

FINANCIAL SECURITY

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**AUDITOR OF THE
ACCOUNTS CHAMBER
OF THE RUSSIAN
FEDERATION**

SVETLANA ORLOVA:

*"Our mission is to cultivate equitable
and responsible public administration
as a cornerstone for sustainable
development of Russian society
and decent human life"*



CONTENTS

- 5 Welcoming Speech of Mr. Yury Chikhanchin, Director of Rosfinmonitoring

Implementation of State Policy in the Field of Financial Control

- 6 Svetlana Orlova: Our mission is to Cultivate Equitable and Responsible Public Administration as a Cornerstone for Russia's Sustainable Development
- 14 Federal Financial Monitoring Service's Efforts in Monitoring State Defense Order (SDO) Funds
- 16 Continuous Enhancement of State Financial Control: Benefiting Citizens and the Nation
- 19 Russian Treasury: The Principal Authority for Financial and Budgetary Oversight
- 23 Results and Ongoing Enhancements of Bank of Russia's AML/CFT Control and Supervision
- 26 Combating Suspicious Currency Transactions and Implementing Special Economic Measures in Response to Foreign Hostile Actions
- 29 Supervising the Legality of Budget Expenditures in National Project Implementation by Prosecutor's Office Authorities
- 32 Regional Branch of Rosfinmonitoring in the Central Federal District: Experience of Countering SDO Corruption

Transformation of State Financial Control: Projects and Tendencies

- 34 Key Trends in the Development of Proactive Budgeting in the Russian Federation
- 38 Financial Security Zone as Tool to Secure National Interests
- 43 Non-Financial Professions as Component of Financial Security Zone
- 49 Embezzlement of Budget Funds Within the Framework of National Financial Security Risks and Threats
- 53 Issues Surrounding Targeted Allocation of Budgetary Funds: Effective and Lean Principles (Republic of Tajikistan)
- 57 Methods of MI/TF Risk Assessment as Potential Basis for Knowledge Engineering and Artificial Intelligence in Control and Supervisory Activities
- 63 On the Outcomes of the "World without Corruption—Myth or Reality?" Financial and Economic Agencies Forum
- 66 General Problems Related to the Organization and Application of Methods of Financial Control over Regional State Population Support Facilities

Tribune of Young Specialists

- 70 Monitoring State Defense Order Contract Execution by Territorial Bodies of Federal Financial Monitoring Service
- 72 Amendments to E-Signature Law for Minimizing Tax Reporting Risks and Innovations in Electronic Communication with the Russian Federal Tax Service
- 75 Budget Expenditure Monitoring (Control) for National Project Implementation

AML/CFT News

- 78 Rosfinmonitoring Employees Attended MENAFATF 36th Plenary Week
- 79 CIS Landscape Discussed at CIS CH FIUs Meeting
- 79 Kazakhstan Hosts 38th EAG Plenary Meeting
- 81 II Forum of Parliamentarians of EAG Member States
- 81 Federal Financial Monitoring Service Representatives Attended 8th BRICS CTWG Meeting in Pretoria
- 82 International Cooperation In Financial Security Panel Discussion Held in St. Petersburg
- 83 Un, Rosfinmonitoring and EAG Meet in Moscow to Discuss Countering the Use of Virtual Assets for Criminal Purposes
- 84 Next Generation. Rosfinmonitoring Provides Internship for Representatives of Partner Countries' Financial Intelligence Units

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DEAR READERS!

The prevention of financial crimes and offences, the enhancement of law enforcement procedures, and the establishment of a robust system for monitoring and overseeing public expenditures, alongside the eradication of conditions conducive to corruption, stand as paramount objectives for public authorities.



We have therefore dedicated to devote the September issue of Financial Security Journal to these vital concerns.

The interagency public spending monitoring and control system is built on the resources of the national anti-money laundering system and the effective integration of banking and treasury support. The collaborative efforts of the federal and regional authorities enabled the prevention of embezzlement of public funds intended for national social initiatives.

Furthermore, this endeavor has also enabled the recovery of multibillion losses inflicted upon the budget of the Russian Federation, while simultaneously disrupting the illicit operations of unscrupulous participants in bidding processes.

Some of the articles in this issue also address the shift in governmental financial control, including the global trend towards digitalization. The creation of efficient tools for governmental financial supervision is therefore one of the main objectives aimed at advancing the country's economy.

Our foreign colleagues have also contributed significantly to this issue by sharing their knowledge and expertise regarding the oversight of the public funds use. The establishment of an efficient governmental financial control system, facilitated through the interaction between diverse agencies and organizations, undoubtedly assumes global significance.

*Director of Rosfinmonitoring,
Editorial Board Chairman
Yury Chikhanchin*

IMPLEMENTATION OF STATE POLICY IN THE FIELD OF FINANCIAL CONTROL

SVETLANA ORLOVA: OUR MISSION IS TO CULTIVATE EQUITABLE AND RESPONSIBLE PUBLIC ADMINISTRATION AS A CORNERSTONE FOR RUSSIA'S SUSTAINABLE DEVELOPMENT

Over the past year, the Accounts Chamber undertook 40 control and expert analytical measures as part of the audit of public administration. The agency submitted 17 reports to the State Duma on the enforcement of the budget law in 2022 and the forecast period 2023-2024. Svetlana Orlova, Auditor of the Accounts Chamber of the Russian Federation, talked to the Financial Security journal about the results and priorities of this work and the identified violations and problems



Svetlana Orlova

Svetlana, could you please outline the main accomplishments of the Accounts Chamber of Russia under your leadership?

- I am in charge of the public administration audit — one of the key areas in the Accounts Chamber's activities. This includes supervision over the expenditures of 18 major administrators of budgetary funds:

Two branches of the government, i.e. legislative and judiciary (*State Duma and Federation Council, Constitutional and Supreme Courts of the Russian Federation, Judicial Department under the Supreme Court of the Russian Federation*);

Government bodies (*Central Election Commission, Commissioner for Human Rights in Russia, Investigative Committee, General Prosecutor's Office, Accounts Chamber*).

The Chamber also supervises the expenditures of the federal executive authorities: *Ministry of Justice of the Russian Federation* and all federal services under its jurisdiction (*Federal Penitentiary Service, Federal Bailiff Service*), *Administrative Directorate of the President of the Russian Federation, the Ministry of Finance of the Russian Federation, the Federal Treasury, the Federal Financial Monitoring Service, and the Federal Archive Service*.

In 2022, there were 40 control and expert analytical actions. These encompassed the review of using funds to develop correctional centers, the effectiveness of implementing measures to improve monitoring and supervision, and the effectiveness of using budgetary funds by educational institutions affiliated with the Investigative Committee.

These initiatives resulted in 7 submissions and 21 recommendations. The Accounts Chamber compiled and submitted 17 reports to the State Duma, outlining the adherence to the budget law in 2022 and the projected span of 2023-2024. Presently, we are overseeing the implementation of these submissions and recommendations.

Compared to last year, has the number of violations and their value decreased or increased? How promptly and efficiently are these violations eliminated?

- We have indeed observed a reduction in the number of violations. However, this is not solely about quantifying their occurrence or their value.

In a sense that we stick to our mission to promote fair and responsible public administration as a precondition for the sustainable development of Russian society and a satisfactory quality of life, the Accounts Chamber is a partner to the bodies under our control. This implies that we assist governmental bodies in constructing a forward-looking perspective on the socio-economic landscape of the nation, facilitating a comprehensive comprehension of the risks associated with falling short of sustainable development targets.

In our case, this implies a shift in the approach of the Accounts Chamber — our focus extends beyond merely identifying discrepancies within the functioning of these bodies. We are also dedicated to preempting such violations and offering assistance in rectifying them.

Working meetings (roundtables) with the audited bodies, both during and after the events, have proven to be a good practice. These meetings involve the participation of leaders from other government agencies, whose decisions bear an impact on the audited body's capacity to fulfill its responsibilities. During these interactions, we discuss the violations and develop a unified position concerning their rectification. This consensus subsequently translates into an actionable plan or a roadmap for addressing the shortcomings.

So, in addition to the legislative instrument, i.e. the submission, you also provide a roadmap for remedying violations?

- We do. We monitor the entire process — from identification of violations to their eventual elimination, including step-by-step monitoring of the roadmap implementation. This approach allows us to respond promptly to shifts in the economic conditions of the audited body and the broader Russian economy, facilitating timely adjustments to the established roadmap. The outcomes arising from the execution of recommendations, as delineated in the roadmap, are meticulously reviewed within the Collegium of the Accounts Chamber.

Speaking of risks, what is the role of the risk-based approach in your work?

- The risk-based approach covers the work at all its stages — from planning the action to its finalization.

The Accounts Chamber has developed and approved the Concept of risk-based approach based on international standards.

In addition, the Concept served as a basis for the development of risk-based approach in the internal regulatory and methodological documents of the Accounts Chamber regulating the planning and implementation of control and expert analytical work.

The risk-based approach in the Accounts Chamber is built on a comprehensive analysis of a large array of information contained in the federal information systems of government authorities. In particular, the databases of the Russian Registration Authority, the Federal Property Management Agency, the Federal Tax Service. Also, we analyze metadata posted on the Internet and, of course, the results of previous monitoring and expert analysis.

This way, we identify areas in the body's activities that pose risks of violation of financial and budgetary legislation, as well as the potential effects of these violations, and measures to eliminate them. That is, we are practically able to visualize the final result before initiating monitoring or expert analysis.

Could you share an instance where this approach allowed you to anticipate the outcome?

- In December 2022, the Collegium of the Accounts Chamber reviewed the results of the expert analytical action — Analysis of Resources Provided to Federal Executive Authorities for Maintenance, Operation and Lease of Premises, Buildings and Structures. This action covered 51 federal executive bodies governed by the Russian Government.

Even before embarking on these actions, we undertook a comprehensive analysis based on the risk-based approach. Even during the preliminary planning stage, we were attuned to potential breaches and recurrent mismanagement of property assets by federal entities. Additionally, we anticipated potential legislative complexities in regulating this realm, alongside inherent inadequacies in federal property accounting.

The results of the action confirmed that our risk assessment was accurate.

The analysis suggests the complicated nature of the situation regarding the management of state property caused by flaws in the legal regulation.

For instance, the current regulations do not cover the question of efficient utilization of state property.

Some legislative acts are no longer relevant, but are still in force. They were adopted more than 25 years ago. In the contemporary landscape of state property management, these regulations do not align with the present reality.

I would like to especially point out the regulatory requirement to allocate 9 m² of space per officer; this is an outdated requirement and needs to be reviewed for a number of reasons. This requirement overlooks diverse categories and groups within federal public service roles, solely encompassing administrative personnel of the public entity. It does not extend to officials within the regional arms of the federal



executive body and only serves as a minimum area for a public servant.

Moreover, the number includes common spaces such as halls and corridors.

Some federal agencies are housed in culturally and historically significant buildings, rendering reconstruction or adaptation to contemporary standards unfeasible.

The work of the Accounts Chamber has demonstrated that this stipulation was exceeded by a factor of up to 12.2 times per individual officer in 2020, and up to 7 times in 2021.

Representatives of the Russian Ministry of Finance, the Russian Ministry of Labor and the Federal Property Management Agency have unanimously concur on the validity and reliability of conclusions advocating the need for revision of this standard. During the discussion, a differentiated approach based on the category of the public officials' positions was proposed.

I must note that such approach has already been regulated and implemented when accommodating government agencies staff in the Moscow City business center.

Furthermore, these actions unveiled instances where certain agencies fail to optimally utilize their premises (totaling 43.8 thousand m²) despite incurring maintenance costs of RUB 222.4 million from the budget funds. Consequently, these entities sublet excessive areas, sometimes on a non-profit basis.

For example, the Ministry of Science and Higher Education of Russia has been leasing a total area of

7 thousand square meters to the Russian House of International Research and Technical Cooperation association for 49 years since 1992.

The rent fee for the premises located in Moscow downtown comprises only of the utilities reimbursement. Since 1992, the budget has not received payments for the leased federal property. In addition to the above association, 8 other subtenants were occupying the building.

