it works.

Next, Rosfinmonitoring does not exist in a vacuum; it operates within the AML/CFT system in strict coordination with law enforcement. Some transactions are referred to law enforcement in response to their requests related to specific persons and entities connected, according to their intelligence, linked to criminal activity. Naturally, in this case everything happens very quickly.

Another part of our purview concerns spontaneous reporting. This is when, based on our analytical resources and a fairly large database generated over 18 years of our existence, we can conclude that there's a complex criminal scheme featuring a money laundering center, or a crime involving multiple offences with a large number of participants and wide range of financial institutions. This kind of investigation, by definition, takes up much more time, including from law enforcement.

In general, however, the system works pretty well. Suffice it to say that all experts and all agencies agree that there was a sharp decline in the volume of funds being taken out of the country. We may also recall statistics from tax authorities indicating a multi-fold decline in the number of shell companies, which are one of the prerequisites for money laundering.

Vladimir Averin: *Let's look at the numbers, then. Despite the rise in the USD exchange rate, outbound capital flows increased significantly in Q3 2018, forcing the Central Bank to recommend the banking system to tighten controls over package wire transfers. In the third quarter alone, \$12.3 billion was taken out of the country, and \$34.5 billion from January to September 2018, up 8.5 percent compared with the previous year. Among the main destinations are Switzerland, Austria, Israel, France and the US. Is this money all legal, or does it include a dirty component as well?*

Pavel Livadny: I can't give you specific figures for total legal outward transfers, but illegal transfers are on the decline, as confirmed, among others, by the

Bank of Russia. Naturally, as the country's economic life goes on, some of the money needs to be transferred abroad in support of our projects there, but as far as illegal transfers are concerned, they're on the decline. Furthermore, thanks to international cooperation, which is one of Rosfinmonitoring's key focus areas, we've lately managed to put a stop to a number of international laundering schemes. In particular, the notorious Moldavian scheme – a.k.a. the Laundromat – was dismantled thanks to the efforts of the relevant Russian agencies, Rosfinmonitoring, law enforcement and intelligence agencies, who worked in close cooperation with their European counterparts.

The same is true for the funds channeled through Danske Bank. Certain unscrupulous representatives of foreign media blamed Russia for this. In fact, Russia, alongside the Baltic and Western European countries, helped dismantle this scheme. In other words, we're the ones who close the loopholes. And although some stuff still gets through, we're working to stop it.

Vladimir Averin: *Russia is about to undergo an assessment by the FATF, which will focus not only on your agency but the entire Russian AML/CFT regime. The FATF has 36 members, including Russia, the majority of whom have a negative attitude towards our country. Should we, in your opinion, strictly adhere to the standards and recommendations formulated by this organization?*

Pavel Livadny: Let's start with the fact that there're indeed 36 most developed countries in the FATF. That said, the FATF family is very diverse, and includes even such countries as Iran and North Korea, albeit as its observers, and not in the FATF itself but rather in its subsidiary structures – the so-called FATF-style regional bodies, whose membership spans the entire globe. There're no countries in the world that wouldn't want to comply with the FATF standards.

Second, the FATF standards were approved by the UN Security Council in 2005, which means they have a universal status. Finally, the standards are structured in such a way as to help countries strengthen their law enforcement framework and their economy in a way that prevents its abuse by criminals. For this reason, the FATF standards themselves are useful.

As far as its politicization is concerned, we can state that the FATF is one of those organizations where the spirit of expert interaction and respect towards its members is preserved. Despite some attempts to make it serve political agendas, the FATF community continues to resist such attempts. Hence, we can say that, on the one hand, these standards help us improve our legal framework, because they were written by people with extensive law enforcement experience. And on the other, a country that does not use these standards as a reference point, nor tries to achieve full compliance with them, becomes a real outcast. Today, for example, countries like Iran and North Korea, despite their observer status in certain FATF regional bodies, are on the so-called "blacklist". In practice, this means they can't use the global financial system. Although not in the business of formulating strict requirements, the FATF, through the adoption of certain decisions or inclusion of a certain country on the sanctions list (there are two – "black" and "gray"), can place customers from this jurisdiction under so much scrutiny by financial authorities and institutions that they'll have no other choice but to discontinue their business operations. Banks, meanwhile, try to get rid of such customers because they are too "toxic" for them. In the end, since these countries have much to lose, it's no wonder that they choose to be compliant with the FATF standards. The same applies to Russia, a full-fledged member of this organization.

Vladimir Averin: *The previous FATF assessment revealed significant irregularities, resulting in Russia being placed in an enhanced follow-up process, from which it's since been removed. Obvious things were cited: non-disclosure of beneficiaries, insufficient transparency of transactions, etc., followed by the proviso that (if I understood it correctly) if the assessment (scheduled, as I understand it, for the current 2019) reveals that Russia has not complied with all the FATF recommendations, it will face sanctions. How does it all square with the goals and objectives that Russian formulates for itself? How dangerous can these sanctions be for us?*

Pavel Livadny: In the current round of assessments, enhanced follow-up is far from being the end of the road. The US, which was assessed two years ago, is also subject to enhanced follow-up. This follow-up

regime is, more than anything, just a greater focus by the community on certain elements of the AML/CFT system. For this reason, we intend to emphasize to the experts the advantages of our system, which is unique in many ways. To begin with, it's geared for prevention, at blocking criminal proceeds from entering the formal economy. Second, it's truly all-inclusive, because in Russia, Russia is a big country compared to many other FATF member states nevertheless, the FATF standards are applied uniformly and universally throughout, which is also a serious advantage of the system yet to be achieved everywhere. For example, the UK, which has also undergone an assessment, does not have large financial intelligence unit, hence a certain inconsistency. This, however, does not mean that the system is ineffective. The key characteristic of a well-functioning AML/CFT system is its support for those of its components that have become weak due to the fault or failure of other components.

Let me explain. Whenever the financial intelligence unit in a given country fails to act, then law enforcement and the private sector will step in to identify and severely punish the offender. If, on the other hand, law enforcement agencies fail, say, to establish cooperation with their foreign counterparts, then it'll be the turn of the financial intelligence unit, which uses its own communication channels to facilitate the seizure and search for assets and criminals, to step in. Lastly, if the private sector fails to properly identify customers and criminal schemes, it'll get help from the supervisors, such as the Central Bank or the Finance Ministry, in developing the relevant approaches and carrying out the proper verification of customers and identification of suspicious transactions. This is what we call the systemic approach and interaction of elements.

Vladimir Averin: *In other words, you're fighting while the rest are watching...*

Pavel Livadny: No, it doesn't work like that, but in Russia coordination mechanisms are particularly effective.

Vladimir Averin: - *Let's, by way of example, look at the following situation. A search of a certain Colonel Zakharchenko's property turns up piles of money*

stashed in boxes. Does this fact mean our anti-money laundering legislation does a good job? Because if it doesn't, then why keep the money in boxes; instead, he could invest it. Or, after all, our financial system does prevent dirty money from entering it?

Pavel Livadny: Vladimir, you've correctly identified priorities. The hypothetical Colonel Zakharchenko is unable to incorporate his dirty money into the legal system or legally buy, for example, companies through banks, because this money will be immediately tracked; measures will be taken against him; we'll be notified; this intelligence will reach law enforcement; and his activities will be terminated. On the other hand, the law enforcement system has also done its job, by identifying through intelligence-gathering efforts the person for this colonel and his ill-gotten billions. It's now the turn of investigators and the judiciary to act. This case, more than anything else, highlights the effectiveness of the AML/CFT system in place, particularly its preventive component, meaning that criminals are simply afraid to incorporate money into our country's formal financial system.

Vladimir Averin: *Mr. Livadny, let's take the example of the Arashukov family. They're charged with embezzling 30 billion, the money which, according to the investigators, is beyond recovery. Anyone living from paycheck to paycheck is probably wondering how it might be possible. So who is to blame for this? Rosfinmonitoring, the Investigative Committee, the Prosecutor General's Office or perhaps the Central Bank? Don't you think that someone must accept the responsibility for the fact that 30 billion rubles has disappeared into thin air?*

Pavel Livadny: There was a time in the past when the Moscow region's financial affairs were run by Mr. Kuznetsov, a well-known individual. Embezzlements back then were on a similar scale, accompanied by purchases of high-value assets abroad – villas, yachts, chalets – plus some precious art pieces. There was also a gang operating in the region with a long criminal track record. In the end, the evidence gathered was enough to prove that this gang was involved in criminal wrongdoing. This led to the seizure of some of its valuables and cash, but most of which was transferred in France and other countries. Here is where the system of international

legal assistance in criminal matters came in: Kuznetsov was extradited to Russia and his assets in France frozen. Then, all of us, led by the General Prosecutor's Office (Rosfinmonitoring was naturally also involved), spent a lot of time trying to prove to the French juridical authorities and courts that the reason behind these purchases was to launder dirty money. This fact has now been recognized and the assets frozen, and we're now locked in lengthy discussions regarding the possible return of their value to the Russian Federation. It's always difficult, particularly for all countries of our level of development. In this regard, we, Rosfinmonitoring, have initiated the adoption of a universal international convention on the repatriation of assets constituting the proceeds of crime.

Vladimir Averin: *There's no such mechanism in the world already, is there?*

Pavel Livadny: It's mostly about corruption now; there's an anti-corruption convention. But corruption is just one of the components of asset siphoning affecting developing countries. Others include organized crime, human trafficking, arms trade, cross-border smuggling of cultural values, etc. In this regard, purely anti-corruption legal mechanisms won't solve the problem. That's why we've raised this issue and are actively discussing it with our colleagues within the BRICS, and intend to bring it up at the UN, too. Obviously, instruments like these take a long time to adopt, but at least we've been heard in the world.

We must do whatever is necessary to facilitate the asset recovery process, as this will allow us to return much, if not all, of them to their country of origin, of which I'm sure. The Kuznetsov example, as well as many other examples, confirm this.

Vladimir Averin: *On February 11, the General Prosecutor's Office reported that it alone had sent 11 information requests to foreign competent authorities in connection with the ongoing anti-corruption checks conducted outside of criminal proceedings. In addition, according to the General Prosecutor's Office, another 8 international inquiries concerning possible foreign accounts of Russian officials were sent by Interpol, the Interior Ministry and Rosfinmonitoring last year. Do you*

think this number of requests is sufficient for a country like Russia?

Pavel Livadny: To begin with, this is a preventive mechanism, since we're talking about potential non-compliance by officials with the ban on maintaining foreign bank accounts. The ban has been imposed by anti-corruption legislation, but the money in these accounts might be legal. Maintaining accounts in foreign banks is in itself prohibited for Russian officials. Therefore, we're talking here not so much about illegal funds as about non-compliance with certain rules and regulations. If the existence of such accounts is subsequently proven, the next phase would be to determine the origin of the funds in these accounts. If they are legal, there is one approach. Naturally, the person flouting the ban is already liable to punishment, but not in a criminal sense. If, on the other hand, the funds are determined to constitute the proceeds of crime, then the mechanism for the provision of legal assistance in criminal matters comes into play.

As for the number of requests, it's always an evaluative question. Of course, the intensity of international cooperation needs to be increased. It can be said that this component of our work is rather weak in comparison with other – say, European – countries, which use the legal assistance mechanisms far more often. Therefore, it's our job to comprehensively increase the number of these requests and their quality, as well as improve their effectiveness, although the quantity may not be all that important. The truth is that each request must be supported, including by physical visits to the requested country, in order to achieve concrete results.

In general, Rosfinmonitoring's job involves, among other things, sending a large number of requests to foreign financial intelligence units related to the whereabouts of certain criminal property, assets, etc. Although we get useful feedback from them, some countries, unfortunately, but not always, simply ignore them. I kind of understand law enforcement agencies, or rather their individual employees, who feel ready to throw in the towel when they get no responses to their requests. In general, however, this is unacceptable. Still, you need to keep knocking on that door and it'll be opened sooner or later.

Vladimir Averin: *Do you get such requests too?*

Pavel Livadny: Yes. This is one of the best functioning communication channels for sharing important information. In the financial intelligence domain, there's one umbrella organization for all financial intelligence units of the world – the Egmont Group, whose priorities include facilitating information exchange through the use of a specific format.

We also regularly share information at a regional level with CIS financial intelligence units and our allies. With some countries, such as China, the intensity of such exchange is pretty high.

Vladimir Averin: *Mr. Livadny, you worked both at the General Prosecutor's Office and Rosfinmonitoring, are there any key differences?*

Pavel Livadny: The work of the General Prosecutor's Office is visible to the public, whereas Rosfinmonitoring tries to operate more discreetly. This is perhaps the main difference. Otherwise, we're all employees of law enforcement agencies, special task forces, such as Rosfinmonitoring, or supervisory bodies, such as the Bank of Russia, and operate within a common paradigm, except that we use different methods and have a different level of public exposure.

Vladimir Averin: *Is there any competition?*

Pavel Livadny: There is cooperation. Joint operations are particularly effective. There're many coordinating bodies, such as the Interagency Working Group on Combating Illicit Transactions, which is currently led by the head of the Presidential Executive Office. This is by no means a formal structure, as its purview extends to legislative and specific practical issues related both to the regulation of a particular industry and to very specific cases involving particularly complex money laundering schemes or other illegal activities.

Vladimir Averin: *Among other things, Rosfinmonitoring is also developing methods for determining which transactions should be considered suspicious and which obviously criminal. At the same time, we're constantly being told that criminal schemes are evolving, forcing every law enforcement officer to keep with those developments. One way or another, you and your colleagues are compelled to prescribe and*

formulate various things, to bring them to the attention of, say, a bank clerk.

How much information does he need to store in his head?

Pavel Livadny: There's one document that contains the indicators of suspicious transactions defined by the Bank of Russia. There're also typologies of criminal or illegal activities that are not of a typological nature, which are regularly updated both at the international level (by the same FATF, which is also a fairly powerful think tank) and in response to our internal problems. At the moment, we're endeavoring to shift our modus operandi from analyzing suspicious transactions to the analysis of the client's suspicious activities in terms of its complete profile, from its transactions and business reputation to counterparty relationships and possible connection to the beneficial owner... All of this information should in the near future be condensed into a suspicious activity report for submission to Rosfinmonitoring for analysis.

Vladimir Averin: *The reason I asked this question is this. According to the information posted on the Rosfinmonitoring website, of the 528 inspections carried out in 2016 (no later data available), non-compliance with AML/CFT requirements was identified in 97 percent of cases, and in another 96 percent of cases offenders faced administrative sanctions. The number 97 percent tells me that people simply can't cope with it. You see, if the percentage of non-compliance with requirements stands at 97 percent, it means that these requirements are simply non-compliable. And then we get an announcement from the Head of the Central Bank, Elvira Nabiullina, regarding the joint with Rosfinmonitoring decision to revise the current practice of strict compliance enforcement in order to avoid disruption of companies, organizations and banks' operations – turning down the pressure a bit.*

Pavel Livadny: As professionals, we view these numbers differently. Fewer than 600 inspections per tens of thousands of reporting entities means that we've moved away from excessive pressure on businesses. We've adopted a new modus operandi based on remote monitoring – a personal account on the Rosfinmonitoring website in which reporting entities can monitor their compliance status and take, where necessary, remedial action. Nowadays,

inspections are only conducted when violations are flagrant and there's no desire to put things right. The convictions number is indicative of the selective nature of inspections rather than of the level of regulatory compliance, since, as I said earlier, the vast majority of reporting entities are law-abiding and require no auditing. We audit only those whose compliance is lacking.

As for less strict requirements, particularly with respect to suspicious transactions for which customers faced suspension of their activities, it's true there were certain imbalances resulting in banks being sometimes too eager to exercise their powers to deny service to customers. That said, as experience shows, they're actually not as eager as the public and the business community think they are. Nevertheless, we, jointly with the Bank of Russia, constantly remind financial institutions not to abuse this power. We've created a rehabilitation mechanism, launched in March of last year, for customers affected by this system either accidentally or by mistake. Perhaps this mechanism is not yet that well known or popular, but relevant commission has so far issued about 43 rulings in 2018 in cases

where banks' decisions to deny service to customers were challenged. In two thirds of these cases, the banks actions were considered to be correct, but in one third of cases they were ordered to comply with customers' requests to transfer funds.

In this regard, we can state that the mechanism is really working. The only thing I'd like to urge my colleagues to remember is that the law provided that such situations did not occur. One should request the bank to justify its decision to deny service, and if it does and continues to maintain its position, then he is free to appeal to the interagency commission established by the Central Bank and Rosfinmonitoring.

The commission will review the appeal and make a decision. As I've already said, a third of all the decisions made in the past year and a half of its operations were in favor of the clients.

Vladimir Averin: *Thank you very much for this interview. It has cleared up lots of things for me.*

Pavel Livadny: Thank you.

