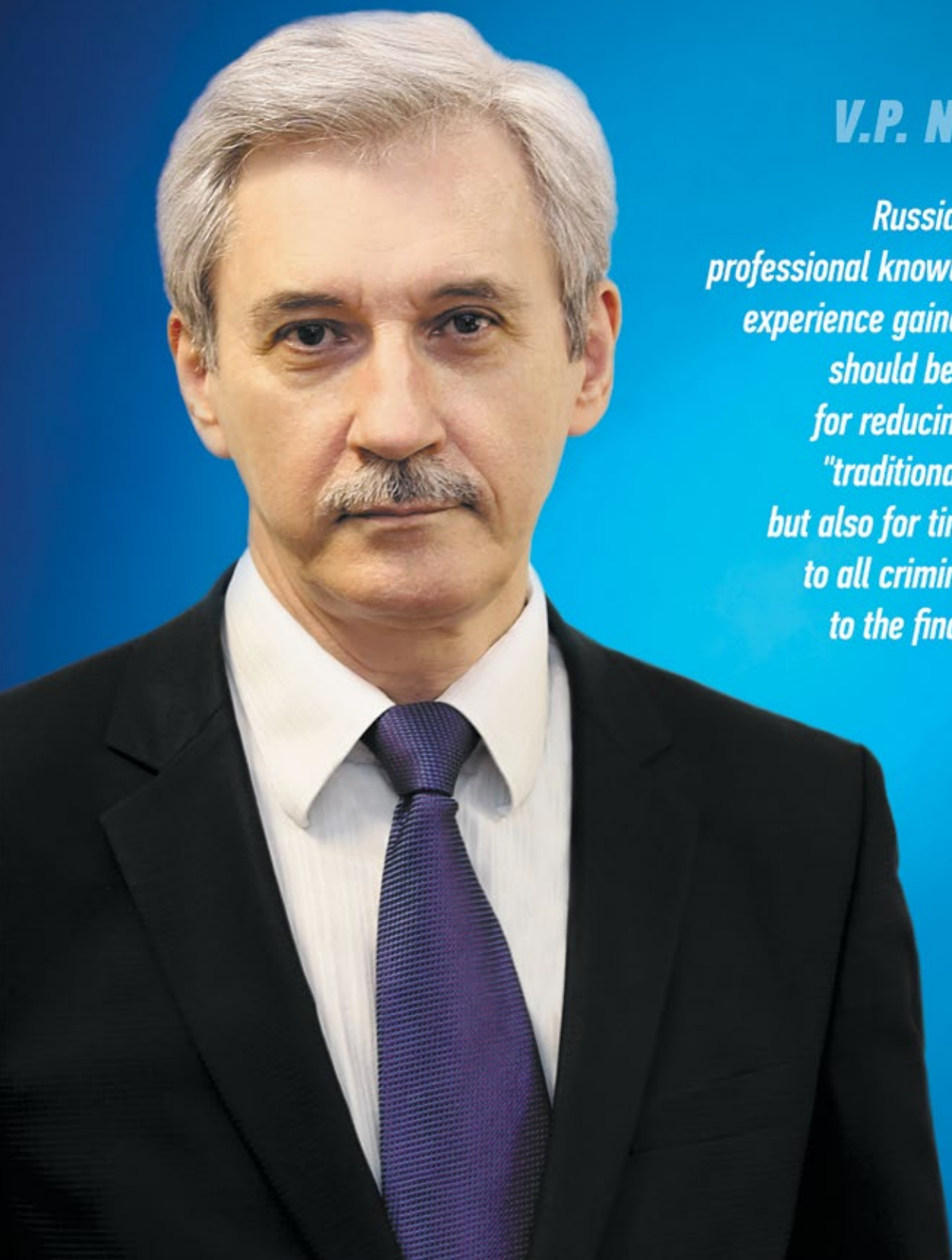


FINANCIAL SECURITY

NO. 5 JUNE 2014



V.P. NECHAEV:

Russia believes that professional knowledge and rich experience gained by the FATF should be actively used for reducing not only the "traditional" ML/FT risks but also for timely response to all criminal challenges to the financial system.

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DEAR READERS!



This issue of our journal will focus on summarizing the latest results - Russian presidency of the FATF.

This year, when Russia was at the head of the Financial Action Task Force, became a milestone not only for the national anti-money laundering system, which in autumn of the year of 2013 was recognized

by the international community as one of the most advanced in the world, but also for the global AML/CFT system as a whole.

Significant work was carried out, including the implementation of Federal Law No.134-FZ approved by the State Duma last year and aimed at addressing deficiencies which were still in place according to the results of the previous evaluation of our country. We created the mechanism. Now the task is to achieve maximum efficiency. All our practices shall be transformed into instruments ensuring bringing the law into action and achieving specific results, accordingly.

All our internal reserves are aimed at the implementation of the revised FATF Standards. An important step in this direction was training workshop for assessors from the FATF Secretariat and three FATF-Style Regional Bodies - EAG, MONEYVAL and MENAFATF - conducted in Moscow in spring of this year. Despite obvious progress, the open issue

is: how the new evaluation process will be carried out, since all innovations require testing and refinement at the initial stages.

Much was done for the preparation of the joint Plenary of the FATF and EAG - the Eurasian Group on Combating Money Laundering and Financing of Terrorism. Traditionally, the final Plenary meeting was to be held in the country presiding over the FATF - in Russia, Moscow. But this time this rule will be violated due to reasons beyond our control. And Russian V.P. Nechaev will devolve his presidential chair on his successor not in Moscow but in Paris, in the FATF Headquarters.

Now we have the 20th EAG Plenary on the agenda. In the capital of our country we will settle issues related to the new round of mutual evaluations. We set an ambitious goal for the Group - to ensure "closure" of reports of all member states in order to give them opportunity to focus on new requirements in the future and, first of all, on increasing effectiveness of national AML/CFT systems.

Dear friends, once again I would like to remind you that even during this difficult period for our country we do not disengage ourselves from obligations to improve transparency of Russian economy. As before, we use our best efforts to ensure compliance with the FATF Standards. And during all those years, on the way from being a "listed" state in 2003 to presidency in 2013, our country has demonstrated strong political will which made so obvious progress possible.

***Rosfinmonitoring Director
Yury Chikhanchin***

COVER STORY

25 YEARS OF THE FATF

THE FINANCIAL ACTION TASK FORCE (FATF)

What is the FATF?

In the late 1980s, the problem of illegal narcotics trafficking had become a problem of alarming proportions and world-wide concern. Faced with the wide geographical spread of production activities, the international nature of drug distribution routes and the ability to move the drug money across borders, national legislation and the efforts of law enforcement bodies were, on their own, no longer sufficient. Increasingly, there was recognition of an urgent need for decisive, multinational action to tackle the global problem of money laundering and other abuses of the financial system as a means of attacking the heart of illegal narcotics trafficking and organized crime.

The Ministers of the G7 countries decided in 1989 to take a number of steps. Along with measures to strengthen international co-operation on eradicating supply and measures to curb the demand for drugs, these included the establishment of the Financial Action Task Force (FATF). The FATF's initial mission was to focus on preventing the use of the banking system and other financial institutions for the purpose of money laundering. More specifically, it was to develop an international consensus on measures to help identify, trace and seize the proceeds from drug crime and other criminal activities.

As an initial step and based on an analysis of the existing situation, the FATF developed a series

of Recommendations on specific measures, including the adaptation of national legal and regulatory systems, that would help detect, prevent and punish misuse of the financial system for money laundering. A Secretariat was set up for the Task Force in 1991- 1992 at the OECD, although the FATF remains an independent body.



The Recommendations

Less than a year after its foundation, in April 1990, the FATF published the 40 Recommendations, a set of global standards designed to detect and prevent money laundering. The Recommendations, which have been updated periodically, lay out a wide-ranging set of measures covering the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. The Recommendations are not binding instruments under international law; however, when combined with other FATF processes and mechanisms, there has been increasing pressure for all countries to implement them. Furthermore, the Recommendations were intended to allow countries some flexibility in adapting them to fit their own legal

systems. Today, most countries in the world have made a political commitment to implement them, and the more broadly they are adopted the more effective they are likely to be.

The FATF adopted a revised set of Recommendations in 2012, after a revision process that received input from governments, the private sector, and civil society. The FATF Standards provide governments with stronger tools to take action against crime while addressing new priority areas such as corruption and tax crimes. The FATF Recommendations now fully integrate counter-terrorist financing measures with anti-money laundering measures. They also include new measures to counter the financing of the proliferation of weapons of mass destruction, and they will better address the laundering of the proceeds of corruption and tax crimes. The FATF Recommendations strengthen the requirements for higher risk situations and allow countries to take a more targeted risk-based approach.

Since the publication of the revised Recommendations, the FATF has issued a number of best practices papers and guidance papers to assist countries in the effective implementation of specific Recommendations, such as guidance on

politically exposed persons (Recommendations 12 and 22), and a best practices papers on combating the abuse of non-profit organisations (Recommendation 8).

The FATF continues to update existing guidance and best practices papers and develop new ones to assist countries in the effective application of the FATF Recommendations.

The FATF tool kit

The FATF is a policy-making body. It strives therefore to generate the broad political will and action that is necessary to bring about national, legislative and regulatory reforms to combat money laundering and terrorist financing. There are five main mechanisms or tools that the FATF uses to achieve these ends.

Setting standards

The FATF has an ongoing process for reviewing and refining the standards for combating money laundering and terrorist financing. The methods used by criminal and terrorist organisations are in

The FATF tool kit



constant evolution. As the international financial sector implements the FATF standards, criminals must find ways to beat the system. The FATF therefore needs to remain vigilant to these changes and then respond by updating and adapting its standards so that they remain relevant and effective.

Assessing progress at the national level

The FATF conducts peer reviews on an ongoing basis to assess levels of implementation of the FATF standards. These reviews, or mutual evaluations, provide an in-depth description and analysis of each country's system for preventing criminal abuse of the financial system. At present, the FATF is approaching the end of the third round of mutual evaluations of its members and has already begun laying the groundwork for a fourth round.

Monitoring high-risk and non-cooperative jurisdictions

When jurisdictions fail to adequately implement the FATF standards, they represent a risk to the international financial system, which is only as strong as its weakest link. The FATF has therefore created a mechanism for identifying these systemic weaknesses and for encouraging stronger compliance. The FATF is thus able to apply pressure on high-risk and non-cooperative jurisdictions, with a view to persuading them to strengthen their anti-money laundering and counter-terrorist financing systems.

Sector studies

In addition to reviews of national systems, the FATF also carries out research on specific economic sectors and activities to identify existing and potential money laundering and terrorist financing vulnerabilities. Usually referred to as typologies reports, these studies analyse the various channels that could be used to transfer funds illegally and are conducted by relevant experts from the public sector (law enforcement, financial intelligence units, supervisory authorities) and when necessary with contributions of expertise from the private sector. The FATF has produced analyses on casino gambling, the real estate industry, the securities sector, proliferation financing and others.

Key typologies reports published by the FATF include: 'Money laundering through the Football Sector' (2009), 'ML vulnerabilities of Free Trade Zones' and 'Global Threat Assessment' (2010), and 'ML/TF Vulnerabilities of Legal Professionals' (2013).

High-Risk Jurisdictions

As another means of focussing on threats to the financial system, the FATF has also established a process for identifying high-risk or non-cooperative countries and jurisdictions and recommending specific action through its International Co-operation Review Group (ICRG). Through this process, the FATF has been able to issue a series of statements drawing attention to concerns about serious weaknesses in the anti-money laundering and counter-terrorist financing systems of Iran, Uzbekistan, Pakistan, Turkmenistan, Sao Tome and Principe, and the northern part of Cyprus. As a result of this pressure, most of these jurisdictions have since taken some steps towards improving their anti-money laundering and counter-terrorist financing systems.

The review system is an ongoing process, thus the FATF has continued to further strengthen its procedures for dealing with high-risk jurisdictions. The process was lent added urgency by the need to respond to the global financial and economic crisis, which left the financial system particularly vulnerable.

Spreading the word

The original members of the Financial Action Task Force were the G7 members, the European Commission and eight other countries that were interested in finding a solution to the problems of money laundering and terrorist financing.

Membership has since expanded from the original 16 to a total of 36 (34 member countries, as well as the European Commission and the Gulf Co-operation Council).

Early on, it was clear that in order for the FATF recommendations to be truly effective, they had to be implemented by as many countries as possible. Consequently, the FATF sought to expand its own membership and, at the same time, involve as many other countries as possible through the creation of FATF-Style Regional Bodies (FSRBs). Together, these regional bodies have expanded the reach of the FATF from the original 16 members to well over 180 jurisdictions and have allowed all of these countries to become a part of the overall FATF effort.

In addition, there are a very large number of other international organisations that have observer status with the FATF. These institutions generally

also have, along with their other functions, an anti-money laundering or counter-terrorist financing responsibility. FATF observers include global financial institutions, such as the IMF and the World Bank; international police and intelligence bodies, such as Interpol and the UN Office on Drugs and Crime; and multi-lateral supervisory organisations for specific industries, such as the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

FATF Membership

The FATF currently comprises 34 member jurisdictions and 2 regional organisations - the European Commission and the Gulf Co-operation Council, representing most major financial centres in all parts of the globe.

FATF Associate Members

- Asia/Pacific Group on Money Laundering (APG) (See also: APG website)
- Caribbean Financial Action Task Force (CFATF) (See also: CFATF website)

- Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) (See also: Moneyval website)
- Eurasian Group (EAG) (See also: EAG website)
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) (See also: ESAAMLG website)
- Financial Action Task Force on Money Laundering in South America (GAFISUD) (See also: GAFISUD Website)
- Inter Governmental Action Group against Money Laundering in West Africa (GIABA) (See also: GIABA website)
- Middle East and North Africa Financial Action Task Force (MENAFATF) (See also: MENAFATF website)

In addition, there are many international organizations that, among other functions, have a special mission or jurisdiction to combat money laundering.

The FATF Recommendations have been endorsed by more than 180 jurisdictions across the world



Looking ahead

In 25 years of its existence, the FATF has made considerable progress in identifying and coordinating the response to threats to the world financial system posed by illegal activity. But there remains much to be done. The use of financial channels to conceal and transfer the proceeds of criminal activity and to facilitate the funding of terrorist operations is a problem that will not go away. As the systems for combating money laundering and terrorist financing are strengthened, criminal and terrorist organisations will continue to adapt their methods in order to circumvent the safeguards put in place. There is therefore a critical need to remain vigilant in identifying and responding to changing threats in order to prevent abusers of the financial system from remaining one step ahead of efforts to curb their activities.

Money laundering and terrorist financing

Over the next decades, the FATF will likely need to continue monitoring developments in two areas of its current mandate, money laundering and terrorist financing. In both areas, the methods used by those seeking to get around the rules will no doubt mutate, requiring continual monitoring and adaptation of systems designed to counter such activities.

The terrorist organisations of today vary widely, ranging from large, structured organisations to small, decentralised and self-directed networks. To make detection even more difficult, terrorist groups can also be funded from legitimate sources. In that respect, terrorist financing is different from money

laundering, which involves only money from illegal sources (i.e. the proceeds of crime). In addition, the direct operational cost of mounting individual terrorist attacks, such as the cost of materials, day-to-day expenses, training, travel and logistics, are usually very low relative to the damage that the terrorist attack may cause. As a result, detecting and disrupting a specific terrorist attack via monitoring of the financial system is extremely challenging. However, the direct costs of a terrorist attack are only a fraction of a terrorist organisation's demand for funds. The broader organisational costs of maintaining a terrorist network are more substantial and therefore easier to detect and disrupt. If these larger financial flows can be stemmed, the reach and capabilities of terrorist organisations can be curtailed.

Terrorist organisations also continue to receive crucial support, in some cases active financial and material support, from safe havens, failed states and state sponsors. Such support may simply reflect weak government. The FATF is therefore in the process of undertaking a strategic surveillance initiative and global threat assessment that, as it matures, will provide a long-term view of money laundering and terrorist financing threats. It will also assist in the identification of systemic threats and encourage new thinking about priorities and countermeasures.

The fourth round of mutual evaluations

After the adoption of the revised Recommendations in February 2012, the FATF reviewed the assessment Methodology. With 20 years of experience in

FATF Members

 Argentina	 Denmark	 Hong Kong, China	 Luxembourg	 Singapore
 Australia	 European Commission	 Iceland	 Mexico	 South Africa
 Austria	 Finland	 India	 Kingdom of Netherlands	 Spain
 Belgium	 France	 Ireland	 New Zealand	 Sweden
 Brazil	 Germany	 Italy	 Norway	 Switzerland
 Canada	 Greece	 Japan	 Portugal	 Turkey
 China	 Gulf Co-operation Council	 Republic of Korea	 Russian Federation	 United Kingdom
				 United States

assessing countries' compliance, the FATF decided that looking at technical compliance alone does not guarantee that a country has an effective AML/CFT system in place. The FATF concluded that in addition to looking at how well all of the technical requirements of each Recommendation were met, it should also look at the effectiveness of the AML/CFT system as a whole. The FATF adopted its Methodology for assessing technical compliance with the FATF Recommendations and the Effectiveness of AML/CFT systems in February 2013. It takes a unique two-pronged approach to assessing compliance that will result in two separate sets of ratings.

The technical compliance assessment addresses the specific requirements of the FATF Recommendations, principally as they relate to the relevant legal and institutional framework of the country, and the powers and procedures of the competent authorities. These represent the fundamental building blocks of an AML/CFT system.

The effectiveness assessment differs fundamentally from the assessment of technical compliance. It seeks to assess the adequacy of the implementation of the FATF Recommendations, and identifies the extent to which a country achieves a defined set of outcomes that are central to a robust AML/CFT system. The focus of the effectiveness assessment is therefore on the extent to which the legal and institutional framework is producing the expected results.

Each of the eleven Immediate Outcomes represents one of the key goals, which an effective AML/CFT system should achieve. During the assessment, assessors will look at the various components of the AML/CFT measures and see how they interact and whether they give the expected results.

Proliferation financing

Another important and emerging concern is the serious threat posed by proliferation financing. Proliferation may be pursued by states (as in the case of Iran and North Korea) or by non-state actors, including terrorists who are willing to use weapons of mass destruction in acts of terrorism. There is evidence that terrorist organisations are increasing their efforts to secure chemical, biological, or nuclear capabilities. The FATF has produced a typologies report and three guidance papers on this issue to assist countries in their implementation of the relevant UN Security Council Resolutions. That report was prepared in close consultation with the private sector and export control authorities. It sets out a range of possible policy options for further consideration. More recently, the FATF published a status report on policy development and consultation on the subject of Proliferation Financing.

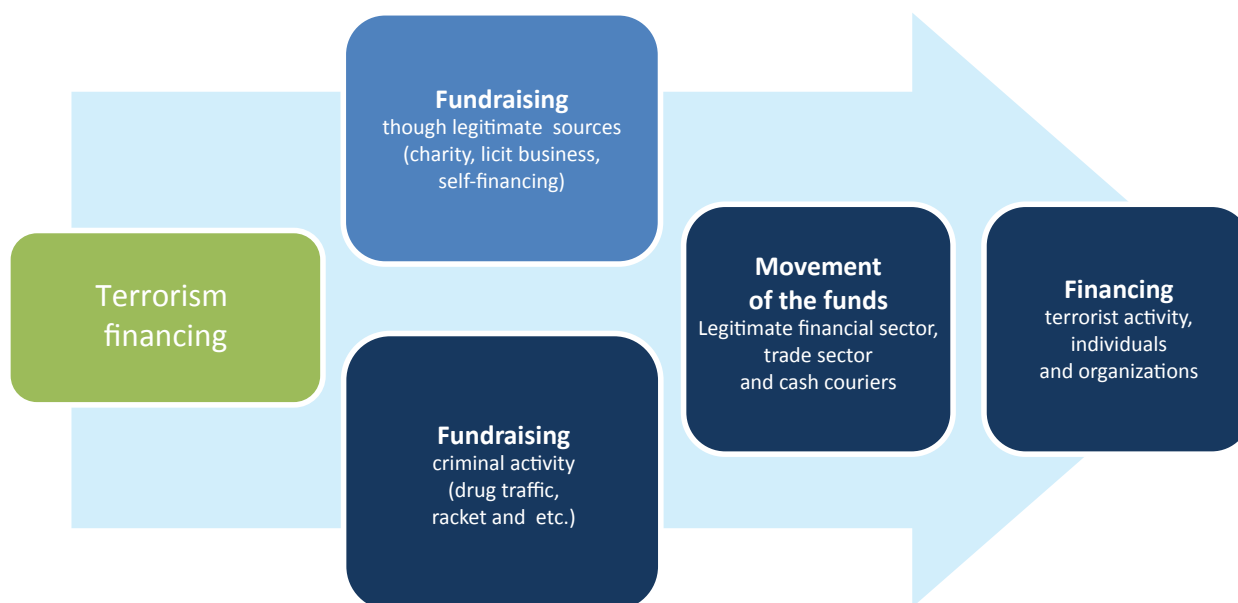
Corruption

A current issue of importance to the international community is the fight against corruption. Following the Pittsburgh Summit of September 2009, the G20 called on the FATF to help detect and deter the proceeds of corruption by prioritizing work to strengthen standards on customer due diligence, beneficial ownership and transparency. The FATF has responded to the G20 by prioritising these issues in its work programme and, going forward, will focus on how AML/CFT measures may be leveraged to combat corruption.