Assuming that the average rental cost of 1 square meter in such building amounts to about RUB 50 thousand per year (estimated), the budget falls short of about RUB 300 million per year on average. The report is submitted to the Federal Property Management Agency for further review and appropriate decisions.

We have found discrepancies between the figures for the property of government agencies submitted to the Accounts Chamber and the data of their reports submitted to the Russian Ministry of Finance. In absolute terms, the difference in respect of the property of government agencies and costs of its maintenance totaled 206.6 thousand square meters and RUB 1.4 billion, respectively.

This underscores the risks we have previously pinpointed in the realm of federal property accounting and draws attention to the deficient digital maturity present not only within the accounting system but also in the reporting of federal property.

The Collegium of the Accounts Chamber reported the results of the action to both the Federation Council and the State Duma. To ensure the execution of the Accounts Chamber's recommendations, the Government of the Russian Federation issued a relevant instruction¹.

Moreover, the results of the action were reviewed by the Federation Council and, upon its decision², recommendations were extended to the Government of the Russian Federation, the Ministry of Finance of the Russian Federation and the Federal Property Management Agency to take measures aimed at enhancing the efficient utilization of property assets by federal executive bodies.

Summarizing the results of our work, I would like to emphasize that inefficient management of state property and unreliable information on its availability adversely affect the system of public administration and administrative decision-making.

Indeed, the results are truly commendable. In your perspective, which facet of work holds the utmost significance?

- Undoubtedly, the provision of housing for orphans and children deprived of parental care.



¹ Instruction of the Government of the Russian Federation No. MH-P13-5394 dated April 14, 2023.

² Decision of the Federation Council Committee on Budget and Financial Markets No. 16-28 dated July 18, 2023.

To my greatest regret, throughout the Russian Federation the situation with housing for orphans has not improved in 2021-2022. The number of orphans aged 18 and more, who still have not been provided with accommodation in due time, continues to increase. By January 1, 2023, it amounted to almost 195 thousand people.

According to the data from EGISSO³ information system, as of January 1, 2023, there are 288 thousand orphans eligible for future housing.

Expenditures of the Russian Federation on housing for orphans have grown from RUB 46 billion in 2021 to RUB 71 billion in 2022. However, the subsidy from the federal budget remains the same since 2020 — RUB 10 billion. Hence, the proportion of federal budget funds in the total expenditures on housing for orphans decreased to 14% in 2022 compared to 23% in 2020.

As per estimations from the Ministry of Finance, the accumulated obligations in the combined budgets might exceed RUB 670 billion.

In the current situation of limited resources, the solution to the orphan housing problem directly depends not only on the amount of funding, but also on the efficiency of the current system of public administration.

On its part, the Accounts Chamber is actively engaged in addressing this problem. With our direct participation, the Federal Law on Additional Guarantees of Social Support for Orphans and Children Deprived of Parental Care, which provides for housing certificates, was drafted and passed. Furthermore, acting upon our recommendation, the authority to allocate subsidies to Russian regions for orphan housing was delegated from the Ministry of Education to the Ministry of Construction. The barriers impeding the use of escrow accounts for housing construction and the restrictions on providing studio apartments to orphans have been removed.

It's noteworthy that the mechanism of utilizing housing certificates for orphans was operational in 18 regions in 2021 and in 40 regions in 2022. The number of orphans, who were issued certificates in 2022, doubled compared to 2021 and amounted to 5.4 thousand people. Most of the certificates issued in 2021 had been redeemed by the end of 2022.

At that, given the rapid escalation of residential property costs⁴, a surge in funding alone will not suffice to eliminate the pending obligations to orphans awaiting housing. Alternative avenues, such as the establishment of a specialized housing fund, including collaborative construction efforts with regional authorities to create social housing for all citizen categories to whom the state bears the obligation of housing provision, including orphans, are essential.

It is impossible to solve this problem unless we develop an effective system to preempt social orphan hood. To this end, preparations are currently underway for an interagency meeting at the Prosecutor General's Office to develop additional measures to address this pressing social issue.

In preparation for our upcoming meeting, I have closely reviewed several of your speeches, where you especially focus on combating corruption. You are, in fact, a center for enhancing the anti-corruption competence of the Accounts Chamber. Could you elaborate on how the Accounts Chamber cooperates with international organizations in this area?

- Despite Russia's withdrawal from the Council of Europe, and its consequent inability to fully participate in GRECO⁵, Russia's renunciation⁶ of the Criminal Law Convention on Corruption of the Council of Europe⁷, it is important to note that the nation continues to uphold its status as a complete signatory to the principal international anti-corruption conventions⁸. Presently, Russia enforces over 100 anti-corruption regulations across diverse sectors of both governmental and public spheres.

³ Unified State Social Security Information System.

⁴ The cost of square meter of total residential area in the Russian regions almost doubled on average over 2021-2022.

⁵ Group of States against Corruption.

⁶ Withdrawal from an international treaty concluded by a state.

⁷ On February 28, 2023, the President of the Russian Federation signed the Federal Law No. 42-FZ.

⁸ UN Convention against Corruption, Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Due to its inherently transboundary character, the anti-corruption agenda stands out as one of the foremost subjects of mutual concern among supreme audit institutions. As a result, an active exchange of best practices takes place with counterparts from various nations on an ongoing basis.

In July, the Accounts Chamber attended the 14th session of the UN Convention against Corruption Implementation Review Group (IRG) in Vienna. During this event, I delivered a video address to the Open-ended Intergovernmental Working Group on the Prevention of Corruption. Notably, the Accounts Chamber organized events as part of the Economic and Humanitarian Russian-African Forum held in St. Petersburg on July 27-28, which saw the active involvement of representatives from supreme audit institutions of 15 African countries. A round table discussion on anti-corruption matters with leaders from the supreme audit institutions of Egypt, Gabon, the Democratic Republic of the Congo and Angola was convened at the Forum.



Last May, we shared best anti-corruption practices at the INTOSAI Global Expert Team Meeting (IGET), organized by supreme auditing institutions of Egypt. There were also representatives of the Supreme Audit Institutions (SAIs) of France, Indonesia, the

USA, Mexico, and Austria. It was a fascinating discussion. In our presentation, we touched upon the international aspects of anti-corruption efforts of the Accounts Chamber. We exchanged the experience of developing internal strategic plans and recommendations to improve anti-corruption measures with our colleagues.

In September, the Accounts Chamber held an event to share best practices on anti-corruption matters with the supreme audit institutions of Uruguay, Peru, and Mexico.

A valuable conversation on public administration auditing took place in April with the United Arab Emirates, Oman, and Saudi Arabia.

Additionally, we facilitated a Russian-African knowledge exchange in the realm of combating corruption. This initiative saw the organization of themed workshops, including one in March with colleagues from Algeria, Morocco, and Senegal, and another in June with participants from Egypt, Namibia, Zambia, and Congo.

Furthermore, the Accounts Chamber contributed to the Practical Guide on Enhancing Cooperation between Supreme Audit Institutions and Anti-Corruption Agencies, which combines the experience of more than 150 experts and anti-corruption agencies from 50 countries. The Guide was presented by SAI of the United Arab Emirates and the UN Office on Drugs and Crime at the INTOSAI Congress in Brazil last November. The document includes real cases of anti-corruption efforts in different areas, such as international cooperation, audits for corruption prevention, and civic engagement in the fight against corruption.

The Accounts Chamber believes that under current circumstances, anti-corruption efforts should be steered by national priorities and interests.

In line with this philosophy, cultivating an environment of integrity through the enhancement of anti-corruption measures, as well as the refinement of regulatory and institutional frameworks to deter misuse, stands as one of the four objectives of the Development Strategy of the Russian Accounts Chamber for 2018-2024⁹.

⁹ Approved by the Collegium of the Accounts Chamber of the Russian Federation under No. 39K(1260). on August 3, 2018.

With regard to the objective of combating corruption by the year 2022, two pivotal documents have received approval to guide future anti-corruption efforts in the Accounts Chamber. These documents include the passport of the Anti-Corruption Project and the Roadmap to achieve the objective of Developing Integrity Environment by Improving Anti-Corruption Measures and Legislative and Institutional Framework to Prevent Abuse — both included in the Development Strategy of the agency¹⁰ (hereinafter the “Roadmap”).

The Accounts Chamber believes that as soon as we identify corruption risks, we will be able to develop and implement preventive measures to mitigate such risks and curtail potential harm.

I would like to thank Yury Chikhanchin, Head of the Federal Financial Monitoring Service, for the exceptional anti-corruption training held for the Accounts Chamber officers at the International Training and Methodology Centre for Financial Monitoring. Additionally, I appreciate the sharing of invaluable insights into high-risk state contracts.

In what other areas do the Accounts Chamber and the Federal Financial Monitoring Service work together?

- In accordance with our Cooperation Agreement, the Federal Financial Monitoring Service contributes to our monitoring and expert analytical endeavors by furnishing information from its Unified Information System. This encompasses data on risks, specific risk factors and indicators, as well as details concerning suspicious financial transactions related to contractors engaged in state contracts. This data is indispensable, aiding our inspectors in pinpointing critical areas that merit our focused attention.

Your presentations consistently underscore the imperative of enhancing monitoring and supervisory activities. Could you elaborate on the present state of affairs in this realm?

- The President has charted a course toward a proactive economic policy, necessitating recalibration of the public administration framework. In this

recalibration, monitoring and supervision emerge as pivotal pillars. Their purview spans a broad spectrum of the economy, encompassing sectors ranging from education, healthcare, and food supply to the construction of nuclear icebreakers.

Creating predictable business conditions and fostering a favorable business climate across all regions of Russia profoundly influences the operations of existing businesses and serves to attract new enterprises to the Russian jurisdiction. Given the existing circumstances, effective control mechanisms must be agilely and promptly integrated into the unified framework of national strategic coordinates.

Last December, we conducted an exhaustive analysis of control and supervisory activity¹¹.

This endeavor yielded 13 recommendations that were subsequently presented to the Government with the aim of enhancing these activities. Notably, all of these recommendations have garnered approval from the Government and are currently being executed by the Ministry of Economic Development of the Russian Federation and the pertinent agencies concerned.

I will briefly highlight the key aspects:

First.

Despite the regulatory requirement to assess the costs of entities subject to new mandatory requirements, we observe a predominantly procedural stance among regulators in this regard. Accounting of the costs of the audited body is explained by the need to consider the ratio of business costs and benefits of the state from the introduction of mandatory requirements. This is the principle of data-driven administration.

Second.

The closed regulatory cycle mechanism centers on executing the plans for assessing the enforcement of mandatory requirements in the corresponding year. However, this mechanism has yet to yield tangible outcomes.

¹⁰ Roadmap for enhancing actions to achieve the objective No. 4 of the Development Strategy of the Russian Accounts Chamber in 2018-2024 — Developing Integrity Environment by Improving Anti-Corruption Measures and Legislative and Institutional Framework to Prevent Abuse (approved by the Chairman of the Accounts Chamber on February 21, 2022, No. 01/5/07-01vn).

¹¹ During the expert analysis, certain federal controls and supervision were reviewed. Implementation of regional and municipal control was not covered by the analysis.

Despite the Government's directives, a number of provisions have not been fulfilled by the executors.

To remedy the problem, the Accounts Chamber has proposed¹² to adjust the assessment system by incorporating security instruments that would compel monitoring and supervisory bodies to carry out these assessments.

Third.

While the number of inspections decreased by two and a half times, the problem associated with the prevalence of unscheduled inspections is clearly evident. *(In 2021, their share was 72.3%, in 2022 — 70.6%, by the end of June 2023 — 72%).* We believe that the number of unscheduled inspections can be significantly reduced.

Moreover, the share of unscheduled inspections based on the triggering of risk remains minimal — amounting to just a fraction of a percentage point this year, at 2.3%. This results in a diminishment of the preventative facet of control.

The Government is already working on enhancing the risk indicators part. However, I would like to point out that almost 40% of control bodies lack continuous monitoring of the information employed in risk management, which could signify a rather formal approach to risk governance.

Fourth.