FATF ASSESSORS' VISIT TO RUSSIA

Assessors of the Financial Action Task Force (FATF) visited Russia from 11 to 29 March 2019. The assessment team is led by Thomas Nilan of the FATF Secretariat

The official presentation of the assessment team took place at Rosfinmonitoring on 11 March 2019, during a meeting of the Interagency Committee to prepare Russia for the 4th round of mutual evaluations.

According to Rosfinmonitoring Director Yury Chikhanchin, assessors will evaluate not only compliance of the Russian AML/CFT system with international standards but also its effectiveness.

In his overview of the assessment process, T. Nilan explained the modalities of interaction with Russian government bodies and representatives of the private sector.

«We have a very diverse team, which I hope will allow us to understand all aspects, including the practical aspects of the Russian AML/CFT system,» said T. Nilan. «We have held in-depth discussions regarding technical compliance [compliance of the country's legislation with the FATF standards], and now our job lies in understanding how all this works in practice.»

The findings of the evaluation of the Russian AML/CFT system will be summarized during the FATF Plenary meeting in Paris in October.

Besides Moscow, assessors are expected to visit the Northwestern and Volga Federal Districts of Russia.





Background

In 2018, the Russian Federation entered the active phase of the FATF evaluation, which will last until October 2019. Russia had used the proceeding years to put in place an effective institutional framework for cooperation between the AML/CFT participants from among government agencies and the private sector. As part of the systemic efforts to improve the effectiveness of the country's AML/CFT

regime in terms of 11 Immediate Outcomes, Rosfinmonitoring has been working closely with other agencies. To this end, in line with the FATF methodology, the Russian National Security Program was amended in 2017 to include such tasks as improving technical compliance with the FATF standards and the effectiveness of the national AML/CFT efforts in terms of each of these Immediate Outcomes.

Reference information on the Immediate Outcomes (IOs) of the FATF's assessment methodology

IO 1: Money laundering and terrorist financing risks are understood and, where appropriate, actions co-ordinated domestically to combat money laundering and the financing of terrorism and proliferation.

IO 2: International co-operation delivers appropriate information, financial intelligence, and evidence,

and facilitates action against criminals and their assets.

IO 3: Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks.

IO 4: Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.

IO 5: Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.

IO 6: Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.

IO 7: Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.

IO 8: Proceeds and instrumentalities of crime are confiscated.

IO 9: Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.

IO 10: Terrorists, terrorist organizations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.

IO 11: Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.

INTERNATIONAL BLOCK

PARTICIPATION IN FATF'S FEBRUARY PLENARY

An interagency delegation consisting of representatives of the Foreign Ministry, FSB, Interior Ministry and the Prosecutor General's Office of Russia, led by Rosfinmonitoring, took part in the FATF (Financial Action Task Force) Plenary meeting on February 17-22, 2019

Participants reviewed reports on the effectiveness of the AML/CFT systems of Finland and China, as well as follow-up reports of Norway and Italy.

The discussion of the Finnish report focused on the country's understanding of money laundering and terrorist financing risks, shortcomings in their criminalization, the specifics of the national mechanism for implementing UNSC targeted financial sanctions, and challenges faced by supervisory authorities. In line with its ratings, Finland was placed in an enhanced follow-up process.

Regarding China, in addition to the above, participants discussed challenges related to the effective application of risk-based supervision, decentralization of the financial intelligence unit, and the formation of registers of basic and beneficial ownership information, with an emphasis on the practical application of the chosen methodology. Despite the heated discussion surrounding the last item and arguments in support of China presented by various delegations, including Russia, no consensus with respect to the proposal to upgrade the effectiveness rating from low to moderate was reached.

During the discussion of the follow-up report of Brazil, which had on the previous day succeeded in passing through Congress the long-discussed legislation designed to address its outstanding shortcomings in identifying and freezing terrorist assets, the attending delegations supported the request from the Brazilian Justice Minister attending the forum to tone down the language of the draft public statement. In exchange, the high official promised to fast-track the enactment of the new law.

The discussion of the second follow-up report on improvements in the Norwegian AML/CFT system went on as planned. Although the country's progress is evident, some problems remain, meaning that Oslo will have to prepare for a third report.

The International Co-operation Review Group (ICRG), after lengthy discussions, voted to extend a moratorium on the use of countermeasures against Tehran until June 2019. At the same time, the language of the public statement on Iran became tougher, warning the country that if it failed to eliminate the existing gaps in its CFT legislation, "the FATF would seek tighter oversight of the branches of foreign financial institutions operating in Iran".



Participants once again discussed a possible FATF visit to Syria to verify on the ground progress in implementing the Action Plan to eliminate deficiencies in the country's AML/CFT framework as a prerequisite for its removal from the FATF grey list.

In line with the resolutions of the previous FATF Plenary meeting in Paris on October 14-19, 2018, the FATF Secretariat presented an overview of the security situation in Syria prepared on the basis of input from 19 jurisdictions, the vast majority of which, especially the US, believe that the necessary security conditions for sending experts to Damascus are absent.

Russia used information previously prepared by Syria for a meeting of the FATF Africa and Middle East Monitoring Group in Dubai on January 16-17, 2019 to focus the delegations' attention on progress in improving its AML/CFT system achieved by Syria in 2018. A photo report prepared by Russia following the Rosfinmonitoring delegation's visit to Damascus on February 13-15 was well received.

The work to amend the UN recognized AML/CFT standards to address the issue of virtual assets (VA) regulation and expansion of the FATF Recommendations to cover proliferation financing

was continued. The adoption of the interpretive note to FATF Recommendation 15 (New Technologies), amended in October 2018, was postponed. Although the delegations reached a consensus on most of the provisions related to amendments to the existing standards to reflect the VA specifics, the Plenary decided to hold consultations with the private sector, scheduled for May of this year. However, the items not expected to be discussed with financial institutions will not be reconsidered.

With respect to proliferation financing, the work on the potential expansion of the standards will be carried out within an ad hoc project group, whose members include Russia, with outcomes of the study to be summarized in June 2019.

Activities held on the side-lines of the Plenary included a meeting with the Russian assessment team, whose participants discussed a number of important policy issues related to the technical compliance of the Russian AML/CFT system with the FATF standards. Meetings were also held with the delegations of Italy, Germany, India, China, New Zealand and Finland.

The next FATF Plenary meeting will be held on June 16-21, 2019 in Orlando (USA).

From FATF Public Statement

Paris, France, February 22, 2019

Jurisdiction subject to a FATF call on its members and other jurisdictions to apply counter-measures to protect the international financial system from

the ongoing and substantial money laundering and financing of terrorism (ML/FT) risks.

Democratic People's Republic of Korea (DPRK)

The FATF remains concerned by the DPRK's failure to address the significant deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) regime and the serious threats they pose to the integrity of the international financial system. The FATF urges the DPRK to immediately and meaningfully address its AML/CFT deficiencies. Further, the FATF has serious concerns with the threat posed by the DPRK's illicit activities related to the proliferation of weapons of mass destruction (WMDs) and its financing

The FATF reaffirms its 25 February 2011 call on its members and urges all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with the DPRK, including DPRK companies, financial institutions, and those acting on their behalf. In addition to enhanced scrutiny, the FATF further

calls on its members and urges all jurisdictions to apply effective counter-measures, and targeted financial sanctions in accordance with applicable United Nations Security Council Resolutions, to protect their financial sectors from money laundering, financing of terrorism and WMD proliferation financing (ML/FT/PF) risks emanating from the DPRK. Jurisdictions should take necessary measures to close existing branches, subsidiaries and representative offices of DPRK banks within their territories and terminate correspondent relationships with DPRK banks, where required by relevant UNSC resolutions.

Jurisdiction subject to a FATF call on its members and other jurisdictions to apply enhanced due diligence measures proportionate to the risks arising from the jurisdiction.

Iran

In June 2016, the FATF welcomed Iran's high-level political commitment to address its strategic AML/CFT deficiencies, and its decision to seek technical assistance in the implementation of the Action Plan. Given that Iran provided that political commitment and the relevant steps it has taken, the FATF decided in October 2018 to continue the suspension of counter-measures.

In November 2017, Iran established a cash declaration regime. In August 2018, Iran has enacted amendments to its Counter-Terrorist Financing Act and in January 2019, Iran has also enacted amendments to its Anti-Money Laundering Act. The FATF recognises the progress of these legislative efforts. The bills to ratify the Palermo and Terrorist Financing Conventions have passed

Parliament, but are not yet in force. As with any country, the FATF can only consider fully enacted legislation. Once the remaining legislation comes fully into force, the FATF will review this alongside the enacted legislation to determine whether the measures contained therein address Iran's Action Plan, in line with the FATF standards.

Iran's action plan expired in January 2018. In February 2019, the FATF noted that there are still items not completed and Iran should fully address: (1) adequately criminalising terrorist financing, including by removing the exemption for designated groups "attempting to end foreign occupation, colonialism and racism"; (2) identifying and freezing terrorist assets in line with the relevant United Nations Security Council resolutions; (3) ensuring an adequate and enforceable customer due diligence regime; (4) ensuring the full operational independence of the Financial Intelligence Unit and clarifying that the submission of STRs for attempted TF-related transactions are covered under Iran's legal framework; (5) demonstrating how authorities are identifying and sanctioning unlicensed money/value transfer service providers; (6) ratifying and implementing the Palermo and TF Conventions and clarifying the capability to provide mutual legal assistance; and (7) ensuring that financial institutions verify that wire transfers contain complete originator and beneficiary information.

The FATF decided at its meeting this week to continue the suspension of counter-measures. While welcoming the passage of the Anti-

Money Laundering Act, the FATF expresses its disappointment that the Action Plan remains outstanding and expects Iran to proceed swiftly in the reform path to ensure that it addresses all of the remaining items by completing and implementing the necessary AML/CFT reforms.

If by June 2019, Iran does not enact the remaining legislation in line with FATF Standards, then the FATF will require increased supervisory examination for branches and subsidiaries of financial institutions based in Iran. The FATF also expects Iran to continue to progress with enabling regulations and other amendments.

Iran will remain on the FATF Public Statement until the full Action Plan has been completed. Until Iran implements the measures required to address the deficiencies identified with respect to countering terrorism-financing in the Action Plan, the FATF will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. The FATF, therefore, calls on its members and urges all jurisdictions to continue to advise their financial institutions to apply enhanced due diligence with respect to business relationships and transactions with natural and legal persons from Iran, consistent with FATF Recommendation 19, including: (1) obtaining information on the reasons for intended transactions; and (2) conducting enhanced monitoring of business relationships, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

AML/CFT EDUCATION AND SCIENCE

IRP'S KEY OBJECTIVE IS TO IN SAFEGUARD RUSSIA'S NATIONAL SECURITY

A meeting of the Supervisory Board of the Integrated Research Programme "Mathematical and Socio-Economic Modelling for AML/CFT Purposes" (IRP SB), with the participation of the staff of the International Training and Methodology Centre for Financial Monitoring, was held at Rosfinmonitoring on 6 February 2019



The meeting was attended by Viktor Zubkov, Chair of the Board of Directors of Gazprom JSC, Special Representative of President of the Russian Federation for Cooperation with the Gas Exporting Countries Forum, and Chair of IRP Supervisory Board; Mikhail Kotyukov, Minister of Science and Higher Education of Russia and Co-Chair of IRP SB; Yury Chikhanchin, Director of the Federal Financial Monitoring Service and Co-chair of IRP SB; Yury Korotkiy, First Deputy Director of Rosfinmonitoring; Vladimir Glotov, Deputy Director of Rosfinmonitoring; Erkin Norov, Member of the Board of VTB Bank (PJSC); Albert Bakhtizin, Director of the RAS Central Economics and Mathematics Institute; Fedor Voytlovskiy, Director of the RAS Primakov National Research Institute of World Economy and International Relations; Nikolai Kolachevskiy, Director of RAS Lebedev Physical Institute; and Anton Ovchinnikov, Advisor to the CEO of Rostec's RT-Biznes Razvitie LLC and Secretary of IRP SB.

Participants in the meeting, chaired by V. Zubkov, heard a report by Rosfinmonitoring Director Yu. Chikhanchin on the IRP's objectives, in which the Head of the Russian FIU emphasized the importance of conducting scientific research at the current stage of the country's development in the context of the current international policy agenda and ongoing sanctions, naming the following as the IRP's key objectives: safeguarding Russia's national security, promoting its sustainable economic development and improving AML/CFT oversight.

N. Kolachevsky, Chair of the IRP Research and Technology Council, presented a report on the implementation of the integrated research programme, with A. Bakhtizin and F. Voytlovskiy acting as co-speakers. Yu. Korotkiy briefed the participants on measures taken to monitor IRP implementation. M. Kotyukov, E. Norov and other members of the Supervisory Board took part in the discussion of the issues related to the implementation of the programme.

VIDEO COURSE “TARGETED BRIEFING ON AML/CFT”

Anti-money laundering and combating the financing of terrorism (AML/CFT) is key to the economic security of businesses, the banking system and the state, requiring close cooperation and coordination between public and private entities



*Anna Bulaeva,
Correspondent*

ITMCFM, in collaboration with Rosfinmonitoring, has developed an e-course “Targeted briefing on AML/CFT”. Aleksey Tulkin, CEO of “Cloud Learning Technologies” LLC, provided invaluable technical support and assistance during the project implementation phase. The video course was directed by the talented Ruben Tumanyan, who boasts extensive experience in film, video and TV content production.

The purpose of the e-course is to improve the performance of AML/CFT personnel; provide equal opportunities for a large number of private sector employees to improve their professional skills, regardless of the place of their residence or occupation; improve the quality of education through the use of modern learning techniques; and provide online access to the course content.

The copyrights to the course are owned by ITMCFM and Rosfinmonitoring. Users may play the video

course for their own use, as well as for informational, scientific and educational purposes. Pursuant to Article 1270 “Exclusive right to the product” of the RF Civil Code, the use of the course for commercial purposes, public performance or display, distribution, import, dissemination of copies, broadcast, translation, adaptation, or placement into the public domain, is prohibited.

The video course curriculum consists of nine modules. To successfully complete the course, one must listen to all video lectures and answer the test questions.

Notably, in compliance with AML/CFT regulations, representatives of the private sector¹ should also undergo training and certification with the ITMCFM partners. Please visit the ITMCFM official website for a full list of the ITMCFM partners offering the “Targeted briefing on AML/CFT” course.

¹ The list of ad hoc briefing trainees includes employees of entities stipulated in paragraphs 3, 4 and 5 of the Regulations on the AML/CFT training requirements for entities carrying out transactions with funds or other assets to combat money laundering and terrorist financing, approved by Rosfinmonitoring Order No. 203 dated August 3, 2010.



Yury A. Chikhanchin
Director of the
Federal Financial Monitoring Service

“

Dear colleges!

Countering the legalization of criminal proceeds and the financing of terrorism is one of the key tasks of ensuring the economic security of the state. The effective functioning of the national anti-money laundering system is impossible without the interaction of the financial intelligence unit with organizations performing operations with monetary funds or other assets.

We strive to provide all representatives of the private sector with the necessary training materials. International Training and Methodology Centre for Financial Monitoring supported the development of e-learning courses. Its main goal is to provide equal opportunities for specialists to improve their professional qualifications, regardless of the region of residence and degree of employment.

This course will provide basic knowledge necessary for a compliance officer to comply AML/CFM law of the Russian Federation.

I wish you success!

”

NEXT

Education plan

Modul 1. International AML/CFT standards

[Video lecture](#) | Lecturer: Andrey Frolov | 30 minutes ⓘ
[Testing](#) | 0 of 10

Modul 2. Legal regulation in the AML/CFT sphere

[Video lecture](#) | Lecturer: Herman Negled | 34 minutes ⓘ
[Testing](#) | 0 of 15

Modul 3. Supervisory in the AML/CFT sphere

[Video lecture](#) | Lecturer: Alexander Kuryanov | 38 minutes ⓘ
[Testing](#) | 0 of 10

Modul 4. Rights and obligations organizations performing operations with monetary funds or other assets

[Video lecture](#) | Lecturer: Olga Sholomitskay | 18 minutes ⓘ
[Testing](#) | 0 of 15

Modul 5. Requirements for the development of internal control rules

[Video lecture](#) | Lecturer: Olga Sholomitskay | 39 minutes ⓘ
[Testing](#) | 0 of 15

Modul 6. Criteria to identify the operations to subject mandatory oversight

[Video lecture](#) | Lecturer: Igor Voluevich | 50 minutes ⓘ
[Testing](#) | 0 of 15

Modul 7. Liability for violation of the legislation of the Russian Federation in the AML/CFT sphere

[Video lecture](#) | Lecturer: Sergey Shapoval | 43 minutes ⓘ
[Testing](#) | 0 of 10

Modul 8. System of training and education of personnel of organizations

[Video lecture](#) | Lecturer: Anna Bulaeva 13 | minutes ⓘ
[Testing](#) | 0 of 5

Modul 9. Topical issues of application of the legislation of the Russian Federation in the AML/CFT sphere in organizations supervised by Rosfinmonitoring

[Video lecture](#) | Lecturer: Alexander Kuryanov | 25 minutes ⓘ
[Testing](#) | 0 of 5

BACK

COVER STORY

REGIONAL IWGS MARK THEIR 5TH ANNIVERSARY

On improving the performance of the Interagency Working Groups on Combating Illicit Transactions in the Russian Federal Districts

With a view to creating a national framework for combating illicit transactions, the IWG initiated in 2014 the establishment of eight regional interagency working groups (hereinafter “RIWGs”), led by plenipotentiary representatives of the Russian President in the federal districts and their deputies. Among the group members are regional representatives of law enforcement, supervision and prosecution authorities, Rosfinmonitoring and the Bank of Russia.