Preventing abuse of the financial system by criminal and terrorist organisations is clearly a complex and challenging issue. Moreover, it is one that continues to evolve. As governments and financial authorities tighten safeguards and attempt to close existing loopholes, organisations that exploit

The three stages of money laundering



The stages of terrorist financing

the financial system for illicit purposes will continue to find new ways around these barriers. The struggle against money laundering and terrorist financing is both multi-dimensional and global, and requires effective cooperation between governments and private sector institutions. Encouragingly, the FATF standards have been endorsed by international bodies such as the UN, IMF and World Bank. The FATF's position at the forefront of international efforts to combat money laundering and terrorist financing has been further reinforced by a G20 call for action against non cooperative jurisdictions.

Although much has been achieved in the past twenty five years, maintaining and developing the existing system to combat misuse of the financial system will require considerable further effort. In this context, the broad geographical coverage of the FATF and its variety of sophisticated tools will allow it to continue to play a leading role in the international fight against financial crime.

Additional information can be obtained at
www.fatf-gafi.org

FATF Presidents

FATF-I
& FATF-II
1989-1991



Mr. Denis Samuel Lajeunesse
Direction du Tresor, Ministere des Finances
FRANCE

FATF-III
1991-1992



Mr. Alexis Lautenberg
Departement federal des Affaires Etrangeres
SWITZERLAND

FATF-IV
1992-1993



Mr. Tom Sherman
National Crime Authority
AUSTRALIA

FATF-V
1993-1994



Mr. John Gieve
H.M. Treasury
UNITED KINGDOM

FATF-VI
1994-1995



Mr. Leo Verwoerd
Domestic Monetary and Financial Affairs,
Ministry of Finance
THE NETHERLANDS

FATF-VII
1995-1996



Mr. Ronald Noble
Department of the Treasury
UNITED STATES

FATF-VIII
1996-1997



Mr. Fernando Carpentieri
Ministry of the Treasury
ITALY

FATF-IX
1997-1998



Mr. Jean Spreutels
Cellule de Traitement des Informations Financieres (CTIF CFI)
BELGIUM

FATF-X
1998-1999



Mr. Jun Yokota
Economic Affairs Bureau, Ministry of Foreign Affairs
JAPAN

FATF-XI
1999-2000



Mr. Gil Galvao
National Securities Commission
PORTUGAL

FATF-XII
2000-2001



Mr. Jose Maria Roldan Alegre
Bank of Spain
SPAIN

FATF-XIII
2001-2002



Mrs. Clarie Lo
Narcotics Division, Security Bureau,
HONG KONG, CHINA

FATF-XIV 2002-2003		Mr. Jochen Sanio Financial Supervisory Authority GERMANY
FATF-XV 2003-2004		Mr. Claes Norgren Competition Authority SWEDEN
FATF-XVI 2004-2005		M. Jean-Louis Fort Commission Bancaire FRANCE
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FATF-XXIV 2012-2013		Mr. Bjorn Skogstad Aamo Ministry of Finance NORWAY
FATF-XXV 2013-2014		Mr. Vladimir Nechaev Deputy General Director International Training and Methodology Centre for Financial Monitoring (ITMCFM) THE RUSSIAN FEDERATION

RUSSIAN'S PRESIDENCY OF THE FATF IS GOING TO BE COMPLETED



Vladimir NECHAEV, the FATF President

FS: *Vladimir, the year of the Russian FATF Presidency is practically over. What main results of your work as President of the FATF can you describe today?*

V.N.: The Russian Presidency of FATF has already yielded a range of results, even though our year is not yet over. I am happy to update you on the main results of the Russian Presidency.

Undertaking mutual evaluations is one of the key tasks from our mandate. This year, we have taken another important step in the preparation for the 4th round of assessments by approving our assessment procedures. For the first time, the key elements of these procedures will not only apply to FATF but to all bodies of the Global Network. This is an important step forward, and it will assist us to ensure that all assessment bodies consistent quality reports during the next round.

Typology reports are important for the FATF when we discuss possible new Recommendations or policies. They are equally relevant for practitioners to highlight new trends and techniques that they should be aware of. Typologies reports are among the most read documents that FATF publishes. This year, we have adopted and issued reports on Terrorist Financing in West Africa, on The Role of Hawala and Other Similar Service Providers in ML/TF, and on Money Laundering and Terrorist Financing through Trade in Diamonds.



The FATF has also published a Best Practices Paper on use of the FATF Recommendations to combat corruption. Many FATF Recommendations are useful in the fight against corruption and this paper assists countries and practitioners to learn from each other's successes. This should assist countries to connect their anti-money laundering and anti-corruption authorities.

A global coverage of the FATF Recommendations is an important policy objective of my Presidency. I believe that gaps in the coverage weaken the effective implementation of the FATF Recommendations, thereby negatively impeding on the efforts that FATF/FSRB members are making to fight illicit finance. In this regard I can report on work being undertaken in relation to the FATF membership, on the membership of FATF-style regional bodies, and on the risk that may arise from other areas. We have made good progress on these long term issues.

Another result of my Presidency is the reinforcement of our engagement with key stakeholders. We have had successful meetings with the private sector, where we discussed topics such as on the risk based approach for the banking sector, legal practitioners, and money service businesses and on United Nations sanctions lists. Of specific interest may be the discussion that we had in relation to virtual currencies, or kriptovalyut. The outcomes of that discussion will be used for an upcoming typologies report on this topic.

Stakeholder engagement also took place with the United Nations, where I was able to represent the FATF at an open briefing together with UN Ambassadors that chair selected United Nations Security Council Committees. Many FATF Recommendations are directly relevant for the effective implementation of United Nations Security Council Resolutions and UN member representatives took a keen interest in our work.

My Presidency has not yet finished, as of today the last of the three Plenary meetings that I chair still has to take place. It is expected that a few more countries will be able to exit follow-up to their third round assessment after having addressed all the relevant shortcomings. They will join the Russian Federation, which exited already in October 2013. In June, we will hopefully also agree on another two typologies reports. We will also continue our ongoing discussions on the FATF work plan, the FATF strategy for 2014 – 2016 and the FATF governance paper.



I should also mention that all publications that I refer to are available for free on our public website www.fatf-gafi.org.

FS: *One of the advantages of FATF is its global coverage. The Network has 8 FSRBs covering practically all countries in the world. How are the relations with the FSRBs being built at present? What examples of practical closer ties occurred during the last year?*

V.N.: FSRBs are dear to my heart. I was personally involved in the creation of the Eurasian Group from the start, which was set up and chaired by the then Head of the Russian FIU and later Prime Minister Viktor Alekseyevich Zubkov. Later I became the Chairman of MONEYVAL, which is the FSRB for the countries of the Council of Europe. On this basis, building closer ties with FSRBs is obviously one of the main priorities of my Presidency.

During my Presidency we have further cemented our cooperation with FSRBs through the Global Network Coordination Group, a group in FATF where FATF and FSRBs meet to discuss issues of common interest and importance. To stress the importance of this coordination mechanism, I have personally attended and represented the FATF at these meetings.

I previously remarked on the global coverage of the FATF and FSRBs. An important gap in the network is in

Central Africa, where the six members of the Central African Anti Money Laundering Task Force, better known by its French acronym GABAC, are pooling their resources to form a recognized FSRB. I have supported their work by speaking at their annual Ministerial meeting. Our input at such high level meeting feeds directly into the policy making process in FSRBs. For example, the ongoing unrest in the Central African Republic made it difficult for GABAC to function effectively from its headquarters in Bangui, CAR's capital. Our interaction with Ministers created the momentum for the temporary relocation of the offices of GABAC to a safer place.

Personal outreach is key to the strengthening of the ties between FATF and FSRBs. Over the past year, I was able to attend at least one Plenary or Ministerial meeting of each of the eight FSRBs. Direct interaction allows FSRB members to directly reach out to the highest levels in FATF, and it allows me to give a face to the FATF and its Recommendations. Because the FATF has a very inclusive approach – all FATF meetings are open to all FSRBs and their members – FSRBs and their members feel more and more part of the global standard setting and policy making process. This is important, as increased ownership of the FATF Recommendations in my view allows for more effective implementation of the Recommendations in non-FATF member-states.

Increased engagement with FSRBs is likely to remain a standing topic on the FATF agenda.

FS: *When Russia took the FATF Presidency one of the main initiatives was combatting the Afghan opiates. Has this initiative received support? What decisions were taken by the FATF in this sphere?*

V.N.: Decisions in FATF are taken by consensus, without voting. This makes the task of an FATF

President sometimes difficult when members have different views on issues. However, not in this case! The Russian proposal to undertake a typologies study on the financial flows linked to the illicit production and trafficking of Afghan drugs was immediately supported by all members. We expect to be able to adopt the typologies report at this June Plenary meeting, although adoption may occur in October if members in June provide additional information to enrich the report.

As I said earlier, typologies reports are among the most popular FATF reports, and I expect that this report will raise other countries' awareness of the financial risks emanating from this illicit trade. This includes policy making and operational officials. The report should be equally of importance to the private sector, whose vigilance should assist authorities to detect illicit financial flows related to Afghan narcotics.

In relation to this, I would also like to highlight the latest FATF public statement on Afghanistan from February 2014. Despite Afghanistan's high-level political commitment to address its strategic AML/CFT deficiencies, the FATF is not yet satisfied that Afghanistan has made sufficient progress in improving its AML/CFT regime, and certain strategic AML/CFT deficiencies remain.

FS: *Use of offshore jurisdictions is a vivid issue all over the world. What are the relations between FATF and countries that represent offshore zones?*

V.N.: What is key for FATF is that countries effectively implement the FATF 40 Recommendations, something which we assess through our mutual evaluation program. Any country with deficiencies will need to address these. FATF engages with all countries



regardless of their status as so-called onshore or offshore jurisdiction – this is not a label that FATF uses.

That said, during our assessments for the fourth round we will take risk and contextual factors into account. Many jurisdictions that are seen as offshore share some characteristics, such as a relatively important trust and company service providers sector, flexible company laws and the low taxes. Where such contextual factors raise the AML/CFT risk of a jurisdiction, assessors will focus on these issues to ensure that these factors do not negatively affect the AML/CFT system.

An important element for assessors to focus on is that countries need to take measures to ensure the transparency of beneficial ownership information regarding legal entities and legal arrangements. This aims to discourage the use of shell companies and other constructions to hide the proceeds of illegal activity, such as corruption. Countries that prohibit citizens with certain public functions to own funds or property abroad will benefit directly from the effective implementation of these laws. I should stress, that these laws need to be implemented effectively in all jurisdictions, onshore and offshore.

Important for the FATF is also that other international bodies adopt the comprehensive and practical definition of beneficial ownership that the FATF has set, to ensure that countries are not faced with competing sets of requirements.

FATF is continuing to develop guidance on effective implementation of beneficial ownership requirements. This guidance should be of assistance to countries and practitioners, in the field of AML/CFT but also in the anti-corruption area.

FS: *What is your view of the perspectives for the FATF? What key issues in your opinion should be in the focus of attention of the FATF in the nearest years?*

V.N.: As I indicated earlier, FATF is working on a strategic paper that will set the directions for FATF for the period 2014 – 2016, as further outlined in our work program. The main basis for the FATF's work for the coming years will be the completion of the



current Ministerial mandate which will end in 2020, but with a mid-term review to take place in 2015 – 2016, for adoption in 2016.

Undoubtedly one of the key priorities for the coming period will be the successful undertaking of the 4th round of assessments. This will require the necessary resources from FATF and its members. Additional resources will be required to ensure the quality of all assessments undertaken, also those by FSRB. In FATF we have a dedicated working group that will focus on quality and consistency, and as the standard setter the FATF retains the right not to adopt a report of any of the assessor bodies does not meet our standards.

Countries that do not meet the standard will need to address the deficiencies. The FATF already works extensively with countries whose low compliance levels pose a risk to the international financial system. This work will continue as one of the pillars of the FATF engagement. Often seen as a punitive process, being subject to compliance processes unlocks technical assistance and supports AML/CFT authorities in these countries.

Further deepening of the global network will be another focus. The possible enlargement of FATF, in addition to the deeper integration of FATF and FSRBs, will be discussed on an ongoing basis.

It is important for the FATF to provide information on methods, trends and techniques of money laundering and terrorist financing, and to use this information also as input to its policy making work. The FATF will remain vigilant to ensure that its Recommendations are comprehensive, address current risks and are well understood.

THE JOURNAL GUEST

IMPLEMENTATION OF THE REVISED RECOMMENDATIONS OF FATF WOULD MAKE THE WORLD A SAFER AND BETTER PLACE



DR. K.P. KRISHNAN (India), the EAG Chairman

FS: Dr. Krishnan, we know that you were at the beginnings of India's decision to join to the FATF and the EAG. What did motivate you while defending this point of view? Did your hopes come true?

K.P.K.: The Financial Action Task Force has emerged as an important and internationally relevant organization that sets international standards for Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT). I appreciate the way FATF has led the global efforts to combat the twin menace of ML and FT. Given India's economic and geo-political position, it was but natural for India to join FATF as a member.

India has combated terrorism of various kinds and our experience of combating terrorism shows that financing of terrorism is the lifeline of terrorism and hence the utmost need to combat financing of terrorism aspect with as much vigour and earnestness as terrorism itself. I am of the opinion that effective anti-money laundering investigation and prosecution proves to be the greatest disincentive for a person involved in crimes to derive economic benefit. In

India, we recognize that the FATF standards are a crucial building block in our efforts to disrupt money laundering as well as terrorist financing.

In my country, the commitment to combat ML/FT is at the highest political level. As for joining EAG, India wants to be a part of the global as well as regional efforts to combat ML and FT, share experience and have common understanding. India has historically had very close and friendly relations with the countries of the Eurasian region. You would agree that one likes to be amongst friends.

FS: *In spring 2013 India has agreed to lead the EAG, which is extremely important for the new EAG as an international, intergovernmental organization. What is the background of your proposal to the presidency by APG type, where there are two co-chairs?*

K.P.K.: The revised FATF recommendations are focused on Risk Based Approach, conducting National Risk Assessment and assessing the

effectiveness of AML/CFT regime. This requires challenges at two levels, viz., strengthening of the Secretariat to handle increased work load to ensure quality and consistency with international standards and efforts of the member countries. The secretariat therefore needs greater guidance. Further, we need to keep in mind that the headquarters of the EAG is at Moscow and during the intersession, the secretariat needs guidance for work to be done and also follow – up on various kinds of work. India is a member of APG and has been the Co-chair. Drawing from that experience, I feel that the EAG needs to adopt a similar structure, especially after it has become an international inter-governmental organization and I am confident that this structure of Co-chairs would be able to achieve the above objectives.

FS: *What prospects do you have for strengthening cooperation between the EAG and APG, which is expanding now?*

K.P.K.: I think we already have a good amount of cooperation between the two bodies. The prospects of further cooperation between the two bodies are very bright. It would be interesting for the two FSRBs – one being the largest and the other being the smallest in terms of number of members- to share their experience on ensuring compliance to FATF standards by its member countries.

India being a member of the two FSRBs can play a role in increasing the cooperation between the two bodies, as may be required by the member countries.

FS: *Greeting to you as a new head of the Indian delegation, we would like to see you in this position for many years. What novelties will you bring as the head?*

K.P.K.: I would look forward to a more proactive participation by my delegation in the affairs of EAG. Personally, I would be happy to contribute and work to strengthen the EAG as a stronger FSRB, which would play a more active role in the Global Network Coordination Group (GNCG) of the FATF, and contributes more actively in the discussions at FATF. We could also look at expanding the membership of EAG in consultation with all member-states.



India is also keen to assist the EAG member countries to put in place a robust AML/CFT framework that comply with FATF standards.

FS: *Your predecessors have actively studied the experience of use of the EAG video conferencing system. Taking into account the transition of the position of EAG' Chairman to India, can we expect for a quick hook up of your country to this system?*

K.P.K.: We are open to this suggestion. I am aware of the advantages of this system and the efficiency it has brought in exchange of views on various items by the experts of the member countries.

In India we have the video conferencing on public lines. The issue of inter-operability between the two systems needs to be worked out. I think, this issue could be further discussed by the technical persons from both sides.

FS: *What are the most important issues in the activity of the FATF/APG/EAG, that concern India from the point of view of the national interests?*

K.P.K.: I believe that effective and sincere implementation of the FATF standards by all countries on the ground level would prove to be effective enough to deter and neutralize the threat of ML and TF. Accordingly, the most important issue for us is to implement the revised recommendations of FATF effectively and participate actively in the FATF and the EAG and the APG to ensure compliance of these standards by all countries, which would make the world a safer and better place.

I also feel that the FATF and the FSRBs need to focus on the practical aspects of the revised recommendations and while looking at it there should a specific focus on the peculiarities of the country in terms of ML and TF risks emanating from that country, the impact of risks on other countries and whether the country from where these ML and TF risks emanate has taken effective and adequate steps to mitigate those risks.

FINANCIAL INTELLIGENCE UNITS OF THE EAG STATES

FINANCIAL INTELLIGENCE
UNIT-INDIA (FIU-IND)

Mr. Praveen Kumar TIWARI, Director, FIU-IND

Organizational structure, Mission and Vision

Financial Intelligence Unit-India (FIU-IND) is the central national agency for receiving, processing, analysing and disseminating information relating to suspect financial transactions. FIU-IND was established by the Government of India Order dated 18th November, 2004 for *coordinating and strengthening collection and sharing of financial intelligence through an effective national, regional*

and global network to combat money laundering and related crimes. It is an independent body reporting to the Economic Intelligence Council (EIC) headed by the Union Finance Minister. For administrative purposes, FIU-IND is under the control of Department of Revenue, Ministry of Finance.

FIU-IND is an administrative-type FIU. It receives, analyses and disseminates STR to the appropriate law enforcement or investigation agency but does not investigate cases.

FIU-IND is currently headed by Mr. Praveen Kumar Tiwari, Director. It is an officer-oriented and technology-intensive multi-disciplinary organization and has a sanctioned strength of 75 officials.

As prescribed under the Prevention of Money Laundering Act 2002 (PMLA), and the rules framed thereunder, FIU-IND receives reports on cash transactions, suspicious transactions, counterfeit currency transactions, non-profit organization transactions, etc. The reporting entities are banks, financial institutions, capital market intermediaries and designated non- financial businesses and professions (DNFBPs). FIU-IND analyses the reports received and shares intelligence with specified national authorities. Two new reports have been introduced with effect from 15th February 2013, one relating to cross border wire transfers and the other on immovable properties registered by the registering

authorities. New reporting entities that have been brought under the ambit of PMLA include DNFBPs like real estate agents and dealers of precious metals & stones.

FIU-IND maintains a national database of financial transactions reported to it and shares this information with enforcement and intelligence agencies. FIU-IND also monitors and identifies strategic and key money laundering trends, typologies and developments based on the analysis of its database.

Mission Statement

To provide quality financial intelligence for safeguarding the financial system from the abuses of money laundering, terrorism financing and other economic offences.

Organization Vision

To become a highly agile and trusted organization that is globally recognized as an efficient and effective Financial Intelligence Unit.

In order to achieve its mission of providing quality financial intelligence for safeguarding the financial system from the abuse of money laundering, terrorist financing and other economic offences, FIU-IND has set three strategic objectives as under:

- Combating Money Laundering, Financing of Terrorism and other economic offences
- Deterring Money laundering and Financing of Terrorism
- Building and strengthening organizational capacity

These objectives are proposed to be achieved through the following thrust areas:

- Effective collection, analysis dissemination of information
- Enhanced domestic and international cooperation

- Building capacity of reporting entities
- Ensuring compliance to reporting obligations under PMLA
- Building organizational resources
- Strengthening IT infrastructure.

Powers and Functions

The Prevention of Money Laundering Act 2002 (PMLA) requires every reporting entity including banking company, financial institution and intermediary and DNFBP to furnish information of prescribed transactions to the Director, FIU-IND and to verify the identity of all its clients in the manner prescribed. The reporting entities are also required to maintain and preserve records of transactions and records of identity of clients for a period of 5 years.

The PMLA also authorizes the Director to call for KYC and transactional records as well as additional information from the reporting entities which he considers necessary for the purposes of the Act; to enquire into cases of suspected failure of compliance with the provisions of the PMLA and to impose sanctions including monetary penalty on reporting entity or its designated director or any of its employees. In case of complex cases, the Director may direct the reporting entity to get its records audited by an accountant. The expense of the audit shall be paid by the Government. The other sanctions provided in the PMLA include written warning, direction to the reporting entity or its director or any of its employees to comply with specific instructions or direction to send reports on the measures it is taking.

The PMLA enables coercive recovery of fines imposed by the Director if they are not paid within six months from the date of imposition of fine.

Core functions of FIU-IND

Intelligence Management

- Maintaining national database of Cash Transaction Reports (CTRs), Suspicious Transaction Reports (STRs), Counterfeit Currency Reports (CCRs), NPO Sector Transaction Report (NTR) and Cross- Border Wire Transfer Report (CWTR) received from the reporting entities.

- Conducting operational and strategic analysis of the statutory reports received.
- Screening and processing requests for information from domestic law enforcement & intelligence agencies and from foreign FIUs.
- Disseminating actionable intelligence to domestic law enforcement & intelligence agencies and to foreign FIUs.

Strategic Management

- Reviewing operational and regulatory issues and suggesting policy changes to counter money-laundering, associated predicate offences and terrorist financing.
- Promoting awareness on issues relating to money laundering and terrorist financing.
- Building capacities in the financial sector for effective identification and reporting of prescribed transactions.