The new concept of government control is based on the principle of integrity. However, the assessment of the supervised entities trustworthiness has thus far been encompassed by only 12% of state controls. A mere 10% of cases offer the option of self-inspection.

Fifth.

We live in a digital world. It becomes imperative to fortify our focus on digitization, particularly with regard to integration into a cohesive landscape of supervision and control activities.

I believe it would be helpful to create digital profiles for mandatory requirements, incorporating comprehensive descriptions of regulated entity expenses. Furthermore, offering the capability to select and peruse the complete roster of obligatory requirements based on the nature of the business would significantly streamline the process of making effective administrative decisions.

Undoubtedly, control and supervision is a cross-border topic. In the context of a multipolar world, cooperation between the EAEU, BRICS, SCO, and APEC countries is expanding. This requires common rules and approaches to the system of control and supervision. Thus, the ultimate objective here is to establish a shared comprehension and assurance that enterprises are subjected to consistent and transparent requisites across all nations. Most importantly, these requirements should remain pragmatic and not unduly burdensome. This is what we need to strive for!

¹² Due by November 1, 2023.

FEDERAL FINANCIAL MONITORING SERVICE'S EFFORTS IN MONITORING STATE DEFENSE ORDER (SDO) FUNDS

Oleg Krylov,

Deputy Director, the Federal Financial Monitoring Service



Oleg Krylov

Over the past eight years, the Federal Financial Monitoring Service has played a direct role in overseeing the financial aspects of state defense order funds. The Federal Financial Monitoring Service undertakes a series of measures to mitigate risks that significantly impact the execution of SDO contracts at every level of collaboration.

Every day, the Federal Financial Monitoring Service's unified information system receives over a thousand

notifications from authorized banks regarding the opening/closing of special accounts for contractors and co-contractors under SDO contracts, as well as over four thousand messages regarding their transactions.

The Service's informational resources automatically create a financial flow from the client to the principal contractors and vendors. Additionally, they help identify SDO contractors and co-contractors who are engaged in or are likely to engage in illegal activity, as well as factors that pose substantial risks to SDO performance.

According to the financial monitoring of military-industrial complex (MIC) and SDO enterprises conducted in the first half of 2023, up to 10 % of contractors and co-contractors are still deemed to be at risk, while a number of contractors have transferred considerable amounts to fictitious companies. Such businesses tend to have overdue receivables, employ fictitious companies and affiliated intermediaries, split contracts, and funnel cash into the shadow economy.

Our materials submitted to law enforcement and supervisory authorities confirm the presence of these risks and issues.

Thus, in 2023 alone, the Federal Financial Monitoring Service created and submitted over 800 financial investigation reports, including 52 records concerning construction firms; 22 records concerning gear and uniform suppliers; and 7 records

concerning weapons, military equipment, and machinery suppliers. This resulted in more than 90 criminal proceedings.

Therefore, the Federal Financial Monitoring Service collaborates with the Prosecutor's Office and law enforcement agencies to counter embezzlement of funds designated for our country's defense and security.

Our organizations routinely exchange information regarding the involvement of entities under SDO contracts in suspicious transactions. As a result, in the first half of 2023, prosecutors issued over 50 warrants to check the legitimacy of SDO contractor transactions totaling over RUB 1 billion and detected around 80 fictitious companies.

The Federal Financial Monitoring Service, the General Prosecutor's Office of the Russian Federation, and Promsvyazbank PJSC, an authorized MIC bank, attend annual meetings dedicated to financial monitoring of SDO contractors with overdue receivables on downpayments made by the Russian Ministry of Finance. Since 2020, this interagency partnership has contributed to a 47 % reduction in overdue receivables.

Continuous efforts to enhance financial monitoring through the implementation of a risk-based strategy and cutting-edge technology open up new opportunities for the MIC supporting bank to work closely with the Federal Financial Monitoring Service and other public authorities. This collaborative

approach aids in preventing, detecting, and disrupting illicit transactions involving SDO contractors and co-contractors.

The joint effort of the Federal Financial Monitoring Service and Promsvyazbank enabled a qualitatively new level of information exchange between stakeholders to counter violations in the MIC and SDO sectors, allowing for the early detection of typical schemes of public money misuse by SDO contractors.

This was further facilitated by the agreement signed between the Federal Financial Monitoring Service and Promsvyazbank in September 2021.

The first half of 2023 witnessed a positive trend in informational interaction with Promsvyazbank's SDO Risk Assessment Center, which aggregates large amounts of data on the bank's customers' financial and economic activities to achieve joint goals and implement preventive measures.

Furthermore, the Federal Financial Monitoring Service concentrates its efforts on identifying new methods for pulling funds from SDO contractors' accounts, including grants provided for retrofitting and increasing the production capacity of defense enterprises.

At the same time, new challenges and threats to national and economic security necessitate further efforts on the part of public authorities, such as the drafting of proposals for enhancing the interagency public spending monitoring and control system.

CONTINUOUS ENHANCEMENT OF STATE FINANCIAL CONTROL: BENEFITING CITIZENS AND THE NATION

Alexey Lavrov,

Deputy Minister of Finance of the Russian Federation



Alexey Lavrov

Financial control is an integral part of public administration. Monitoring the public funding has always been given considerable attention. However, financial control is a flexible mechanism, perpetually evolving to align with the objectives set forth by the nation's leadership.

FROM FRAGMENTATION TO SYSTEMIC APPROACH

The form largely determines its substance and fixes a specific stage of development. The establishment of state financial control unequivocally underscores this assertion. The earliest references to supervisory institutions in Russia trace back to the second half of the 17th century. During that period, a unified

structure was lacking, and the management of state revenues and expenditures was overseen by numerous *Prikazes* (governing bodies).

The first step towards a unified system was made in 1654, when the Accounting Prikaz was founded. Since then, the monitoring and auditing bodies have undergone many transformations, yet the goal has always remained the same, i.e., to establish a system that would maximize the effectiveness of control over state resources. The main achievement of the auditors under the leadership of the modern Ministry of Finance was the establishment and consolidation of an independent area state financial control.

KEY REFORMS OF THE PAST DECADE

Nowadays, state (municipal) financial control is part of the budgetary process. Without it we cannot imagine a full-scale system of public finance management. It is improving and changing along with the budget system, incorporating innovations and meeting emerging requisites. Below are some examples of key changes of the last decade in this field.

In 2013, a pivotal stride towards bolstering budget costs efficiency¹ was undertaken through the drafting and enactment of Federal Law No. 252-FZ². This legislation aimed at the advancement of the state and municipal financial control system, leading to a marked elevation in the caliber of public finance management.

¹ Russian Government Program towards bolstering of budget costs efficiency until 2012, approved by the Instruction of the Russian Federation Government No. 1101-p dated 30/06/2010.

² Federal Law No. 252-FZ On Amendments to the Budget Code of the Russian Federation and Certain Legislative Acts of the Russian Federation dated 23/07/2013.

This law fundamentally changed the financial control system in the Russian Federation, addressing two key problems:

- Duplication of functions of the Accounts Chamber of the Russian Federation and supervisory and accounting bodies, the Federal Service for Fiscal and Budgetary Supervision (later its functions will be assumed by the Federal Treasury³) and monitoring and auditing units, and departmental control bodies;
- Unclear qualification of financial irregularities.

To eliminate functional duplications, the state financial control was divided into external and internal control. The former was entrusted to the Accounts Chamber and the control and accounting bodies, whereas the latter was assumed by the Federal Service for Fiscal and Budgetary Supervision and regional control and auditing bodies. This division is still in place today.

In addition, the concept of state (municipal) financial control was introduced as a supervisory and auditing function aimed at identifying and combating financial violations.

In 2013, the mechanism for the application of budgetary enforcement measures was also introduced. This mechanism, as well as other laws, also required refinement through clarification and identification of deficiencies. The most important results include the possibility to make decisions not only regarding the application of the measure, but also on its modification, revocation, or the choice to refrain from its application. Secondly, the management bodies of public non-budgetary funds, along with financial bodies, were authorized to make decisions on the application of budgetary enforcement measures. To implement this mechanism, the Government of the Russian Federation approved the relevant procedure⁴.

The next major stage in the transformation of the state financial control system unfolded with the enactment of Federal Law No. 199-FZ⁵ in 2019, which expanded the scope of state financial control, allowed to form a federal system of internal

control standards, and improved the procedure for implementing the results.

To address the set objectives, the scope of state financial control was expanded, the list of entities was further detailed in relation to the bodies exercising control functions at the federal, regional, and municipal levels. This allowed controllers to curb violations that adversely affected the budget, yet did not technically qualify as violations of budgetary legislation.

In addition, differentiating the approach based on the principle of following funds up to the point of fulfillment of state and local government obligations to the citizens increased the leverage on municipal-level violators not complying with the goals and conditions of transit subsidies.

In 2020, the internal state financial control seamlessly transitioned to a new model based on federal standards. These standards provide for unified principles, definitions and grounds for control measures, rights and obligations of officials of control bodies and control objects, and other parameters for controllers at all levels.

NEW APPROACH TO STATE FINANCIAL CONTROL

The modern state financial control system is quite effective and yields noticeable results, yet the country's leadership and the Government are now embracing new objectives: to assess the efficiency of budgetary expenditures and their results. This affects the implementation of national projects, programs, and strategic initiatives, and, ultimately, the well-being and comfort of citizens.

The objectives determine the main directions of further development of state financial control. In particular, in shaping the new concept of financial control, the focus is on the development of expert and analytical work and preliminary control, which should result in auditors preventing violations rather than finding them, and helping audited entities avoid them.

³ Decree of the President of the Russian Federation No. 41 on Some Issues of State Control and Financial and Budgetary Supervision dated 02/02/2016.

⁴ Resolution of the Government of the Russian Federation No. 91 on Approval of Rules for Adoption by the Ministry of Finance of the Russian Federation, financial authorities of the constituent entities of the Russian Federation (municipalities), state extra-budgetary funds management authorities of decisions to apply budgetary enforcement measures, decisions to change decisions to apply budgetary enforcement measures, decisions to revoke decisions to apply budgetary enforcement measures, or decisions to refuse to apply budgetary enforcement measures dated 07/02/2019.

⁵ Federal Law No. 199-FZ On Amendments to the Budget Code of the Russian Federation in Terms of Improving State/Municipal Financial Control, Internal Financial Control and Internal Financial Audit dated 26/07/2019.

We can already see the results:

- In 2022 and in the first half of 2023, financial and economic feasibility studies for construction projects were reviewed at the stage of planning expenditures for special infrastructure projects totaling RUB 672 billion.

The experts identified instances of inflated work costs, and the inclusion of unjustified work components in the estimates. The identified violations totaled almost RUB 100 billion. Preliminary analysis allowed to eliminate them before signing the relevant contracts, which saved the treasury 15 % of the declared amount.

Another priority area for development is digitization.

Major introduction of information technology not only affects the business processes of entities, but also opens up new opportunities for the application of supervisory functions. First of all, this involves preliminary control leveraging extensive data from information systems. Moreover, digitization enables the process to be scaled up to cover maximum budget expenditures.

Digitization will allow to:

- Establish a digital dialogue with the supervised entities, including through the transition to digital documents exchange, thereby reducing the administrative burden on the supervised entities.
- Maintain continuous remote monitoring of the supervised environment.
- Increase the efficiency of managerial decision-making based on financial risk analysis.
- Diminish risks associated with inefficient budget fund utilization.
- Forge new partnerships and foster trust between the supervisors and the supervised entities.

The capacity of information systems allows for serious development of preliminary control tools. However, the commencement of their operation necessitates amendments to budgetary legislation.

The Ministry of Finance of the Russian Federation in collaboration with the Federal Treasury, and supervisory and auditing bodies has already developed a draft law, primarily aimed at defining new methods of internal state financial control.

In particular, this encompasses financial and business transaction analysis, as well as individual aspects of the supervised entity's activities, systematization of results and identified weaknesses. Another method, i.e., observation provides for online control and evaluation of transactions in progress. The third is financial and budgetary monitoring. It implies information exchange between the Federal Treasury and the supervised entities to be carried out digitally in a special procedure. This involves fostering trusting relationships between the participants of the process: the supervisor and the supervised, as partners would be in a continuous dialog, working out issues in high-risk domains and transactions.