In their work, RIWGs focus on promoting effective cooperation and coordination between various agencies in preventing, detecting and disrupting illegal income generation, misappropriation of public funds and money laundering, taking into account the socio-economic and sectoral specifics of the federal districts and their territories.

Since their establishment, RIWGs have implemented a set of measures aimed at detecting and cutting off illicit financial flows from the country and into its shadow economy, including in the financial, construction, housing, utilities, agricultural and transportation sectors.

Steps have been taken to counter illegal encashment activities, illegal microfinance transactions, the use of shell companies and illegal activities in the financial services sector.

Extra attention is paid to improving interagency cooperation in monitoring public expenditure and combating misappropriation of public funds.

The work carried out by RIWGs helped tackle a number of practical challenges related to the mitigation of risks associated with the creation of special economic zones and building of infrastructure for the XXII Winter Olympic Games in Sochi in 2014, the 2018 World Cup and the XXIX World Winter Universiade 2019 in Krasnoyarsk.

Unlike the federal IWG, decisions taken by RIWGs are largely aimed at the implementation of rapid-response measures and ad hoc activities.

In 2018, at the request of the IWG, RIWGs took steps to combat illicit precious metals and precious stones transactions (NCFD); improve oversight of public expenditure through the use of budget monitoring

and treasury oversight tools (NWFD, SFD, VFD, UFD, SibFD and FEFD); and prevent, detect and disrupt illegal activities associated with the running of pyramid schemes (SFD, NCFD, VFD, UFD, SibFD and FEFD).

Following the consideration of separate issues, RIWGs prepare initiatives for improving the regulatory framework and bolstering interagency cooperation. Thus, NCFD IWG has prepared proposals for amending the law governing the trade in precious metals; and VFD IWG, proposals for combating illegal encashment activities. These initiatives were reviewed at the IWG expert group meetings in 2017-2018.

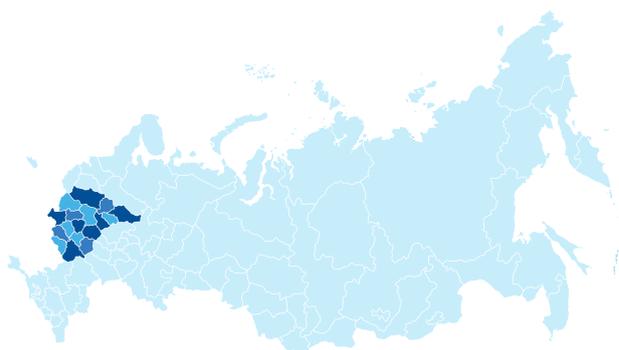
With a view to providing methodological assistance to the national AML/CFT system participants, Rosfinmonitoring publishes bulletins (information booklets), including those containing examples of RIWG best practices. More than 20 such booklets have been published so far.

19 RIWG meetings were held in 2018, at which participants discussed measures to combat the

embezzlement of public funds allocated for the implementation of large-scale investment projects; assess and mitigate the risks of illicit transactions in the timber, road construction, housing and utilities sectors; and counter reverse money-laundering schemes, including involving consumer credit cooperatives.

During this period, as part of Russia's preparations for the upcoming assessment of its national AML/CFT system by the FATF experts, RIWGs, at their meetings, discussed preparations for the FATF assessment mission.

The time has come to take additional measures to improve RIWGs' performance, including by moving away from addressing problems caused by inconsistencies between tax, customs, currency, banking and financial regulations, towards creating an integral system for combating illicit transactions capable of meeting the current challenges and threats posed by illegal capital flight, (reverse) money laundering and misappropriation of public funds.



Interagency Working Group on Combating Illicit Transactions in the Central Federal District

THE SUCCESS OF OUR EFFORTS DEPENDS ON THE EFFECTIVENESS OF INTERAGENCY COOPERATION

Igor Shchegolev,

Plenipotentiary Representative of the RF President in the Central Federal District



Igor Shchegolev

Factors influencing anti-corruption efforts in the Central Federal District are as follows:

- the district is home to more than 50 percent of the country's credit institutions and 44 percent of defence enterprises;
- the district is the leading manufacturer of products made from precious metals and precious stones, more than 50 percent of which manufactured in the Kostroma region;
- CFD regions are involved in the implementation of the majority of federal target programmes backed up by enormous amounts of public funds;
- the country's largest transportation hubs used by millions of tourists and migrants are located in the CFD.

All this creates a favourable environment for the trafficking of cash, drugs and weapons.

The concentration of large economic resources in the district attracts criminals; almost 30,000 economic crimes – a third of the country's total – were detected in the district in 2018 alone, with damage caused by them estimated at more than 206 billion rubles.

Economic crimes have always been and unfortunately remain the sphere, where innovations, including technological, are implemented.

The buzz that has surrounded the blockchain technology and cryptocurrencies in the past few years has crystallized in the CFD into rising volumes of drug purchases made with digital financial assets, whose popularity has surpassed that of Qiwi, Golden Crown and other remittance systems predominantly used in these transactions only a short time ago.

Most of the illegal transactions are currently being carried out on Darknet, a segment of the Internet hidden from the prying eyes of the public. Also popular are illicit encashment schemes involving retail chains and car dealerships.

Since its establishment in 2013, the Working Group on Combating Illicit Transactions, which is integrated into the collegium under the Plenipotentiary Representative, has held 11 meetings, adopting measures designed to mitigate the existing risks and improve legislation. Decisions taken by the group have helped improve interagency cooperation, implement social projects and utilize new cooperation formats such as the compliance council, a consultative body tasked with establishing effective feedback from the private sector on matters related to information sharing.

Among the RIWG's main achievements in the past four years are:

- the two-fold decline in the volume of suspicious pass-through transactions;
- the fall in the volume of Illegal encashment activities transactions involving shell companies;
- an almost 50 percent decline in the volume of outbound capital flows;
- the activation of restrictive measures by credit institutions to enforce compliance with AML/CFT requirements.

Among other achievements are the decline in the volume of pass-through and "traditional" Illegal encashment activities transactions; revocation of licenses of credit institutions that fail to comply with AML/CFT requirements; adoption of measures to combat illegal banking; and the fall in the volume of outbound capital flows linked to bogus contracts.

The work to combat emerging threats in the economic sector will be continued also this year.

In his address to the Federal Assembly, Russian President Vladimir Putin prioritized efforts to increase the country' GDP by 50 percent by 2025 and enter the list of the world's top largest economies: "Russia must not only firmly establish itself among the world's top five economies, but also increase its per capita GDP by 50 percent by the middle of the next century" (from the RF President's address to the Federal Assembly, February 20, 2019).

We must intensify our joint efforts in order to achieve this goal together.

Given the prominent place on the agenda occupied by money laundering, we have decided to revise our approaches to work.

To this end, on February 14, we established an Interagency Working Group on Combating Illicit Transactions. The Group chaired by me, consists of senior personnel from 13 law enforcement, security and oversight agencies and the Bank of Russia. An expert subgroup will be created to address operational issues.

On February 15, jointly with Rosfinmonitoring Director Yu. Chikhanchin and Deputy Prosecutor General of the Russian Federation Yu. Ponomarev, we discussed cooperation among the AML/CFT system stakeholders and preparations for the FATF assessment of Russia.

Unlike the previous assessments, the forth-round assessment will be conducted in accordance with the new methodology designed to evaluate the effectiveness of our AML/CFT system at all levels.

The success of these efforts depends on the effectiveness of interagency cooperation. The 2019 work plans, which take into account the risks and threats, including regional and sectoral, identified in the national risk assessment, have already been approved.

STRENGTHENING OVERSIGHT OF DEFENCE PROCUREMENT

*Stanislav Volkov,
Head of Rosfinmonitoring Interregional Department
in the Central Federal District*



Stanislav Volkov

The Plenipotentiary Representative of the Russian President in the Central Federal District, by his Directive No. A50-546r of November 2013, established the Interagency Working Group on Combating Illicit Transactions within the Collegium under the Plenipotentiary Representative of the Russian President in the Central Federal District on law enforcement, defence and security.

The RIWG, which has been operating under a new format since 14 February 2019, is led by Plenipotentiary Representative of the RF President in the Central Federal District I. Shchegolev.

Since its establishment, the RIWG has held 11 meetings, including 1 in 2017 in 1 in 2018.

In addition to taking steps to combat illicit transactions in the financial sector, the RIWG works to identify and disrupt illegal financial schemes involving electronic payments, cryptocurrencies, personal payment cards and microfinance companies.



Moscow

Over the past three years, outbound transfers of capital from the CFD have fallen by almost 50 percent, with pass-through transactions through CFD banks, including shell companies, down two-fold, from 1.9 trillion rubles in 2014 to 916 billion in 2018. In 2016, accounts (including corporate cards) of shell companies, individual entrepreneurs and individuals were used to reverse launder 169 billion rubles.

Following the increase in the value of alternative Illegal encashment activities (IEA) transactions – i.e. illicit encashment schemes involving wholesale and retail businesses – in late 2017 to 222 billion rubles, measures taken by the Group to disrupt such transactions helped bring their value down to 132 billion rubles in 2018.

The implementation of joint interagency measures, meanwhile, contributed to the strength of the financial system in the district. The use by credit institutions of restrictive measures against their customers for failure to comply with AML/CFT requirements is increasing, with the total number of refusals to enter into a contract of bank account rising from 25,000 in 2014 to 207,000 in 2018.

Meanwhile, the number of refusals to carry out transactions increased from 18,000 in 2014 (over 53 billion rubles) to 234,000 in 2018 (148 billion rubles), while the number of bank account contracts

terminated by credit institutions rose from 771 in 2014 to 4287 in 2018.

Other issues addressed by the Group include measures to combat the embezzlement of public funds allocated for the defence industry, with the volume of credit institutions' refusals to carry out transactions ordered by defence contractors falling from 24 billion rubles in 2016 and 44 billion in 2017 to 21 billion in 2018.

Work is underway to disrupt major interregional alternative IEA schemes that allowed more than 4000 shell companies to illegally claim VAT refunds, with the total value of estimated not paid VAT in the 2016 - 2018 reporting period by participants in just one such scheme estimated at 4 billion rubles.

The Group is also taking steps to prevent the embezzlement of public funds allocated for development, upgrading and support of the housing stock and utilities, as well as addressing issues that have a direct impact on the social situation in the region – problems associated with microfinance institutions and shared-equity construction.

A list of the Group's priorities for 2019 includes the identification of regional risks and development of mitigation measures to address the challenges posed by online gambling.



Interagency Working Group on Combating Illicit Transactions in the Northwestern Federal District

FICTITIOUS FOREIGN TRADE TRANSACTIONS ARE AMONG THE MAIN REGIONAL THREATS

Oleg Logunov,

Head of the Interagency Working Group on Combating Illicit Transactions in the Northwestern Federal District



Oleg Logunov

The Northwestern Federal District's vast natural resources, including in the Arctic, make it particularly important for the Russian economy. The NWFD is home to more than 5,600 financial institutions (4th place in the country). St. Petersburg's financial market is the second largest regional financial market in the country. The total value of foreign trade transactions carried out in the district last year stood at \$27 billion (2nd place). The district accounts for 12 percent, or 215 billion rubles, of pass-through transactions carried out in the country in 2018, placing it in second place.

In accordance with FATF Recommendation 2, countries should ensure that the financial intelligence unit, law enforcement authorities, supervisors and other relevant competent authorities have effective mechanisms in place which enable them to cooperate and coordinate activities to combat money laundering and terrorist financing.

The Interagency Working Group on Combating Illicit Transactions in the Northwestern Federal District (RIWG) was created in April 2014 with a view to coordinating at the regional level the efforts of all AML/CFT system participants – Rosfinmonitoring's NWFD office and district and regional offices of law enforcement and supervisory authorities.

At its meetings, RIWG participants discuss the most important issues related to the risks posed by illicit transactions in the federal district and requiring the joint efforts of various departments and government bodies.

The RIWG has held 18 meetings, each of which has contributed to the effectiveness of the regional AML/CFT system.

The National Risk Assessment has classified fictitious foreign trade transactions as high risk due to the proliferation of schemes involving the transfer of funds of dubious origin abroad. Foreign trade transactions, which often form the basis of the shadow economy, are used to launder the proceeds of corruption offences, embezzlement of public funds, financial crimes and drug trafficking.

Since its establishment, measures to combat fictitious foreign trade transactions have been the focus of the RIWG's activities. Among the issues addressed by the group in 2014-2018 were:

- the adoption of measures to curb illegal outbound capital flows from the Northwestern Federal District, including through offshore jurisdictions;
- the measures taken by the NWFD oversight and law enforcement authorities to combat illegal transactions in the securities market, including outbound capital flows;
- the measures taken by the NWFD oversight and law authorities to combat illegal transactions in the insurance market, including outbound capital flows;
- improving the effectiveness of measures to combat illegal outbound capital flows generated by means of overstating the value of imported goods;

- improving the effectiveness of measures to combat illicit transactions carried out by credit institution customers through transit organizations;
- promoting the sharing of information among various agencies to identify and disrupt activities covered by Articles 193, 193.1 and 200.1 of RF Criminal Code.

The implementation by law enforcement and oversight authorities of the decisions adopted by the RIWG has led to a significant reduction in the volume of suspicious transactions in the Northwestern Federal District.

A total of 362.5 billion rubles has been taken out the country through the NWFD in the past five years. That said, there has been a year-on-year decline in volume of such outflows, from 155 billion rubles in 2014 to 29 billion in 2018, down more than 5-fold.

For a long time, Baltic banks acted as a provisional center for concealment of transferred assets and a conduit for shadow financial flows to destination states. Over the years, the banking sector in these countries has adapted to the handling of suspicious capital.

Thanks to the measures taken, financial flow to financial institutions of these countries have fallen from 131 billion rubles in 2014 to 26 billion in 2018.

In response to the emergence of high ML/TF risks in the precious metals, stones and jewellery sector, the RIWG, at its meeting in 2016, discussed measures to combat illicit transactions with precious metals.

As a result of in-depth off- and on-site inspections carried out by FTS regional offices, 1,036.1 million rubles has been collected in additional taxes and 1033.2 million in penalties.

In 2017, the RIWG discussed measure to combat illicit transactions involving Russian Post branches.

The measures taken, including administrative sanctions, have helped disrupt illegal encashment activities transactions involving Russian Post's

Cherepovets branch in the Vologda Region (from January 2016 to July 2017, limited liability companies registered in different Russian regions transferred 7 billion rubles to the account of this branch).

The risks associated with illegal encashment activities transactions involving postal offices have been mitigated, as confirmed by the monitoring of transactions carried out through Russian Post branches: no suspicious transactions (transfers of large amounts from the accounts of companies,

including suspicious and transit organizations) have been recorded in the last few months.

In conclusion, it is worth noting that the RIWG, at its meetings, has examined virtually all financial risks, including those faced by district's key industries.

Following the discussion of each issue, the RIWG took coordination actions providing for the adoption of additional measures to combat the identified risks and specific illicit schemes.