Maintenance of records and furnishing of reports to FIU-IND

The following transactions have been specified under the anti-money laundering statute for which records have to be maintained and reports are to be furnished to FIU-IND:

- a) All cash transactions of the value of more than Indian Rupee (INR) 1 million;
- b) All series of cash transactions integrally connected to each other which have been individually valued below INR 1 million where such series of transactions have taken place within a month and the monthly aggregate exceeds INR 1 million;
- c) All transactions involving receipts by non-profit organisations of value more than INR 1 million;
- d) All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;

- e) All suspicious transactions, whether or not made in cash, including attempted transactions;
- f) All cross border wire transfers of the value of more than INR 500,000 where either the origin or destination of fund is in India;
- g) All purchase and sale by any person of immovable property valued at INR 5 million or more that is registered by the reporting entity.

(INR 1= 0.53 Russian Rouble or 0.016 US Dollar)

Suspicious Transaction

Suspicious Transaction means a transaction (including an attempted transaction) whether or not made in cash which, to a person acting in good faith:

- a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- b) appears to be made in circumstances of unusual or unjustified complexity; or
- c) appears to have no economic rationale or bona fide purpose; or
- d) gives rise to a reasonable ground of suspicion that it may involve financing of activities relating to terrorism.

Domestic and International Cooperation

FIU-IND values its relationship with the financial sector and the law enforcement and intelligence agencies. FIU-IND serves as an important link between the two. At FIU-IND, emphasis is placed on understanding the needs of the enforcement and intelligence agencies and providing intelligence products that help in fighting against money laundering and terrorist financing more effectively. Such relationships extend beyond mere dissemination of intelligence reports. FIU-IND expects the domestic agencies to provide feedback on the usefulness of the inputs so that the reporting entities can be guided accordingly to refine their red flag indicators (RFIs) for generating alerts and improve the quality of STRs.

In order to enhance the operational relationships with the partner agencies, FIU-IND has a dedicated

Categories of Reporting Entities

Banking Companies

- Public sector banks
- Private Indian banks
- Private foreign banks
- Co-operative banks
- Regional rural banks

Intermediaries

- Stock brokers ; Sub-brokers
- Share transfer agents
- Registrars to issue
- Merchant bankers
- Underwriters
- Portfolio managers
- Investment advisers
- Depositories and DPs
- Custodian of securities
- Foreign institutional investors
- Venture capital funds
- Mutual funds

- Commodities brokers

- Pension Funds

- Stock exchanges

Financial Institutions

- Insurance companies
- Hire purchase companies
- Chit fund companies
- Housing finance institutions
- Non-banking financial companies
- Payment system operators*
- Authorized persons
- India Post

DNFBP

- Casino
- Registrar or Sub-registrar*
- Real Estate Agent*
- Dealer in precious metals, precious stones and other high value goods*
- Private Locker operators*

*To be notified by the Central Government.

division to deal with all issues relating to these agencies. This has augmented the effectiveness of the structured interactions and enhanced the quality of understanding with agencies. Regular meetings are held with the nodal officers of the law enforcement and intelligence agencies for better coordination and for sensitizing them about the manner in which FIU-IND information is to be handled.

FIU-IND's database on cash and suspicious transactions have been found very useful by domestic law enforcement and intelligence agencies. The partner agencies rely on information contained in FIU-

IND databases not only for developing intelligence but also for ongoing investigations.

Memorandum of Understanding (MOUs)

FIU-IND has entered into Memorandums of Understanding (MoUs) with partner agencies in order to provide a framework for enhanced cooperation and understanding, to protect the disseminated information from unauthorized use and proliferation and to ensure that the confidentiality and data protection are applied throughout the chain of transmission of information.

Regulators

FIU-IND has also developed close relationship with financial sector regulators for strengthening AML and CFT regulations. The regulators, namely, Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), Securities and Exchange Board of India (SEBI) Insurance Regulatory Development Authority (IRDA), National Housing Bank (NHB) and Pension Fund Regulatory & Development Authority (PFRDA) have issued instructions to the financial sector entities for adherence to KYC, AML and CFT norms. FIU-IND has ensured that suitable modifications are carried out in the circulars, wherever necessary. These circulars are also uploaded on the website of FIU-IND for quick reference.

FIU-IND maintains regular interaction with regulators, industry associations and self-regulatory organisations to promote common understanding of obligations under the PMLA, and to improve compliance with AML norms and reporting obligations under the PMLA. FIU-IND also interacts with regulators for identification of legal provisions requiring amendment, issues requiring clarification/intervention and for developing indicators for industry specific suspicious transactions. FIU-IND assists regulatory authorities in training their staff to improve their understanding of AML/CFT issues.

Global AML/CFT efforts

FIU-IND has adopted a policy of fostering strong relationship with the FIUs of other countries, including the neighbouring countries. With a view to formalizing the nature and scope of mutual co-operation, FIU-IND has signed MoUs with FIUs of 23 countries and has initiated the process of signing of MoUs with several other countries. FIU-IND actively participates and contributes in the activities of various regional and international bodies dealing with AML/CFT issues.

FIU-IND is providing technical assistance to FIU Bhutan for establishing an electronic reporting system. The necessary hardware for technical solution has been made available to FIU Bhutan and a team of FIU-IND officials recently visited Bhutan to install the application software and to provide basic training to the users.

FIU-IND has been participating in the meetings of Contact Group on Piracy off the coast of Somalia (CGPCS), which is a body created by the United Nations Security Council for combating maritime piracy in the Gulf of Aden and other areas off the coast of Somalia. During the year 2012-13, India held the Chair

of CGPCS and FIU-IND actively participated in the meeting of the heads of the five Working Groups of CGPCS held at New Delhi and in the preparation of the plenary of CGPCS at New York in December, 2012.

FIU-IND officers have also been representing India in the meetings of the Sub-Group on Combating Financing of Terrorism of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which is an international organisation involving a group of countries in South Asia and South East Asia.

Financial Action Task Force

FIU-IND has been actively participating in the activities of the FATF, especially the Working Group on Evaluation and Implementation (WGEI). Apart from attending the plenary meetings, FIU-IND executives have also attended the meetings of the 'Sub-Group of FATF on Effectiveness' and meetings of the FATF members on 'Risk & Threat Assessment' in April 2012 at Singapore. These meetings were critical in the evolution of the Assessment Methodology for AML/CFT Effectiveness and the FATF Guidance Document on National Money Laundering and Terrorist Financing Risk Assessment later in the year.

National ML/TF Risk Assessment

In February 2013, FATF issued the Guidance document on National AML/CFT Risk Assessment (NRA) so as to facilitate and guide countries to carry out NRA, which will act as the basis for the Risk Based Approach (RBA). With a view to implement RBA and carry out the NRA, the AML Steering Committee (AML-SC) was constituted by the Central Government in the Department of Revenue, Ministry of Finance in May, 2012 with Director, FIU-IND as its Member-Secretary. On the suggestions of the AML-SC, FIU-IND conducted a workshop on Risk Based Approach in September, 2012, which was attended by about representatives from banks and other financial institutions as well as intelligence and law enforcement agencies.

FATF Style Regional Bodies (FSRBs)

India is a member of both APG and EAG. India's joining of EAG in December, 2010 has been instrumental in further strengthening of regional

cooperation in combating money laundering and the financing of terrorism. FIU-IND has been regularly participating in the Annual Meetings of APG and EAG.

FIU-IND delegates participated in the deliberations of the EAG plenary held at New

Delhi in December, 2012 and the issues of mutual co-operation between the FIUs of the EAG member countries emerging from the deliberations, especially in the area of crimes relating to drug trafficking, are consistently followed up by FIU-IND.

FIU-IND made a presentation and led the discussions on maturity assessment of FIUs and strategic analysis at the FIU Forum of ESAAMLG, a FATF styled regional body, at Arusha, Tanzania.

A senior officer of FIU-IND participated in the meeting of FATF/ GIABA Joint Experts Workshop on

Money Laundering and Terrorist Financing Typologies held at Dakar, Senegal in November, 2012.

Egmont Group

FIU-IND has been a member of the Egmont Group since 2007 and follows the Egmont principles of free exchange of information between FIUs for purposes of analysis with respect for confidentiality. All requests for information are replied to, in time, including cases where no information could be found. The statistical information regarding number of cases in which requests were made by FIU-IND to other FIUs and number of cases where FIU-IND received requests from other FIUs is as under:

Exchange of information with foreign FIUs

Status of action Taken	2009-2010	2010-2011	2011-2012	2012-2013
Requests received from foreign FIUs	84	93	113	97
Requests sent to foreign FIUs	46	67	46	81
Spontaneous referrals received from foreign FIUs	9	14	22	26
Spontaneous referrals made to foreign FIUs	4	6	24	11

Outreach and Capacity Building

The number of entities operating in the financial sector in India is very large and it is a challenge to engage them and ensure their compliance with the reporting obligations. FIU-IND constantly focuses on increasing awareness of the reporting entities about their reporting obligations under PMLA and building their capacities to ensure better compliance.

A significant step taken in enabling the reporting entities to efficiently identify suspicious transactions and report them to FIU was to prescribe a standard set of Red Flag Indicators (RFIs) for the banking sector in July, 2011 in collaboration with the banking sector regulator and the banking association. On the same lines Working Groups were formed for payment system operators and money transfer

service providers and on the basis of their reports, RFIs have been implemented in October, 2012. These Red Flag Indicators:

- Create a common and shared understanding aligned with global norms and practice about the implementation of STR detection and reporting systems.
- Provide indicative lists of high risk customers, products, services and geographies.
- Provide a list of commonly used alert indicators for detection of suspicious transactions.
- Provide guidance for an effective alert management and preparation of STRs.

FIU-IND adopts a multi-pronged strategy to enhance awareness through the FIU's website, seminars and workshops. FIU-IND supports the regulators, industry associations, professional bodies and reporting entities by providing resource persons for seminars and workshops organized by them. A 'Train the trainers' workshop is organized by FIU-IND every year to create master trainers. Training material prepared by FIU is being made available to all reporting entities to conduct their own training seminars. The master trainers in turn conducted several AML/CFT focused seminars and workshops in their organisations.

IT infrastructure (FINnet)

FIU-IND initiated "Project FINnet" in 2006 with the objective to adopt industry best practices and appropriate technology to collect, analyze and disseminate financial information. The project has been fully implemented. The new I.T. system enables FIU-IND to handle the entire chain of financial information from the reporting entity to the law enforcement electronically, while maintaining integrity and confidentiality of data. The system also employs business intelligence (BI) software to identify trends in reports, suspicion types,

counterfeit currency incidents, remittances and card transactions. The trends can be analyzed over time period or across geographies to arrive at various strategic insights.

Compliance Management

The compliance management module of FINnet maintains comprehensive profile of reporting entities covering:

Reporting Entity Information

- Principal officer details
- Report submission information
- Data quality in reports
- Training provided
- Feedback provided

Compliance related information

- Compliance alerts
- Preliminary compliance assessment
- Compliance history assessment
- Detailed compliance review
- Compliance management

Exchange of information

FINnet enables seamless exchange of information with domestic agencies. Spontaneous exchange of information includes a preview stage, in which a sanitized version of the case is shared with the users. On acceptance of spontaneous dissemination, all the details of the case become available as a downloadable PDF and XML. The LEAs can also make a request for information to FIU-IND using the online platform.

Objectives of the Project FINnet

- i) Build efficient system for collection of data from Reporting Entities to reduce the lead time in processing the data.
- ii) Build capacity to effectively analyze large number of reports and produce quality intelligence.
- iii) Build efficient system for dissemination and exchange of information with other Agencies.
- iv) Build adequate internal capacity in terms of administrative support and knowledge base that will make FIU-IND an agile organization to meet its changing needs.
- v) Adopt an array of security measures and internal controls.

Knowledge Management

FINnet includes a comprehensive knowledge managements system (KMS) to support the following:

- Library to manage upload, review and retrieval of documents
- Meeting place to manage team meetings
- Team Blog to display journal or diary Team Place to manage team content
- Team Wiki for creation and maintenance of content

Technical Infrastructure Management

The technical infrastructure is hosted in the Primary Data Centre with provision of a Disaster Recovery Site. An enterprise monitoring system (EMS) is deployed with dedicated internal and external helpdesk.

Information Security Management

FINnet implements a range of security measures and internal controls to protect the information from unauthorized disclosure and provides reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of information assets.

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INFORMATION ABOUT FEDERAL LEVEL EVENTS

FATF PRESIDENT TOOK PART IN MOSCOW ANTIDRUG MINISTERIAL CONFERENCE

The Ministerial Anti-Drug Conference chaired by Viktor Ivanov, the Chairman of the Russian Federal Drug Control Service, was held in Congress Center of the World Trade Center (Moscow) on May 15, 2014

*Konstantin G. Sorokin,
PhD., Economics*

*Konstantin V. Litvinov,
Deputy Chief Editor*

The event was attended by concerned representatives of member states of the Eurasian Group on Anti-Money Laundering and Combating the Financing of Terrorism (EAG) – India, China, Kyrgyzstan and others, and international organizations-observers of EAG: United Nations Office on Drugs and Crime (UNODC), Shanghai Cooperation Organization (SCO), Collective Security Treaty Organization (CSTO), Financial Action Task Force (FATF).

This conference closed a series of events (expert meetings) aimed at elaboration of consolidated

approaches to the problems of drug production, drug trafficking and global centers of drug production. Expert meetings preceding the conference covered the main problematic aspects associated with drug issues:

- reducing drugs supply through cooperation of police offices;
- alternative development of drug production regions;
- de-criminalization of youth environment through reduction of drug demand based on rehabilitation and re-socialization of drug users.



Speech by Vladimir Nechaev, the FATF President

– The spread of illicit drug trafficking has already reached menacing proportions in the 1980s. Vast geography of drug production, international drug trafficking routes and cross-border transfers of proceeds from drug trade led to the situation where the national legislation and the efforts of the law enforcement agencies have become insufficient as such. The need for urgent vigorous measures aimed at combating money laundering and other abuses of the financial system as a tool for curbing illegal drug trafficking and organized crime has become more obvious and broadly recognized.

In this context, the Financial Action Task Force (FATF) was established in 1989. The initial mission of the FATF was to focus on prevention of misuse of the banking system and other financial institutions for money laundering. More specifically, it involved development of measures that would facilitate identification, tracing and seizure of proceeds from illicit drug trafficking and other criminal offences.

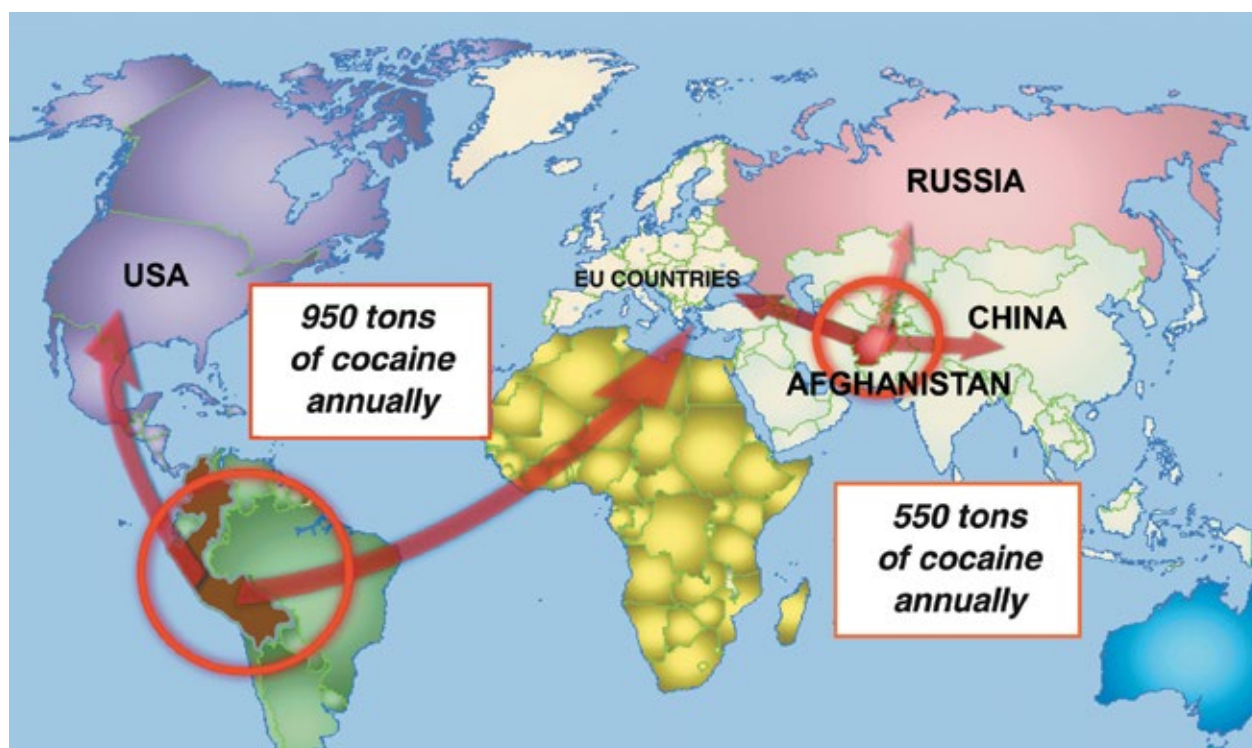
In April 1990, the FATF published 40 Recommendations for identifying and preventing money laundering. These Recommendations, that have been regularly revised and updated, set out a broad framework of measures covering law enforcement and criminal justice systems, financial system and its regulation and international cooperation. Though not a binding international instrument, the Recommendations have been recognized as the international standard. At present, most countries in the world have made a political commitment to implement them.

Implementation of the FATF Recommendations establishes the legal framework and mechanisms for reporting and preventing suspicious activities in the financial system. These requirements include:

- Establishment of financial intelligence unit.
- Provision of access for law enforcement agencies to financial records.
- Implementation of effective laws and procedures for freezing, seizure and confiscation of criminal proceeds and laundered assets, inter alia, in response to foreign requests. Establishment of effective mechanisms for sharing assets confiscated as a result of coordinated actions.

I would like to note some aspects of the activities the FATF is involved in.

1. The FATF revises and updates the AML/CFT standards on an on-going basis. Methods used by criminal and terrorist organizations are becoming more and more sophisticated. Therefore, the FATF responds by revising and adapting the standards to ensure that they remain updated and effective. The most recent revision of the standards took place in February 2012.
2. The FATF conducts assessments of the level of implementation and compliance with the FATF standards. In this context, monitoring of

Global centers of drug production and global drug traffic

elimination of revealed deficiencies is of great importance. At present, the FATF has completed the third round of mutual evaluations of its members and starts the fourth round.

3. Jurisdictions that are unable to adequately implement the FATF standards pose threat to the international financial system. For this reason, the FATF has created the mechanism for identifying such system deficiencies which is used to exert pressure on high-risk jurisdictions to improve their AML/CFT systems.
4. Apart from assessing the national AML/CFT systems, the FATF is also actively involved in research of particular sectors of economy and activities to identify the existing and potential AML/CFT vulnerabilities. These researches, called typology reports, analyze various channels that can be used for illegal transfer/ movement of funds.
5. From the very beginning it was clear that in order to be really effective the FATF

Recommendations should be implemented by maximum possible number of countries. Therefore, the FATF strived to engage as many countries as possible by establishing the FATF style regional bodies (FSRB). Through these regional bodies the membership in the FATF global network has grown from 16 members at its inception to 192 jurisdictions, and all these countries are now engaged in the consolidated efforts undertaken by the FATF.

Misuse of financial channels for concealing and transferring criminal proceeds and supporting the financing of terrorism is the problem that will not cease to exist.

In this context, I would like to say few words about one project that is nearly completed by the FATF.

The project is entitled Financial Flows Linked to Illicit Production and Trafficking of Afghan Drugs and Related ML/FT.

Russia believes that professional knowledge and rich experience gained by the FATF should be actively used for reducing not only the "traditional" ML/FT risks but also for timely response to all criminal challenges to the financial system. This is

exactly why the Russian Federation put forward very important initiative during the Russian presidency of the FATF – to undertake cooperative efforts for identifying illicit financial flows related to production and trafficking of Afghan drugs.

The goal of this initiative is to obtain information on financial flows linked with the illicit drug trafficking through identifying bank transactions, dummy companies and beneficiaries of fund transfers as well as other data and information that can help to reveal and ultimately disrupt the drug trafficking networks.

The project was launched almost one year ago. The project team led by the Russian Federation and the UNDOC includes the FATF members, the FATF Style Regional Bodies (EAG and APG), the International Monetary Funds and the World Bank. The final version of the report will be submitted for approval in June 2014.

Implementation of this project, including methodology and results, will lay the ground for further in-depth research of financial flows associated with illegal production and trafficking of other types of drugs in various regions and will establish the foundation at the international level for curtailing illegal financial flows linked to other types of criminal activities.

In this context, I would like to mention the efforts undertaken by the EAG which has established the working group on combating the financing of drug trafficking, crime and terrorism.

This working group was established by the EAG Plenary held in Moscow in 2012. Its activities are focused on practical and operational issues. As part of the work undertaken by this group, the EAG members and observers have compiled the consolidated list of indicators of suspicious transactions that can be linked to the illegal drug trade. The practical application of this list yields good results.