This conceptual framework rests on the premise of facilitating the formulation of conclusions and recommendations to enhance the public finance management process by heightening both legitimacy and efficacy in resource utilization.

All these methods will be based on the use of data sets stored in information systems, their availability, and systematization. This will allow supervisors to work proactively, whereby classical inspections and audits will be a minimal part of control activities.

New approaches and methods of state financial control are expected to be launched in 2024. I believe that joint efforts of the Ministry of Finance of Russia, the Federal Treasury, and supervisory and auditing bodies will help address the challenges and significantly improve the efficiency of budget utilization and financial compliance.

RUSSIAN TREASURY: THE PRINCIPAL AUTHORITY FOR FINANCIAL AND BUDGETARY OVERSIGHT

Eli Isaev,

Deputy Head of the Federal Treasury, Head of the Financial Control and Treasury Department at the Financial University under the Government of the Russian Federation, Doctor of Economics, Honored Economist of the Russian Federation



Eli Isaev

Over century-long history, control and auditing bodies have withstood the test of time and demonstrated their significance in safeguarding the state's socio-economic interests, accomplishing national goals and objectives, and executing vital national projects. Passed substantial and distinguished way of formation and development, activities of supervisory and audit bodies under the guidance of key financial agencies—whether it be the People's Commissariat for Finance of the USSR, the Ministry of Finance of the USSR, or the Ministry of Finance of the Russian Federation—established an independent direction of financial activity: state financial control.

The history of state financial control extends beyond just a century. Its origins trace back to the State Control and the Department of State Treasury under the Ministry of Finance of the Russian Empire. Nevertheless, the initiation of state control and auditing in Russia can be attributed to the formation of the Financial Control Department within the People's Commissariat for Finance of the USSR on October 23, 1923.

Following several transformations, the Control and Audit Office (CAO) under the People's Commissariat for Finance was established in 1937. According to the CAO's Regulations, it was granted the authority to conduct documentary audits of all commissariats, departments, organizations, institutions, and entities. The CAO was empowered to issue mandatory directives to the heads of audited entities for rectifying identified financial irregularities. The main audit means of that era were examinations of documents, reflecting the financial system status of an entity and the activities of financial officials. At the same time audit reports, bearing the signatures of auditors, heads, and accountants of the audited entities, were introduced.

In 1946, following the establishment of the USSR Council of Ministers and Ministries under the People's Commissariats, the Control and Audit Office under the USSR Ministry of Finance was founded. It diligently carried out its responsibilities and advanced state financial control methodologies until the collapse of the USSR and the emergence of contemporary Russia.

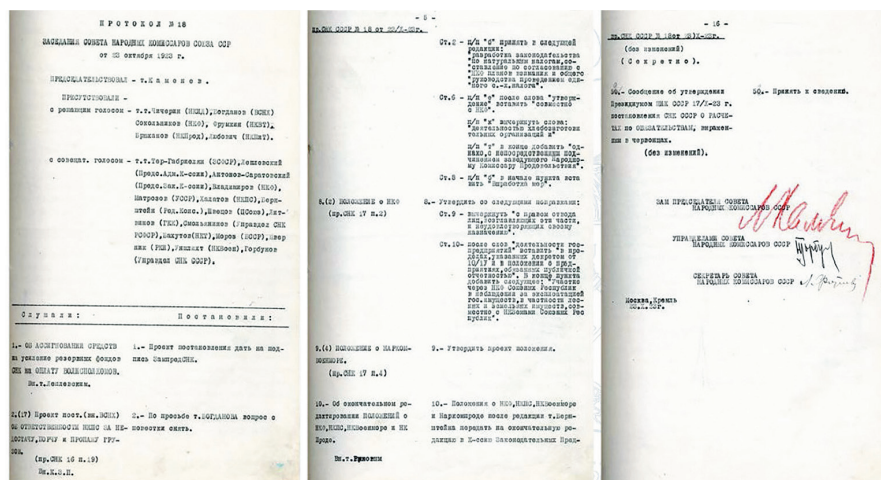
Amid the shaping of the new Russian state, the CAO of the Ministry of Finance stood as unique governmental entity with a wealth of experience in organizing and conducting audits of financial and economic activities of enterprises, institutions and organizations. Furthermore, it had amassed years of practical oversight concerning expenditure legality and preservation of public assets. Establishment of modern Russia's constitutional framework resulted in contemporary state financial control, with its internal and external dimensions. During the post-Soviet era, the scope of state financial control broadened to include money circulation monitoring, credit fund utilization, and the allocation of financial and tax incentives.

The restructuring of the Ministry of Finance of the Russian Federation's control and audit bodies, as part of the 2004 administrative reform, culminated

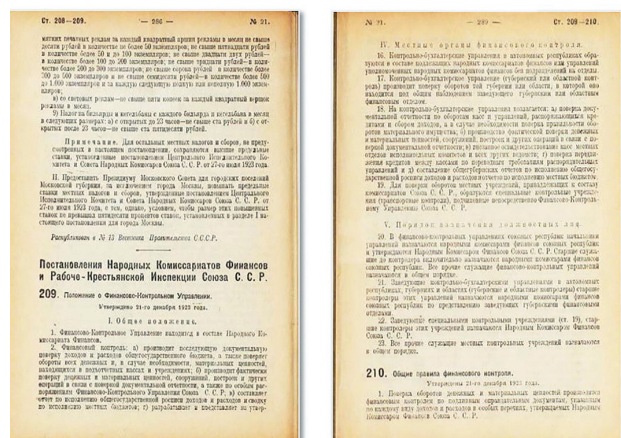
in the establishment of the Federal Financial and Budgetary Supervisory Service. This new entity was formed based on existing control and audit bodies within the Ministry of Finance. In accordance with the Regulations, the Federal Financial and Budgetary Supervisory Service assumed conventional state financial control functions. These included oversight of using federal budget, national extra budget funds, and material assets owned by the federal government, as well as monitoring compliance with budgetary legislation by beneficiaries of financial aid from the federal budget.

Through Presidential Decree No. 41 dated February 2, 2016, which was aimed at enhancing state control and supervision within the financial and budgetary domains while optimizing the structure of federal executive bodies, the Federal Financial and Budgetary Supervisory Service was dissolved. Subsequently, its functions pertaining to financial and budgetary control were entrusted to the Federal Treasury.

The succession of control and audit entities in Russia can be traced from the Financial Control Department of the People's Commissariat for Finance of the USSR to the present-day Russian Treasury. The process of transitioning control authority to the Federal Treasury commenced with the execution of priority directives outlined in Presidential Decree



Minutes of the meeting of the Council of People's Commissars of the USSR of October 23, 1923



"Regulations on Financial Control Department" and "General rules of financial control", approved by the People's Commissariat of Finance of the USSR on December 21, 1923

No. 41:

- Implementing administrative and staff measures to establish specialized subdivisions within the Federal Treasury system to control financial and budget area, and to monitor administrative, financial, material and technical, and other aspects;
- Ensuring the continuity of internal financial and budgetary control;
- Striving to retain the personnel of the dissolved Federal Financial and Budgetary Supervisory Service to the maximum extent, both at the central and regional levels.

However, the evolution of state financial control is not limited solely to structural reforms within state bodies. Since assuming control responsibilities, the Federal Treasury has continually enhanced state financial control, introducing several innovative measures.

The trajectory of improvement commenced with the delegation of financial and budgetary control to the Treasury, changing drastically control digitization approach. Following the Treasury's and Ministry of Finance's direct access to information systems in 2016, the evolution of IT services and state resources has empowered auditors to work with substantial volumes of data concerning operations of potentially monitored entities.

To provide impartial and comprehensive reviews of control outcomes and to facilitate considered decision-making the Control Commission of the Federal Treasury was established in 2016. The Commission adopted an effective practice of inviting representatives from monitored entities, the Ministry of Finance, as well as law enforcement and supervisory agencies to participate in its meetings.

Collaborative efforts with various ministries and entities concerning internal state financial control is an important task for Treasury. In order to enable local internal state financial control bodies to exchange experiences, foster learning, and enhance best practices a discussion platform—the Council for Internal State Financial Control in the Russian Federation Regions was established in 2016.

The next 2017 year was also full of significant transformations. The Federal Treasury, in conjunction with the Russian Ministry of Finance and the Main Control Directorate of Moscow, elaborated a long-term model for state financial control within the Russian Federation. This model was subsequently implemented by 2021. Rooted in a risk-based approach, the state financial control model also reduces control activities, alleviates the burdens on monitored entities, and actively involves these entities in enhancing the efficiency of budget expenditures. The model effectively addresses the issue of disparate functioning among control bodies and underscores the development of preventive tools anchored in risk management. This encompasses the automation of risk management services, the exchange of information on indicators of violations and control outcomes, and feedback from audited entities.

A pivotal milestone in the realm of control was the development and endorsement of the Classifier of Violations (Risks) by the Treasury in December 2017, specifically within the ambit of exercising control in financial and budget domains. This Classifier has been designed to systematically document violations (risks) identified by the Federal Treasury during financial and budgetary control. It facilitates the categorization of violations/risks based on the principal activities of monitored entities. This classification empowers controllers to generate statistical and analytical reports, instrumental, among other things, for risk evaluation in the strategic planning of the Federal Treasury and its regional branches.

In 2017, the challenge of providing specialized expert inspections, studies, and tests during field audits was effectively addressed with the establishment of a dedicated unit under the auspices of the Support Centre of the Russian Treasury. Additionally, the Treasury established a network of branch offices across each federal district.

Throughout its trajectory, the Treasury has successfully fostered productive interagency cooperation with law enforcement and supervisory authorities, having entered into collaboration agreements with the Ministry of Internal Affairs, Federal Security Service, and the General Prosecutor's Office of the Russian Federation.

Especially noteworthy is the collaborative synergy between the supreme bodies of external and internal state financial control. In May 2019, the Accounts Chamber and the Federal Treasury amalgamated within a working group aimed at the effective exchange of information concerning supervised entities and the mitigation of redundant control. At present, state control and supervision have seen major improvement in harmonizing the stance within the financial and budgetary domain. By streamlining the demands placed on beneficiaries of budgetary funds, the state is cultivating impartial perspectives of the financial and budgetary landscape. This, in turn, facilitates informed managerial decisions and the formulation of measures to forestall and avert violations.

The year 2020 stands as a pivotal juncture for the Russian Treasury in terms of methodological underpinning for its control endeavors. Notably, its initiatives pertaining to internal state and municipal

financial control have been systematized and standardized. Legislative adjustments to the Budget Code, in conjunction with seven federal standards developed and sanctioned in 2020, uniformly govern the activities of internal state and municipal financial control bodies. These unambiguous principles and standardized procedures, guiding all financial and budgetary controllers in the process of planning, conducting, and documenting monitoring outcomes, foster prudent resource utilization and enhance budgetary risk management.

All of these elements have delineated a novel trajectory in the evolution of state financial control, with a steadfast commitment to ensuring the financial and economic stability of the state while concurrently bolstering public confidence.

The transformative journey, predicated on substantial control and audit expertise, has paved the way for a gradual shift in the approach to control endeavors—evolving from punitive measures to preventive strategies. This is exemplified by the meticulous monitoring of treasury records pertaining to the operations of supervised entities through diverse state information systems and the application of a risk-based approach.

A fresh chapter in the evolution of state financial control is intertwined with the departmental project of the Russian Ministry of Finance—Electronic SMART-control and Accounting of Public Finances for Management Decisions. The Federal Treasury occupies a central role as a key participant in this project.

The Federal Treasury's control units are tasked with spearheading the transformation and digitization of control methodologies, redirecting the focus from post-event responses to proactive and ongoing oversight. The advancement of pioneering control paradigms is poised to cultivate heightened

engagement among budget beneficiaries, fostering adherence to budgetary prerequisites and avert budgetary transgressions. This endeavor rests upon the bedrock of effective collaboration with supervisory bodies and the synchronized management response to burgeoning risks.