REGION'S PRIORITY IS TO MITIGATE THE RISKS ASSOCIATED WITH PASS-THROUGH TRANSACTIONS AND THE JEWELLERY AND TIMBER INDUSTRIES

Igor Loskutov,

Head of Rosfinmonitoring Interregional Department
in the Northwestern Federal District



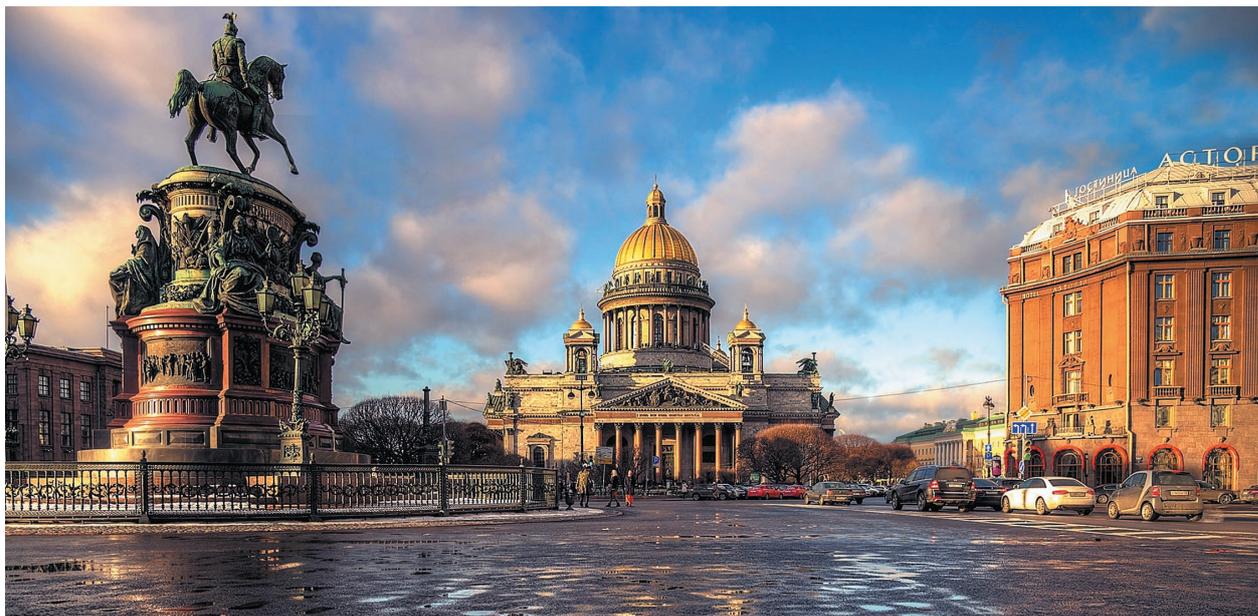
Igor Loskutov

The Plenipotentiary Representative of the Russian President in the Northwestern Federal District, by his Directive No. 40 of April 1, 2014, established the Interagency Working Group on Combating Illicit Transactions in the Northwestern Federal District within the Security and Anti-Corruption/Extremism Council under the Plenipotentiary Representative of the RF President in NWFD.

The RIWG is led by Deputy Plenipotentiary Representative of the RF President in the Northwestern Federal District O. Logunov.

Since its establishment, the RIWG has held 17 meetings dedicated to the most significant issues related to the risks stemming from financial transactions in the district and requiring the adoption of joint and coordinated efforts by government bodies.

As a result of the measures developed and implemented by the NWFD RIWG to combat suspicious transactions, the total value of suspected illegal encashment activities transactions in NWFD fell from 67.6 billion rubles in 2016 to 54.5 billion in 2018.



Saint Petersburg

These efforts also led to the dismantling of a major illicit encashment centre based at the Russian Post's Cherepovets branch, whose account was credited from January 2016 to July 2017 with about 7 billion rubles transferred from legal entities registered in different Russian regions. It was also possible to significantly reduce the risks and the volume of illicit illegal encashment activities transactions involving "maternity capital".

The measures taken have helped reduce the volume of suspected pass-through transactions carried out by legal entities. Other achievements include a fall in the volume of outbound capital flows and continued decline in the value of money transfers to foreign credit institutions, including those linked to the overstatement of the contract value of imported goods and illegal transactions in the insurance and securities markets (from 48.5 billion rubles in 2016 to 26.2 billion in 2018).

The effectiveness of measures to combat VAT fraud has been improved, with the total value of VAT refunds sought by high-risk entities falling from 65 billion in 2012 to 3 billion in 2015.

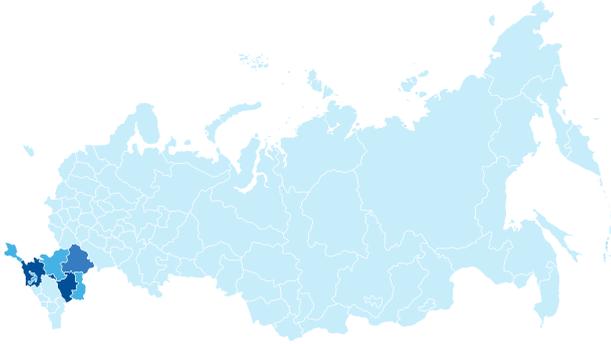
Measures have been taken to combat illicit transactions with precious metals and precious stones. A total of 177 inspections of compliance

of businesses and individual entrepreneurs with AML/CDT regulations were carried out in 2016-2017, with the total value of administrative fines estimated at 560,000 rubles. Law enforcement and supervisory authorities have collected 1,036.1 million rubles in additional taxes and 1033.2 million in penalties.

Measures are being taken to counter the embezzlement of public funds, including those allocated for the development, upgrading and support of the housing stock and utilities.

The RIWG has developed measures to mitigate the risks in the timber industry associated with illegal logging and sales of timber, evasion by timber traders of taxes and customs duties, VAT fraud and illegal outbound capital transfers, taking into account the region's specifics. Information about the identified risks and adopted mitigation measures has been passed on to the Federal Forestry Agency for a follow-up action.

As part of the efforts to combat drug-related money laundering, the RIWG has taken measures to combat the newly identified contactless method of selling drugs, whereby the actions of drug trafficking gangs, including those connected with money laundering and control over drug money flows, are coordinated online by "dispatchers".



Interagency Working Group on Combating Illicit Transactions in the Southern Federal District

ML TRANSACTIONS IN THE DISTRICT ARE ON THE RISE

Vladimir Gurba,

*Deputy Plenipotentiary Representative of the RF President
in the Southern Federal District*



Vladimir Gurba

We must acknowledge that money laundering – which underpins corruption, terrorism, drug trafficking and organized crime, undermines economic security and destabilizes international economic relations – remains one of the most dangerous crimes.

The Plenipotentiary Representative of the Russian President in the Southern Federal District, with a view to facilitating the implementation of government policies and promoting effective cooperation between regional offices of federal agencies and the Bank of Russia, state and municipal authorities of the constituent entities of the Russian Federation, other state authorities and organizations of the Southern Federal District, in preventing, detecting and disrupting illicit transactions, as well as in combating illegal capital flight and the shadow economy,

established in 2014 the Regional Interagency Working Group on Combating Illicit Transactions (hereinafter the "RIWG" or "Group"). In 2015, the RIWG was expanded to include an expert advisory group.

Since its establishment, the Group has held 13 meetings and discussed 14 agenda items, whose content were informed by instructions of the federal Interagency Working Group and specifics of the regional and sectoral ML/TF risks. In particular, the Group discussed measures to combat illicit transactions in the agro-industrial sector; terrorist, extremist and separatist financing; and embezzlement of public funds allocated for the defence sector, the World Cup events and support of the socio-economic development of the Crimean Peninsula.

Last year, our proposals for improving the Treasury oversight of public expenditure were taken into account by the RF Finance Ministry in drafting appropriate regulations. On addition, after discussing options for improving the quality of AML/CFT personnel training, the RIWG developed AML/CFT training materials and modified the curricula and training programmes used by 12 federal universities located in the district.

In general, starting in 2014, there has been a rise in money laundering cases recorded in the SFD, with the number of offences covered by Article 174.1 of the RF Criminal Code increasing from 46 in 2014 to 88 in 2018, and relevant materials for 46 cases (compared to 26 in 2014) were sent to the court.

Since the Group's establishment, 19 credit institutions operating in the Southern Federal District have lost their license, including 11 for failure to comply with AML/CFT requirements.

Meanwhile, there has also been an intensification of financial institutions' fight against illicit transactions, with the total number of refusals to open a bank account or perform a transaction increasing 7.5-fold in the past five years. During the same period, intelligence provided by Rosfinmonitoring has been used to dismantle five illegal encashment centres in the Krasnodar Territory and in the

Astrakhan and Rostov Regions with an annual turnover of about 8 billion rubles.

Thanks to the coordinated systemic measures adopted by the RIWG, the number of suspicious transaction reports sent to Rosfinmonitoring's regional office by reporting entities has increased 1.5-fold. Meanwhile, the volume of outbound capital flows from the district has fallen from 13.2 billion rubles to 4 billion.

Lately, we have been focusing on decriminalization and combating violations in shared-equity construction projects, with the latter problem being particularly relevant for the SFD, which is among the top four Russian federal districts in terms of housing construction volumes.

In addition, the unresolved problem of deceived co-investors continues to be a source of social tensions in the region year after year. As of 1 January 2019, the district had more than 6000 deceived private co-investors in 167 residential projects.

To help tackle the problem, regional authorities have approved timetables for the completion of unfinished construction projects while holding accountable those responsible for it. Changes have been made to regional legislation providing for the provision of subsidies to real estate investors, the allocation of land plots to developers and other government support measures. The implementation of these measures has enabled the completion of 21 such unfinished construction projects.

That said, unscrupulous developers continue to come up with new schemes for defrauding potential investors, including, as is mostly the case, by offering instalment plans and selling the same apartments to multiple investors.

To address the problem, law enforcement authorities have intensified efforts to identify and disrupt illegal schemes in this sector, including by opening 104 criminal investigations into new violations last year alone. In compliance with the relevant decisions of the SFD RIWG, steps have been taken to strengthen interagency cooperation. Last year saw Rosfinmonitoring's regional offices

launch 26 in-depth investigations targeting the shared-equity construction sector, up from just 5 in 2017, resulting in 11 criminal investigations under Articles 174 and 174.1 of the RF Criminal Code, with the total amount of laundered funds exceeding 240 million rubles.

Despite some success, the detection, investigation and prevention of money laundering crimes remains a challenge in the district. Among the main reasons for this are the lack of cooperation between law

enforcement and supervisory authorities along with shortcomings in the implementation of supervisory and law enforcement functions influencing the effectiveness of measures to combat illicit transactions.

Given the high risks associated with this sector in the Southern Federal District, we continue to develop and implement measures aimed at identifying and combating money laundering and terrorist financing.

REGION'S LEADING UNIVERSITIES HAVE INTEGRATED AML/CFT INTO THEIR TRAINING PROGRAMMES

*Vasily Chop,
Head of Rosfinmonitoring Interregional Department
in the Southern Federal District*



Vasily Chop

The Plenipotentiary Representative of the Russian President in the Southern Federal District, by his Directive No. A53-13r of February 12, 2014, established the Interagency Working Group on Combating Illicit Transactions in the Southern Federal District (hereinafter the "RIWG" or "Group").

The RIWG is led by Deputy Plenipotentiary Representative of the RF President in the Southern Federal District A. Gurba.

In 2015, the RIWG was expanded to include an expert advisory group.

Since its establishment, the RIWG has held 12 meetings.

The Group has developed and implemented measures to combat illicit transactions in the financial sector.



Rostov-on-Don

Since 2014, 19 credit institutions operating in the Southern Federal District have lost their license.

Meanwhile, credit institutions have intensified their fight against illicit transactions, with the total number of refusals to open a bank account or perform a transaction increasing from 333 in 2014 to 2,525 in 2018.

5 major illicit encashment centres with a total annual turnover of 8 billion rubles operating in the Krasnodar Territory and in the Astrakhan and Rostov Regions were shut down in the same period. Following the launch of 29 criminal investigations, the defendants were charged with offences falling under Article 199, part 2, of the RF Criminal Code, while their property, including funds, worth over 1 billion rubles was seized.

Measures to decriminalize the agro-industrial sector resulted in the dismantling of several groups of shell companies in the Rostov Region and the Krasnodar Territory, specializing in carrying out fictitious transactions involving agricultural produce and preparing export documentation needed to claim VAT refunds.

There was a significant decline in the volume of illicit transactions in the agro-industrial sector in 2017-2018, with the total value of rejected VAT refund claims estimated at more than 4.5 billion rubles.

The work to prevent the embezzlement of public funds is carried out in collaboration with the regional representatives of the Federal Treasury and the Federal Anti-Monopoly Service.

Outbound capital flows from the Southern Federal District declined from 13.2 billion in 2014 to 4 billion rubles in 2018.

Steps to monitor defence expenditure taken by the Group helped prevent outbound capital flows totalling more than 3.4 billion rubles in 2018, up from 3.1 in 2017.

In pursuance of the Group's resolutions, law enforcement authorities worked with members of the public – particularly socially vulnerable groups such as pensioners, the disabled and low-income citizens – to improve their awareness of various types of fraud common in the district.

Particular attention was paid to the protection of citizens' rights and legitimate interests, as well as to the mitigation of the risk of criminal abuse of microfinance companies and consumer credit cooperatives. As part of these efforts, enforcement measures to ensure compliance with applicable requirements were applied to pawnshops. Analysis of the organizational measures undertaken by pawnshops in response to the identified shortcomings allows us to conclude that they have successfully eliminated the corresponding deficiencies in their internal controls. A total of 118 administrative investigations against legal entities (52 in 2017 and 40 in 2016) and 109 against officials (34 in 2017 and 14 in 2016) were launched in 2018.

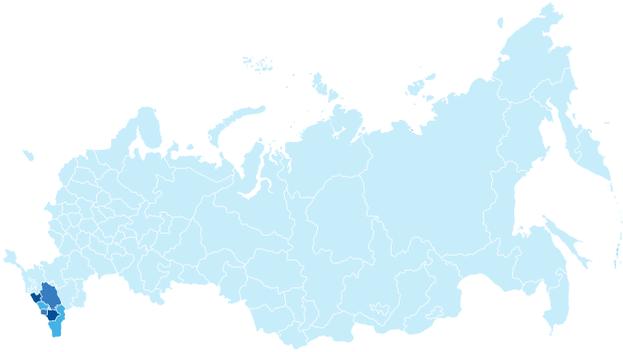
In compliance with the Group's resolutions designed to mitigate risks in the shared-equity construction sector, the district's law enforcement authorities, jointly with Rosfinmonitoring's CFD office and other supervisors, conducted audits of high-risk construction companies in

the Krasnodar Region, resulting in 11 money laundering investigations and dismissal of several high-ranking officials from the local government.

The RIWG prevented the embezzlement of more than 863 million rubles earmarked for the construction and repair of road network facilities in the city of Volgograd, with the total amount of recovered funds estimated at about 42 million rubles.

The implementation of the RIWG's resolutions dated February 28, 2018 helped identify the existing shortcomings in the training of AML/CFT specialists. Since then, SFD leading universities have integrated AML/CFT into their training programmes and developed appropriate teaching tools, including evaluation and guidance materials.

In preparation for the assessment of Russia by the Financial Action Task Force (FATF), the Group held meetings in November 2016, May 2017 and April 2018 to discuss ways to increase the effectiveness of the country's AML/CFT framework.



Interagency Working Group on Combating Illicit Transactions in the North Caucasian Federal District

RIWG'S ACTIONS HAVE A POSITIVE INFLUENCE ON THE SITUATION IN THE DISTRICT

Alexander Matovnikov,
Plenipotentiary Representative of the RF President in the North Caucasian Federal District



Alexander Matovnikov

The North Caucasian Federal District is one of the most ethnically and religiously diverse in Russia. The district's ethnic diversity underscores the challenge of preserving ethnic parity and balance, which are key to the peaceful coexistence within the same territory.

The ongoing monitoring, oversight and adjustment of the development trajectory by government authorities is key to the district's attainment of its sustainable development goals and comprehensive protection from internal and external influences, which depends on the success of the efforts to improve the efficiency of the regional economy, bring down the debt burden and eliminate the need for subsidies, increase the NCFD's investment attractiveness, and reduce unemployment, corruption and the size of the shadow financial sector. The challenging criminal and ethno-political situation in the district requires law enforcement and supervision to work hard to prevent the misappropriation of public funds

and combat terrorist/extremist financing capable of stoking up ethnic tensions. In this regard, the ability of public and law enforcement authorities to focus their efforts on the fight against illicit transactions is key to solving these challenges; hence the decision taken in 2014 to establish an Interagency Working Group in the district.

The Interagency Working Group on Combating Illicit Transactions in the NCFD (hereinafter the "RIWG") was created to promote cooperation between federal executive authorities, law enforcement and oversight agencies in preventing, detecting and disrupting illicit transactions, as well as in combating illegal capital flows out of the country and into its shadow economy.

Significant results have been achieved in mitigating the risk of involvement of credit institutions in suspicious transactions, dismantling illicit financial schemes, and identifying and preventing other malpractices.

Since the establishment of the NCFD RIWG, the number of high-risk banks in the district has fallen by half, with five banks losing their licenses in 2018 alone as the result of the Central Bank's efforts to reduce the share of financial institutions with a dubious reputation in the banking sector. The same measures have helped reduce the number of branches of banks from outside the NCFD operating in the district. The adoption by the RIWG of rapid response measures helps disrupt the emergence of illegal encashment centres in the district, with 10 such centres responsible for illegal encashment activities more than 50 billion rubles having been dismantled in the past three years.