The efforts of this group, including engagement of the EAG in “Channel” operation conducted by the Collective Security Treaty Organization, contributes to effective international cooperation. Use of similar cooperation mechanism by other FATF Style Regional Bodies will, more than likely, enhance the cooperative efforts aimed at curtailing financial flows linked to illegal drug production and trafficking.

Therefore, the FATF and FSRBs should encourage more active engagement of law enforcement experts and special anti-terrorist agencies in their activities and in typology projects, in particular. We have the common goal – to combat crime and tear up the financial foundation of criminal activities.



When responding, V. P. Ivanov, chairman of the State Anti-Drug Committee and director of the Russian Federal Drug Control Service, emphasized the importance of detecting the financial flows linked to drug trafficking:

V. P. Ivanov, Director of the Russian Federal Drug Control Service

– It seems that the problem of combating the laundering of drug trafficking proceeds represents one of the biggest challenges. As data on our joint operations show, in comparison to about 10-15 percent of drugs seized by our law enforcement (though not that little, 90 percent is still sold in the black market),



the proportion of the seized drug money currently stands at no more than 1 percent, meaning that almost all revenue from the sale of drugs ends up in the financial banking system. This is a huge problem given the causes this money is likely to be channeled into: either to expand the existing drug network or to finance acts of violence and terrorism, but in any case against the interests of humanity. That is why we wish to further strengthen cooperation in the fight against money laundering.

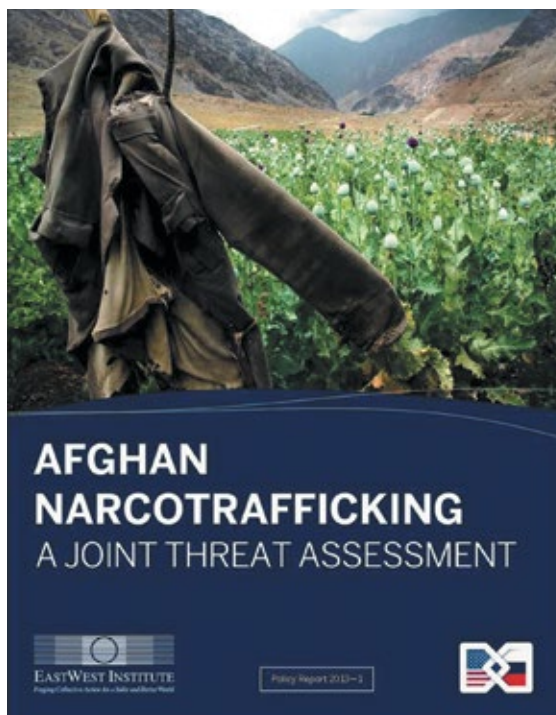
All participants spoke against any forms of laundering of drug trafficking proceeds and reiterated their commitment to the three basic UN anti-drug conventions. In conclusion, participants voted to adopt the Declaration of the Moscow Anti-Drugs Ministerial Conference. It is expected that similar conferences will be held annually.

Afghan drug trafficking. A joint threat assessment

In advance of Moscow Anti-Drug Conference, the report of the joint US - Russia Working Group on Afghan Drug Trafficking “Afghan Drug Trafficking: A Joint Threat Assessment” was published in Russian.

The report prepared under the project is a product of research, deliberations and discussions between the leading US and Russian subject matter experts.

Taking active part in the project were: Ilnur Batyrshin, Head of the Scientific Research Center, Russian Federal Drug Control Service; George Gavrilis, Executive Director, the Hollings Center for International Dialogue; Viktor Korgun, PhD., Head of the Afghanistan Department, Institute of Oriental Studies of the Russian Academy of Sciences; John “Jack” Lawn, former Administrator (1984-1990), Drug Enforcement Administration; David Mansfield, Independent Consultant; Gretchen Peters, author, “Seeds of Terror: How Heroin is Bankrolling the Taliban and Al Qaeda”, Lead Associate, Booz Allen Hamilton; Aman Saliev, Senior Expert, Institute of Strategic



Analysis and Planning, Kyrgyz-Russian University of the Kyrgyz Republic; Konstantin Sorokin, PhD., Adviser of the Education and Science Department, International Training and Methodology Center for Financial Monitoring; Ekaterina Stepanova, PhD., Lead Researcher and Head of Peace and Conflict Studies Unit, Institute of World Economy and International Relations of the Russian Academy of Sciences, author, "Role of Narcotics Business in Political Economy of Conflicts and Terrorism"; Cory Welt, Associate Director, Institute for European, Russian and Eurasian Studies, the George Washington University's Elliott School of International Affairs, Adjunct Fellow, Center for American Progress; George Zazulin, PhD., Associate Professor at the Chair of Conflictology, St. Petersburg State University, Russian expert of "European Cities Against Drugs" organization.

Extract from the Foreword of the Report*

The project involving the US-Russian expert dialogue on Afghan drug trafficking was conceived as an innovative approach to sustaining dialogue and contributing to trust-building in the US – Russia relationship at a time when a policy "reset" was needed.

As Presidents Medvedev and Obama outlined in their July 2009 summit, Russia and the United States both have substantial security interests in Afghanistan – and these interests are closely related to the issues of drug production and trafficking. The benefits to the United States and Russia of reducing the threat of Afghan drug trafficking would be obvious – and, aside

from the enhanced security to both states, concrete measures offered for Afghanistan could contribute to a stabilization of the situation there.

The US – Russia Working Group on Afghan Drug trafficking, established by the East West Institute, was launched in 2011 to bring together the Russian and American technical and policy experts to share knowledge, make consensus assessments of the situation on the ground, and then to deliver innovative and concrete policy solutions that will have traction on both states and to the larger relevant policy communities.

This publication summarizes the Working Group's consensus findings on the scope and threat of Afghan drug trafficking.

The Working Group members met in Washington, D.C., and Brussels in 2011 and 2012, for multiples days of working through a consensus assessment. The Working Group members also met with officials from the United States (the Drug Enforcement Administration and the Department of Defense), Russia (the Ministry of Foreign Affairs and the Federal Drug Control Service), NATO, and the European Union.

The Report is available at:

<http://dl.dropboxusercontent.com/u/869038/JTA-russian.pdf>

Project Address (including the original in the English language)

<http://www.ewi.info/idea/afghan-narcotrafficking-joint-threat-assessment>

* This material is a translation from the Russian version of the report, and may differ from the original English version.

EEA FINANCIAL MARKETS INTEGRATION: STRATEGY AND TACTICS

Among this year's events of federal importance closely related to the subject of the Eurasian integration, a forum titled "EEA Financial Markets Integration: Strategy and Tactics", held on 20 March 2014 under the auspices of the Eurasian Economic Commission (EEC), is particularly noteworthy. The forum, held this year at the initiative of the EEC, was first conceived as a platform for experts to share their ideas about the future of the Eurasian Economic Area (EEA) and its subsequent transformation into the Eurasian Economic Union.

Konstantin G. Sorokin,

PhD., Economics

Vladislav E. Ponamorenko,

*Associate Professor, Department of Monetary Relations & Monetary Policy
and Department of Financial Law, Financial University under the
Government of the Russian Federation, PhD*

In addition to a wide range of participants from the private sector, scientific and expert community, the event was attended by the heads of the key regulatory and supervisory agencies of the states members of the EEA and other concerned countries: Kairat Kelimbetov, Chairman of the National Bank of Kazakhstan; Sergei Shvetsov, First Deputy

Chairman of the Central Bank of Russia; Taras Nadolny, First Deputy Chairman of the Board of the National Bank of Belarus; Bemba Khulkhachiev, Director of the EEC Financial Policy Department; Pavel Livadny, State Secretary - Deputy Director of Rosfinmonitoring, etc.



In his speech on the meaning of the term «integration», T. Nadolny said, «In Belarus, we believe that macroeconomic stabilization must come first, and then we can talk about integration.»

In the course of a discussion held during the first part of the plenary, participants noted the problem related to regulatory arbitrage, which really exists and must be addressed as a precondition for further integration. At the same time, the participating parties unanimously ruled out the possibility of achieving the full alignment of taxes, tariffs and other parameters within the EEA before 2025.

The issue causing particular concern among experts, however, was the upcoming accession to the EEA of Armenia, a country whose financial market regulations are based, among others, on Western standards and whose stock exchange is run by NASDAQ OMX, an American company acting as a single stock exchange operator. This situation, according to experts, will substantially complicate the integration process.

Among the key vulnerabilities in terms of integration, participants identified the excessive dependence on the U.S. dollar, which is used in trade between countries and market participants. Payments in this currency are made via SWIFT, the access to which may, if needed, be blocked. 40% of the trade conducted by the Russian Federation with Kazakhstan and Belarus is in USD, 9% in Euro and 55% in RUR. Payments between Kazakhstan and Belarus, however, are made mostly in USD, with national currencies accounting for no more than 1% of the volume. The issue of USD substitution can be

resolved through the introduction of a single currency, for which, according to experts, EEA countries are not ready.

Among the most notable trends highlighted at the forum were:

- excessive administration and dual supervision on the part of the tax authorities and through currency regulation, which results in higher costs for businesses;
- different goals pursued by the customs and tax authorities when determining the value of goods: the customs authorities seek to overstate the value of imported goods in order to charge higher fees, whereas the tax authorities tend to understate it in order to reduce the amount of possible rebates and deductions.

Of particular concern to participants was the existence of fraudulent schemes involving bogus shipments of goods that never get shipped, but for which payments are made, with the money ending up outside the Customs Union. This problem is still not completely solved at the moment.

In his speech during the plenary, P. V. Livadny, State Secretary - Deputy Director of Rosfinmonitoring, stressed that the AML/CFT legislation of EEA member countries was in line with international standards (FATF Recommendations). As the main future trend, P. V. Livadny identified the need for regulators to work not so much on the suppression of crime as on the

prevention of risks, to which process the risk level-based ranking of market participants is designed to contribute. Among the key roles of government agencies, P. V. Livadny identified the need for them to act as advisors to market participants. When speaking on the issue of AML/CFT laws harmonization, P. V. Livadny noted that because of the existence of international standards (FATF Recommendations), this process was easier than in other areas, while stressing that full harmonization was not the ultimate goal.

Pavel V. Livadny, State Secretary – Deputy Director of the Federal Financial Monitoring Service:



– Any anti-money laundering system depends on the ability of public authorities to obtain the necessary financial information from market participants (financial institutions). The main

issue here is to be familiar with the business carried on by your customers. First of all, we are talking about credit institutions acting as securities market entities. It's important to understand the essence of the business activity carried out by your customers in order to be able to detect any illegal activity in their financial transactions. It's possible that these transactions are only potentially illegal, and that the customer has made a genuine mistake. In this case, financial institutions should act as advisors to such customers...explain trends and point at risks and dangers. All customers must be divided into three categories: customers whose financial activities are transparent, customers whose activities raise questions, and customers posing potential risk.

I think we can use this approach to build a system of economic security where, in the environment of extremely low regulation, the financial sector and its customers will feel the need to discontinue their use of illicit financial schemes.

In addition to the main plenary meeting, chaired by members of the board Timur Suleimenov, EEC Economics & Financial Policy Minister, Yakov Mirkin, Chairman of the Financial Markets and Credit Institutions Committee of the RF Chamber of Commerce and Industry, and Anatoly Gavrilenko, Chairman of the Supervisory Council of the ALOR Group, forum participants were also invited to attend several thematic sessions.

One of the most popular of these secessions was Session II titled **"Harmonization of Tax Policies. Deoffshorization. Capital Export, Anti-Money Laundering"**, which, although lasting longer than the allocated time, was rated by all chairpersons as most effective. During this session, devoted among others to a study of EU experience vis-à-vis excisable goods, participants saw through the examples of tobacco and alcohol how tax arbitrage in the EU contributed to the increase in the volume of smuggled excisable goods. Victor Machekhin (Kutafin Moscow State Law Academy, International Fiscal Association) pointed out that although the fight against the use of offshore jurisdictions had been going on for over twenty years, it is only now that this trend has dovetailed with the OECD activities in this area. Taras Nadolny, First Deputy Chairman of the Board of the National Bank of Belarus, said that Belarus had only 31 registered banks and that the problem of AML/CFT was, by and large, solved. By analogy with the Russian Federal Law No. 134-FZ, Belarus has adopted regulations that allow its banks to refuse to carry out customer transactions. On top of this, every Belarusian regulator is tasked with addressing the problem of pseudo-entrepreneurship. The country maintains a high level of interaction (information sharing) with the Bank of Russia aimed at combating false business activities.

Among other speakers who took the stage during this session was Nadezhda Prasolova, Deputy Head of the Legal Department at Rosfinmonitoring. N. I. Prasolova said that the job of ensuring compliance with the FATF Recommendation 32 (cash couriers) would be among the key challenges facing the countries members of the Customs Union. More specifically, Russia, Belarus and Kazakhstan would need to achieve FATF's recognition of the Customs Union as a supranational structure. Otherwise, these countries would run the risk of being rated non-compliant (NC) with respect to Recommendation 32 in 2016 due to the lack of customs controls at the internal borders of the Customs Union.

Among the issues discussed during the session were:

- capital flight, underlying reasons and scale;
- illegal capital migration channels, capital flow destinations, measures to counter illicit capital export schemes;
- problems associated with the illegal capital flight in the absence of customs barriers between countries members of the Customs Union and the EEA, possible mechanisms of control, international experience;
- international anti-money laundering and terrorist financing standards; detection of countries and territories with strategic deficiencies in this area; challenges of integration of international standards into the legal frameworks of the countries members of the Customs Union and EEA, international experience;
- strategy and experience of financial intelligence units of the Republic of Belarus, Kazakhstan and the Russian Federation in combating money laundering and terrorist financing;
- place and role of information exchange between the competent authorities of the countries members of the Customs Union and EEA in combating money laundering and terrorist financing.

Thematically, the session comprised three parts:

1. Practice of administering indirect taxes (challenges and prospects) and harmonization of excise rates in the CU and EEA member states.
2. Tax aspects of the fight against capital flight, issues of deoffshorization.
3. Capital export, anti-money laundering.

Aliaksandr Vodziany, administrator of the Eurasian Group on Combating Money Laundering and

Financing of Terrorism, made a presentation titled «Challenges Associated with the Implementation of International Anti-money Laundering Standards», during which he highlighted the key trends of the revised FATF Recommendations, i.e. a risk-based approach, classification of tax crimes as predicate offences, PWMD recommendations, national risk assessment, etc.

Aliaksandr V. Vodziany, EAG Administrator:

– Nowadays, countries members of the Eurasian Economic Area have at their disposal fully functioning institutions and an advanced legal framework that can be used in the fight against money laundering in line with international standards. First of all, I would like to note the inclusion of mandatory risk assessment and use of a risk-based approach as a stand-alone FATF Recommendation. This approach should be the basis for the efficient allocation of resources within the national AML/CFT systems.

Today, not yet all EEA countries have completed their work on the national risk assessment. Further improvements are needed to promote AML/CFT efforts based on a risk-based approach. Not all countries have assigned serious tax crimes to the category of predicate offences. There are also other problems that we need to deal with together. However, given that the revised FATF Standards were adopted only in 2012, it is obvious that countries need time to fully understand and implement them in their legal systems.

The level of interest generated by the session was so great that discussions continued throughout the break (about 30 minutes) until the final part of the plenary.

The forum ended with the release of the final resolution¹, prepared by the EEC jointly with the forum participants representing regulatory authorities, business community, leading professional insurance

¹ <http://www.eurasiancommission.org/ru/nae/news/Pages/09-04-2014-2.aspx>



associations, banking and stock markets, major stock exchanges as well as expert and scientific circles of the countries members of the Customs Union and the EEA. This resolution is addressed to such sectors of the economy as the securities market, banking, insurance, consumer protection and development of financial literacy, factoring, international taxation, harmonization of tax policies, deoffshorization, illegal capital export and anti-money laundering.

With respect to the **securities market and banking**, the resolution proposes to accelerate the process of harmonization of legislations in order to create a single financial competitive landscape. Participating parties were encouraged to develop a joint harmonization programme designed to address the problem of mutual recognition of financial broker licenses until 2019-2020. It was proposed that the work on the gradual formation of a supranational regulatory body should commence in 2020. The resolution calls for the removal of all barriers to the proper functioning of the branches of financial institutions operating in the territory of the Single Economic Space, as well as urging the participants to explore the possibility of creating an integrated payment system within the EEA in order to reduce payment and settlement transactions-related risks.

The resolution also refers to the **gradual establishment of a common insurance market of the countries members the Single Economic Space**, which is possible only after the harmonization or unification of insurance legislations of EEA member states. With regard to the insurance sector,

the resolution points at the legislative barriers that impede the free movement of professional insurance market participants within the EEA.

Protection of the interests of consumers of financial services and improving financial literacy are identified in the resolution as the constituent elements of the CU and EEA financial markets integration strategy designed to ensure equal access of citizens to high-quality financial services. While working under the auspices of the Commission, participants are encouraged to facilitate the transfer of knowledge related to the protection of the interests of consumers of financial services and raising financial awareness in order to achieve certain standards in areas such as the quality of financial products and services, professional development of the financial market participants, the basic level of financial literacy of the public and ways to improve it. It seems appropriate that work should be carried out to create a single bank of data related to the protection of the interests of consumers of financial services and raising financial awareness.

With regard to factoring, the resolution calls for the development of a roadmap for the harmonization of regulations governing factoring activities based on the provisions of the UNIDROIT Convention on International Factoring.

The paper also proposes to **conceptually approve the suggested by the EEC international taxation initiatives** aimed at improving legislation and creating a single market for goods, services, capital and labor.

Among others, it recommends:

- to establish the principal of non-discriminated taxation with regard to incomes of individuals residents of the CU and EEA, as well as a provision allowing the application of the identical terms of taxation shortly after the conclusion of a long-term contract;
- to simplify the document management process for taxpayers submitting documents to the tax (or customs) authorities in order to further improve the mechanism for VAT collection in mutual trade, including through the use of information technology;
- to harmonize the structure of excise rates for the most sensitive excisable goods, in particular alcoholic beverages and tobacco products, and tighten liability for violation of the law in this area.

As for deoffshorization, the resolution provides for the development of a taxation mechanism for entities working with offshore jurisdictions designed not to hamper competitiveness of CU and EEA businesses in foreign markets. These measures are also aimed at countering capital export and tax evasion in transactions with business entities registered in offshore zones.

In terms of control over transfer pricing, the resolution proposes to expand information sharing between tax authorities, to develop common approaches to price substantiation and to review agreements (treaties, conventions) on the avoidance of dual taxation.

Furthermore, the resolution notes the rising volumes of illegal capital that is being exported from countries members of the CU and EEA using

schemes that take advantage of the absence of customs clearance and control over the movement of goods between countries members of the CU and EEA. In this regard, the resolution proposes to develop **a set of measures aimed at promoting alternative mechanisms for controlling the movement of goods between our countries and eradicating the illicit export of capital**. The paper calls for the creation of an integrated information system for managing interaction between the Parties:

- **between banks** – exchange of information on contracts registered with banks by importers (exporters);
- **between customs authorities** – exchange of information on statistical declarations submitted by importers (exporters);
- **between tax authorities** – exchange of information on importers' VAT payments.

The resolution recommends the governments of member countries to intensify work on the draft Agreement on AML/CFT Information Sharing during the Movement of Cash and (or) Monetary Instruments Across the Customs Border of the Customs Union. In order to ensure compliance by the CU and EEA member states with the Financial Action Task Force (FATF) anti-money laundering and combating the financing of terrorism standards, the resolution proposes that the Eurasian Economic Commission should send a request to the FATF for recognition of the Customs Union as a supranational jurisdiction.

More information about the forum final resolution can be found here: http://www.eurasiancommission.org/ru/act/finpol/dofp/SiteAssets/09_04_2014_resolution.pdf

MODERN ANTI-CORRUPTION STANDARDS AND TECHNOLOGIES

The Third Eurasian Anti-Corruption Forum “Modern Anti-Corruption Standards and Technologies” was held in Moscow on April 24-25. This annual international academic and research conference was arranged and hosted by the Audit Chamber of the Russian Federation and Institute of Legislation and Comparative Legal Studies under the RF Government with the support of the RF State Duma

*Konstantin V. Litvinov,
Deputy Chief Editor*



At present, the urgent goal of the government policy pursued by the Eurasian countries is to consolidate the public anti-corruption efforts. In this context, the mission of the Forum is to brainstorm new ideas and develop new approaches to combating corruption.

The meeting was opened by the welcome address delivered by Sergey Naryshkin, the State Duma Chairman, which was followed by the report presented by Tatiana Golikova, the Chair of the RF Audit Chamber. Various aspects of the anti-corruption efforts were discussed by the Forum delegates: Naliya Khabrieva, Academician, Vice-Chair of the RF Academy of Sciences and Director



of the Institute of Legislation and Comparative Legal Studies; Oleg Plokhoy, Head of the Anti-Corruption Office with the RF Presidential Administration; Yury Chikhanchin, Director of the Federal Financial Monitoring Service, Alexander Buksman, First Deputy General Prosecutor of the Russian Federation; Irina Yarovaya, Chair of the Security and

Anti-Corruption Committee of the RF State Duma, Vladimir Nechaev, FATF President, and others.

In his speech, Yury Chikhanchin, the head of Rosfinmonitoring, emphasized similarity between the Russian anti-corruption and anti-money laundering systems in terms of various parameters.