As part of the departmental project, a draft legislation designed to instate preventive measures has been meticulously formulated. This legislation envisages an augmentation of conventional control mechanisms—namely, audits and assessments—with the integration of expert analytical methodologies and novel tools of state financial control: encompassing observation, in-depth analysis, and meticulous financial and budgetary monitoring.

These innovative strategies will facilitate the curtailment of conventional audits, harness the expansive reservoir of digital data to refine oversight, and enhance the efficacy of the entire budgetary framework.

History, alongside contemporary insights, attests to the demanding and pivotal role of the state financial controller. A comprehensive grasp of diverse facets of public finance management, remarkable adaptability to fluid circumstances, and flexible thinking are imperative attributes. Furthermore, it is imperative for controllers to recognize that their determinations bear tangible consequences for individuals, while consequential managerial resolutions pivot on these very determinations.

This year, as the control and audit entities of the Ministry of Finance of the Russian Federation celebrate their centenary, the culmination of accomplishments alongside a gamut of ongoing objectives underscore the pertinence and significance of state financial control in steering the nation's enduring economic prosperity.

RESULTS AND ONGOING ENHANCEMENTS OF BANK OF RUSSIA'S AML/CFT CONTROL AND SUPERVISION

Ilya Yasinsky,

Director of the Financial Monitoring and Currency Control Department,
Bank of Russia



Ilya Yasinsky

This July marked one year since the Bank of Russia launched full-scale functionality of the Know Your Client platform.

Currently, the Know Your Client platform provides risk level information on more than 7 million Russian legal entities and individual entrepreneurs. They are categorized into three risk groups, aligning with

our projections: approximately 96.7 % are low risk, 1.9 % are medium risk (clients conducting both economically justified and suspicious transactions), and 1.4 % are considered high risk.

In terms of practical effect of this tool, the objectives of Know Your Client — to reduce the burden on *bona fide* entrepreneurs, primarily small and micro-businesses, to create a low-risk client environment, and to further increase the transparency of the economy by reducing the flow of money into the shadow sector — are being achieved.

In particular, following the platform's launch, the portion of transactions involving low-risk clients ("green" clients environment) denied by credit organizations decreased by 40 %, while the volume of suspicious cash-out transactions in the first half of 2023 decreased by about 13 % YOY.

Since the system has been in operation, credit organizations have prevented the transfer of more than RUB 60 billion into the shadow sector by rejecting transactions involving high-risk clients.

Currently, the scope of the Know Your Client platform is expanding.

In discussing the results of the Know Your Client platform, the business community represented by the business associations such as "The Foundation

of Russia, “Business Russia”, and the Chamber of Commerce and Industry of the Russian Federation expressed their interest in enabling businesses to independently check the risk level of economic entities via the Know Your Client platform without the need to inquire credit organizations.

In accordance with Article 9.1, Federal Law No. 86-FZ dated July 10, 2002¹, the Bank of Russia is empowered to publish the information on categories of Russian legal entities and individual entrepreneurs according to their risk level on its official website.

The Bank of Russia has developed and prepared for launching a service to check whether the Know Your Client platform contains information on the Russian legal entities and individual entrepreneurs classified by the Bank of Russia as high-risk. The Ministry of Justice of the Russian Federation has endorsed and registered the relevant regulatory act of the Bank of Russia.

We estimate that the launch of the above service will yield the following advantages:

- *bona fide* entrepreneurs will be able to lower their risks when entering into business relations with counterparties — by checking their risk level on the Know Your Client platform. This will facilitate transparency and expedite contract negotiation and business undertakings;
- clients categorized as high-risk, yet not subject to restrictive measures by credit institutions, will be able to critically assess their operations. If they intend to continue operations without engaging in suspicious transactions, they can submit a substantiated appeal through the servicing credit institution to the Bank of Russia, requesting a reevaluation and reduction of their risk level;
- non-credit financial institutions, as the primary actors of the anti-laundering system, will have the capability to assess the risk level of their clients (including potential ones)—legal entities and individual entrepreneurs. This way of obtaining information on client risks is the most preferable option for non-credit financial organizations, as it

does not require integration of their IT systems with the Know Your Client platform and related resource-consuming improvements.

In addition, the Bank of Russia has proposed a mechanism of extra protection for Russian legal entities and individual entrepreneurs categorized as high-risk on the Know Your Client platform. They may request a review by an interagency commission established under the auspices of the Bank of Russia. Currently, legal entities and individual entrepreneurs classified as high-risk both by the credit organizations and on the Know Your Customer Platform are entitled to this right. Amendments to AML/CFT legislation are being formulated by the Bank of Russia to accommodate this service.

The launch of the service is projected to follow the enactment of these amendments.

The crucial role in the Bank of Russia's efforts to improve the national AML/CFT system is still the refinement of the legislative framework.

One of the relevant areas of improvement of anti-money laundering legislation is better identification requirements. Under the current purview of Federal Law No. 115-FZ, personal presence of the client or their representative is mandatory for opening a bank account (or deposit).

Federal Law No. 308-FZ² dated July 21, 2023 drafted with active support of the Bank of Russia empowers credit organizations and a number of non-credit financial organizations³ to instruct, on a contractual basis, foreign financial organizations to carry out identification for anti-money laundering purposes. Furthermore, this law abolishes the prerequisite of personal presence for opening a bank account when a client undergoes identification through this avenue. The enumeration of foreign states whose financial organizations are authorized to conduct identification upon instruction will be coordinated by the Government of the Russian Federation in conjunction with the Federal Financial Monitoring Service, the Federal Security Service of Russia, and the Bank of Russia.

¹ On the Central Bank of the Russian Federation (Bank of Russia).

² Federal Law No. 308-FZ on Amending Articles 6 and 7 of the Federal Law on Combating Money Laundering of Criminal Proceeds and the Financing of Terrorism dated July 10, 2023.

³ Professional securities market players (except for those involved in investment advisory only), investment platform operators, management companies of investment funds, unit investment funds and non-state pension funds, operators of the information system where digital financial assets are issued.

Such mechanism can be implemented only for foreign citizens or foreign legal entities provided that they are serviced by a foreign financial organization at the time of identification.

Federal Law No. 308-FZ addresses the current issues of foreign legal entities and individuals opening bank accounts remotely with Russian credit organizations; in particular. This pertinently pertains to foreign investors and individuals with intentions of traveling to Russia for tourism or medical services.

In addition, the Bank of Russia intends, as part of the experimental regulatory mode, to work on the issue of incorporating the identification of clients via videoconferencing into anti-money laundering standards.

Priority areas of further development of the Bank of Russia's AML/CFT efforts include the development and implementation of anti-money laundering mechanisms in the Digital Ruble Platform operation. This topic will be covered in more detail in future publications.

COMBATING SUSPICIOUS CURRENCY TRANSACTIONS AND IMPLEMENTING SPECIAL ECONOMIC MEASURES IN RESPONSE TO FOREIGN HOSTILE ACTIONS

Sergey Shklyarov,

Head of the Department of Trade Barriers, Currency and Export Control of the Federal Customs Service, General Major of the Customs Service



Sergey Shklyarov

In accordance with the current legislation, in addition to customs control, the customs authorities exercise other types of state supervision, including currency control.

In the context of a tense geopolitical situation customs authorities are strategically reorienting currency control efforts through a risk-centric approach (applying a wide range of criteria that allows to focus only on high-risk entities).

To implement these measures, the Federal Customs Service (FCS) of Russia has developed the relevant legal framework and is working on building an automated system for monitoring and identifying

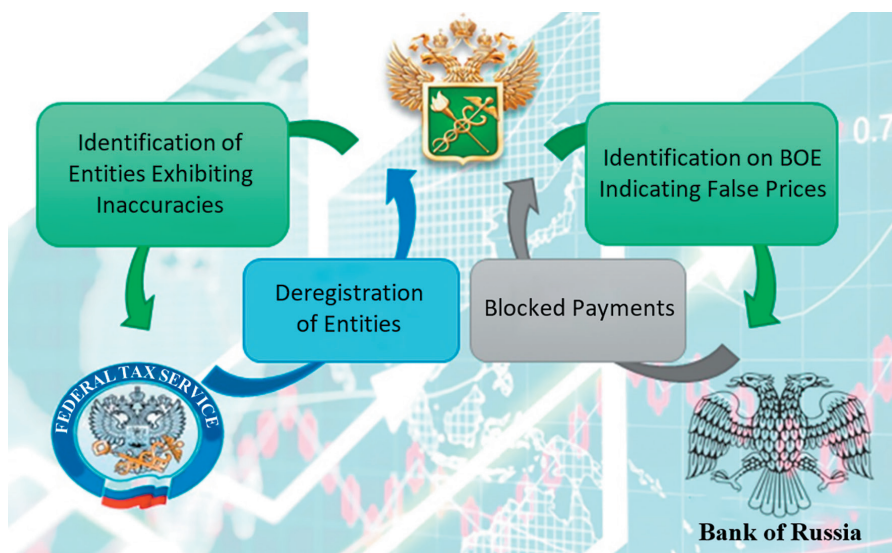
entities to be monitored using information and software tools of customs authorities. This system is based on the automatic classification of foreign economic activity parties according to the level of risk of their violation of currency legislation.

Together with the Bank of Russia, the Federal Tax Service, and the Federal Financial Monitoring Service, the Russian FCS's priority focus in currency control is to counteract suspicious currency transactions intended for the unlawful withdrawal of money from the Russian Federation using false foreign trade transactions, as well as compliance with the requirements and restrictions imposed by special economic measures.

The Federal Customs Service of Russia regularly submits reports to the Bank of Russia concerning bill of entries (BOE) containing potentially dubious pricing for goods, with the objective of instigating the interception of questionable currency transactions. (In 1H 2023, 10 reports were submitted, in 2022 — 9 YOY).

In 1H 2023, the tax authorities were informed about 828 entities with evidence of inaccurate information in the Unified State Register of Legal Entities (USRLE) (848 entities in 2022 YOY). Consequently, 33 entities were expunged from the register during the reporting period, contrasted with 108 in 2022 YOY.

Cooperation with the Federal Tax Service of Russia and the Bank of Russia helped prevent the unlawful transfer of funds from the Russian Federation amounting to about RUB 277.5 million in the first 6 months of 2023.



As part of cooperation, the Federal Financial Monitoring Service provides the FCS of Russia with information regarding foreign economic activity participants in order to assess the risks of violations linked to the possible laundering of criminal proceeds. In turn, the customs authorities request information from FFMS regional branches on financial relations patterns to identify beneficiaries of suspicious transactions and to establish evidence base for revealed offenses and crimes in the currency area.

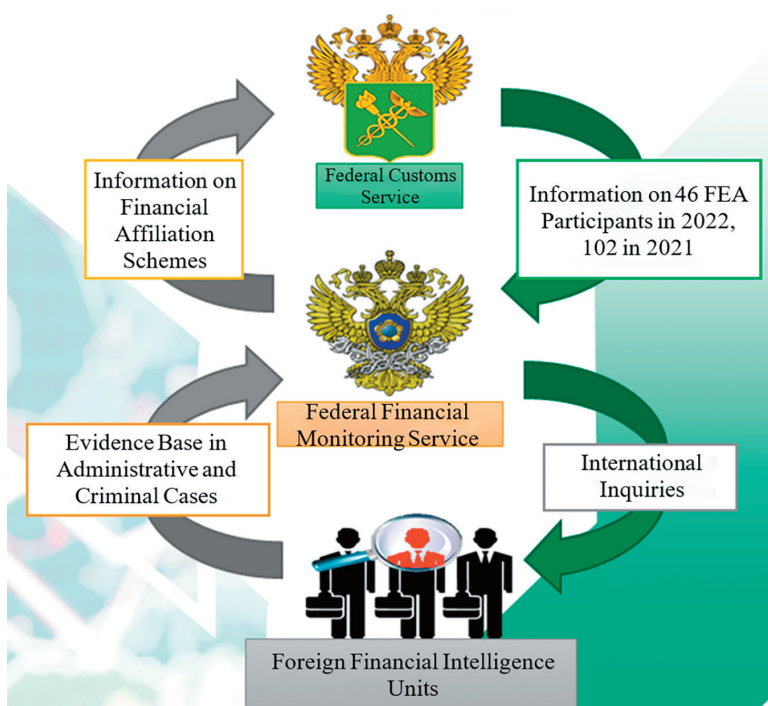
FCS of Russia collaborates with authorized foreign entities to establish special agreements (memoranda) on prevention, identification, and combating of suspicious financial transactions involving participants in foreign economic activities. To date, the Federal Customs Service of Russia has entered into several agreements (memoranda) with the foreign governments/agencies.