The recurrent theme of the RIWG meetings dedicated to the fight against money laundering is the sectoral zoning of regional risks identified in the National Risk Assessment. The agricultural sector, which is notable for its dependence on financial services, particularly leasing, insurance and subsidized lending, is key to the RIWG's strategy for tackling high risks in the district. The challenges faced by the agro-industrial sector have often been discussed at NCFD RIWG meetings, whose participants looked

for ways to better monitor the expenditure of public funds allocated in support of this sector. Effective coordination of the efforts of the regional agriculture ministries, law enforcement and oversight authorities helps boost performance of the agro-industrial sector in the district.

Among the highlights of the RIWG's efforts to decriminalize the NCFD energy sector are the disruption of the criminal schemes to siphon funds out of a large gas distribution company as well as the fight against extremist financing and support for other serious crimes, which led to the detention of the suspects and initiation of criminal proceedings against them.

In compliance with the presidential instructions to make more legitimate the market of the alcoholic the RIWG has taken action against the district's alcohol producers guilty of excise tax evasion totalling more than 26 billion rubles, resulting in the freezing of the debtors' property and recovery of stolen assets.

At its meetings, the RIWG focused on promoting transparency of the jewellery sector as well as the NCFD economic and social sectors in general. The RIWG's inspections of the financial sector led to the detection of illegal precious metals transactions and related VAT evasion by commercial banks and legal entities. Thanks to the actions taken jointly with law enforcement authorities, one of the scheme participants – a major jewellery factory – was subsequently charged with VAT and income tax evasion totalling 6 billion rubles.

So it is essential for the RIWG to combat the misappropriation public funds allocated for the implementation of various infrastructure and social projects, as well as the projects designed to improve the district's investment appeal.

The intensification of migration processes caused by the ongoing military conflicts in the Middle East (Iraq and Syria) and attempts to replace traditional Islamic teachings with radical propaganda often leads to escalation of the terrorist and extremist threat in the district.

The priority of the measures to identify and disrupt terrorist and extremist financing channels, as well as to combat the misappropriation and embezzlement of public funds, remains very high. At the same time, given the constantly evolving and latent nature of terrorist financing and methods as well as the expanding diversity of extremist support, reliance only on previously developed measures to combat illicit transactions cannot be seen as a viable option. Since, as well all know, illicit translations are nothing but a means of attaining illegal goals, the RIWG, at its meetings, along with countermeasures, discusses steps to mitigate the reasons behind such transactions.

It is worth noting that the RIWG, at its meetings, repeatedly discussed with representatives of law enforcement authorities the need to freeze the funds

and other assets of terrorist suspects, by submitting the collected evidence to the Interagency Working Group on Combating Terrorist Financing (IWG). Thus, the joint efforts of Rosfinmonitoring and law enforcement authorities led to the dismantling in early 2018 of a major terrorist financing scheme, preceded by the freezing, authorized by the IWG, of bank accounts of the scheme organizers and 11 active participants.

In summary, it is fair to say that the work carried out by the RIWG has a positive influence on the situation in the district. From building cooperation to the adoption of concrete measures, the RIWG has fulfilled a serious job to achieve the goals that it once classified as strategic. At the same time, despite the significant progress, much remains to be done in this area.

WITH THE ATTENTION TO REGIONAL SPECIFICS, THE FOCUS HAS BEEN ON CUTTING OFF TERRORIST FUNDING

*Andrey Volobuev,
Head of Rosfinmonitoring Interregional Department
in the North Caucasian Federal District*



Andrey Volobuev

The Deputy Prime Minister – Plenipotentiary Representative of the Russian President in the North Caucasian Federal District, by his Directive No. A73-36rp of November 11, 2013, established the Interagency Working Group on Combating Illicit Transactions in the North Caucasian Federal District.

The RIWG is led by A. Matovnikov, Plenipotentiary Representative of the RF President in the North Caucasian Federal District.

Since its establishment, the NCFD RIWG, which includes an interagency expert group, has held 14 meetings.



Pyatigorsk

The RIWG's actions to combat illicit transactions include measures to mitigate the risk of involvement of credit institutions in suspicious transactions, disrupt shadow financial schemes and termination of relationship with dishonest customers.

In the time since the establishment of the RIWG, the number of high-risk banks in the district has fallen by half, with five major banks losing their licenses in 2018 as a result of the clean-up measures undertaken by the Bank of Russia.

A close scrutiny of the financial services market has resulted in the shutting down of more than 10 illicit encashment centres in the past three years located predominantly in the Kabardino-Balkaria and Karachay-Cherkess Republics and the Stavropol Territory, with the total value of funds reverse money laundered by them estimated at over 50 billion rubles.

Among the RIWG's focus areas is the agricultural sector, which is notable for abuse of leasing, insurance and subsidized lending instruments as well as high corruption risks.

Measures undertaken by the RIWG have led to the dismantling of a criminal gang responsible for the embezzlement of funds of the Ministry of Agriculture of the Republic of Ingushetia allocated for the partial reimbursement of farmers' harvest insurance costs.

Another criminal scheme exposed by the RIWG involved the use of fictitious financial leasing contracts for agricultural equipment concluded with Rosagroleasing, a state-owned leasing company, totalling more than 140 million rubles.

As part of the measures to monitor the implementation of a major investment project for the construction of the Stavropol agro-industrial park, the RIWG prevented the embezzlement of more than 91 million rubles in VAT fraud.

The RIWG has developed and implemented measures to mitigate the risk of involvement of businesses and individual entrepreneurs from the district's jewellery sector in illicit transactions with precious metals, stones and jewellery made

of them. In pursuance of the RIWG's decisions, the Don and Pre-Caspian state inspectorates of assay supervision took step to improve regulatory compliance of legal persons and individual entrepreneurs engaged in buying and selling of precious metals and precious stones, jewellery made of them and scrap there of, resulting in the updating of the NCFD register of jewellery industry participants, increased level of the private sector's participation in AML/CFT efforts through the launch of the personal account function on the Rosfinmonitoring website (more than 70 registered

users), and implementation of a risk-based approach to supervision.

The measures taken have boosted the level of regulatory compliance and quality of internal controls of the jewellery industry participants. The accumulated experience has been shared by the Russian Assay Chamber with all state inspectorates of assay supervision.

Paying due attention to regional specifics, the NCFD RIWG's focus has been on cutting off terrorist funding.



Interagency Working Group on Combating Illicit Transactions in the Volga Federal District

AMENDMENTS TO FEDERAL REGULATIONS ARE NEEDED

Igor Komarov,

Plenipotentiary Representative of the RF President in the Volga Federal District



Igor Komarov

Combating illicit transactions is key to the success of Russia's efforts to undermine the economic foundations of crime, cut off terrorist financing channels, improve the competitiveness of the economy and, last but not least, bolster the country's position in the international arena. This is especially relevant now, on the eve of the FATF 4th round of mutual evaluations, scheduled for this March (20-21 March 2019 for VFD).

In the Volga Federal District, the work in this area, including the fight against illegal encashment activities, has become more systematic since the creation of an Interagency Working Group on Combating Illicit Transactions (hereinafter "IWG") in 2014.

The findings of the assessment of the situation in the district's financial sector have highlighted a concentration of large volumes of suspicious financial transactions, including pass-through and multi-directed, made through the accounts of numerous shell companies involved in illegal encashment activities schemes.

According to Rosfinmonitoring's VFD office, the total value of suspicious transactions in the district stood at 1.8 trillion rubles in 2015 and 1.6 trillion in 2016. Meanwhile, the total value of illegal encashment activities transactions carried out in the district in the same period increased 4.5-fold, from 11 to 48.6 billion rubles, with growth recorded in 8 out of 14 district's regions.

Favourable conditions existed in the district's regions for making unrecorded cash payments, including related to off-the-books wages, bribes and other types of corruption offences.

At the same time, the efforts to fight illicit transactions were hampered by the absence of criminal liability for illegal encashment activities.

In this regard, law enforcement authorities have spent the past few years building up experience in combating these malpractices, particularly those falling under Articles 172 (Illegal banking), 173.1 (Illegal formation of a legal entity) and 173.2 (Illegal use of documents to form a legal entity) of RF Criminal Code, as well as in prosecuting the initiators of reverse ML transactions (Art. 187) for making and using fake money transfer orders to transfer funds to the accounts of shell companies.

Experts from Rosfinmonitoring, Bank of Russia and law enforcement, prosecution and other agencies have participated in the creation of an interagency engagement mechanism in the district, whereby the responsibility for coordinating the activities of law enforcement and oversight bodies at the federal level is assigned to the VFD IWG; and at the regional level, to the interagency working groups established within the prosecutor's office of the constituent territory. Coordination efforts are overseen by the VFD Directorate of the RF Prosecutor General's Office, within which an ad hoc interagency working group on combating money laundering has been created.

Discussions of the most difficult and controversial issues are held at the IWG expert group meetings, including at joint off-site meetings in the district's regions.

Starting 2014, the IWG has been conducting an ongoing monitoring of the situation in the financial

sector. Other measures include the assessment of the regional risks and threats, development of law enforcement and oversight mitigation measures, and provision of practical assistance to high-risk regions.

The development of the interagency engagement mechanism, coupled with the implementation in the district of measures to combat violations in this area, has improved the performance of law enforcement authorities.

Thus, 388 ML offences (Art. 174.1) were detected in the VFD in 2018, up 300 percent year-on-year (968 for Russia, up 43.6 percent) – more than in any other federal district.

Meanwhile, the rate of detection of illegally formed legal entities increased 2.3-fold to reach 1621 (4588 for Russia, up 77 percent), and of illegally used documents to form a legal entity by 2.2-fold to 1110 (4892 for Russia, up 2-fold), meaning that the VFD accounts for a third of all such offences detected in Russia and more than half of cases involving the use of fake payment documents (297 out of 549).

The use of the interagency engagement mechanism has allowed the VFD competent authorities:

- to disrupt major reverse ML and pass-through transactions carried out in the Perm Territory and the Udmurt Republic through Sberbank's West-Urals Bank, as well as in 7 other regions (the Republic of Tatarstan as well as the Kirov, Nizhny Novgorod, Penza, Samara, Orenburg and Ulyanovsk Regions);
- to detect and disrupt the reverse ML scheme involving Russian Post branches in the Samara and Ulyanovsk Regions;
- to reduce 6 times the number of mass registration addresses; identify inaccuracies in the information submitted by about 21,000 legal entities; and de-register about 66,000 entities, a quarter of which were denied state registration in connection with the provision of inaccurate information;
- to intensify the work carried out both by Bank of Russia's VFD office in respect of credit institutions and by banks in respect of customers making suspicious transactions.

Thanks to our joint efforts, the total value of suspicious transactions stood in 2018 at 700 billion rubles, down 2.5-fold compared with 2015, forcing illicit scheme operators to adapt and resort, in 2017, to the use of alternative reverse ML schemes involving court rulings and sale of cash proceeds by retail outlets.

One distinguishing feature of these schemes is their apparent legitimacy that prevents these transactions from being covered by the requirements of Federal Law No. 115 or other regulations.

These alternative schemes were discussed in October 2017 at the IWG meeting in Nizhny Novgorod, attended by representatives of the Presidential Administration of the Russian Federation and Rosfinmonitoring, resulting in the development of additional measures that helped improve the situation.

Thus, according to statistics, 449 criminal investigations were launched in 2017-2018 into the use of alternative reverse ML schemes, including 173 into the misuse of the labour dispute commission certificates, 44 court rulings, 37 illicit encashment schemes and 8 executive notarial inscriptions.

As a result, the total value of money transfers from entities to individual accounts for use in reverse ML schemes involving court decisions declined in 2018 2.4-fold; and 2.3-fold for reverse ML transactions involving fake labour dispute commission certificates, from 99 million to 43 million rubles, resulting in the almost complete disappearance of these schemes in the VFD by the end of 2018.

Meanwhile, the total value of reverse ML transactions involving executive notarial inscriptions declined more than 10-fold, from 240 million to 21 million rubles), with no cases of involvement of district notaries in such schemes identified in 2018. The only cases recorded involved CFD notaries.

VFD courts have begun to involve representatives of tax authorities and Rosfinmonitoring's VFD office in judicial proceedings (850 cases) as third parties, as well as to verify the true intentions of the parties to the transaction and the reliability of evidence of fulfilment of their obligations thereunder. The district prosecutors, meanwhile, used new evidence to

appeal against court decisions issued in relation to claims by criminals designed to give the appearance of legitimacy to reverse ML transactions.

Each case involving the submission to the court of false document triggers an inquiry that probes for evidence of possible offences falling under Article 303.

These law enforcement actions force criminals engaged in reverse ML transactions to sophisticate their schemes.

Analysis of the situation has exposed the popularity among the district criminals of the practice involving the purchase of cash revenues from retail outlets.

According to the Bank of Russia's Volgo-Vyatka general directorate, 45 percent of suspicious transactions carried out by credit institution customers are linked to illicit encashment schemes (310 million rubles in 2018). According to Rosfinmonitoring's VFD office, the involvement in this scheme of a single retail chain allows criminals to reverse launder 4-7 billion rubles a year, with exact figures likely being much higher.

Unfortunately, there is still no effective strategy for combating such schemes, given that it is not against the law for retail outlets and car dealerships to sell their cash proceeds, while administrative penalties (a fine of at least 30,000 rubles) used by tax authorities are insufficient when compared to potential benefits. The use of this scheme allows retailers, in addition to charging a fee for the sale of cash revenues, to avoid paying encashment charges levied by banks.

This conclusion is supported by experts representing law enforcement and tax authorities, the Bank of Russia and Rosfinmonitoring's VFD office.

In this regard, the following response measures have been undertaken:

- the main types of illicit encashment transactions (6) have been identified, with information about them submitted to regional prosecutors for discussion at working group meetings;

- a list of entities involved in illicit encashment schemes is being compiled for submission to law enforcement;
- tax authorities have intensified the monitoring of compliance of retailers with cash handling and encashment requirements.

Taxpayers suspected of involvement in illicit encashment schemes and underreporting are placed on the list of entities to be subject to on-site inspections, whose findings, provided there are sufficient grounds, are referred to law enforcement.

A pilot project to monitor the involvement of retail outlets in illicit encashment transactions was launched in October 2018 in the Nizhny Novgorod Region.

Analysis of measures to counter illicit encashment transactions has identified a number of problems hampering progress in this area.

First, the existing illicit encashment schemes tend to be interregional in their nature (their customers are located outside the VFD, mainly in Moscow and St. Petersburg), which makes it much more difficult to identify beneficiaries and curb schemes operating within one constituent territory or district.

Second, penalties for non-compliance with encashment requirements are incompatible with the benefits obtained.

Third, the shadow market quickly adapts to the existing criteria for identifying suspicious customers. That is why it is important for Rosfinmonitoring and Bank of Russia to keep up with evolution of encashment schemes.

In this regard, it makes sense to amend federal and Bank of Russia regulations to mitigate the fallout from such encashment schemes. In turn, we are ready to present our proposals on this issue for consideration at the federal IWG meeting.

LEGISLATIVE IMPROVEMENTS TO COMBAT WHITE-COLLAR CRIME

*Victor Tsyganov,
Head of Rosfinmonitoring Interregional Department
in the Volga Federal District*



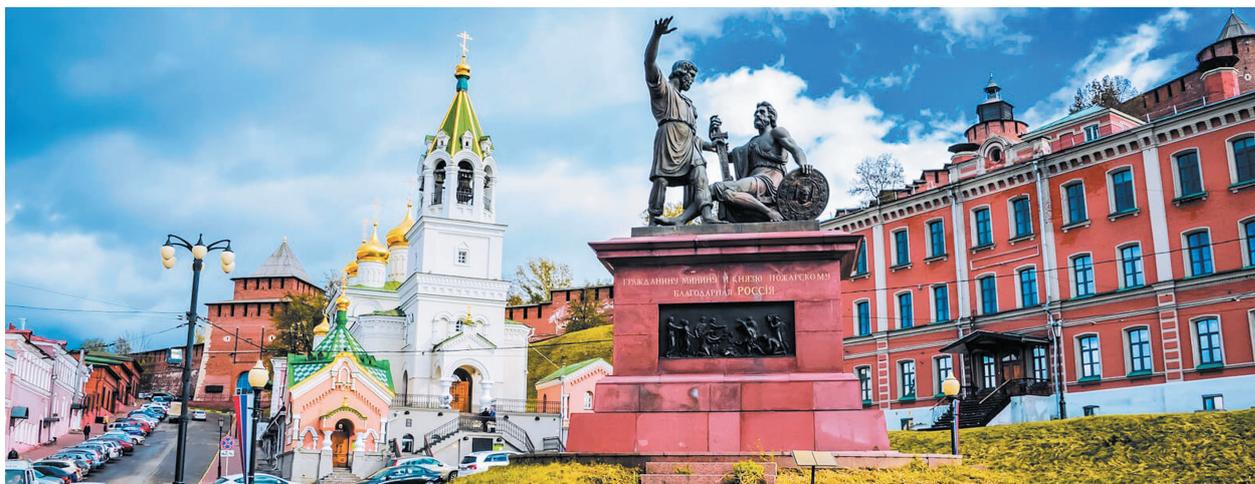
Victor Tsyganov

The Interagency Working Group on Combating Illicit Transactions (IWG) in the Volga Federal District was established by the Plenipotentiary Representative of the Russian President in the Volga Federal District Directive No. A53-19r of April 24, 2014.