Yury Chikhanchin:

– In this context, it is difficult to say whether the anti-corruption system integrates the anti-money laundering system into itself, or the anti-money laundering system establishes the mechanism that curtails flow of proceeds from corruption. Most likely, these systems complement each other and are the integral part of the consolidated national framework for combating crime ... In his 2014 address, the RF President virtually reworded the FATF Recommendations

emphasizing the need for establishment of the mechanism that would ensure transparency of the economy through enhancing transparency of financial institutions and government-owned companies and corporations as well as through “deoffshorization”, i.e. both the international community and the RF President point out the areas where major risks related to corruption proceeds may occur.

INTERNATIONAL NEWS BLOCK

THE 44TH PLENARY MEETING OF MONEYVAL

The 44th Plenary Meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), the FATF Style Regional Body, was held on March 30 – April 5 in Strasbourg

Nikita A. Bobryshev,
Project manager of Analysis and Information Department

In the opening speech delivered at the beginning of the plenary week, Mr. Anton Bartolo, the MONEYVAL Chairman, summarized the main changes occurred in the inter-sessional period. After adoption and

enactment of the relevant amendments to the national legislation, which eliminated the existing deficiencies in the AML/CFT systems, Georgia and Ukraine were withdrawn from the NC/PC process.



The representative of Moldova presented the report on amendments and modifications to the national legislation. The amendments to the Offences Code, which came into effect in February 2014, extended the scope of application of the existing sanctions for breach of the AML/CFT measures and, therefore, the Plenary decided to terminate Moldova from the NC/PC process.

The MONEYVAL Chairman informed the delegates that the high-level mission visited Bosnia and Herzegovina in February 2014, in course of which the high-level meetings were held with the leaders of this country. The mass media provided extensive coverage of the mission, and the heads of the relevant ministries and departments expressed commitment to support prompt adoption of new legislation. The Bosnia and Herzegovina delegates emphasized the importance of the visit and explained that the new version of the law was submitted to the Parliament but was rejected only because of political discord in the country. Following the discussion, the text of the public statement was presented and the decision was made that in case of failure to amend the legislation the public statement would be automatically published on June 1, 2014, after which possible inclusion of Bosnia and Herzegovina in the FATF “black list” would be considered.

The MONEYVAL Secretariat proposed early completion of the fourth round of mutual evaluations and suggested that some countries should prepare their reports under the rules of procedure of the fifth round. It was noted that the countries which had earlier agreed to open the new round of mutual evaluations changed their minds. Therefore, according to the Bureau's decision the first on-site visit will be made in Armenia (in the second quarter

of 2015), then in Serbia (in the third quarter of 2015) and, possibly, in Hungary (in the fourth quarter of 2015).

The 44th MONEYVAL Plenary focused on consideration and discussion of the evaluation reports on the 4th assessment visits to Liechtenstein, Romania and the Former Yugoslav Republic of Macedonia. The reports of all three countries were adopted. The Plenary also considered and discussed the follow-up reports of Albania, Andorra, Lithuania, Malta, Slovakia and the Czech Republic. The representative of the Russian delegation noted the significant progress achieved by the Maltese authorities that have undertaken active efforts for bringing the national AML/CFT legislation in line with the FATF Recommendations.

At the end of the plenary week, the MONEYVAL-member countries presented their Voluntary Tax Compliance Schemes. The reports were presented by Albania, Hungary and Malta. The Hungarian Voluntary Tax Compliance Program was deemed consistent with the FATF requirements. The MONEYVAL Secretariat expressed concerns with regard to Albania since the country failed to inform the Secretariat on commencement of the program within the established timelines, which constituted the serious breach of the procedures.

The representative of the MONEYVAL Secretariat informed the delegates that the development and updating to the MONEYVAL rules of procedure of the fifth round of mutual evaluations was underway. The preliminary version of the document will be disseminated soon for comments, and the document will be discussed by all delegations at the 45th MONEYVAL Plenary Meeting in September 2014.

FATF PRIVATE SECTOR CONSULTATIONS: ONGOING DIALOGUE

Viktor L. Dostov,
Chairman, E-Money Association

According to the Mandate of the Financial Action Task Force (FATF) its objectives include regular targeted consultations and interaction with the private and public sectors. In pursuance of this mission, the Consultative Forum meetings arranged and held by the FATF every year serve as the platform for engaging the representatives of the major industry associations, private companies and FIUs of the FATF-member states. In recent years, the membership in this forum has gradually extended and now is not limited just by the financial sector. Representatives of casino associations, insurance companies, real estate agents, GSM association, etc. are invited to participate in the meetings. This trend reflects actual extension of the FATF's Mandate – its Recommendations now cover those sectors of economy that have not been engaged in the AML/CFT efforts earlier.

The most recent FATF Consultative Forum meeting was held on March 25-26, 2014 in Brussels with the support of the European Banking Federation and some other European industry associations.

For the fourth time, the Russian private sector was represented by E-Money Association which incorporates the major domestic money transfer/remittance systems and e-money operators.

Traditionally, the agenda of the Consultative Forum meetings is divided into two parts. Firstly, the FATF uses this opportunity to inform the private sector delegates about its achievements in the previous year and plans for the future. Due to the specific nature of the FATF, the details of its Plenaries as well as the routine technical activities are typically not fully available to public. Therefore, it is critically important for the delegates to receive, straight from the source, information on the most recent developments in the global AML/CFT regime and be advised on how the private sector could prepare for upcoming changes in the evolving international standards.

Secondly, the Consultative Forum meetings serve as the platform through which the FATF receives feedback from the private sector. The industry associations and individual companies are offered the opportunity to express their concerns regarding various decisions taken at the international or domestic levels. Traditionally, the problems faced by business entities and institutions in course of implementation of the AML/CFT Standards are brought to the attention of the FATF. Another important element of

this feedback mechanism is dissemination of the FATF draft guidelines for comments and proposals.

For the third time, the unofficial slogan of the Consultative Forum meetings is “adaptation of the private sector to the FATF Recommendations revised in 2012”. The meeting held in Brussels was no exception. However, unlike the previous meetings the main discussions at which were focused on the text of the revised Standards, the FATF turned its attention to the technical issues in 2013-2014. In particular, a significant progress was made in coordinating the mutual evaluation methodologies and procedures by March 2014. The first mutual evaluations under the new round are planned to be conducted in Norway and Spain in spring 2014. (The exact date of the mutual evaluation of Russia is not established yet). The first countries facing mutual evaluations under the revised Standards will probably have a tough time and encounter certain difficulties. On the other hand, the national regulators and assessors will also conduct mutual evaluations under the new Standards for the first time – they will have not just to establish technical compliance but also assess the effectiveness of the national AML/CFT regimes. Being aware of this challenge, the FATF has drawn up the detailed procedures of the 4th round of mutual evaluations with the description of the basic mechanisms of this process. The FATF representatives also expressed their availability for

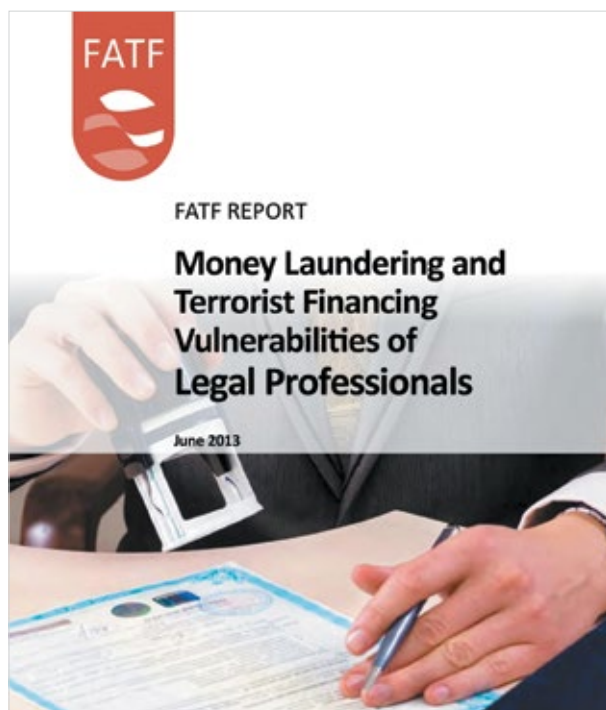
learning from practical experience and are intended to gradually enhance quality of assessment and monitoring. Hopefully, the main ambiguities and problems associated with the revised Standards will be eliminated or minimized by the time of mutual evaluation of the Russian Federation.

The FATF undertakes ongoing efforts to bring its various Guidelines in line with the revised Recommendations. The detailed analysis of one of them – Guidance for Risk-Based Approach to New Payment Products and Services - is published in this issue of the journal. Besides that, the FATF has developed the Guidance on Politically Exposed Persons and Typology Reports on legal professionals and diamond dealers.

In recent years, the FATF started to pay increased attention to additional issues such as personal data protection and privacy under the AML/CFT regime. Immediately prior to the Consultative Forum meeting, the special workshop was held in Brussels to discuss these issues. Apparently, the personal data protection regime will be gradually brought in line with the AML/CFT requirements. So far, the Consultative Forum participants have not expressed serious concerns indicating that this process will adversely affect the right to privacy. Nevertheless, this is likely to become another issue where all stakeholders would need to seek compromise and right balance between various types of risks.

However, the main discussions at the Consultative Forum meeting were focused not at the achievements but on the future work. The FATF representatives arranged for meaningful exchange of opinions on three key issues: implementation of risk-based approach, potential risks posed by virtual currencies and implementation issued related to formatting of the UN sanction lists.

Although, the risk-based approach (RBA) does not raise as many questions as in 2012, the regulators and the private sector still face certain problems with its practical implementation. Today, the urgent issue on the FATF's agenda is to include the RBA principles in the Guidance for the Banking Sector. In the opinion of the market players, this is more challenging problem than it seems at first glance. The experts will need not just take into account the financial inclusion issues and the specificities of new payment methods, but also ensure that the wording of this Guidance is clear, unambiguous and valuable. The representatives of the private sector, including the Russian private sector representative, have already provided the FATF with their comments on the





new revision of the Guidance. In the coming months, the FATF will commence drafting similar documents for money transfer/ remittance companies and legal professionals. Apart from the risk-based approach, special attention should be paid to the terminology. For example, the representatives of Russia and some other countries have pointed out that the term “money service business” has narrow meaning and is not applicable in a number of jurisdictions due to the specificities of their domestic legislation. It is possible that the FATF will extend the scope of the relevant Guideline following these consultations.

The consultations and discussions held at the Brussels meeting also covered virtual currencies. It should be noted that the FATF responds to the changes in this sector with certain caution. In many countries, the regulators have already independently developed approaches to mitigating risks posed by virtual currencies, although, the efficiency of these approaches varies in different countries. In the meantime, the FATF just watches the developments in this sector. The private sector representatives shared their experience in dealing with this sector and identified a number of risks that may be critical for the private sector. But, as in case of any other new phenomenon, the specific terminology is of the major

importance. In terms of both practical operations and regulation, the world witnesses gradual separation between virtual currencies and crypto-currencies or decentralized currencies. So far, the FATF has not responded to this trend: hopefully the FATF will respond to this, as it forges its attitude towards these issues.

The technical discussions primarily covered the issues pertaining to the practical application of the UN sanction lists. It is a common knowledge that companies face difficulties in monitoring changes in the lists of individuals and entities covered by the UN sanctions because the information is not always properly structured and computer-readable. The important role in this area is undoubtedly played by the national regulators that should keep entities and institutions aware of the recent developments. Nevertheless, the private sector has shared its views and opinions on how the work with the sanction lists could be computerized and made more efficient. Given that these problems are of the technical nature, it is likely that the FATF will address these issues in due course.

Similar to the previous consultations, the March Consultative Forum meeting held by the FATF in Brussels had the extended agenda and involved intensive discussions. The international AML/CFT regime remains under pressure of the changing circumstances. Some of them are related to the internal issues – preparation for the new round of mutual evaluations under the revised Recommendations is underway, the sector-specific guidelines are being developed and revised to incorporate the risk-based approach. In parallel, the world witnesses the rapid evolution of the external factors. New high-tech products and services appear in the markets and change the traditional retail payment landscape. Although the virtual currencies boom generated in mass media has winded down, this sector has not ceased to exist and demonstrates rapid growth. The FATF will need to prove that it is capable to remain at the forefront despite rapidly evolving and changing environment. In this context, the importance of consultations with the private sector will continue to grow. Hopefully, the Financial Action Task Force will sustain its policy of cooperation with the industry associations and will pay more attention to the feedback on its initiatives. In this respect, the domestic experience sharing and information exchange practice could be successfully extended to the international level.

RELEVANT ISSUES CONCERNING OBSERVANCE BY CREDIT INSTITUTIONS OF THE REQUIREMENTS OF RUSSIAN AML/CFT LEGISLATION

On April 25, the Twelfth Annual International Conference “Relevant Issues Concerning Observance by Credit Institutions of the Requirements of Russian AML/CFT Legislation” organized by the Bank of Russia, the Federal Financial Monitoring Service and the Association of Russian Banks was held

*Irina V. Ivanova,
Chief Editor*

On April 25, the Twelfth Annual International Conference “Relevant Issues Concerning Observance by Credit Institutions of the Requirements of Russian AML/CFT Legislation” organized by the Bank of Russia, the Federal Financial Monitoring Service and the Association of Russian Banks was held.

Submitted for discussion of the conference participants were relevant aspects of implementation by credit institutions of the requirements of the Federal Law Concerning Combating Money Laundering and Financing of Terrorism, and AML/CFT regulations of the Bank of Russia,

activities of the Bank of Russia aimed at minimizing involvement of regulated organizations in money laundering and financing of terrorism, draft federal law No.295667-6 On Amendment of the Federal Law Concerning Combating Money Laundering and Financing of Terrorism and Some Legislative Acts of the Russian Federation aimed at incorporation in the Russian legislation of incapacitation for offshore companies, application by Russian banks of the requirements of the American FATCA law and other issues.

According to the President of the Association of Russian Banks, G.A. Tosunyan, one of the major problems to banking community in AML sphere still remains the format of administrative responsibility of credit institutions and their officers subject to article



15.27 of the Administrative Offense Code of the Russian Federation, which envisages the possibility of holding banks liable for minor breaches of technical nature that pose no threat to legally protected public relations and even more so to national interests. Despite the insignificance of AML/CFT offenses, if detected repeatedly during one year, they may constitute a ground for revocation of the bank's license.



ARB President G.A. Tosunyan:

"Reforming of the institute of administrative responsibility subject to article 15.27 constitutes one of the main tasks of the banking sector in the context of tightening of supervisory tactics of regulatory authorities and measures taken by the latter in rehabilitation of the Russian banking sector."

In his speech, Director of the Federal Financial Monitoring Service Yu.A. Chikhanchin touched upon the issue of clients whose transactions were declined by banks due to various reasons.

Director of Rosfinmonitoring Yu.A. Chikhanchin:

"The thing is they move to other – less regulated – segments and the problem of AML system in general remains very deep. We should think of what we could do to handle them. I do not advocate creation of black lists, although there certainly should be a mechanism to accumulate information about them."

Other speakers of the plenary meeting were: FATF President V.P. Nechaev, Deputy Director of the Federal Financial Monitoring Service P.V. Livadny, Director for the Department of Financial Monitoring and Currency Regulation of the Bank of Russia Y. Polupanov, and Director for Strategic Financial Initiatives of SWIFT S. Palstermans.

FATF President V.P. Nechaev:

"The most striking change in FATF Recommendations was amendment of Recommendation I concerning risk assessment and application of risk-based approach. This recommendation is comprehensive and applicable to all standards... In other words, on the one hand, requirements have been intentionally enhanced in the fields distinguished by high risk. On the other hand, they have become more focused. Risk-based approach will allow financial institutions and other sectors using their resources more efficiently."

Official Secretary – Deputy Director of Rosfinmonitoring P.V. Livadny:

"At this point, we are witnessing the process of permanent change of legislation – both AML legislation and the law generally governing economic activities including banking sector... 134-FZ, which we adopted last year after an open-ended discussion, is now in effect. And we can say that the most effective part of it is the part that was incorporated in 115-FZ and regulates authorities of banks in denial of suspicious transactions and denial in bank servicing to clients... On the one hand, compliant banks "clean" their client base. On the other hand, non-abiding banks are liquidated, with their licenses being revoked. Where will those suspicious clientele go? We must understand that. And we must – as one, and first of all credit institutions – realize the degree of liability that this situation imposes on us."

That being said, I believe that the Bank of Russia have put, and Rosfinmonitoring supported, an absolutely reasonable issue, on the one hand, regarding severization of prosecution of clients carrying out truly illegal transactions in terms of laying credit institutions under obligation to deny clients banking services where risks are high. But, on the other hand, I believe that credit institutions when using sanctions against clients should proceed from the premise that by far not every client – even the one carrying out a seemingly suspicious transaction – deserves being done away with immediately."



Rosfinmonitoring Delegation Visited Brazil

The Russian – Brazilian consultations on AML/CFT cooperation were held in Brasilia on May 5-7, 2014. Rosfinmonitoring delegation was headed by Vladimir Glotov, Deputy Director of Rosfinmonitoring.

The working meetings were held with the representatives of the Brazilian FIU (Council for Financial Activities Control), Ministry of Justice and the Public Prosecutor's Office who presented information on coordination of the AML and anti-corruption efforts undertaken by the government authorities. In particular, being discussed were issues related to the specificities of the FIU operation, coordination and cooperation with the law enforcement agencies, information sharing with foreign partners and the used software. Rosfinmonitoring representatives found out more about the National AML and Anti-Corruption Strategy and about the so-called "anti-money laundering laboratories" created in most government agencies.

At the request of the colleagues, Rosfinmonitoring officers elaborated on the Russian anti-money laundering system (in particular, described operation of the National Risk Assessment Center) and shared information about involvement of the Russian Federation in the EAG activities.



In course of the discussions, special attention was paid to preparation for a new round of FATF mutual evaluations and to the methods of assessment of effectiveness of the national AML/CFT systems.

At the end of the visit, a new AML/CFT Cooperation Agreement was signed, and a decision was made to consider possible integration of the Brazilian universities into the AML/CFT network institute.

PRIVATE SECTOR

NEW FINANCIAL INSTRUMENTS ARE IN FATF'S FOCUS

Viktor L. Dostov,
Chairman, E-Money Association



Viktor L. DOSTOV

The revised FATF Recommendations were adopted more than two years ago – in February 2012. Nevertheless, the efforts

aimed at bringing multiple FATF documents in line with the revised Standards are still underway. The Guidance on Financial Inclusion has been already revised and updated, and soon the FATF will have to agree the new revision of the basic principles for the banking sector and money transfer/remittance companies. In course of these changes, the adoption of new FATF Guidance for Risk-Based Approach to Prepaid Cards, Mobile Payments and Internet-Based Payment Services in 2013 has been almost unnoticed. Nevertheless, this document is of special interest and importance for Russia. Similar to many other countries, the Russian innovative retail financial services market remains one of the drivers of engaging the population in the non-cash economy. We propose to analyze the fundamental attitude of the FATF towards new payment methods and identify some of the elements that could be used in the Russian regulation system.

In order to broaden the scope of the Guidance to the maximum possible extent, the FATF uses the term “new payment products and services (NPPS)” that has replaced the old term “new payment methods”. According to the FATF’s methodology NPPS offer an alternative to traditional financial services. However, it does not mean that they are completely unrelated to such instruments as bank account or card. NPPS can be used for transferring money as independent instruments, but also can extend functionality and scope of the services that have already existed in the market.

Such definition can be described as “mutually agreed” rather than “functional”. On the one hand, it lays the groundwork for the future and allow for covering technologies and products that have not emerged in the market yet. On the other hand, it does not mark the boundary between the “new” and “old” instruments which becomes less important. However, the FATF still proposes to distinguish between NPPS and the “new delivery mechanisms” mentioned in Recommendation 15. The most illustrative example is the bank account management methods. For nearly two decades, banks offer the online banking services. i.e. the method of generating and transferring electronic payment orders via the Internet. From the FATF’s standpoint this technology does not fall in the NPPS category, since it is just one of the mechanisms of “delivery” of the bank account (management) services.

On the other hand, the services related to accessing bank account through third party have become more popular in recent years. Such payment providers (defined in the EU as the “payment initiation services”) are not related to actual flow of funds, but just allow for online generation and transfer of payment orders to various credit institutions. In practice, a customer links several bank accounts and cards to one interface and simultaneously manages the funds available on them. Unlike in the previous example, such products fall in the NPPS category, since they are provided by independent operators.

Thus, identification of the NPPS criteria still poses a significant methodological challenge. The fact that a technology is only partially covered by general banking regulation, i.e. extends beyond the “standard” instruments, may serve as the additional indicator for the supervisory authorities.

However, simple understanding of NPPS does not give the answer to the question about their special role for the AML/CFT purposes. The FATF draws attention to several factors. Firstly, NPPS may be

featured by unique ML/FT risks due to their technical specificities. Secondly, NPPS are highly critical for ensuring financial inclusion. The FATF sector-specific Guidance mentions that use of the formal financial services by people contributes to the AML efforts. This is achieved through reduction of cash used in payment transactions and enhancement of transparency of payments and settlements. To the contrary, lack of access to NPPS leads to increased demand for informal, and often criminal, funds transfer methods. In this context, both lack of regulation and excessively strict requirements may adversely affect the AML/CFT efforts.