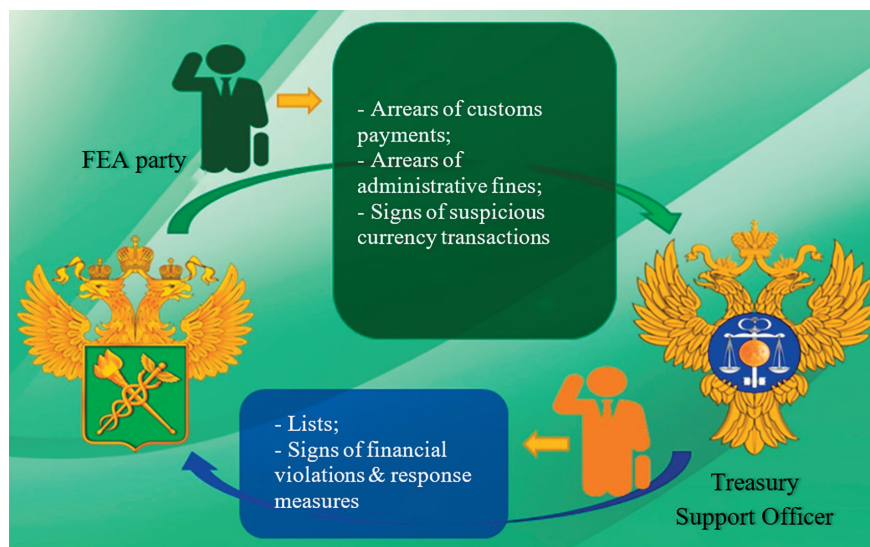
A promising area of work involves facilitating the exchange of information between the Treasury of Russia and the Bank of Russia (including via "Know Your Client" platform).

At present, efforts are underway to finalize an Agreement on Information Exchange between the Federal Treasury and the Federal Customs Service of Russia, specifically concerning the Federal Treasury's execution of its responsibilities as outlined in the Budget Code of the Russian Federation. Moreover, the FCS of Russia is actively

engaged in the revision and update of the classifier that outlines indicators of financial violations by members of treasury support. This revision encompasses the incorporation of new indicators that pertain to suspicious currency transactions conducted by treasury support members and their clients.

On July 1, 2022, the Bank of Russia launched the "Know Your Client" service intended to assess clients of credit institutions for their involvement in suspicious financial transactions, as well as to exchange information with supervisory authorities. This will improve the effectiveness of the national system for anti-money laundering and countering the financing of terrorism.





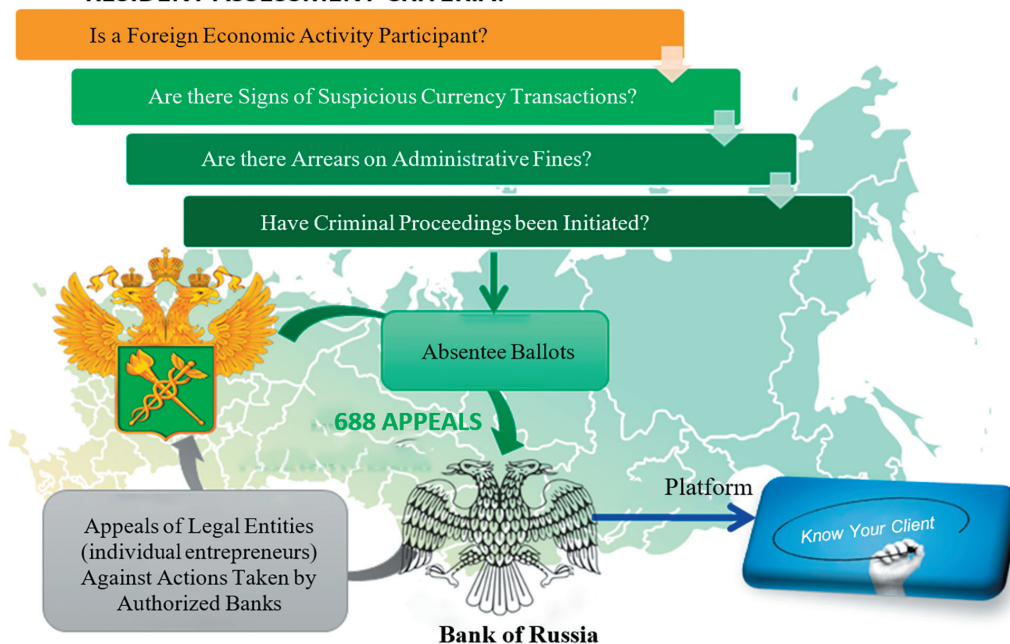
The Federal Customs Service of Russia is actively involved in this initiative through the Multilateral Agreement¹. In 1H 2023, the FCS of Russia reviewed 688 applications of legal entities (individual entrepreneurs), determining that there were no justifiable grounds to impose measures on these entities².

In order to implement this type of control, the Federal Customs Service of Russia has developed regulatory legal acts and organized communication with the Bank of Russia and authorized banks, allowing for compliance with established requirements at the stage of goods declaration.

Another urgent task of the customs authorities involves overseeing compliance with special economic measures affecting the currency transactions carried out by residents engaged in foreign economic activities.

The FCS of Russia remains consistently engaged in analyzing strategies aimed at evading special economic measures, proposing legislative regulations, and refining the tools within the risk management system.

RESIDENT ASSESSMENT CRITERIA:



¹ No. BR-D-12-4/610 on Cooperation between the Central Bank of the Russian Federation, the Federal Financial Monitoring Service, the Federal Customs Service, and the Presidential Commissioner for Entrepreneurs' Rights under the President of the Russian Federation, implemented in accordance with the Federal Law on Combating Money Laundering of Proceeds of Crime and the Financing of Terrorism dated July 29, 2022, as well as pursuant to and Order No. 716 of the Federal Customs Service of the Russian Federation dated September 9, 2022.

² Stipulated by paragraph 5, Article 7.7 of the Federal Law No. 115-FZ on Anti-Money Laundering, Countering the Financing of Terrorism dated August 7, 2001.

SUPERVISING THE LEGALITY OF BUDGET EXPENDITURES IN NATIONAL PROJECT IMPLEMENTATION BY PROSECUTOR'S OFFICE AUTHORITIES

Veronika Chechina,

General Prosecutor's Office, Senior Prosecutor of Supervision Unit for Enforcement of Law in the Financial Market, Supervision Department for Enforcement of Law in Economy, Main Supervision Department for Enforcement of Federal Laws of the General Prosecutor's Office of the Russian Federation, Councillor of Justice



Veronika Chechina

The General Prosecutor's Office of the Russian Federation is constantly monitoring issues related to supervisory support for the national projects.

In order to pursue Russian Federation's development strategic goal prosecutors systematically organize

relevant inspections, given large scale of national projects, their crucial importance and substantial amount of budgetary funding.

The issues concerning legality during national projects implementation were addressed at an extended General Prosecutor's Office of the Russian Federation Board meeting on March 15, 2023. The General Prosecutor reported that measures taken in 2022 as part of national projects supervision contributed to the improvement of budgetary compliance. The latter helps prevent corruption significantly¹.

Activities against law violations have continued this year. In the first half of 2023, prosecutors identified about 52.2 thousand violations, issued 19.2 thousand rectification requests, submitted 7 thousand applications to the courts amounting to about RUB 2 billion, registered 2 thousand objections against contradictory legal acts, brought 2.5 thousand persons to administrative charges, instigated over 500 submissions on criminal prosecution to the preliminary investigation bodies, and initiated more than 400 criminal cases.

¹ Official website of the President of the Russian Federation: <http://www.kremlin.ru/events/president/news/70678>

The General Prosecutor of the Russian Federation directive No. 192 on Prosecutor's Law Supervision of National Projects Implementation dd. 03/14/2019 provides an organizational and methodological basis for prosecutors. Considering both the directive and current laws, the General Prosecutor's Office of the Russian Federation established a working group on national projects, as well as expert subgroups on the most pressing issues. To ensure adequate cooperation between the authorities, regional prosecutors' offices have also created interagency working groups.

Created groups aim to increase supervision and control over spending of budgetary funds and to identify signs of illicit financial transactions that could potentially impede the progress of national projects.

An analysis of prosecutor's oversight over national projects lawful implementation revealed that the most common violations are those of budgetary legislation and procurement regulations.

The prosecutors uncover unlawful work detention, as well as cases where the budget commitments have not been allocated to beneficiaries, or were embezzled and not applied in due time. Executive authorities and their subordinate bodies sometimes fail to timely conduct competitive procedures conclude contracts and develop project documentation. This year, the prosecutor's activities resulted in construction and repair of social facilities completed under the Health Care national project in the Republic of Khakassia and in Lipetsk region.

Thus, the prosecutor of the Volgograd region made contractor, who failed to deliver the renovation work of the Palace of Culture's roof (Culture national project), recover RUB 1.2 million.

Based on the prosecutor's petition, the Arbitration Court of the Tyumen region rendered contract for road signs installation obsolete on March 16, 2023. The reason for that was the contractor's failure to adhere to the stipulated minimum warranty period, as mandated by the contract terms (Safe & Quality Roads national project).

Prosecutors often encounter violations of antimonopoly legislation (anti-competitive practices of customers and procurement parties, cartel agreements during tender proceedings, etc.).

For example, following the inspection of educational institutions in St. Petersburg under the Education national project, the prosecutor uncovered evidence of an agreement to limit competition concluded by participants in the electronic bidding process.

The prosecutor's office initiated administrative cases against the cartel members under Part 2, Article 14.32 (Entering Anti-Competitive Agreements, Actions Limiting Competition, and Coordination of Economic Activities) of the Administrative Offenses Code of the Russian Federation. Following the results of the review, the antimonopoly authority ruled to bring the above entities to administrative liability and imposed fines. In addition, the prosecutor's office issued three recommendations to rectify the infringements, resulting in the successful correction of these issues and the subsequent disciplinary measures against six individuals.

The most frequent violations of a criminal nature uncovered by prosecutors pertains to payments for unfulfilled public contracts, including failure to deliver goods, poor quality or non-delivered works (services), unilateral contract withdrawal, etc.

For example, a criminal case was initiated in the Astrakhan region on March 13, 2023. According to the materials of the prosecutor's office, a contractor's management embezzled the outstanding amount of the advance payment of RUB 38.9 million during the construction of a school (Education national project).

In the Samara region, a criminal case has been brought to court, detailing a scenario where payment was made for services that were never provided for a total of RUB 6 million (Senior Citizens federal project under the Demography national project).

In the Ulyanovsk region, the former first deputy governor of the region was sentenced on April 06, 2023. He was found guilty of committing a crime under Part 6, Article 290 (Major Bribery Offense) of the Criminal Code of the Russian Federation. His misuse of authority involved the engagement of affiliated entrepreneurs in public contract tenders (Housing and Urban Environment national project), who, during the construction in 2019-2022, introduced false information into the design and estimate documentation, increasing the cost of construction materials and works ultimately surpassing RUB 3 million.

Prosecutors strive to ensure adequate cooperation and information exchange with financial control and financial intelligence agencies to curb violations and illicit financial transactions that may dramatically influence national projects implementation.

Aforementioned measures play a pivotal role in the timely recognition of affiliations between officials of public clients and contractors, while also addressing potential conflicts of interest. Particular emphasis is placed on anti-money laundering.

In this context, the prosecutor's offices comprehensively assess preliminary investigation bodies' measures to establish and seize stolen funds and other property, and to compensate damages.