The IWG is led by I. Komarov, Plenipotentiary Representative of the RF President in the Volga Federal District.

Since its establishment, the VFD RIWG, which includes an expert advisory group, has held 18 meetings.

The RIWG has identified regions with the largest volume of suspicious transactions: the Republic of Tatarstan, the Udmurt Republic, the Perm Territory, the Nizhny Novgorod and Samara Regions. The RIWG expert group used this information to develop and implement measures aimed at mitigating risks in the financial sector and reducing the volume of suspicious transactions, including pass-through and multi-directed, made through the accounts of numerous shell companies involved in illegal encashment activities (IEA) schemes.



Nizhny Novgorod

This has led to the disruption of major reverse ML and pass-through transactions in 9 regions, as well as attempts to involve Sberbank's West-Urals Bank in them.

Joint efforts of Rosfinmonitoring's VFD office and the region's law enforcement, tax and customs authorities have helped reduce the volume of pass-through transactions made through the accounts of shell companies and accompanied by multiple withdraws of funds from ATMs. The total volume of suspicious transactions in the Perm Territory and the Udmurt Republic has declined 7- and 8-fold, respectively. Meanwhile, in the Nizhny Novgorod Region, the volume of such transactions decreased almost 4-fold by 2017 (from 9.9 billion to 2.6 billion rubles per month); and in the Republic of Tatarstan, this figure stood at 14-16 billion rubles per month, falling by 22 percent in 2018.

Since its establishment, the IWG had identified and disrupted by 2018 major alternative IEA schemes involving the Russian Post branches, including the schemes operated in the Samara and Ulyanovsk Regions that were used to reverse launder about 3 billion rubles in 2014-2015.

The adoption of measures to combat suspicious translations used to pay off-the-books wages and to make multi-directed transfers of funds from legal entities to individual accounts for use in IEA schemes, has allowed the region authorities to collect more than 200 million rubles in additionally assessed taxes.

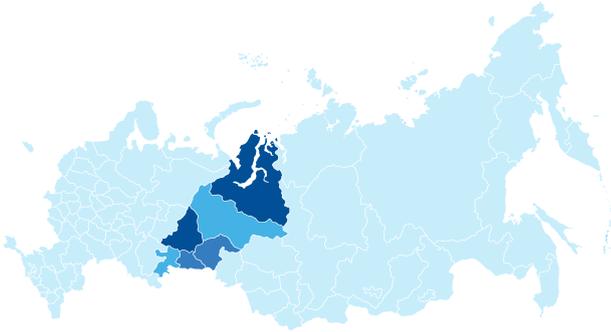
The proliferation of alternative IEA schemes involving illicit encashment operations (sales of cash proceeds by retail outlets) has been thwarted in 7 of the district's regions, along with the schemes where criminals abused the judicial system to collect debt under fictitious contractual obligations, including for subsequent withdrawal of funds abroad, resulting in the decline of more than 7 billion rubles (to 14.3 billion) in the total volume of outbound capital flows in 2018.

At the IWG meetings held on February 27, 2018 and December 17, 2018, participants discussed preparations for the FATF (Financial Action Task Force) on-site visit.

IWG participants are actively involved in the drafting of legislative amendments to combat white-collar crime, with several initiatives having already made their way into the newly adopted regulations.

Thus, proposals, including legislative and organizational, for combating the "migration" of entities carrying out suspicious transactions to other banks to avoid anti-money laundering measures, as well as for restricting the transportation of large amounts of cash by individuals, have been submitted to the head of the federal IWG for consideration.

These proposals have led, among others, to the adoption of Federal Law 424-FZ of December 30, 2015 "On amendments to the Federal Law 'On Combating Money Laundering and Terrorist Financing'".



Interagency Working Group on Combating Illicit Transactions in the Ural Federal District

OUR GOAL IS TO STRENGTHEN THE FIGHT AGAINST ILLICIT TRANSACTIONS

The economic security of the Russian Federation is directly dependent on the effectiveness of the efforts to combat money laundering and terrorist financing

Nikolay Tsukanov,

Plenipotentiary Representative of the RF President in the Ural Federal District



Nikolay Tsukanov

The main risks in this area, as well as the objectives and directions of the efforts to mitigate them, are laid down in the National AML/CFT System Development Strategy.

The provisions of this Strategy fully take into account with the Recommendations of the Financial Action Task Force (FATF), whose experts are currently assessing the effectiveness of Russia's AML/CFT system.

In this regard, the issues of interagency cooperation and coordination in combating money laundering and terrorist financing, including the elimination of the threats to national security stemming from

transactions with funds or other assets, as well as in developing measures to counter these threats, are of great importance.

To ensure a rapid response to the existing challenges, the Russian President, by his decree, established in 2012 the Interagency Working Group on Combating Illicit Transactions (hereinafter the "RIWG" or "Group"), comprising representatives of the Presidential Administration, law enforcement, tax and customs authorities, banking institutions, and other regulatory bodies.

The RIWG, led by the Plenipotentiary Representative of the Russian President in the Ural Federal District, has become one of the most important mechanisms for mounting a rapid response to the ML/TF threats and risks faced by the country in general and the Ural Federal District in particular.

The diverse range of issues discussed by the RIWG over the past 5 years predominantly concerned measures to strengthen the fight against illicit transactions identified in the National Risk Assessment.

Besides AML/CFT, the Group has also discussed measures to combat the embezzlement of public funds in the defence sector, capital flight, tax evasion, misuse of federal subsidies for families with many children, abuse of court rulings enforcement proceedings, misappropriation of public funds allocated for federal and regional investment programmes, and pyramid schemes. In total, the Group has held 23 meetings and discussed 39 topics.

Decisions adopted by the Group following discussion were aimed at intensifying the efforts to tackle urgent problems, improving interagency cooperation and developing proposals for legislative amendments.

Over the past years, as a result of coordinated interagency measures, proposals have been made to amend legislation governing the activities of consumer credit cooperatives to introduce liability for misuse of maternal (family) capital certificates, as well as criminal and criminal procedure legislation to enable the forfeiture of laundered assets.

Discussions of the risks of abuse of court rulings have allowed the Federal Bailiff Service and credit institutions of the constituent entities of the Russian Federation located in the Ural Federal District to accumulate experience in identifying the indicators of such abuse and combating suspicious transactions related thereto, resulting in courts' rejection of dozens of claims since 2017 linked to suspicious transactions totalling billions of rubles.

Today, it is safe to say that the Interagency Working Group on Combating Illicit Transactions under the Plenipotentiary Representative of the Russian President in the Ural Federal District continues to act as the main forum for AML/CFT experience sharing and decision-making.

However, in light of criminals' attempts to utilize new approaches and probe for legislative vulnerabilities in developing their criminal schemes, the Executive Office of the Plenipotentiary Representative of the Russian President in the Ural Federal District continues to prioritize efforts to further improve the performance of the Interagency Working Group and increase the level of interagency cooperation and coordination in order to develop effective response measures and, as a result, achieve better results.

In conclusion, in order to strengthen the RIWG's coordinating role and facilitate a broader involvement in its activities of state bodies of the constituent entities of the Russian Federation in the Ural Federal District, I have decided to take personal charge of this coordinating and advisory body.

OUTBOUND CAPITAL FLOWS FROM UFD HAVE FALLEN MORE THAN 50%

Alexey Kardapoltsev,

Head of Rosfinmonitoring Interregional Department
in the Ural Federal District



Alexey Kardapoltsev

The Plenipotentiary Representative of the Russian President in the Ural Federal District, by his Directive No. 128r of April 21, 2014, established the Interagency Working Group on Combating Illicit Transactions in the Ural Federal District (hereinafter “RIWG” or “Group”).

The RIWG is led by Deputy Plenipotentiary Representative of the RF President in the Ural Federal District A Kaliberda.

The UFD RIWG, which includes an expert advisory board, has held 22 meetings, including 4 in 2018.

The RIWG has developed measures to combat illicit transactions in high-risk areas, including public procurement and the financial sector, and to counter terrorist financing, corruption and drug trafficking.

Other issues addressed by the Group include measures to combat the embezzlement of public funds allocated for the defence industry. Audits of 68 defence procurement contracts with a total value of 20 billion rubles has revealed over 1,000 suspicious transactions totalling 13.1 billion rubles.



Ekaterinburg

The RIWG has taken steps to prevent the embezzlement of public funds allocated for the implementation of special-purpose federal and regional programmes, major investment projects and to upgrade the housing stock and utilities.

These measures, as well as the steps taken in preparation for the World Cup 2018 stages in Yekaterinburg, have helped prevent the embezzlement of more than 1.1 billion rubles in public funds and recover more than 0.5 billion.

Among the RIWG's focus areas were the management and disposal of state and municipal property, and control over the expenditure of funds from regional budgets. In the first 8 months of 2018 alone, the total volume of funds, including intergovernmental transfers, allocated for regional and municipal needs and subject to oversight and analytical scrutiny, stood at 87.7 billion rubles, with the value of identified violations estimated at more than 2.4 billion rubles, including 61.2 million in misappropriated public funds.

As a result of the measures taken by the Group to combat illegal capital flight, the total value of funds taken out of the UFD has fallen from 8.5 billion to 4 billion.

The effectiveness of law enforcement and oversight measures to combat the misuse of public funds allocated for the development of the transportation infrastructure across Russia was discussed at the RIWG meeting on February 28, 2018.

In response to the rise, which began in 2016, in the number of violations associated with the abuse of court rulings enforcement proceedings, the RIWG held a meeting on 10 August 2017 to discuss the adoption of measures to mitigate these risks and disrupt criminal schemes. To increase the effectiveness of these efforts, the Group has secured active participation of judicial authorities.

At its meeting held on July 25, 2018, RIWG participants discussed preparations for the FATF (Financial Action Task Force) on-site visit. The meeting, held via video conference, was attended by representatives of Rosfinmonitoring, FSB, Interior Ministry and Federal Customs Service central offices, members of the Interagency Working Group and other concerned agencies from the territorial entities of the Russian Federation.



Interagency Working Group on Combating Illicit Transactions in the Siberian Federal District

PREVENTING THE EMBEZZLEMENT OF PUBLIC FUNDS IS OUR PRIORITY

Sergey Menyailo,

Plenipotentiary Representative of the RF President in the Siberian Federal District



Sergey Menyailo

The Interagency Working Group on Combating Illicit Transactions in the Siberian Federal District (the “RIWG” or “Group”), overseen by the Plenipotentiary Representative of the RF President in the Siberian Federal District, was established on 21 April 2014.

The RIWG is made up of heads of regional and district law enforcement and oversight authorities operating in the Siberian Federal District.

The Group carries out its activities in compliance with the decrees and instructions of the RF President, Security Council resolutions, strategic and regulatory documents, guidelines and typologies of the federal IWG, and with due consideration for the existing realities in the district.

The responsibility for providing informational, analytical and logistical support lies with Rosfinmonitoring's regional office and the plenipotentiary executive office.

The Group's top priority is to promote cooperation between regional offices of federal agencies, state authorities of the constituent entities of the Russian Federation located in the Siberian Federal District and the Bank of Russia's Siberian General Directorate in preventing, detecting and disrupting illicit transactions, as well as in developing and applying interagency measures to mitigate threats and vulnerabilities in the district's areas most at risk of money laundering.

From 2014 to February 2019, the RIWG held 15 meetings, whose participants discussed issues related to the decriminalization of select economic sectors of the Siberian Federal District; mitigation of the risk of embezzlement of public funds and abuse of the financial sector; improving the efficiency of the system to combat money laundering and terrorist financing; and preparation of Russia for the FATF (Financial Action Task Force) assessment.

It is no coincidence that more than half of the issues discussed pertain to the efforts to combat the embezzlement of public funds: more than a hundred large investment projects are currently being

implemented in the district; over 20 federal target programmes whose combined funding exceeds 1 trillion rubles; 450,000 state and municipal contracts worth over 500 billion rubles are concluded each year (Fig. 1).

The RIWG's efforts to prevent the embezzlement of public funds include measures to promote interagency control over the expenditure of public funds allocated for the federal target program "Development of the Russian Transportation System (2010-2021)"; the creation of special economic zones in the Siberian Federal District; infrastructure projects in monotowns; and, in particular, the World Winter Universiade in Krasnoyarsk.

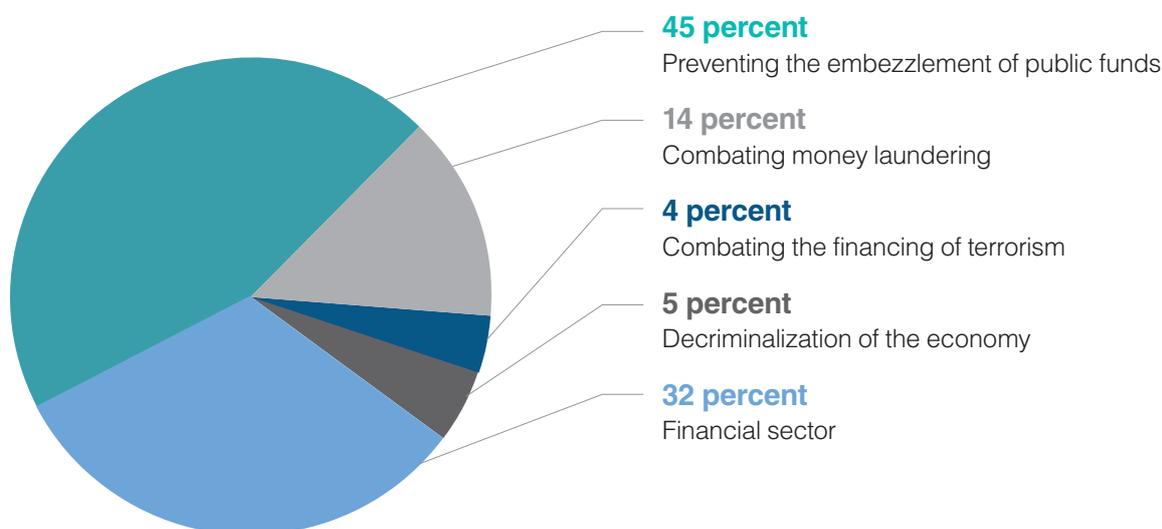
Importantly, almost all decisions adopted by the RIWG produce a tangible economic effect.

Thus, in April 2017, the Group discussed ways to improve the oversight of defence spending.

Coordination decisions adopted at that meeting aimed at preventing the embezzlement of defence funding have helped improve the quality of interagency oversight in this area.

For example, only in one of the SFD republics, concerted action helped prevent the embezzlement of more 1.6 billion rubles allocated for the construction of military infrastructure.

Fig. 1 SFD IWG meeting themes (2014-2019)



In another SFD region, and also as a result of interagency cooperation, the discovery of shell firms among the defence contractor's subcontractors led to the annulment of the contract, preventing the embezzlement of an estimated 2.7 billion rubles.

There are other examples where large sums of public funds were prevented from being embezzled.

Following the discussion at the RIWG of the measures to intensify cooperation between law enforcement and oversight authorities in preventing, detecting and disrupting illicit transactions with funds allocated for the World Winter Universiade 2019 in Krasnoyarsk and the adoption of interagency measures, a 1.1 billion ruble contract with one of the contractors was terminated to prevent the embezzlement of public funds.

At its meeting in late 2018, the Group discussed the risks associated with the expenditure of public funds without Treasury oversight. A list of high-level risks here includes payment for work performed only on paper, overstating contract costs and volumes, payment for works not covered by the contract or not supported by documentary evidence, failure to utilize the equipment purchased, and many more.

At the same time, pilot projects that are currently being implemented in the district under Treasury oversight – the allocation of subsidies to agricultural producers in the Altai Territory and the construction of the regional clinical hospital in Krasnoyarsk – are much more effective, with almost no instances of misappropriation of public funds detected.

Therefore, the use of the Treasury oversight mechanism, should, in our opinion, be expanded beyond federal procurement to include regional and local projects involving public funds. To this end, it is necessary, in particular, to expand the scope of oversight functions exercised by the Federal Treasury's regional offices and promote bilateral and trilateral cooperation among oversight authorities in this area.