The FATF has undertaken the efforts for developing the most updated matrix of risks in the NPPS sector. However, due to the aforementioned reasons the description appears to be very schematic. Neither the FATF nor anyone else is capable of considering and covering the wide variety of innovative financial services provided across the globe. Each country should independently conduct such analysis with due consideration for the specificities of its domestic market. Besides that, such analysis should be regularly updated since a period for which forecasts of functionalities of specific products available or emerging in the NPPS market are made hardly exceeds several years.

The FATF Guidance describes three best known categories of NPPS: prepaid cards, mobile payment services (from both prepaid mobile and special accounts) and Internet-based payment services. All of them assume engagement of a significant number of entities and allow for making instant cashless payments with and without use of a bank account. More specific products, such as virtual payment cards, virtual currency-based payment systems, payment applications with various funding sources, are obviously not included in the Guidance. Nevertheless, even such limited analysis allowed for deriving several conclusions about threats that exist in the NPPS sector.

The FATF has identified five most significant risks associated with new payment products and services.

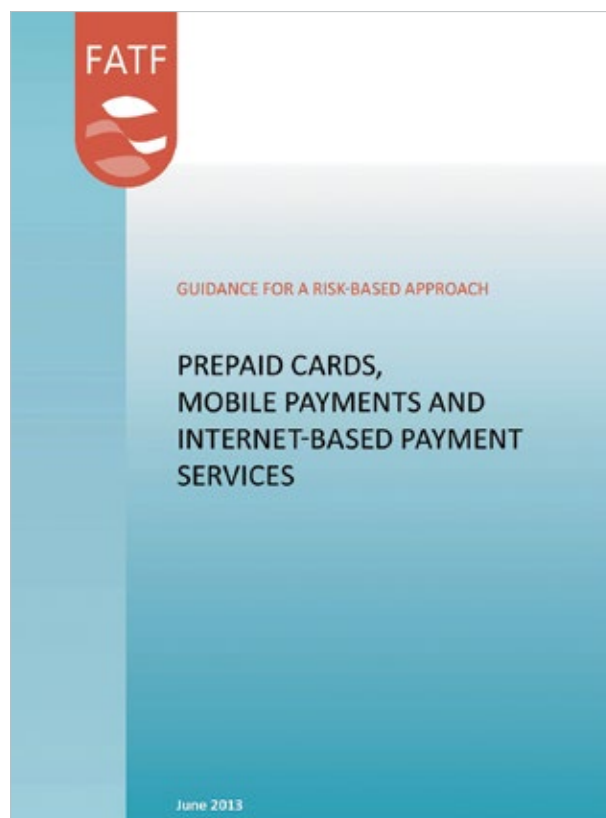
1. Non-face-to-face relationships and anonymity

According to the Guidance absence of face-to-face contact with a customer does not necessarily leads to higher risk. If a customer transfers money remotely with the use of a bank card, it does not mean that

no information is available on such customer. On the other hand, face-to-face contact does not necessarily prevent impersonation fraud, e.g. when making cash payments. The Guidance suggests that these considerations should be used by the regulators. Countries may establish in their legislation such CDD measures that are not burdensome for customers and can be implemented without face-to-face contact. Although the idea that anonymity rapidly dies away in the modern world has been discussed for a long enough time, the AML regulation systems have not responded to this trend yet. Nevertheless, where a customer has been identified in one credit institution, why doesn't he/she be allowed to use the details of the issued credit card for the purposes of non-face-to-face identification in other credit institution? A mobile phone (which is registered against presentation of passport details), electronic (digital) signatures or standard authorization data in the government-provided online services can be used for the similar purposes. Such flexible approach will not just help to decrease the extent of impersonation frauds, but will lead to broader financial inclusion. It is a known fact that, even in Russia, many people are unable to visit a bank office, and significantly more people have no opportunity to choose between credit institutions.

2. Geographical reach

Since NPPS are the IT-based products and services, it is not surprising that, as in the IT sector, the boundaries between countries are gradually erased in the NPPS sector. More intense cross-border payments make it difficult to identify the responsible jurisdiction or investigate committed offences. However, in our opinion, this risk is not associated only with NPPS. International payments and settlements have become the every-day practice long before emergence of new payment services, and the currency and foreign exchange control mechanisms developed in connection with that are, in principle, sufficient for mitigating the risks. However, it is a different matter when we consider jurisdictions with certainly higher ML/FT risks, but even in such situations solution of the problem is quite simple. The specific features of most NPPS allow for flexible regulation of their geographical coverage – the most important thing is not to affect their functionality and not to unintentionally force customers to approach unregulated sector.



3. Methods of funding

From the AML/CFT perspective, there is a significant difference between funding an e-purse with the use of cash and through bank account. On the one hand, credit institutions should exercise caution when payment instruments are funded with the use of cash. But on the other hand, it is necessary to encourage customers to transfer funds from identified instruments (e.g. from a bank card or account) instead of withdrawing cash. In absence of such encouragement, customers would refuse to use NPPS and not cash, which will adversely affect the entire AML/CFT system. The simplest solution of this dilemma is to extend by law the functionality and establish higher transaction thresholds for cashless funding.

4. Access to cash

The reverse side of the funding problem is possibility to withdraw cash. In principle, cash withdrawal is not typical for payment systems, but customers cannot be completely denied this

opportunity. Some customers use NPPS not for making purchases but for receiving remittances from their family members. In a particular situation, cash may be the only available means of payment. And finally, customers have the indefeasible right to receive their money.

It is noteworthy that the FATF has not criminalized cash transactions “by default”. It just proposes to establish thresholds consistent with the actual level of risk. In this context, a credit should be given to the Russian regulators that use this particular approach. According to the law, since August 1, 2014, customers will be permitted to withdraw cash in amount of no more than 5,000 rubles per day (no more than 40,000 rubles per month) from non-personalized prepaid cards.

5. Segmentation of services

As the payment ecosystem becomes more and more complex, the regulators need to select the adequate approach to supervision of all its parties. It should be kept in mind that not all concerned entities are necessarily involved in transferring funds - only few of them deal directly with customers.

Unfortunately, there is no “one-size-fits-all” solution of this problem. Practitioners will have to individually consider each of the NPPS categories and make decisions on establishing requirements for particular types of entities with due consideration for their proportionality and sufficiency.

The FATF Guidance on NPPS does not give all-in-one recommendation on how the innovative financial services sector should be regulated. It must be said, that no other FAFT guidelines provide such recommendation. First of all, it shows how closely the innovative technologies are associated with the financial inclusion issues and, hence, with the AML/CFT issues. It is often stated that NPPS is just the external and insignificant element of the AML regime, but that is not true at all. NPPS not just pose certain risks but are also the useful instruments for ousting informal and criminal financial services from the market. Therefore, the regulators should carefully and thoroughly plan each step aimed at amendment of the legislation. Refusal to apply the risk-based approach may not just have the adverse impact on the mutual evaluation process but can also entail much worse implications, i.e. expose the AML goals and efforts to threat.

FINANCIAL MARKETS

REGARDING THE PROBLEMS OF CURRENCY REGULATION IN THE COMMON ECONOMIC SPACE DUE TO CAPITAL OUTFLOW AND AML/CFT

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In modern political and economical conditions, comprehensive financial regulation in the sphere of foreign trade becomes increasingly important – this sphere attracts greater attention of customs authorities, financial intelligence units, currency regulation authorities and tax agencies as part of the policy of de-offshorization, fighting corruption and combating money laundering, financing of terrorism and financing of proliferation of weapons of mass destruction (AML/FT/PF).

We shall discuss the state-of-the-art situation in member states of the Common Economic Space (CES) in terms of currency regulation of foreign transactions, the core of which is repatriation of currency as the underlying currency regulation requirement common to member states, as an example of such convergence of various types of financial control.

Though today's Eurasian currency integration runs slow, it is relatively successful compared to related spheres (fiscal sphere, financial markets). By now, legal frameworks of currency regulation and AML/CFT in EurAsEC and CES have been established¹. Nevertheless, the following remain problematic issues in the sphere of currency regulation in CES:

1. efficiency of currency regulation of export-import operations within CES;
2. capital outflow from CES member states;
3. offshorization of economies of CES member states;
4. communication among entities subject to currency control within CES.

It should be noted that despite all efforts taken by supranational bodies in harmonization, national currency legislation of CU/CES member states demonstrated different paces of currency deregulation (which is entirely attributed to incommensurable macroeconomic measures of states). Today, in the light of recent changes

in currency legislation that took effect in 2012 in Russia and Kazakhstan, we can also observe differently directed vectors in this development.

In CU/CES states, repatriation of currency proceeds remains the main restriction on the right to administer currency values. Let us talk about specifics of such regulation in Russia, Kazakhstan and Belarus.

Before 2012, currency regulation of foreign trade transactions in Russia gradually and steadily moved towards deregulation. Thus, pursuant to Instruction of the Bank of Russia N138-I, the authorized bank carries out information exchange with customs bodies in electronic form². Besides, the Instruction stipulates simplified procedures for submission of documents in conduct of currency operations on letters of credit, using bank cards, subject to credit agreements.

Decontrolling of foreign trade transactions to amounts of less than \$50,000 shall also be referred to measures of promotion of foreign trade in CU/CES member states³.

Reciprocal restrictive vector for development of currency control in Russia was established by Federal Law of 06.12.2011 N 406-FZ⁴, which amended the law on currency regulation and currency control.

By all means, capital outflow that battered Russian economy in 2009 and continued until today should be recognized as the ground for tightening of currency legislation and liability for violation thereof. According to estimates of the Bank of Russia, in 2012 capital outflow amounted to \$ 56 billion. That is why in the currency sphere enforcement primarily concerned the obligation to repatriate currency proceeds and liability for failure to do so.

¹ Legal framework for integration processes in the sphere of currency regulation in EurAsEC/CU/CES comprises the following:

Policy for cooperation among member states of the Eurasian Economic Community in the sphere of currency regulation of June 22, 2005; Agreement on cooperation in organization of integrated currency market for member states of the Eurasian Economic Community of January 25, 2006; Agreement on underlying principles of currency policy of member states of the Eurasian Economic Community regarding regulation and control of capital flow operations of December 11, 2009; Recommendations on harmonization of laws of EurAsEC member states in the sphere of currency control and regulation of April 6, 2010; Agreement on agreed principles of currency policy of December 9, 2010; Treaty on agreed currency policy of states parties to Agreement on agreed principles of currency policy of December 9, 2010; Treaty on cooperation of authorized agencies of states parties to Agreement on agreed principles of currency policy of December 9, 2010 carrying out currency regulation of December 15, 2011; Recommendations on bringing the national legislation of the Republic of Belarus, the Republic of Kazakhstan, the Russian Federation in line with Agreement on agreed principles of currency policy of December 9, 2010 (of November 21, 2012).

Legal framework of AML/CFT in CES comprises the following: Agreement on the procedure for movement by individuals of cash and (or) cash instruments across the customs border of the Customs Union of July 5, 2010; Agreement on combating of money laundering and financing of terrorism as regards movement of cash and (or) cash instruments across the customs border of the Customs Union of December 19, 2011.

² As part of the policy for simplification of currency regulation procedures aimed at improvement of investment climate in Russia, the Federal Customs Service of Russia brought it to notice of participants of foreign economic activities that submission of an electronic goods declaration does not require submission of a transaction certificate, though the number of transaction certificate shall be specified in the declaration. Therefore, requirement to submit a transaction certificate to customs authorities remains in force only were goods declarations and documents are submitted in hard copy (Information of the Federal Customs Service of December 13, 2012).

³ Before Instruction of the Bank of Russia No.138-I took effect – amount of up to \$ 5,000.

⁴ *Federal Law of 06.12.2011 N 406-FZ Concerning Amendment of Federal Law On Currency Regulation and Currency Control in Terms of Simplification of Currency Regulation Procedures // Collection of Legislative Acts of the Russian Federation, 12.12.2011, N 50, article 7348.*

The concept of “resident” was broadened in order to define more widely the set of entities subject to restrictions in terms of administration of currency values. New situations that require submission of a transaction certificate were added.

This being the case, Federal Law No.134-FZ⁵ introduced severer criminal responsibility for breach of obligation to repatriate currency proceeds: article 193 of the Criminal Code of the Russian Federation establishes responsibility for failure on obligation to repatriate not only foreign currency (as before) but also of rubles; besides, criminal proceedings may now be instituted not just against organization managers, but against other people responsible for fulfillment of repatriation obligations; maximum term of deprivation has been increased to 5 years. Also, new article was introduced – Article 193.1. Conducting Currency Operations Pertaining to Transfer of Funds in Foreign Currency or Currency of the Russian Federation to Non-Resident Accounts with the Use of Forged Documents⁶.

Situation observed in Kazakhstan is different. Until quite recently, currency legislation of Kazakhstan was distinguished by significant restrictions. However, Law of the Republic of Kazakhstan of January 6, 2012 No. 530-IV introduced liberal amendments into the national currency legislation including the following:

- transaction certificate was eliminated as a document required for customs clearance, and procedure for registration of foreign trade contract was established for the purposes of monitoring the fulfillment of repatriation obligation⁷;
- procedure of obtainment of license for organization of exchange operations with foreign cash was simplified;
- uniform terms were established to apply for registration and notification in cases where currency regulation regime started to apply to currency contract in the process of fulfillment of contract obligations.

To enforce provisions of law, the National Bank of the Republic of Kazakhstan elaborated the Rules for Implementation of Export-Import Currency Regulation and Assignment to Residents of Registration Numbers for Export and Import Contracts (of February 24, 2012 No.42). The Rules envisage estimation of the term for currency repatriation by the resident itself.

Therefore, we may speak of an obvious trend towards deregulation of currency legislation in Kazakhstan, although – it must be noted – capital outflow is not such an urgent issue for the neighboring state compared to Russia.

Administrative responsibility for failure to repatriate national and foreign currency (as established by article 187 of the Administrative Offense Code of the Republic of Kazakhstan), criminal responsibility (established by article 213 of the Criminal Code of the Republic of Kazakhstan for manager's failure to repatriate funds in national and foreign currency) are functionally and in terms of legal consequences nearly identical to corresponding Russian regulations prior to amendment thereof in 2012.



Legislation of Belarus is distinctive (which is especially important in the light of the subject of our discussion) in that one of the purposes of currency regulation is combating of money laundering, financing of terrorism and other extremist activities.

Currency legislation of the Republic of Belarus – just as previously existing Russian legislation –

⁵ Federal Law of 28.06.2013 N 134-FZ Concerning Amendment of Some Legislative Acts of the Russian Federation as Regards Counteracting Illegal Financial Operations // Collection of Legislative Acts of the Russian Federation, 01.07.2013, N 26, article 3207.

⁶ On this matter, see: Khamenushko I.V., Ovcharova E.V. Quiet counter-revolution in currency sphere – fighting against capital outflow or regulation for the sake of regulation? / URL: <http://zakon.ru/Blogs/OneBlog/5578> (date: 22.12.2013).

⁷ Procedure of contract registration represents assignment to the contract of a registration number, with its details specified in the foreign trade contract. In this case, contract number retains all attributes of the number of transaction certificate.

divides currency operations carried out between residents and non-residents into two categories:

- a) current transactions;
- b) transactions associated with capital flow.

Capital flow operations are subject to **authorization-based procedure** – residents carry out capital flow transactions base on authorizations issued by the National Bank.

Besides, currency restriction in the form of mandatory sale of foreign currency proceeds is still in effect in Belarus. Despite these restrictions, there are certain facilitations in the sphere of currency control of foreign trade transactions. Thus, the procedure for performance and regulation of foreign trade transactions was simplified in the Republic of Belarus pursuant to Decree of the President No.104 of February 19, 2009. The existing mechanism for execution of a transaction certificate, which is rather formal, was substituted for the procedure of **registration of the transaction with the bank on a declarative principle**.

The term “currency repatriation” is not used in the legislation of the Republic of Belarus, yet the requirement regarding “currency return” is virtually identical to Russian and Kazakh requirements.

Therefore, despite that currency repatriation requirement exists in all CU/CES member states, it appears to be inefficient in any of the states.

Unified customs area established in 2010 soon became an ideal scheme for transfer of all funds to offshore zones since there is no border control in the territory of Customs Union (CU) member states. While in 2011 sham supplies from Belarus were used to withdraw money from the state, in 2012 another CU member – Kazakhstan – joined the process.

Within CU, no customs control exists – importers do not have to enter goods and fill-in customs entry in the Russian customs to certify existence of goods. As far as Belarus and Kazakhstan are concerned, it is enough for the importer to submit shipping documents that are not authenticated by any authorities and contain at best only information about weight of imported goods. Situation is additionally complicated by the fact that it is absolutely impossible for the Kazakh party to control Russian false importers since there is no



unified base of foreign trade transactions like for instance in Belarus.

The Bank of Russia responded to the situation in its letters No.104-T and No.110-T⁸.

In these letters, the Bank of Russia emphasizes that of capital outflow in amount of \$ 56 billion that was observed in 2012, \$15 billion “flew out” via foreign trade transactions with exporters from the Republic of Belarus, and \$10 billion – via foreign trade transactions with Kazakh exporters.

Monetary funds for goods imported from Belarus and Kazakhstan were transferred from Russia to accounts opened with foreign banks located outside the territories of the Republic of Belarus and the Republic of Kazakhstan.

The Bank of Russia notes that the true purposes of such transactions may be money laundering, financing of terrorism and other illegal objectives. At that, the Bank of Russia underlines the risk of a **credit institution and its employees getting involved** in performance of transactions aimed at money laundering and financing of terrorism.

Therefore, in order to comply with instructions of the Central Bank, banks will have to request from all clients carrying out foreign trade transactions with Kazakhstan and Belarus additional documents to certify realness of goods supply.

Thus, currency repatriation requirement as an element of currency regulation fails to accomplish a mission to restrain capital outflow vested in it by the states. On the contrary, vulnerability of CES currency regulation system is enhanced by arrangement of unsophisticated schemes for withdrawal of capital to offshore zones including those for the purposes of money laundering.

Foreign trade transactions have long been subject of close attention of FATF and FATF-Style Regional Bodies. So, in 2007, FATF presented its typologies

⁸ See: Letter of the Bank of Russia of June 10, 2013 No.104-T Concerning Special Attention of Credit Institutions to Certain Transactions of Clients and Letter of the Bank of Russia of June 19, 2013 No.110-T with the same name.

report “Laundering the Proceeds of VAT Carousel Fraud” based on case study of EU states, Mexico and Ukraine⁹. In 2009, the EAG Working Group on Typologies presented its report “International trade-based money laundering”¹⁰. Investigation materials were provided by financial intelligence units of the Russian Federation (EAG member), Belarus (EAG member), Kyrgyz Republic (EAG member), Ukraine (EAG observer), Turkey (EAG observer), Slovenia and Estonia.

Situation in CES encourages financial intelligence units and central banks to pay attention to detection of typology of money laundering through employment of foreign trade transactions with CES member states and to elaborate measures to counteract this process, which is especially important in the context of commencement of functioning of the Eurasian Economic Community expected on January 1, 2015.

Intensification of integration processes in CES that takes place against the background of economic

crisis dictates the necessity of coordinated work, communication among customs bodies, tax agencies, national banks and financial intelligence units of the three states oriented at handling the problem of counteracting illegal cross-border financial transactions.

There are all kinds of options proposed for solution of this problem. For example, possible presence of Russian customs officers along the entire CU border is discussed as a solution to the problem of “grey” import and sham outflow of capital from Russia¹¹.

It is required to develop unified requirements to accounting of currency transactions and currency regulation including those concerning communication among authorized member states of Customs Union in terms of currency regulation within the Customs Union (exchange of information among central banks, between tax and customs agencies, financial intelligence units of member states)¹².



⁹ URL: http://eurasiangroup.org/ru/news/typ_carousel.pdf (date: 12.05.2014).

¹⁰ URL: http://eurasiangroup.org/restricted/typ_report_1_.doc (date: 12.05.2014).

¹¹ URL: http://forbes.kz/process/expertise/fiktivnyiy_brak (date: 12.05.2014).

¹² URL: sdo.rea.ru/cde/conference/9/file.php?fileId=24 (date: 12.05.2014).

Head of the Directorate for Trade Restrictions, Currency and Export Control of the Federal Customs Service of Russia P. Baklakov says that situation in the sphere of communication in Customs Union member states differs. Thus, Belarus has at its disposal the automated system for management of information resource of document forms, which contains truncated information about issued consignment notes. However, these data are insufficient both for use in performance of inspection events, and for making a case in administrative and criminal proceedings. At that, in opinion of the State Customs Committee of Belarus, consignment notes may not be regarded as evidence of transition of goods in mutual trade. They merely certify shipment. Besides, statistical forms mentioned above contain

do not contain accurate information about Russian counterparties in transactions with residents of the Republic of Belarus. At the same time, Kazakhstan absolutely lacks information resources that allow validation and verification of Kazakh consignment notes¹³.

This being the case, searching for methods of counteracting Belarusian and Kazakh "channels" of capital outflow has become one of the principal lines of work for law enforcement agencies performed on the platform of the Inter-Agency Working Group for Restraining Financial Transactions under the chairmanship of the aide to the President of the Russian Federation Evgeny Shkolov. Hopefully, effective measures in resolution of the above problems will already be taken this year.

¹³ URL: <http://www.tks.ru/reviews/2014/01/04/01> (date: 12.05.2014).