An example of effective cooperation between law enforcement agencies regarding property is the criminal case initiated in the Kaliningrad region — embezzlement of budgetary funds during the implementation of the Safe & Quality Roads national project. As part of the operational support, the authorities established and seized the property of the accused for a total amount exceeding RUB 16 million.

Furthermore, civil claims totaling RUB 1.6 billion have been initiated in criminal cases linked to the implementation of national projects aimed at indemnifying the harm caused by crimes.

For example, the endeavors of the state prosecutor in the Republic of Crimea yielded a conviction of the director general of a company under part 4 of Article 159 (large-scale fraud) of the Criminal Code of the Russian Federation. The case was referred to the inappropriate use of lower-priced equipment and materials when landscaping public garden in Yalta, which do not comply with design specifications. The fraud resulted in the theft of budgetary funds allocated for the project. The Prosecutor's Office filed a claim for RUB 8.8 million to recoup the budgetary damages.

The drive to facilitate successful national project execution remains steadfast and is constantly monitored by the General Prosecutor's Office of the Russian Federation.

REGIONAL BRANCH OF ROSFINMONITORING IN THE CENTRAL FEDERAL DISTRICT: EXPERIENCE OF COUNTERING SDO CORRUPTION

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Stanislav Volkov

Currently, combating corruption in the execution of the State Defense Order (SDO) is becoming increasingly pertinent.

A classic example of corruption crimes in SDO execution involves the embezzlement of public funds by affiliated executors, followed by the withdrawal of funds from legal channels through transit transfers and cashing out. Typically, the cash extracted from legal sources is then transferred to a corrupt official who proceeds to legitimize

it through various means (such as purchasing jewelry, precious metals, immovable and movable property, foreign currency, etc.).

However, embezzlement of public funds and their subsequent legalization are not the sole criminal variations in the sphere of SDO execution. Crimes involving the abuse of official authority are equally significant. In such illicit actions, an official utilizes their powers to the detriment of the rights and legitimate interests of citizens or organizations, or to the detriment of the public interest (i.e., the interest of the state and society) while driven by personal (often selfish) motives rather than official necessity.

In an effort to combat the abuse of official powers within the field of SDO the regional branch of Rosfinmonitoring of the Central Federal District carried out a comprehensive financial investigation. This investigation successfully thwarted a corruption scheme related to the construction of military infrastructure facilities, with the assistance of a law enforcement agency's structural unit.

The financial investigation was initiated in response to a request from a law enforcement authority, which had suspicions concerning an individual identified as N. Specifically, N., holding a position in a construction supervision body, was suspected

of abusing their official powers by unlawfully accepting money and other material benefits from individuals as rewards for issuing conclusions on the compliance of constructed facilities with existing statutory regulations in the construction field. According to law enforcement officers, N. laundered criminal proceeds by acquiring expensive real estate and registering it under the name of his cohabitant, citizen A.

During the preliminary examination, transactions involving A. were uncovered, confirming the hypothesis of the law enforcement agency. In 2018, A. acquired real estate worth over RUB 30 million in the capital area and also entered into an agreement for participation in shared construction amounting to over RUB 7 million. Furthermore, an additional inspection revealed that A. and N. share a common registered address. The information discovered was duly relayed to the appropriate division of the law enforcement agency with a request to provide data regarding the involvement of other organizations in N.'s criminal activities.

In addition to the initial request, the law enforcement agency forwarded information about the possible legalization of income received as a bribe by N. from a commercial organization, which was in collaboration with co-executors of the State Defense Order, to the regional branch of Rosfinmonitoring of the Central Federal District. According to the information provided, the specified commercial organization issued a promissory note to N., which he used to purchase an apartment worth approximately RUB 3 million from a limited partnership.

Upon reviewing the case, the head of the Unit decided to send requests to relevant credit organizations for a comprehensive analysis of the involved individuals' operations. Additionally, requests were sent to the Federal Service for State Registration, Cadastre and Cartography (Rosreestr) and the National Highway Traffic Safety Administration of the Ministry of Internal Affairs of Russia to identify information regarding the movable and immovable property of the defendants.

During the analysis of the received information, it was discovered that citizen A. deposited cash totaling more than RUB 31 million into her bank accounts during different periods. These funds were used to make payments under a contract for

participation in shared construction (approximately RUB 10 million), to pay for the assignment of the right of demand under another shared construction contract (over RUB 7 million), and to purchase parking spaces (around RUB 3 million). Information from Rosreestr revealed that citizen A. owned 10 real estate properties, and data from the National Highway Traffic Safety Administration of the Ministry of Internal Affairs of Russia showed that A. possessed a BMW X6 vehicle.

Furthermore, it was crucial to verify the information provided by the law enforcement agency, which stated that N. received more than RUB 3 million as payment under a transfer and acceptance act on a promissory note from a commercial organization collaborating with co-executors of the State Defense Order.

As a result of the financial investigation, the criminal corruption activities of the involved person were confirmed, along with an attempt to legitimize criminal proceeds through the acquisition of real estate by N.'s cohabitant, affiliated person A.

Based on the information provided to the law enforcement agency, N. was dismissed due to loss of trust, and the military prosecution filed a lawsuit in court to collect unconfirmed property worth over RUB 90 million as state income from N.

Through the joint financial investigation conducted with the law enforcement agency, corrupt activities in the construction of military infrastructure facilities were successfully thwarted. The effective and timely suppression of corruption, particularly related to the abuse of official powers, not only reinforces public confidence in the Russian justice system but also serves as a significant deterrent against corruption, witnessing the futility and ineffectiveness of such crimes dissuades many potential criminals from taking unjustified risks.

TRANSFORMATION OF STATE FINANCIAL CONTROL: PROJECTS AND TENDENCIES

KEY TRENDS IN THE DEVELOPMENT OF PROACTIVE BUDGETING IN THE RUSSIAN FEDERATION

An increasing number of initiative citizens in Russia are expressing a keen desire to engage in their homeland's development and address local issues. Initiative or participatory budgeting has become a useful tool for them, empowering citizens to influence the improvement of their local communities and, at the same time, to be a part of the budgeting process. Sergey Romanov, Director of the Department of Budget Methodology and Public Sector Financial Reporting of the Ministry of Finance of the Russian Federation, spoke to the Financial Security Journal about the key areas of development of participatory budgeting

Sergey Romanov,

Head of the Department of Budget Methodology and Public Sector Financial Reporting
of the Ministry of Finance of the Russian Federation



Sergey Romanov

– Mr. Romanov, participatory budgeting has been in place in Russia for less than 10 years. What results have been achieved? Do many Russians see the efficacy of this instrument first-hand?

– Participatory budgeting* (PB) became a permanent agenda item of the Russian Ministry of Finance more than 9 years ago. The interest in PB only increases annually; more and more citizens propose their ideas and take part in the distribution of local budget to solve urgent problems. Over the past years, about 150 thousand projects worth more than RUB 184 billion have been implemented in 76 Russian regions. More than a third of Russian residents have benefited from their results.

The aforementioned period has witnessed the completion of several milestones. For example, in 2020 the legal framework for the implementation of

* Participatory budgeting is a decision-making process through which citizens deliberate and negotiate over the distribution of public resources.

PB projects at the municipal level was established through amendments to the Budget Code and to the Federal Law on General Principles of Organization of Local Self-Government in the Russian Federation. Throughout these years, we have been working on consolidating disparate regional and municipal practices, annually increasing the performance and expanding the regional coverage.

In 2015, at the beginning of the initiative, only seven regions joined the PB practice, whereas a year later—27 regions, and 57 regions in 2017. The number of implemented projects grew sixfold in the first three years alone, and witnessed an elevenfold expansion over the entire duration of the program.

– Is the process developing evenly throughout the Russian Federation? What specific aspects, if not omnipresent, are at least widely prevalent?

– Of course, each region and municipality contributes to the development of PB, focuses on certain things depending on the citizens' needs, economic and technical capabilities. Nevertheless, we can distinguish a number of universal trends, to a greater or lesser extent shaped across every region of the Russian Federation.

These trends largely determine the further directions of improvement and popularization of this PB program in Russia, while also delineating the primary focal points in refining both methodological and legislative framework.

The first point to note is the gradual change in the financing structure of PB projects, or rather, intensification of its extra-budgetary component. And, in particular, growing share of citizens participating in the process.

In 2022, the total cost of all PB projects implemented in 76 Russian region amounted to RUB 44.46 billion (29,371 projects). This figure marked a notable increase of RUB 5 billion or 13 % compared to the previous year. At that, the main source of financing remains budgets of all levels, which last year accounted for more than 93 % of

the total value of all projects. Of these, almost 54% or RUB 23.9 billion came from regional budgets, over 22 % or RUB 9.96 billion — from the federal budget¹, and almost 17 % or RUB 7.55 billion — from municipal budgets.

The remaining 6.86 % of the projects cost in 2022 accounted for extra-budgetary financing, totaling RUB 3.05 billion. Compared to the previous year, the figure increased by RUB 216 million. Participatory payments are a new form of co-financing PB projects; first implemented in 2021, they are becoming increasingly popular. Such payments are also starting to be used for co-financing projects under the Building a Comfortable Urban Environment federal project and the Integrated Development of Rural Areas state program.

The amount of funds and participatory payments from citizens in 2022 increased and amounted to RUB 2.34 billion or 5.3 % of the total cost of the projects.

However, the augmentation of the extra-budgetary component is not solely attributed to financial involvement from citizens and legal entities. Particularly, the non-financial (labor) contributions made by citizens and businesses, including volunteer work, donation of materials and goods, and expert guidance from citizens, underwent a 45 % increase in financial equivalence in 2022, totaling nearly RUB 600 million.

I would like to note that the labor contribution in financial equivalent was evaluated in 61 Russian regions. In a number of regions—Adygea, Udmurtia Republics, Astrakhan, Kostroma, Novgorod, Saratov, Ulyanovsk regions, Altai Territory, Khanty-Mansi and Yamalo-Nenets Autonomous Districts the financial evaluation of labor contribution is subject to regional regulations—the procedure for granting and distribution of subsidies from the regional budget for the implementation of PB projects, as well as resolutions of the executive authorities. This, of course, is an additional incentive to promote popularization of this type of citizen involvement in PB processes.

¹ As part of the Building Comfortable Urban Environment federal project and the Integrated Development of Rural Areas state program of the Russian Federation.

– Various volunteering movements have been gaining popularity in recent years. Has the increase in volunteer activity affected the PB area?

– Yes, the increasing number of volunteers are supporting PB events.

In 2022, a total of 11,366 people participated in PB practices as volunteers. Vast majority of them took part in regional programs for comfortable urban environment. Notably, the Sverdlovsk region saw nearly 5,000 volunteers actively contributing, while the Vladimir region witnessed the involvement of approximately 800 volunteers. Similarly, the Novgorod region engaged 730 volunteers, the Tyumen region embraced over 350 participants, and the Khanty-Mansi Autonomous District benefited from the dedication of 300 volunteers. Volunteers helped collect votes for landscaping projects, including using their own tablets and smartphones. They also played a vital role in community education and were on duty at information stands located in large shopping centers and public service centers.

– Support of volunteers willing to inform citizens about PB projects and the mechanism itself is a definite positive aspect. However, the coverage remains limited. In addition, volunteers need to be trained. How is this process organized? And are public budgeting topics included in the program of raising financial awareness, which is of great importance today.

– Outreach effort is one of the most crucial one: the need to educate various target PB audiences is relevant at all levels of implementation. In 2022, we held a wide range of awareness raising, outreach, and training events dedicated to different aspects of public budgeting development.

With support from the Ministry of Finance, 15 educational and awareness-raising events were convened, encompassing both remote and in-person formats. Approximately 4,000 people, including regional representatives, experts, and citizens attended the events. Consulting webinars are held four times a year for the staff of regional project centers and authorities. Each of them is attended by at least a thousand people. In addition, there are seminars for media, consultants, and PB activists.

All these efforts are part a practical one of a broader initiative aimed at bolstering the financial awareness of the population. In 2022, the Ministry of Finance of Russia approved the relevant Concept of Raising financial and budget awareness of the population through PB practices. The purpose of this document is to develop activities to improve the financial and budget knowledge of people involved in these practices, to increase PB effectiveness through promoting the competence of participants, and to develop models of financial and budget education when implementing the specified practices.