Such experience already exists in the district.

Thus, the Federal Treasury Department for the Novosibirsk Region and the regional government have signed an agreement to expand the list of public funds subject to Treasury oversight, the positive effect from which is already evident today. In addition, cooperation has been strengthened between regional governments, treasury bodies and Rosfinmonitoring's office in the district. In 2019, Rosfinmonitoring's SFD office signed an agreement with the Novosibirsk Region government to prepare for the upcoming World Ice Hockey World Championship in 2023, which takes into account the Krasnoyarsk Territory government's experience in monitoring the expenditure of public funds allocated for the Universiade.

This approach to public oversight helps prevent violations at the stage of ongoing monitoring, since subsequent oversight, when violations have already followed, is not particularly effective.

The existing positive experience in exercising Treasury oversight of regional projects was reported at a board meeting attended by the speakers of legislative assemblies and heads of constituent entities of the Siberian Federal District. The district executive and legislative authorities are currently discussing proposals to expand the treasury oversight to cover public expenditure at the regional level.

The expansion of oversight functions of regional authorities will be especially important at the time of implementation of national projects in the regions.

Among the results of the RIWG's efforts to combat the embezzlement of public funds achieved in the past five years are:

- initiation of 349 criminal proceedings, half of which (151) have already been referred to courts;
- detection of more than 100 administrative offences;
- seizure of property valued at 11 billion rubles;
- rejection of VAT claims totalling 1.1 billion rubles;
- issuance of fines totalling 300 million rubles;
- charging additional taxes totalling 7.2 billion rubles.

Among other outcomes of the Group's efforts to promote cooperation among all SFD government agencies is the 4-fold decline in the total volume of suspicious outbound capital flows (from 16.6 billion rubles in 2014 to 4 billion in 2018) and 2-fold decline in the volume of suspicious illegal encashment activities transactions (from its peak of 64 billion rubles in 2016 to 32 billion in 2018).

The work to prevent the embezzlement of

public funds, particularly those allocated for the implementation of national and major regional projects, will remain among the RIWG's top priorities in the coming months. Other priorities include measures to contain the threats and eliminate the vulnerabilities in areas identified in the national assessment of money laundering and terrorist financing risks, as well as, of course, the work to address the issues recommended by the federal IWG.

CONTROL OVER FINANCIAL FLOWS RELATED TO THE IMPLEMENTATION OF INFRASTRUCTURE PROJECTS IN MONOTOWNS

*Andrey Dolbnya,
Head of Rosfinmonitoring Interregional Department
in the Siberian Federal District*



Andrey Dolbnya

The Plenipotentiary Representative of the Russian President in the Siberian Federal District, by his Directive No. A55-18rp of April 21, 2014, established the Interagency Working Group on Combating Illicit Transactions in the Siberian Federal District.

The RIWG is led by Deputy Plenipotentiary Representative of the RF President in the Siberian Federal District A. Butin. Since its establishment, the RIWG has held 14 meetings.

Among the RIWG's priorities are the mitigation of risks in the financial sector, combating embezzlement of public funds (including tax fraud) and decriminalization of select SFD industries.

A separate RIWG meeting was dedicated to the mitigation of regional risks, i.e. the decriminalization of the SFD timber industry. Also on the agenda was cooperation between law enforcement and oversight authorities in combating terrorist/extremist financing.



Novosibirsk

The RIWG has taken steps to counter Illegal encashment activities (IEA) transactions, including involving instant payments; outbound capital flows, including using shell companies; and misuse of “maternity capital” certificates.

Among the Group’s achievements is the dismantling of major illegal encashment centres in the Altai Territory, Novosibirsk, Irkutsk and Kemerovo Regions, home, in the latter case, to Siberia’s largest encashment centre operated through Business Development Bank, which was responsible for Illegal encashment activities of about 4 billion rubles. Measures have been taken to curb multiple IEA transactions in the banking sector and VAT fraud, including involving foreign trade transactions.

In 2015, the SFD RIWG was one of the first to raise concern about the abuse of court judgments by criminals involved in IEA schemes. Proposals for legislative amendments developed with input from the judicial community have been submitted to the federal IWG.

In its efforts, the RIWG maintains a constant focus on the fight against Illegal encashment activities and

capital flight. As a result of the measures taken, the total volume of suspicious outbound capital flows has fallen 4-fold (from 16.6 billion rubles in 2014 to 4 billion in 2018) and of suspicious IEA transactions 2-fold (from its peak of 64 billion rubles in 2016 to 32 billion in 2018).

With a view to containing the spread of IEA schemes involving the abuse of civil, notarial, banking and enforcement proceedings, the RIWG has developed additional counter IEA measures to promote:

- the rehabilitation of the financial sector and elimination of unscrupulous participants;
- a gradual decline in the volume of cash in circulation; and
- the use of harsher administrative sanctions for non-compliance with cash handling requirements, including cash operations.

The RIWG has prevented the embezzlement of more than 1.3 billion rubles in the defence procurement sector.

Taking into account regional specifics, the Group has discussed measures to monitor financial flows related to the implementation of infrastructure projects in monotowns (SFD accounts for one fifth of all monotowns in Russia, 66) as well as related development funding.

In 2017, as part of the efforts to combat the embezzlement of public funds allocated for the federal target program “Development of the Russian Transportation System 2010-2020”, more than 280 million rubles in additional taxes has been assessed.

The RIWG has prevented the embezzlement of public funds allocated for the XXIX World Winter Universiade in 2019, the expenditure of public funds without treasury oversight and with the involvement of shell companies. A contract signed with one of Universiade contractors in the amount of 1.1 billion rubles was terminated.

The RIWG, at its meeting on 28 March 2018, discussed the readiness of the SFD public authorities and the private sector for the FATF assessment.



Interagency Working Group on Combating Illicit Transactions in the Far Eastern Federal District

EXTRA ATTENTION IS PAID TO SAFEGUARDING CITIZENS' RIGHTS AND LEGITIMATE INTERESTS

Sergey Udovik,

*Deputy Plenipotentiary Representative of the RF President in the
Far Eastern Federal District*



Sergey Udovik

In his address to the Federal Assembly on 12 December 2013, Russian President Vladimir Putin declared the development of the Russian Far East as the country's strategic priority for the entire 21st century. That moment marked the beginning of an active phase of the campaign to transform the entire FEFD economy into an area of fast growth.

In 2014-2015, with a view to attracting domestic and foreign investments, the country enacted federal laws "On the Territories of Advanced Socio-economic Development in the Russian Federation" and "On the Free Port of Vladivostok", introducing new preferential investment conditions for businesses in the district. This led to the launch of large-scale government programmes and infusion of significant federal budget funds in the region's economy and social infrastructure.

At the same time, it is not possible to attract investment, ensure business growth and expand international economic cooperation without creating suitable conditions in the financial market, increasing its transparency, stability and predictability, and facilitating regulatory compliance by all its participants.

Under these conditions, the public demand for a higher level of cooperation between law enforcement, oversight and other government agencies in promoting compliance with financial regulations, overseeing public procurement, protecting investments and combating the shadow economy, increases.

The purpose of the FEFD Interagency Working Group on Combating Illicit Transactions is to create conditions for greater collaboration between government agencies in detecting, preventing and suppressing financial crimes in the region, as well as in combating illegal capital flight and the shadow economy.

The Interagency Working Group's purview extends over the most significant aspects of the fight against illicit transactions requiring the unification and coordination of efforts of various departments and authorities.

Regular exchanges of expert opinions and information, coupled with joint development and implementation of practical measures, contribute to the tackling of urgent challenges facing the region, including the strengthening of oversight over capital outflows, combating financial crimes in the banking and consumer crediting and preventing the embezzlement of public funds earmarked for the implementation of defence contracts and major infrastructure projects.

Recommendations developed for representatives of oversight agencies such as the Central Bank, the Justice Ministry, the Federal Treasury and the Federal Tax Service, with the direct participation of their leadership, contribute to the growth of the district's economy and improved compliance by all types of businesses.

Thus, the Interagency Working Group's efforts aimed at decriminalizing the FEFD financial sector

have contributed to the dismantling of several large criminal organizations and illegal encashment centres, bolstering of the fight against tax crimes, and better oversight of public expenditure.

Joint efforts to monitor corruption risks in public procurement have helped uncover the embezzlement of public funds invested in the region's airport infrastructure, the construction of the Vostochny launch site facilities, and the implementation of the federal target programme for the development of the Russian transport infrastructure (2010-2021).

The implementation of the Interagency Working Group's decisions has helped reduce risks and the overall level of criminal conduct in defence procurement, as well as to prevent the embezzlement and inefficient and inappropriate use of federal funds totalling more than 7.5 billion rubles.

Overall, the Interagency Working Group's role in coordinating joint efforts has contributed to a more than two-fold decrease in the size of the region's shadow economy, from 650 billion in 2015 to 294 billion rubles in 2017-2018. Over the same period, the inward FDI stock exceeded \$70 billion, while the volume of suspicious transborder capital transfers transactions declined by 90 percent. At the same time, the past two years has seen the total volume of the region's inbound cash flows exceed outbound ones for the first time, demonstrating the transparency and stability of its financial system and reliability of its institutions.

Extra attention is paid to safeguarding citizens' rights and legitimate interests. In particular, with a view to bolstering consumer crediting and mitigating the risk of criminal abuse of microfinance companies and consumer credit cooperatives, the region's law enforcement and oversight authorities, under the coordination of the Interagency Working Group, have audited more than 50 consumer credit cooperatives and 250 affiliated entities, resulting in the launch of criminal investigations against some of their executives and contributing to the decriminalization of the industry and its protection against unscrupulous counterparties.

Given their social significance, the implementation of these activities is closely monitored by the Interagency Working Group. In the future, this work will be intensified further thanks to the strengthening of cooperation with the Bank of Russia Competence Centre to Counter Illegal Activities in the Financial Market, created in the region in 2019.

The International Working Group considers the successful completion by Russia of the FATF (Financial Action Task Force) assessment among its current top priorities.

In the run-up to the assessment, the region's authorities have carried out extensive preparatory work and coordination of the efforts of all

stakeholders. A number of achievements highlighting the stakeholders' understanding of the risks facing the region and their successful mitigation have been included in case studies for presentation to the assessors.

As can be seen from the above, the FEFD Interagency Working Group on Combating Illicit Transactions has been an effective mechanism for coordinating joint efforts to improve and decriminalize the region's economy throughout the five years of its existence. Its work to further improve the overall transparency of the financial system, the stability of its institutions and the region's investment climate in order to promote the socio-economic development of the Russian Far East will be continued.

CAPITAL OUTFLOWS FROM RUSSIAN FAR EAST DECLINED BY 86% IN FIVE YEARS

Viktor Chevelev,

*Head of Rosfinmonitoring Interregional Department
in the Far Eastern Federal District*



Viktor Chevelev

The FEFD Interagency Working Group on Combating Illicit Transactions (RIWG) was established by the Deputy Prime Minister – Plenipotentiary Representative of the Russian President in FEFD Directive No. 12 of May 30, 2014.

The RIWG is led by Deputy Plenipotentiary Representative of the RF President in the Far Eastern Federal District S Udovik.

The RIWG includes an interagency expert group.

Since its establishment, the RIWG has held 7 meetings, including 1 in 2017 and 1 in 2018.

The RIWG has taken steps to promote transparency of financial institutions operating in the Far Eastern Federal District, including aimed at combating illicit encashment transactions.



Khabarovsk

The RIWG is also involved in the efforts to combat the embezzlement of public funds earmarked, inter alia, for the implementation of the priority federal target programmes “Economic and social development of the Russian Far East and the Baikal region until 2020” and “Social and economic development of the Kuril Islands (Sakhalin region) for 2016-2025”; defence procurement; and support, development and upgrading of the housing stock and utilities. The RIWG’s work has helped prevent the loss of 1.2 billion rubles to tax fraud.

Cooperation between the RIWG and the Expert Group in 2018 boosted the effectiveness of joint law enforcement efforts to prevent the embezzlement of funds in the utilities sector and enabled the attainment of several milestones.

Thus, joint financial, criminal and administrative investigations in the utilities sector helped prevent the loss of about 10 million rubles, collect 845,000 rubles in fines, seize criminal assets worth more than 640 million rubles, and recover 305,000 rubles in embezzled public funds.

The RIWG has taken steps to combat illicit capital withdrawals to offshore jurisdictions, including through overstatement of the contract value of goods imported into the customs territory of the Eurasian Economic Union.

The RIWG has paid special attention to the protection of citizens’ rights and legitimate interests, as well as to the mitigation of the risk of criminal abuse of microfinance companies and consumer credit cooperatives (CCCs). As part of this work, the RIWG has audited more than 50 CCCs and 250 affiliated entities.

The RIWG’s recommendations for bolstering coordination and ongoing information sharing between law enforcement and tax authorities have improved the detection of shell companies. In 2018 alone, the RIWG helped detect in the Khabarovsk Territory 89 offences falling under RF CC Art. 173.1 (Illegal formation of a legal person) and 13 offences under Art. 173.2 (Illegal use of documents to form a legal person), with the offenders being probed for possible involvement in tax fraud and embezzlement of public funds.

Measures undertaken in the past four years have helped reduce the size of the FEFD shadow economy from 650 billion rubles in 2015 to 430 billion rubles in 2016 and to 294 billion rubles in 2017-2018, with the volume of illicit encashment transactions in the district falling from 12 billion rubles in 2017 to 11 billion rubles in 2018.

The RIWG was involved in the dismantling of illegal encashment centres processing a total of 13 billion rubles, including 2 in the Khabarovsk Territory, 2 in the Primorye Territory and 1 in the Sakha Republic (Yakutia).

Capital outflows from the Far Eastern Federal District declined by 86 percent, from 56.5 billion in 2014 to 7.5 billion rubles in 2018.

The RIWG prevented the embezzlement and inefficient and inappropriate use of public funds allocated for defence procurement totalling more than 7.5 billion rubles.

The RIWG's 2019 plans include efforts to improve the detection, investigation and prevention of money laundering and terrorist financing offences, as well as the countering of illicit transactions related to the export of strategic goods and illegal activities in the financing and gambling sectors carried out online or with other communication technologies.

INTERAGENCY ENGAGEMENT

THE SYSTEM OF LEARNING AND COMMUNICATION PROCESSES

The interagency workshop for high-potential employees of the Russian financial and economic authorities, attended by over 70 employees of Russian ministries and departments, was held from 20 to 23 February 2019 at the Finance Ministry's Iksha Training and Recreation Centre



*Eugenia Kalikhova,
Press Secretary of the Central Sports Club of the Russian Financial
and Economic Authorities and Organization Dynamo No. 33*

Among the attendees were professional career employees of the Finance Ministry, the Ministry of Economic Development, the Federal Financial Monitoring Service, the Federal Tax Service, the Federal Treasury and the Federal Customs Service of Russia.

The workshop was organized by the Finance Ministry, the International Network AML/CFT Institute, and the Central Sports Club of the Russian Financial and Economic Authorities and Organization Dynamo No. 33.

The workshop activities included trainings, discussions of the topical issues, a team business

exercise, whose participants received personal certificates, and sports events dedicated to the Defender of the Fatherland Day.

Participants participated in meetings with the heads of government agencies as well as famous art and sports personalities. A list of the invited guests included State Secretary – Deputy Finance Minister **Yu. Zubarev**; Deputy Director of the Federal Financial Monitoring Service **V. Glotov**; Deputy Head of the Federal Tax Service **S. Andryushchenko**; and Member of the State Duma of the Federal Assembly and Hero of Russia **A. Karelin**.



O. Shabunevich, Chairman of the Central Sports Club of the Russian Financial and Economic Authorities, shared his insights into the future of such activities:

"It's very gratifying to see the 5th interagency workshop follow an easily understandable and logical pattern: we're trying to evolve, constantly change and modernize our activities, including by selecting the most relevant and diverse topics for discussions and lectures. While previously the focus of our gatherings was on sports and fitness, today it's primarily an educational forum designed to improve the participants' professional and person to person communication competencies. The range of today's activities bespeaks the presence of a

whole system of regular learning and communication processes. With due respect for the success, we must increase the number of participating agencies. Today's workshop has brought together representatives from six ministries and departments of the country's financial sector, a number that is expected to increase to 10-11 already next time, allowing us to not only preserve but also enrich these traditions."

Following the conclusion of the workshop, its participants spoke in favour of continuing and further expanding the practice of holding such events for high-potential employees of the Russian financial and economic authorities.

Alexander Karelin:

"It's very important to maintain the appeal of such interagency workshops among young professionals. I think that the organizers, particularly the Central Sports Club of Financial and Economic Authorities and Organization Dynamo No. 33, shouldn't be afraid to experiment and invite interlocutors and lecturers from different areas, from economics to politics

to social studies. This will help us understand each other better and broaden our horizons beyond specialized topics, thereby facilitating the assimilation of specialized knowledge. After all, people are our greatest asset. And it's here, at this workshop, that we're being enriched both on a professional and emotional level."