EDUCATION AND SCIENCE IN AML/CFT

IFES MEPHI: NEW ADMISSION ANNOUNCED

Early this year, ITMCFM together with relevant FIUs of EAG states started forming a group of applications for focus training in the Institute for Financial and Economic Security of MEPhI

Konstantin G. Sorokin,
Adviser of the Education and Science Department of the ITMCFM

Institute for Financial and Economic Security (IFES) merged into the National Research Nuclear University of MEPhI was established on the initiative of Rosfinmonitoring for the purposes of training of highly-qualified personnel oriented at work in the financial intelligence system. Today, IFES alumni rightfully hold reputable offices among Rosfinmonitoring employees and make an invaluable contribution to its operations.

Personnel training for foreign financial intelligence units (FIUs) is one of top-priority lines along which the Russian Federation provides technical assistance to CIS/EAG states. The International and Methodology Training Center for Financial Monitoring (ITMCFM) is

the core structure in handling the issue of personnel training for Russia's partners within CIS and EAG – the Eurasian Group on Combating Money Laundering and Financing of Terrorism. At present, 35 citizens of foreign states – Armenia, Belarus, Kazakhstan, Kyrgyzstan, China, Moldova, Tajikistan, Ukraine – complete their studies under the higher professional education project that has been implemented by the ITMCFM in IFES since 2009. For five and a half years, specialists assigned by foreign FIUs master an extremely rare and sought-after profession – Information Analysis Security Systems with major in Information Security for Financial and Economic Structures. Total number of foreign graduates who first accomplished the program in 2012 constitutes 13 persons. This year, we anticipate 10 more specialists to graduate.

In opinion of colleagues from foreign FIUs where IFES alumni and specialists trained in IFES are

employed – they are highly proficient specialists who have mastered a very in-demand profession and make valuable contribution to the cause of strengthening of national AML/CFT systems of Eurasian region. It should be noted that most EAG states still lack training in profession taught in IFES.

Students training process widely employs the most state-of-the-art educational means and technologies including the EAG videoconferencing (VC) system. This system that is also operated by the ITMCFM allows for online cooperation between national FIUs and other national agencies, holding online meetings, roundtables, training events. Today, Russia, Belarus, Kazakhstan, Tajikistan and Uzbekistan are integrated in

the VC system. Further expansion of the VC system and deeper integration thereof in the IFES academic activity is in the planning stage.

In March-May, 2014, MEPhI lecturers held interviews with candidates approved by FIUs for entrance to IFES in major subjects (mathematics, physics) via the EAG videoconferencing (VC) system and Skype. Nearly all selected candidates were recommended for taking of entrance examinations.

Applicants who will come to Moscow already in June are going to complete challenging entrance tests, accomplish hard yet interesting studies, and after successful graduation – get very responsible jobs.

Let us wish them good luck!

AML/CFT Trainings for Personnel

Currently, there exists a need to systematize the existing experience in the field of AML/CFT personnel training and professional development of the teaching staff. In accordance with the decision of the joint board of Rosfinmonitoring and the Russian Federal Drug Control Service, a training course based on the supplementary professional programme titled «Professional Development of Personnel in the Field of Anti-Money Laundering and Terrorist Financing» was held at the ITMCFM in late March 2014. Among the attendees were the teaching staff of the FDCS institutions of higher education and Moscow University of the Ministry of the Interior involved in the training of law enforcement officials.

The training topics covered issues related to: improvements to national legislation, interagency communication and the use financial monitoring tools in the fight against corruption. Prior to the start of the course, students were provided with access to the ITMCFM online courses («International AML/CFT/PWMD Standards», «Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of



AML/CFT Systems», etc.) and the necessary training and methodological literature.

Development and implementation of educational programs based on the integrated and actualized foreign and domestic practice in combating money laundering and terrorist financing contribute to the training of highly qualified personnel for the national anti-money laundering system.

ITMCFM WORKSHOPS FOR SPECIALISTS OF THE BANK OF RUSSIA

Anna V. Bulaeva,

Coordinator of the Education and Science Department of the ITMCFM



On April 22 and 24, 2014, workshops dedicated to enforcement of Federal Law of the Russian Federation of 28.06.2013 No. 134-FZ were held in the International Training and Methodology Center for Financial Monitoring (hereafter – ITMCFM).

Training was attended by specialists of the department of financial monitoring and currency regulation, department of the national payment

system, supervision of system-significant credit institutions, inspector general's department, legal department, main department for information security and protection of the Bank of Russia, as well as employees of the Main Office of the Bank of Russia for the Central Federal District.

Employees of the Counter-Terrorism Financing Department, Legal Department and Macro Analysis and Typologies Department of Rosfinmonitoring with extensive experience in AML/CFT acted as trainers.

Workshops were aimed at making it participants aware of basic changes in AML legislation of the Russian Federation regarding the following:

- basic provisions of Federal Law of 28.06.2013 N 134-FZ Concerning Amendment of Some Legislative Acts of the Russian Federation as Regards Counteracting Illegal Financial Operations. Relevant Issues of Law Enforcement;
- results of cooperation with Rosfinmonitoring, issues of collaboration between Bank of Russia and Rosfinmonitoring;
- recommendations regarding practical application of new provisions of antiterrorist law introduced by 134-FZ that govern the procedure for freezing (blocking) of assets of terrorists and extremists.

All workshop attendees noted that obtained knowledge would help enhancing professional performance for the purposes of AML/CFT. Also, many participants emphasized that their level of training was sufficient to perceive information, although some attendees said they felt a need for special training before the workshop in order to ensure better information perception, which would lead to holding of additional classes in AML/CFT. Attendees defined the themes of training events that in their opinion would promote more efficient training for the purposes of further improvement of practical work:

- authorities and responsibility of competent authorities, application practices;
- contemporary challenges and threats, e-money, new payment methods;
- main reasons for withdrawal of money abroad, and measures to eliminate them;
- detection of corrupt practices in financial sphere.

Based on training results, 60 employees of the Bank of Russia obtained training certificates for 8 academic hours.

On May 29, 2014, workshop "Supervision of Activities of Non-Credit Financial Institutions" for employees of the department of financial monitoring and currency regulation of the Bank of Russia was held in the ITMCFM.

Workshop purpose – enhancing knowledge required in supervision of activities of non-credit financial organizations, informing employees of the Bank of Russia with regard to collaboration of Rosfinmonitoring and non-credit financial organizations in AML/CFT sphere.

Discussed during the workshop were practical aspects of organization and implementation of internal control in non-credit financial organizations, requirements to identification of clients and beneficiaries, issues of assessment and substantiation of the client risk level, qualification requirements to special executives in charge of compliance with internal control regulations and internal control programs. Special emphasis was placed on requirements to training and education of employees in non-credit financial organizations, requirements to execution and submission to the authorized agency of reports on operations that are subject to control and supervision.

During the workshop employees of Rosfinmonitoring's Oversight Activities Department provided their recommendations in auditing of non-credit financial institutions adjusted for risk-based approach, and discussed the issues of collaboration between Rosfinmonitoring and non-credit financial organizations in the field of AML/CFT.

Employees of the Macro Analysis and Typologies Department of Rosfinmonitoring during the workshop discussed the results of analysis of information received by Rosfinmonitoring from non-credit financial organizations, problems of detection of transactions associated with money laundering and financing of terrorism.

Based on training results, 30 employees of the Bank of Russia obtained training certificates for 8 academic hours.

Conducted workshops promoted collaboration and cooperation between the Bank of Russia and Rosfinmonitoring.

MEETING ON DEVELOPMENT OF PROFESSIONAL QUALIFICATION STANDARDS AND TRAINING OF PERSONNEL FOR THE NATIONAL AML/CFT SYSTEM AND MEETING OF THE BOARD OF THE AML/CFT NETWORK INSTITUTE

Ekaterina V. Ledyeva,

PhD., Coordinator of the Education and Science Department of the ITMCFM

The national AML/CFT system is the multi-level institutional framework, the core elements of which are the federal authorities directly engaged in combating money laundering and terrorist financing and entities involved in transactions with funds or other assets. The aggregate staffing demand of the national AML/CFT system is estimated by summarizing the human resources needs of each of these elements. In fact, the entire sector of economy has been formed, which actors and stakeholders are keenly interested in having professionally trained financial monitoring specialists.

On May 29, 2014, Rosfinmonitoring hosted the meeting dedicated to the development of professional standards and training of personnel for the national AML/CFT system. Taking part in the meeting chaired by Yury Chikhanchin, Director of the Federal Service for Financial Monitoring, were

the representatives of the government agencies and major ministries and departments, including Ministry of Education and Science, Ministry of Labor and Social Protection, Ministry of Internal Affairs, Federal Security Service, Federal Drug Control Service, Central Bank, Federal Agency for Science and Research Organizations and the heads of Rosfinmonitoring Regional Offices and 15 educational and research institutions - members of the AML/CFT Network Institute.

The interdepartmental coordination and the cooperative efforts undertaken by Rosfinmonitoring jointly with the government agencies and private sector require development of common approaches and unified standards and requirements for professional qualification of financial monitoring experts. Therefore, the meeting focused on discussion of issues pertaining to establishment of the AML/CFT personnel training, re-training and professional development training system and setting up professional qualification standards for specialists employed in this sector.

In course of the meeting, Vladimir Glotov, Deputy Director of Rosfinmonitoring, emphasized the

importance and need for setting up professional standards, since they would ensure synergy between professional training of AML/CFT personnel and the requirements of the government agencies and private entities operating in this sector. In particular, Vladimir Glotov pointed out that *“Improvement of the human resources system should involve gradual enhancement of the qualification requirements for the specialists that should cover not just basic economic, legal and IT knowledge but also special AML/CFT skills and abilities received under tailored training courses and university education programs”*. In this context, development of the professional qualification standards for financial monitoring specialists is of primary importance.

The attendees to the meeting agreed that setting up the professional qualification standards should be the starting point, since provisions of these standards would be further included in the educational standards and training profiles and would lay the foundation for establishing the professional development training programs for the existing specialists. Thus, it would create the basis for establishing the unique financial monitoring specialists training system in Russia. Implementation of these goals requires interdepartmental coordination and cooperation and joint efforts of all entities engaged in the AML/CFT activities.

It is noteworthy that the first steps for pursuing these objectives have been already made. One of such initiatives was the Agreement on establishment of the AML/CFT Network Institute signed in December 2013.

Another important initiative related to training of financial monitoring specialists involved establishment of the Interdepartmental Working Group in January 2014. The members of this working group include Rosfinmonitoring, Ministry of Education and Science and Federal Agency for Science and Research Organizations. One of the outcomes of the efforts undertaken by this working group in coordination with the Ministry of Labor and Social Protection was inclusion of AML/CFT professional standards in the schedule of development of the national professional qualification standards.

The meeting noted that the professional qualification standards should not just reflect the current situation but also be developed with due consideration for potential changes and developments in near future in view of openness of the Russian economy and its further integration into the global economic system which is entailed by emergence of new challenges and threats to the national security.

Therefore, it is very important to ensure that all AML/CFT actors, including supervisors, law enforcement agencies, banks, insurance companies,



microfinance organizations, professional securities market players and other entities involved in the AML/CFT activities take part in the development of the professional qualification standards. Vladimir Glotov pointed out that *“... We need to understand that this eventually determines what professional experts we will have and will work with. We also need to understand the uniqueness of these specialists, since the economic and national security of our country will largely depend on quality of their education and training”*.

In order to pursue the identified objectives, the meeting decided to set up the working group on development of professional qualification standards that would include, among others, a group of the highly experienced and skilled experts from each sector.

The professional qualification standards to be developed would facilitate synergy between the labor market and the educational system, i.e. ensure that development of the professional training and education system is consistent with and meets the demands of the labor market. These standards can also be used by the members of the AML/CFT Network Institute and other educational institutions which would create favorable environment for high-quality professional training of personnel.

Development of professional qualification standards is a long-term and labor intensive undertaking that involves enormous efforts, solution of administrative challenges and compliance with the established procedures. We will have to go a long way to develop the integrated regulatory document that will define the qualification requirements for the AML/CFT personnel and the requirements for the emerging profession of financial monitoring specialist.

After the end of the meeting, the participants proceeded with the work at the meeting of the Board of the AML/CFT Network Institute. The extensive discussions were focused on implementation of the decisions related to the core activities of the Institute that had been identified at the meeting at which the Network Institute was established on December 5, 2013.

The Board meeting discussed the working plan of the Institute and proposals put forward by its members. The representatives of the educational and research institutions shared their experience and practices and presented information on their special departments and units in charge of personnel training and AML/CFT research. The attendees to the meeting acknowledged the need for further cooperative efforts for extension of the AML/CFT Network Institute, including development and implementation of joint educational programs.

Arrangement of interactions among the members of the Institute was assigned to the International Training and Methodology Center for Financial Monitoring (ITMCFM) which coordinates the initiatives pursued by the Institute, supports its operations and deals with routine issues. Vladimir Ovchinnikov, the ITMCFM General Director, urged the participant to proceed with the joint efforts and effective cooperation for training and staffing the AML/CFT system with modern highly-qualified specialists.

The AML/CFT Network Institute, being the association of the leading educational and research institutions, was established to become the research and educational center for training highly-qualified personnel and specialists capable of identifying and mitigating risks and threats to the national security and, therefore, contributing to enhancement of the global prestige of Russia.



VIDEOCONFERENCING

REVIEW OF MAIN VC EVENTS DURING THE FIRST SIX MONTHS OF YEAR 2014

During the first six months of year 2014, the International Training and Methodology Center for Financial Monitoring (ITMCFM) held a number of events using the EAG videoconferencing (VC) system as part of implementation of the annual plan of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)

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Training events

These events arranged by the ITMCFM with the assistance of leading experts of Rosfinmonitoring, state supervisory and law enforcement agencies, private sector, were oriented at increasing awareness of the target audience from EAG states in the field of international AML/CFT standards, changes in legislation of the Russian Federation, including such objectives for the purposes of implementation of international AML/CFT standards.

As part of the workshop “**New Payment Methods. National Payment System**” that was held on February 27-28 this year, participants were introduced to the state-of-the-art model of the national payment system in Russia and new payment technologies. Valery Alexeevich Lopatin, Deputy Head of International Payment Department

of Payment Service Directorate of State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” was invited to act as a trainer during the workshop.

Of particular interest to participants was the theme of integration in the unified information environment of databases of public agencies and financial institutions, remote provision of public services and financial services, including those through employment of an All-in-One Smart Card. During the event, participants had an opportunity to ask practical and theoretical questions and to get acquainted with practical aspects of activities of parties to the national payment system of Russia. Attendees from EAG states were especially interested in the difference between statuses of

bank payment agents and payment acceptance operators along with specifics of regulatory control of activities of parties to the national payment system of Russia. The workshop placed special emphasis on the so-called cryptocurrencies.

Tasks and objectives of training as part of the workshop **International AML/CFT Standards – Collaboration and Coordination** held on 17 and 20 of March this year, oriented towards representatives of law enforcement agencies, were *inter alia* determined as increasing awareness of participants regarding changes in FATF Recommendations and their influence on national AML/CFT systems, provision to attendees of the system of theoretical knowledge and practical skills in AML/CFT required to detection, disclosure and investigation of ML/FT crimes. Leading experts of Rosfinmonitoring majoring in special fields acted as trainers in these workshops. Such issues as legal and organizational principles of AML/CFT, cooperation between law enforcement agencies and financial intelligence units (FIUs) in conduct of investigations of money laundering and financing of terrorism, specifics of financial investigations in combating financing of terrorism and extremism, international cooperation were thoroughly discussed during the workshop. Participants had an opportunity to ask questions to practical experts of Rosfinmonitoring and study relevant experience of the Russian Federation with regard to the set of issues discussed during the workshop.

In the course of the workshop **International AML/CFT standards – Basic principles for private sector** held on March 18-19 this year, one of the leading experts in private sector, CEO of the Association Electronic Currency, member of the Expert Advisory Council attached to the inter-agency commission of Rosfinmonitoring, Viktor L. Dostov, presented the pilot training program specifically developed on request of the ITMCFM that is meant to acquaint private sector participants of EAG states with recent trends in, and specifics of, implementation of the International AML/CFT standards. Special emphasis was placed on new payment methods and cryptocurrencies. At closing of the workshop, every participant had an opportunity to put any questions to V.L. Dostov who is a permanent participant of advisory meetings with FATF private sector. FATF President V.P. Nechaev emphasized the urgency of elaboration of the problem of extension of AML/CFT supervision to the so-called cryptocurrencies, and discussed with workshop participants and V.L.

Dostov practical aspects of operation of exchange offices where one type of cryptocurrencies may be exchanges for another, as well as the prospects to extend supervision over this line of activity. Workshop participants thanked V.L. Dostov for interesting speech and opted for additional training workshops for private sector representatives and for arrangement of a roundtable meeting concerning cryptocurrencies and new payment methods in the end of 2014.

Training workshop **Methods for collection, processing and use of publicly available information for performance of financial investigations (Internet-intelligence)** held during the period from March 10 till March 13 this year was attended by Andrey I. Masalovich, CEO of CJSC INFORUS, candidate of science in physics and mathematics, as a trainer. Managers and specialists of EAG states were offered a range of solutions that allow ensuring most efficient utilization of opportunities of the Internet as well as organizing complex implementation of information monitoring objectives. Participants took part in case studying of application of analytical technologies and methods of internet-intelligence in real search tasks, which made it possible to provide attendees with skills in practical application of obtained knowledge.

As part of the workshop **AML/CFT supervision** held on March 31 and April 1 this year, leading experts of Rosfinmonitoring introduced attendees to specifics and practical aspects of application of FATF Recommendations for the purposes of supervision in the sphere of AML/CFT, told about effective legislative changes. This workshop preceded the VC roundtable meeting concerning Supervision in the Sphere of AML/CFT with the Assistance of Credit Institutions and Securities Market Participants that was arranged by the FIU of Tajikistan on April 4 this year. During the event, participants became aware of institutes and legislation of the national AML/CFT system of Tajikistan, previous and planned changes, discussed specifics of implementation of international FATF standards in Eurasian states. On behalf of Russia, the roundtable was attended by representatives of the Bank of Russia. Of particular interest to participants were implementation of regulations of the Administrative Offence Code and authorities of FIUs in this regard.

Short workshops logically transformed in a longer training course held from March 31 till April 9 in VC mode for EAG states and oriented towards advanced training of employees of public agencies and



private sector. On-site trainings were attended by higher education teaching personnel of educational organizations under the jurisdiction of the MIA of Russia and the FDCS of Russia. Remote VC training was held for employees of law enforcement, supervisory and other concerned state authorities from EAG states. Attendees obtained extensive knowledge – from specifics of holding of financial investigations with regard to drug trafficking and

crimes associated with financing of terrorism to typologies of corrupt crimes and model of operation of the national center for ML/FT risk assessment established at Rosfinmonitoring. Acting as trainers were leading experts of field-oriented departments of Rosfinmonitoring, Research and Development Institute of the Academy of the General Prosecutor's Office of Russia, other state authorities.

Events of the Institute of Financial and Economic Security of MEPHI (IFES)

Events were aimed at:

- informing states about special conditions of admittance to IFES of candidates assigned by respective FIUs for the purposes of focus training;
- problems of organization and completion of internship in FIUs of respective states, students' graduation projects;
- issues of academic progress monitoring;

- assessment of states' demand for education organized by IFES via VC system.

Special mention should be made of the traditional annual Open Day in the ITMCFM held in VC format for students of IFES and FIUs of EAG states, during which participants got acquainted with activities of ITMCFM including projects such as videoconferencing (VC) system, training of personnel in the Institute of Financial and Economic Security (MEPHI), publication of Financial Security journal.

Integration into VC system of the Institute of Financial and Economic Security of MEPhI – source of manpower for Rosfinmonitoring and FIUs of CIS/EAG states – with its significant potential, will in the long term allow offering FIUs concerned a range of training courses aimed at education of specialists in core FIU activities. Currently, based on completed VC sessions, a questionnaire was elaborated and distributed among respective states in order to assess FIUs demand for education that is planned

to start in the beginning of the new academic year in September this year.

Initiative of the ITMCFM to discuss current academic issues of students training in FIU core activities – academic progress, internship, course and graduation projects – received unquestioning support from MEPhI and EAG member-states. Resolution was taken with regard to regular holding of bilateral and multilateral VC sessions in this line.

Discussions, presentations, roundtables

Roundtable meeting concerning collaboration in AML/CFT training of staff between FIU of Russia and FIU of Kazakhstan

The event was attended by Deputy Director of Rosfinmonitoring V.I. Glotov, Chairman of the Committee for Financial Monitoring of the Ministry of Finance of the Republic of Kazakhstan B.S. Tadzhiyakov, FATF President V.P. Nechaev, EAG Executive Secretary B.V. Toropov. Roundtable meeting hosted presentation of the leading educational institution of Kazakhstan – Financial Academy of the Ministry of Finance of the Republic of Kazakhstan – during which attendees had an opportunity to study practical experience of the Kazakh party, and Kazakh representatives took a more detailed look at the Russian project pertaining to establishment of the Networking University in the sphere of AML/CFT.

Roundtable meeting dedicated to discussion of findings of scientific investigation by the ITMCFM called Tax Crimes as Predicate in Relation to Money Laundering – Approaches to Implementation of International Standards

In the course of the meeting, representatives of the Research and Development Establishment of the Academy of the General Prosecutor's Office of Russia introduced their colleagues to basic doctrine

approaches in this sphere and discussed the following issues:

- Does criminal legislation of the states allow recognition of a tax crime as predicate to money laundering?
- If such decision is adopted at legal level, are there any judicial precedents in cases of such category? What challenges do law enforcement official face?
- What is the procedure for determination of criminal proceeds from tax crimes and in what way are they related to the subject of money laundering?
- Is it mandatory to determine particular property acquired illegally as a result of tax crime, or may sufficient evidence be the fact of evasion of taxes to the particular amount and concealment of criminal origin of illegal proceeds through financial operations and other transactions with any property of the taxpayer?
- Is it possible for money laundering to take place at the stage of preparation of tax crime or attempted tax crime?
- If criminal law does not allow recognition of tax crime as predicate in relation to money laundering, what are the prospects for introduction of this kind of responsibility?

Event by the EAG Secretariat held in anticipation of training workshop for experts of FATF/EAG/MONEYVAL/MENAFATF from 10 till 14 of March 2014

During the event, EAG Executive Secretary B.V. Toropov introduced participants to conceptual design of FATF training for appraisers scheduled on March 2014, to specifics of organizational and visa support of the event. Also, capabilities of the upgraded EAG website including registration for events were presented. Explanations and responses to questions placed by states were provided including technical aspects of utilization of the new version of EAG website. In the end of the event, ITMCFM representative focused on publication on the official EAG website of an electronic training course Methodology of Assessment of Technical Compliance with FATF Recommendations and Efficiency of AML/CFT Systems (<http://www.eurasiangroup.org/Methodology/index.html>). The course is designed for individual study by employees of Secretariats of FATF-Style Regional Bodies and employees of organizations (both in public and private sector) involved in assessment of national anti-money laundering systems for compliance with FATF Recommendations.

Near-term outlook for this line of activities of ITMCFM and EAG states should also be mentioned. In the nearest future, MEPhI will accomplish generalization of EAG states' demand for education, which IFES intends to perform via the VC system. Starting with autumn semester, EAG states will have an opportunity to obtain remote training in courses that are most relevant to FIUs and have been elaborated in modules considering FIU demands.

Roundtable meeting on the issue of employment of courier services in transportation of cash for the purposes of financing of terrorist and extremist activities was held on May 23 this year

During the roundtable meeting initiated by the Counter-Terrorism Financing Department of Rosfinmonitoring, participants discussed specific features and practical aspects of implementation of FATF Recommendation 32 – “cash couriers”. The event was attended by representatives of FIUs and law enforcement agencies of Russia, Belarus, Kazakhstan, Tajikistan and Uzbekistan. In the course



of the meeting, states representatives introduced their colleagues to recent legislative changes and proposals, statistics, held discussion and exchange of opinions on relevant issues of law enforcement. Discussion was focused on information exchange and inter-agency cooperation, issues related to functioning of the Customs Union. Representatives of Rosfinmonitoring discussed with their colleagues the progress of EAG typology research associated with the subject matter of the roundtable meeting.

In summer, after the end of the EAG plenary week in June this year, roundtable meetings concerning current lines of FIU activities are scheduled on a nearly weekly basis in VC mode. Problems including but not limited to the following are defined:

- automated detection of suspicious activities (suspicious activity determination criteria, system for assessment of risk of anti-money laundering, detection of typical AML/CFT schemes);
- automated detection of suspicious activities (suspicious activity determination criteria, system for assessment of risk of anti-money laundering, detection of typical AML/CFT schemes);
- best practices of EAG member states in organization and implementation of national risk assessment and application of risk-oriented approach, employed methods for detection and assessment of risks of money laundering and financing of terrorism;
- exchange of experience in planning of financial sector audits based on the Risk Management

System (auditing process, frequency, utilization of risk management system in carrying out of audits);

- experience in collaboration between FIUs and law enforcement agencies;
- increasing efficiency of cooperation among financial intelligence units;
- exchange of experience in extension of AML/CFT supervision onto pawnshops, persons carrying out leasing activities as lessors without respective licenses, organizations carrying out operations with precious metals and precious stones and respective items, accounting organizations and chartered accountants, persons carrying out entrepreneurial activities in the sphere of legal assistance;
- exchange of experience in development of AML/CFT instructions for entities subject to financial monitoring;
- prevention of money laundering within the framework of the Customs Union;

- exchange of experience in money laundering and financing of terrorism through employment of organizers of gambling and lotteries.

Diploma defence by IFES graduates in VC mode with attendance by FIU leaders from EAG states – tradition established last year – is expected to continue.

It is also planned to develop the ITMCFM initiative regarding conduct of training in the format of short-term workshops for FIUs of EAG member states dedicated to issues such as combating corrupt practices, international FATF standards, new payment methods, asset freezing, etc.

Great hopes in terms of prospective development of cooperation in VC format center on integration in the VC system of the FIU of Kyrgyzstan represented by the Training Center of the State Financial Intelligence Service under the Government of the Kyrgyz Republic. It will become possible after the ITMCFM accomplishes upgrading of the VC central node.

As early as in the second half of 2014, the ITMCFM plans – jointly with FIUs concerned – to commence development of the plan of EAG events to be held with employment of VC system in 2015.

TOOLS FOR ENHANCING EFFICIENCY OF RUSSIA'S CONTRIBUTION TO THE FATF AND EAG ACTIVITIES

As the Russian Federation and its EAG partners approach the new round of mutual evaluations of compliance of the national AML/CFT systems with the international standards, a number of new issues appear on the agenda. Primarily, they are related to proper implementation of the FATF 40 Recommendations and also associated with the fact that the new round of mutual evaluations will be focused not just on assessment of technical compliance but also on evaluation of effectiveness of the national AML/CFT systems (as per the new Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the AML/CFT Systems).

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The process of “assessment of effectiveness” obviously depends, to a large extent, on such factors as the professional experience of an assessor, his/her awareness of the concepts and principles that differ from those used in this/her domestic legislation and also on views and opinions shared by the colleagues. It is critically important for an assessor to stay focused on new trends in the external information environment.

A number of important issues were raised at the training workshop for the FATF/EAG/MONEYVAL/MENAFATF experts held in Moscow on March 10-14, 2014. This workshop intended for training the assessors and experts for the new round of mutual evaluations of the national AML/CFT systems was hosted by the EAG and the International Training and Methodology Center for Financial Monitoring (ITMCFM).

First of all, it should be noted that according to the mutual evaluation process and procedures countries should provide not just the trained assessors but also

the so-called reviewers who may not be experienced in mutual evaluations but should be able to review the draft MERs prepared by assessors and provide their recommendations and conclusions. These recommendations are not binding upon assessors, but where necessary or upon request of a country, they should be considered by the Plenary in course of hearing and adoption of the MER of the evaluated country. The FATF Secretariat plans to arrange separate training courses for reviewers. In this context, it would be obviously beneficial for the EAG-member states to establish such “review teams” and arrange for their training and cross-country communication ahead of commencement of the next round of mutual evaluations.

Given that the Russian Federation has the powerful communication resources – the EAG videoconferencing system operated by the ITMCFM, Russia can (subject to the appropriate decision) arrange for training courses for both assessors and reviewers and, if necessary, also for officials of the government authorities who will directly meet with assessors during on-site visits and for representatives of the private sector. This will not just enhance effectiveness of the on-site missions (since the parties will know what assessors expect from a particular face-to-face meeting), but will also allow the respondents to professionally prepare for questioning. Integration of the videoconferencing systems of various ministries and departments into the EAG videoconferencing system may also play quite an important role in this process.

In the first half of 2014, the ITMCFM arranged and held a number of training workshops on topics related to new payment methods, national payment system and the international AML/CFT standards for the law enforcement agencies, private sector and regulators. The professional development training course delivered through the videoconferencing system for almost ten days caused special interest of the trainees who provided positive feedback. During this training course, the FIUs could select the most vital and important topics for their individual officers and divisions. This policy pursued by the ITMCFM since 2013, offers a good opportunity for training not just the employees of the financial intelligence units and regulatory authorities but also assessors and other experts who will, in one way or the other, participate in the mutual evaluations conducted by the FATF and FSRBs.

Another important issue raised by the facilitators of the Moscow training workshop was Recommendation 33 - Statistics. The FATF representatives pointed

out that, apart from information to be provided by an evaluated country, assessors should be able to expeditiously collect and analyze publicly available statistics and other data featuring the evaluated country. The lists of information sources may vary, and it is very important for assessors to know where and what information they should seek. In this context, training of assessors and other parties involved in mutual evaluations not only under some universal data collection, analysis and reporting standards (which, as pointed out by the FATF representatives, often vary in different countries), but also by way of centralized studying the practices adopted by various countries becomes very important. No less important are the experience sharing exercises.

One of the important aspects of this process would involve selection and creation of the information sources database (mainly related to the CIS/EAG-member states) in the Russian and English languages for the assessors. Following creation of such database, an online training course could be developed for training assessors and reviewers in selecting and analyzing the key Russian and foreign information sources. This is of critical importance due to the fact that assessors and reviewers may have different basic professional education and training and may be unaware of existence of many potentially useful information sources. In 2015-2016, it could be expedient to consider arrangement, through the videoconferencing system, of a training course for assessors and reviewers in preparing MERs, since, as pointed out by the FATF representatives, the reporting culture and traditions in the CIS countries (including Russia) differ significantly from those in non-CIS countries.

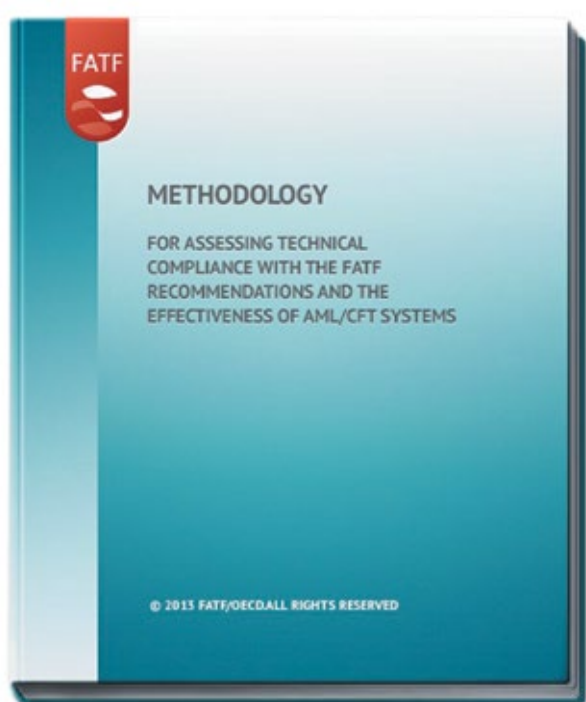
In course of mutual evaluations of the countries, the videoconferencing system will allow for holding meetings and consultation prior to, after and, where necessary, during the on-site visits, which will significantly enhance effectiveness of the work, strengthen trust among countries and will also allow the EAG, which is the main “beneficiary” of the system, to become one of the first FSRBs to implement new technologies for the mutual evaluation process. In the long-term perspective, it may be expedient to integrate the Secretariats of the FSRBs and, may be the FATF Secretariat, into the videoconferencing system. This would significantly improve interaction and coordination during mutual evaluations of the EAG-member states.

The key for successful implementation of these initiatives is further upgrading and development of the

videoconferencing system and the quickest possible integration of the interested CIS/EAG countries into this system. At present, the ITMCFM proceeds with upgrading the central server of the videoconferencing system to ensure connection of the Kyrgyz FIU

(Training Center of the State Financial Intelligence Service under the Government of the Kyrgyz Republic) and also for installation and commissioning of the second access point for the Kazakh FIU in Almaty city.

Online course “FATF Assessing Methodology” from the International Training and Methodology Center for Financial Monitoring



The online course «Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems» is a self-study course designed for the Secretariat staff of FATF-style regional bodies and employees of organizations (both public and private) specializing in the assessment of compliance of national anti-money laundering systems with the FATF Recommendations.

The course is available in Russian and English languages.

The course is available on the website of the Eurasian Group on Combating Money Laundering and Financing of Terrorism at:

[http://www.eurasiangroup.org/ru/
page_1392276131_77.php](http://www.eurasiangroup.org/ru/page_1392276131_77.php)

TREND

“DEEP WEB” AS A TOOL TO PROMOTE ANONYMITY OF TRANSACTIONS WHEN USING ALTERNATIVE PAYMENT METHODS

Considering increasing popularity of Bitcoin payment system and other cryptocurrencies, such aspects as cryptic communication and hosting in the Internet that ensure high level of anonymity must not be disregarded for the purposes of AML/CFT

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The concept of “Deep Web” refers to the part of the world wide web that is not indexed by search systems. The segment in question accommodates web pages that are not hyperlinked, websites with access available to registered users only or restricted by other technical means.



In order to access the “Deep Web”, a user needs to employ dedicated software such as TOR, I2P, or other less known counterparts.

TOR (The Onion Router) is a widely known anonymous access network whose principal software is TOR browser. Traffic is safer with TOR because – instead of going along direct route from sender to the receiver – data batches in TOR networks pick random routes via several servers, which significantly increases user’s anonymity. At that, an observer in a control point may never say where the data come from and where the data goes, which hinders traffic tracking enormously.

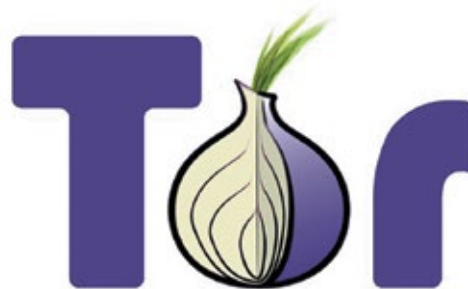
Besides, TOR network features an onion — a pseudo domain meant to provide access to anonymous and pseudo anonymous TOR addresses. Such addresses are not true DNS names and information about them is not stored in DNS root servers, but – given installation of additional software required to access the network – TOR Internet programs obtain access to websites in the onion domain zone. DNS independence further enhances user anonymity in TOR network because Internet-provider is no longer able to trace user requests. These resources may operate on a permanent basis and – as has been said above – are available via Internet with employment of additional software.

Further, we are going to discuss a somewhat less known network – I2P.

I2P is a secure data exchange protocol operating over conventional TCP/IP. Its primary task is to make it impossible to find IP-address of the server of the website. Second task is to get rid of centralized storage of domain names – multiple servers act as DNS servers. Third task – to fully encrypt data batches when sent from user to server and back, which makes batches interception absolutely meaningless. Along the line, one more task – anonymization – is solvedⁱ.

Also, I2P features pseudo domain i2p that – just like the Internet – may host websites accessible with the use of dedicated software. Besides, there are other tools known to a limited circle of professionals, yet we are not going to discuss them in this article.

Hidden areas of Internet accommodate among other things various forums where users may negotiate transactions (including cross-border transactions) associated with illicit trafficking of goods and services. This being the case, payment of such transactions for obvious reasons also requires anonymity, which makes very relevant the use of cryptocurrencies that are not yet subject to AML/CFT regulation or control commonly accepted by all states.



In general, categorized as one of recent trends may be extensive interest of real users to hidden areas of the world wide web where they may conclude various transactions at high degree of anonymity and at the same time use pseudo anonymous payment tools – for example, cryptocurrencies.

All that offers new challenges to law enforcement and supervisory authorities. First of all, introduce the widest possible range of their employees who may in one form or another encounter such transactions (e.g., in conduct of investigations) to the sphere of “Deep Web” and new payment methods including cryptocurrencies. Second – consider initiating regulation of cross-border operations with the use of such tools since “Deep Web” as such may not be subject of regulation; subjects of regulation in this regard shall be immediately the deals concluded with the use of “Deep Web” as an information platform, and the transactions associated with such deals.

Additionally, employees should receive training in specifics of work with the “Deep Web”, and in the long term – regulatory legal framework should be established meant to prevent employment of this segment for illegal purposes.

ⁱ <http://jenyay.livejournal.com/247610.html>

NEWS BLOCK

The EAG Secretariat Technical Mission Visited Kazakhstan



On April 3-4, 2014, pursuant to item 4 of the EAG Schedule (Annex 1 Rev.1 to PLEN (2013)22) the representatives of the

EAG Secretariat visited the Republic of Kazakhstan with the technical mission for holding consultations related to the preparation of the second follow-up report scheduled for consideration and discussion by the EAG Plenary in Moscow in June 2014.

In course of the visit, the team met with the chairs of the relevant Committees of the Majilis (the lower

house) and the Senate (the upper house) of the RK Parliament and with the senior officials of the General Prosecutor Office, Ministry of Justice and Ministry of Finance of the Republic of Kazakhstan. The EAG representatives also took part in the meeting of the Interdepartmental AML/CFT Committee.

Following the meetings and discussions, the parties identified the areas where the main efforts should be focused for ensuring progress of Kazakhstan in improvement and further development of the national AML/CFT system.

Besides that, the EAG representatives met with the students and professors of the Financial Academy of the RK Ministry of Finance and presented the overview of international AML/CFT cooperation within the FATF and the EAG networks.

Workshop of the United Nations Office on Drugs and Crime



According to the invitation by the regional Central Asian representative office of the United Nations Office

on Drugs and Crime, representative of the EAG Secretariat took part in the workshop "Exchange of experience in improvement of mechanisms for inter-agency cooperation on the national level in detection, investigation and judicial examination of money laundering

cases". The event was held on April 2-3 this year in the city of Ashgabat (Turkmenistan).

The workshop was also attended by representatives of OSCE, UNODC, law enforcement and public agencies of Great Britain, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Poland, Russia, USA, Turkmenistan, Estonia.

According to the agenda, the following basic issues were discussed: mechanisms of inter-agency cooperation on the national level focused on disclosure and investigation of money laundering offences; detection and seizure of criminal proceeds; judicial examination of money laundering cases; confiscation of criminal proceeds, and other issues.

Consultative Meetings of the Working Groups of the Council of the Heads of FIUs of the CIS-Member States Held in Armenia



The consultative meetings of the working groups of the Council of the Heads of Financial Intelligence Units

of the CIS-Member States were held on May 19-22, 2014 in Dilijan, Armenia. The Russian delegation was headed by Pavel Livadny, State Secretary – Deputy Director of Rosfinmonitoring.

The working group established for the development of the Concept of Cooperation of the Member States FIUs discussed, among other things, the following issues:

- General AML situation in the CIS member states: major risks and threats;
- Goals and objectives of combating money laundering and financing of terrorism;
- Main areas of practical activities and operations of the Council of HoFIU;
- Administrative, human resources and logistical support of the Council operation.

Besides that, the workshop on *National Risk Assessment – Experience of the CIS Member States* and the workshop on *Implementation of the Revised FATF Recommendations into the National Legislation – Current Issues* were held.

Presence of Vladimir Nechaev, the FATF President, added importance to the event. The participants heard with great interest his presentations on implementation of the revised FATF Recommendations into the national legislation and on national risk assessment.

Summarizing the results, all attendees noted that such inter-sessional working meetings of the representatives of the Council of HoFIU would substantially contribute to the work performed by the Council and would strengthen its position in the Commonwealth of Independent States.

Memorandum on Cooperation between Rosfinmonitoring and CSTO Parliamentary Assembly Signed

On April 17, 2014, the regular meeting of the Council of the Parliamentary Assembly of the Collective Security Treaty Organization (CSTO) was held under the chairmanship of S.E. Naryshkin in the Taurida Palace of Saint Petersburg.

One of the issues on agenda of the meeting was execution of the Memorandum on Cooperation between the Federal Financial Monitoring Service and the CSTO Parliamentary Assembly.

In his speech, S.E. Naryshkin emphasized significance of working communications between the

bodies of the CSTO parliamentary community and Rosfinmonitoring as well as importance of execution of the respective Memorandum.

Signing ceremony took place on the sidelines of the meeting. Executive secretary of the Council P.P. Ryabukhin signed the document on behalf of the CSTO Parliamentary Assembly. State Secretary – deputy director of Rosfinmonitoring P.V. Livadny signed the Memorandum on the other part.

The document implies cooperation in elaboration of legislative acts in order to ensure approximation and harmonization of national laws of CSTO member states

on issues immediately associated with the Parties' sphere of activities. Besides, the Memorandum suggests measures to inform its bodies about implementation of the document provisions.

The event was attended by observers of the CSTO Parliamentary Assembly, representatives of Voiesi Jerga of the National Assembly of the Islamic Republic of

Afghanistan, the National Skupshtina of the Republic of Serbia, the Parliamentary Assembly of the Union State of Russia and Belarus.

Besides Russia, members of the organization are five states – Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan.

Second Edition of Business Encyclopedia “Payment Cards” Prepared with the Participation of Experts of E-Money Association

Second edition of Business Encyclopedia “Payment Cards” prepared with the participation of experts of E-Money Association is now ready. The book describes in detail the history of the segment and specifics of its functioning in the present time. A great part of the book is dedicated to specialized legislation and the problem of observance thereof by credit organizations. The book places special emphasis on innovations and advanced products – specifics of payment tools hybridization, e-money, virtual and proximity cards.

Business encyclopedia “Payment Cards” united the leading Russian experts in retail payments and represents a project that is unique to this country. Hopefully, the book will be useful to a wide circle of readers – specialists of credit institutions, trade and service enterprises, researchers and students.

Plastic cards as an instrument for payment of a variety of goods and services remain relevant, while evolving into new forms and expanding their functionality – for example, they are frequently used in the sphere of e-commerce, interface with e-purses, are used for proximity payment of transportation fares and in many other fields. Cards are still in extremely high demand in banking business, they are becoming more and more popular in transportation sector, are widely applied in social sphere. Materials for the second



edition of the business encyclopedia “Payment Cards” have been updated, the book was supplemented with new sections and chapters devoted to innovations in payment technologies and payment card-based projects implemented in various spheres of business and society.

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