Yury Zubarev:

“Holding such interagency workshops and forums for high-potential employees of the Russian financial and economic authorities is in itself a very important programme for training leaders and fully utilize their potential. At the Finance Ministry, we use every tool available to enrich young leaders and high-potential employees with additional knowledge, techniques and skills that will help them in their future life and professional career. Self-discipline, self-control, the ability to work in a team, allocate duties, and set goals not only for yourself but also for the team, all require comprehensive preparatory work.

The Ministry of Finance has already launched a similar programme that is proving popular

with other agencies. We receive great support from the Central Sports Club of the Russian Financial and Economic Authorities and Organization Dynamo No. 33, which boasts a multi-year experience in organizing interagency sports events. And recently, in addition to sports activities, the club has become involved in the training of personnel, which is a very useful and important task. However, praising the organizers in situations where you’re among them seems kind of wrong to me. For this reason, I believe that at the end of the workshop, its participants will be in a position to rate both its organization and the quality of teaching, which in turn will inform our future decision-making.”

Svetlana Andryuschenko:

“Despite the magnitude of the challenges being tackled by and the hard work of the FTS personnel, participation in sports and recreational events and activities has a positive impact on the employees’ performance, helps bind members of the team together and improves company morality. This work is carried out in accordance with the FTS annual plans for organizing sports and recreational activities for the FTS personnel.

Starting in 2010, the FTS has organized annual interregional workshops on “Creating conditions for the formation of young tax professionals”.

During these workshops, young, ambitious and enterprising employees of the Federal Tax Service have met each other both at intellectual forums and on sports grounds in Kazan, Rostov-on-Don, Anapa, Sochi and Moscow.

This workshop for high-potential employees of the Russian financial and economic authorities presents yet another opportunity to exchange experiences, take cognizance of the latest teamwork methods, master the skills of systems thinking during a simulation exercise, acquire new knowledge in the field of finance, and meet famous art and sports personalities.”

Vladimir Glotov:

"I believe workshops like this are an essential component of our activity schedule. I'm especially pleased to note that in the past the focus of most forums was on sports competitions, while today it's on intellectual development. We believe this approach takes us to a new level. Along with Oleg Vasilievich and other heads of Russian ministries and departments, we try to attract the best teachers and make our workshops as informative, useful and interesting as possible.

I believe the participation by our young employees in simulation games and training activities as part of a team helps bolster their potential. We, in turn, expect improved productivity from them in the workplace and want to see a healthy competition among the agencies for the right to participate in such workshops. We're currently discussing with the heads of the agencies the possibility of placing the certificates issued to high-potential employees at the workshop in their personal files and using them as the reason for promotion."

PRODUCT QUALITY IS MORE IMPORTANT FOR US THAN QUANTITY AND VOLUMES

In October 2018, the Association of Jewellers of the Eurasian Economic Union, an organization that brings together individual entrepreneurs and businesses operating in the EAEU jewellery industry, marked its 2nd anniversary. Vadim Serov, Executive Director of the Association, shares his insights on the prospects of the EAEU jewellery industry as well as the plans of the organization representing the interests of the jewellery community

*Julia Izotova,
Press Secretary of the RF Assay Chamber*



Vadim Serov

Julia Izotova: *Mr. Serov, what was the rationale behind the decision to register your organization?*

Vadim Serov: While creating ample opportunities for the jewellery market growth, the establishment of the Eurasian Economic Union has also given rise to certain challenges for its participants. Above all, we were driven by the desire to create and maintain comfortable, fair and competitive conditions for jewellers operating within the common EAEU market.

Julia Izotova: *How well was your initiative received by the jewellery community? How many jewellers have chosen to join your Association?*

Vadim Serov: Given the need for jewellers entering the EAEU market to unite to better promote and protect their interests, the initiative – which actually made a lot of sense – was implemented.



The membership of the Association currently includes a total of 113 enterprises from Russia, Armenia and Kazakhstan, including such large factories as Adamant, Atoll, Talant, silver factory Argenta, Kalina Gold, Armenia's diamond processing company Shogakn, as well as major jewellery retail chains comprising more than 1,500 outlets in Russia and Kazakhstan. Among the Association's members are also the Urals Jewellers Guild, the Volga-Vyatka Region Guild, and the

Jewellers and Diamond Producers Association of Armenia, over 100 jewellery manufacturers in total.

A few more applications to join the Association are currently in the process of being reviewed and checked for accuracy of the submitted company details prior to the publication of the updated membership list. I believe the sheer number of participants who have placed their trust in us is in itself evidence of considerable success.



Julia Izotova: *Do you grant membership to all applicants, from large jewellery manufacturers to small-sized private businesses?*

Vadim Serov: Among our members, we want to see those who share our views on the future of the jewellery industry. Product quality is more important for us than quantity and volumes. Companies wishing to join us must meet our requirements, have a good reputation and share our business philosophy. As for the formal accession requirements, membership is open to any individual entrepreneur or legal entity carrying out transactions with precious metals and precious stones in the territory of Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan.

Julia Izotova: *Are there any benefits that come with the membership?*

Vadim Serov: Members of the Association receive legal support, take part in the discussion of draft regulations affecting their interests, share experiences, cooperate, build and strengthen business ties among themselves, and much more.

Julia Izotova: *In you work you have to deal with the Association members representing countries with very different legal frameworks governing PMPS. How do you manage to get along?*

Vadim Serov: The Eurasian Economic Commission is currently working on a draft agreement on the specifics of trade in precious metals and precious stones, which will act as a linking chain and the foundation for unity and harmonization of EAEU legislation. We're actively involved in the drafting and promoting of this bill, which is currently at the signing stage.

Julia Izotova: *Whose legislation will it be based on?*

Vadim Serov: One key feature of this agreement is the mutual recognition of hallmarks. In this matter, we should take cue from those countries that have a viable hallmarking and certification procedure in place. In Armenia, Kazakhstan and Kyrgyzstan, for one, hallmarking and certification requirements differ, with less stringent government controls and

some leeway for private businesses. Whereas in Russia and Belarus, the regulatory framework governing activities in the jewellery industry is well defined.

Julia Izotova: *As well as being consistent with the FATF requirements.*

Vadim Serov: Indeed, which is also very important, particularly in the run-up to the 4th round of the FATF [Financial Action Task Force] mutual evaluations. We know that the findings of this assessment, which will also focus on the jewellery industry, will ultimately inform conclusions about the level of Russia's compliance with the international anti-money laundering and combating the financing of terrorism (AML/CFT) standards. Should Russia receive low compliance ratings, it'll be placed in an enhanced follow-up process and subject to economic sanctions.

Julia Izotova: *Does the Association run any awareness-raising activities among its members to prepare them for the FATF meeting?*

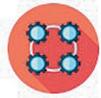
Vadim Serov: Yes, through our engagement with the Assay Chamber, which sends over its experts every time we ask them to organize this or that training workshop. For example, the last workshop on compliance with Federal Law No. 115 "On Combating Money Laundering and Terrorist Financing" proved very insightful for our jewellers.

Julia Izotova: *What kind of engagement does the Association have with the Eurasian Economic Commission, and what are its outcomes?*

Vadim Serov: We regularly take part in "Business Dialogue" meetings with the business community and are members of the expert group overseeing the introduction of jewellery hallmarking practices across the EAEU.

The idea of creating an EAEU Single Integrated Information System for Precious Metals, Precious Stones and Jewellery made therefrom (SIIS) was developed and proposed by us back in 2016 and is currently one of our priorities.

SIIS Key Benefits



Shared transparency and maintainability, improved tax collection and higher revenues



Reduced regulatory burden on business achieved by means of few inspections and complete uploading of data into the system



Infrastructure savings archived by replacing the manufacturer's mark with a unique QR code



The use of a unique product reference number enables the inclusion of additional parameters while simplifying many auxiliary procedures (manufacturing method, design copyrights, information about precious stones, etc.)



Cost-effectiveness of the system achieved by reusing existing technological solutions

Cooperation with authorities



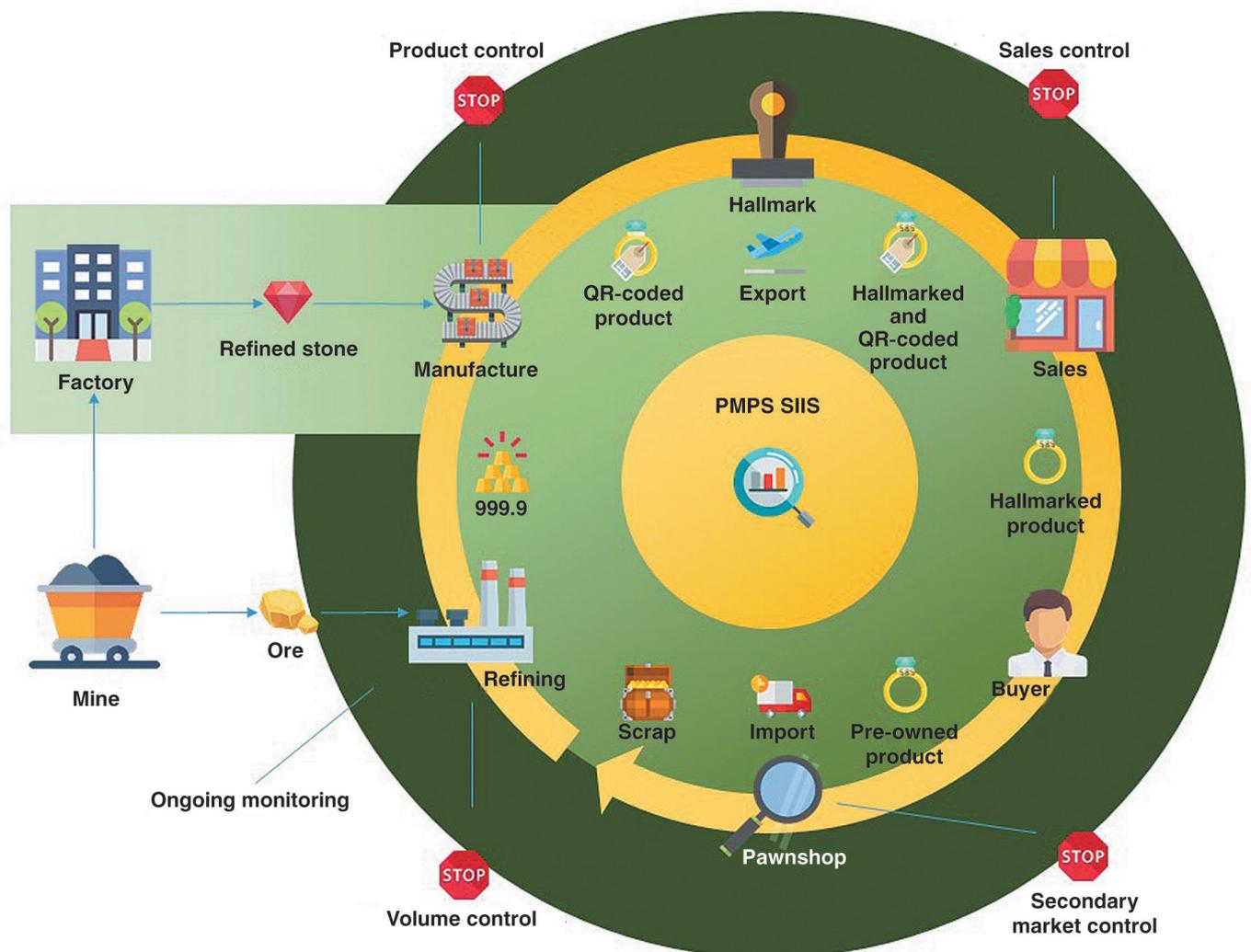
Among the outcomes of consistent efforts in this area was the adoption of RF Government Resolution No. 321 of March 24, 2018 concerning the testing of the procedure for hallmarking certain types of precious metals, precious stones and jewellery made therefrom.

Julia Izotova: *Are there any other areas notable for tangible results achieved by you in the past 2 years?*

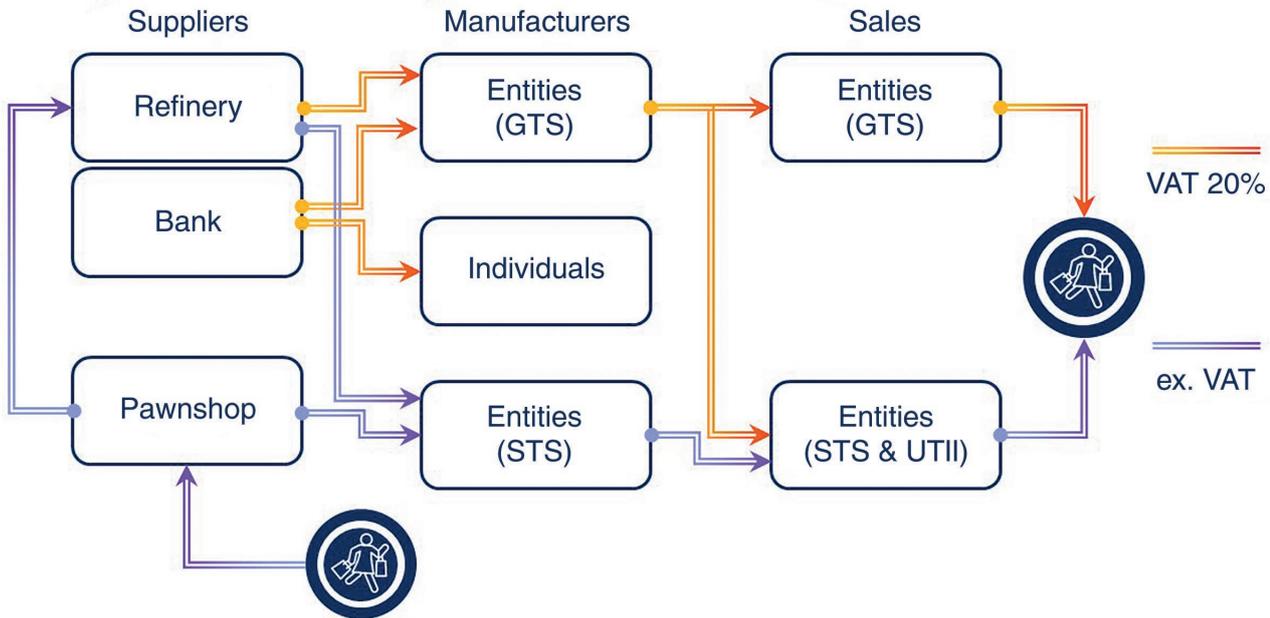
Vadim Serov: One of the key objectives of the EAEU Association of Jewellers is to represent the common

interests of the Association members in the Eurasian Economic Commission and EAEU government bodies. And I think we're doing it rather well. Today, we maintain healthy relationships with the ministries and departments overseeing the work of the jewellery industry in Russia, Armenia, Belarus and Kazakhstan. The Association cooperates in one way or another with the Russian Finance Ministry, State Assay Office, Ministry of Industry and Trade, Ministry of Economic Development, Russian Export Centre, the Chamber of Commerce and Industry, as well as the Ministry of Economic Development and Investments of Armenia and the Ministry of Finance of Belarus.

PMPS Single Integrated Information System



Current PM cycle



Particularly notable is our fruitful collaboration with the Assay Chamber of Russia. The Association is a regular participant in the Assay Chamber's Public Expert Council meetings, where we have the opportunity to inform representatives of executive authorities about the pressing problems faced by jewellers and jointly work on finding solutions to them. For example, over the past two years, we have drawn the attention of government agencies to the problems caused by the rising sales of synthetic diamonds on the Russian market. The Assay Chamber was the first to respond with an offer of help, convening an expert council whose entire agenda was dedicated to the trade in synthetic diamonds.

Thanks to this meeting, the jewellery community was able, at last, to get first-hand information about synthetic diamonds, which was provided by Russia's largest producers of synthetic diamonds invited to the meeting. It's also very important that the Ministry of Finance, whose representatives also attend meetings of the Assay Chambers'

Public Expert Council, took this problem very seriously.

Julia Izotova: *What are the Association's near-term priorities?*

Vadim Serov: One of the industry's key objectives today is to develop a common approach to the payment of VAT.

For this, we need to agree on uniform rules governing the payment of VAT in the industry that will guarantee a level playing field for all market participants. The Association has already formulated its own proposals on this issue and submitted them for general discussion.

In addition, we'll continue with our efforts to develop an integrated jewellery tracking and monitoring system, harmonize EAEU legislation in line with the agreement on the specifics of trade in precious metals and precious stones, and, last but not least, expand our membership.

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