Implementation of this concept requires regular educational and training activities to promote financial knowledge by executing PB practices in the regions and municipalities.

The question of financial and budget awareness, as promoted in PB education, is also addressed through trainings for different target audiences: schoolchildren, youth, and other PB groups. In addition, annual media project competitions centered around the enhancement of financial, tax, and budgetary proficiency are held.

– In today's landscape, it is impossible to find a sector unaffected by one of the prevailing trends of our era—digitization. Can PB be considered an exception?

– As already stated, PB is a mechanism intended primarily for the people. Therefore, it should respond more quickly to all their needs. Next measures aimed at PB development must comply with human-centric approach, including the use of modern digital technologies.

In 2021, digital solutions for overseeing the process of citizen engagement in budgetary decisions were integrated into 69 out of 406 PB practices; the number surged to 91 out of 439 practices in 2022. Additionally, dedicated PB portals were established to support 21 practices. In other practices, to inform, collect, and select project proposals from citizens, we use dedicated sections on the official websites of government bodies, federal platforms for electronic voting, social networks, and portals devoted to budget transparency.

Undoubtedly, separate web resources are more convenient for users than added sections on existing digital platforms. However, one should remember that each regional and municipal practice facilitator acts to the extent of its material, labor, and technical capacities. I can distinguish the website called “I Count” in Altai Territory and the Open Budget portal in the Ulyanovsk Region. Our task is to support these initiatives, to provide inspiration by highlighting the best projects of the digitization activists in PB, as well as to offer unified technical solutions to all.

Digital technologies will continue to play an important role in the organization of PB processes in the future. The Russian Ministry of Finance has taken a large number of tasks to advance this trend, using all available resources, including the technical capacities of the “МоиФинансы.рф” website

Digitization not only serves as a means to curtail transaction costs, but also presents a great opportunity to establish an effective communication channel between the citizens and the authorities to address key issues geared toward enhancing the comfort of citizens.

FINANCIAL SECURITY ZONE AS TOOL TO SECURE NATIONAL INTERESTS

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Evgeny Shevlyakov

The rapidly evolving landscape within financial and economic realms prompts the state to seek a new level of quality of the entire system of public administration — to dramatically improve the efficiency of decisions applied by the highest state authorities. This is explained by the fact that administrative tasks became characterized by particular complexity, multidimensional nature, branched structure of the entire system of public administration.

The pace of changes in the economy and, in particular, in AML/CFT is so incoherent that strategic planning appears to be the most effective way to predict challenges and opportunities.

The above requires that decision-making support and the necessary methodological, software, and technical tools be developed, as well as better quality of control systems. To achieve these objectives, the state has developed a systematic approach to analyzing large data collected from a vast amount of diverse sources.

The National Financial Security Zone is a system that integrates a range of methodological approaches to systematization and processing of information, data analysis techniques and hardware and software solutions for storage, analysis and visualization of information.

The main objectives of the national Financial Security Zone are to analyze the information of different areas, to search for correlations based on the analysis, and to highlight new knowledge between different areas of monitoring. This will enable to take appropriate preventive, protective, or combating measures in a timely manner. In essence, this is an interdisciplinary assessment (or cross-assessment) of risk occurrences in different areas of monitoring, which helps identify risk concentration points and new risk factors.

Figure 1

ML/TF RISKS IDENTIFIED IN NRA 2018, 2022

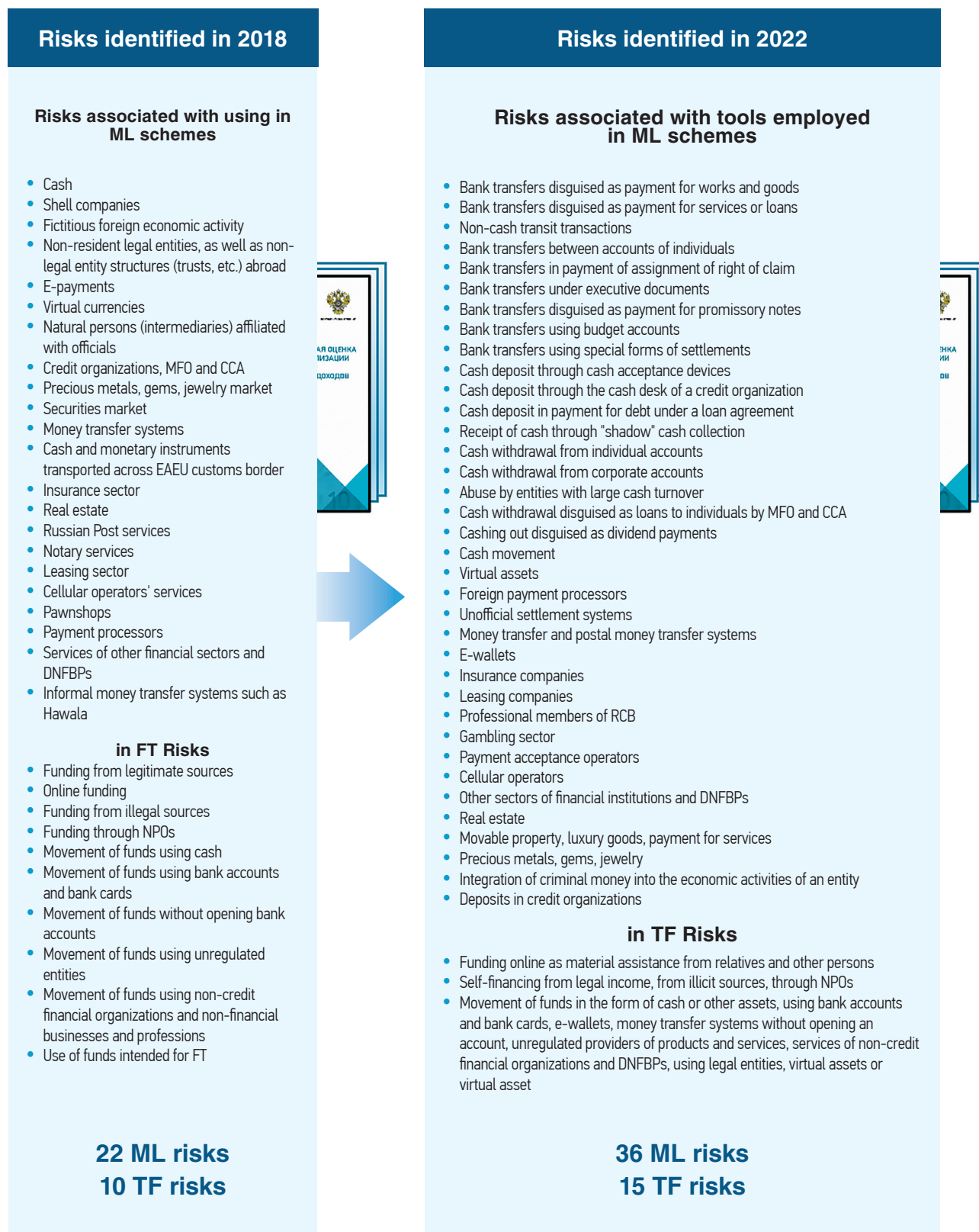


Figure 2



Application of this system in strategic planning provides a structured framework for implementing measures and actions geared towards mitigating risks in the decision-making process.

In the aftermath of the second round of National Risk Assessment (NRA, see Figure 1) in 2022, we have acquired a better understanding of the money laundering methods in the country. Concurrently, the National Financial Security Zone plays a pivotal role in monitoring the occurrence of these risks and formulating risk mitigation actions in the context of an ever-evolving operational environment.

National Financial Security Zone consists of many contexts, with eight primary ones (see Figure 2):

- Credit and financial context;
- Budgetary context;
- Criminal context;
- Terrorist context;
- Extremist context;
- International context;
- Social and economic context;
- Regulatory context.

Each context represents a single monitoring area, with distinctive monitoring subjects, which, in turn, are linked to other entities in other contexts. This cross-analysis allows to see the monitored area and its entities from different angles and to identify implicit links or signs of risks in different areas and sectors.

Specifically, within the budgetary context of the National Financial Security Zone, the focal point of scrutiny is directed at budgetary monetary funds. Within this purview, the principal subjects of monitoring encompass:

- Public contracts;
- State defense contracts;
- Contracts falling under national projects;
- Other contracts;
- Strategic companies and systemic enterprises.

(See Figure 3)

This process grants us immediate access to itemized financial flows related to the budget. Furthermore, it provides a real-time outlook on various dimensions, such as: the quantification of public contracts and their cumulative value, the enumeration of clients and contractors, the identification of those potentially exposed to risks along with the underlying factors, and the evaluation of jeopardized funds within specific contracts.

While comparing with other entities, particularly within the credit and financial sector, where credit organization assume a pivotal role in monitoring and supervision, we see the details of state contracts across banks, i.e. we understand where most of the budget funds are concentrated and under what kind of contracts.

Figure 3

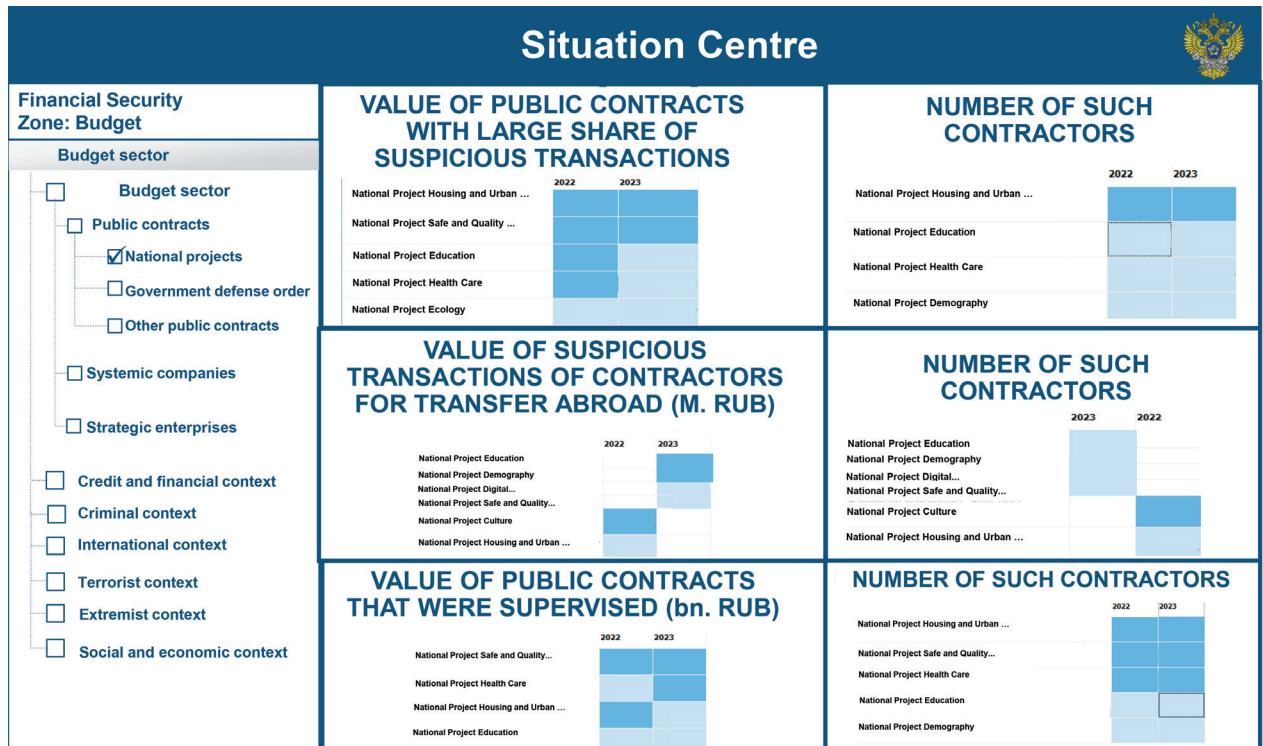
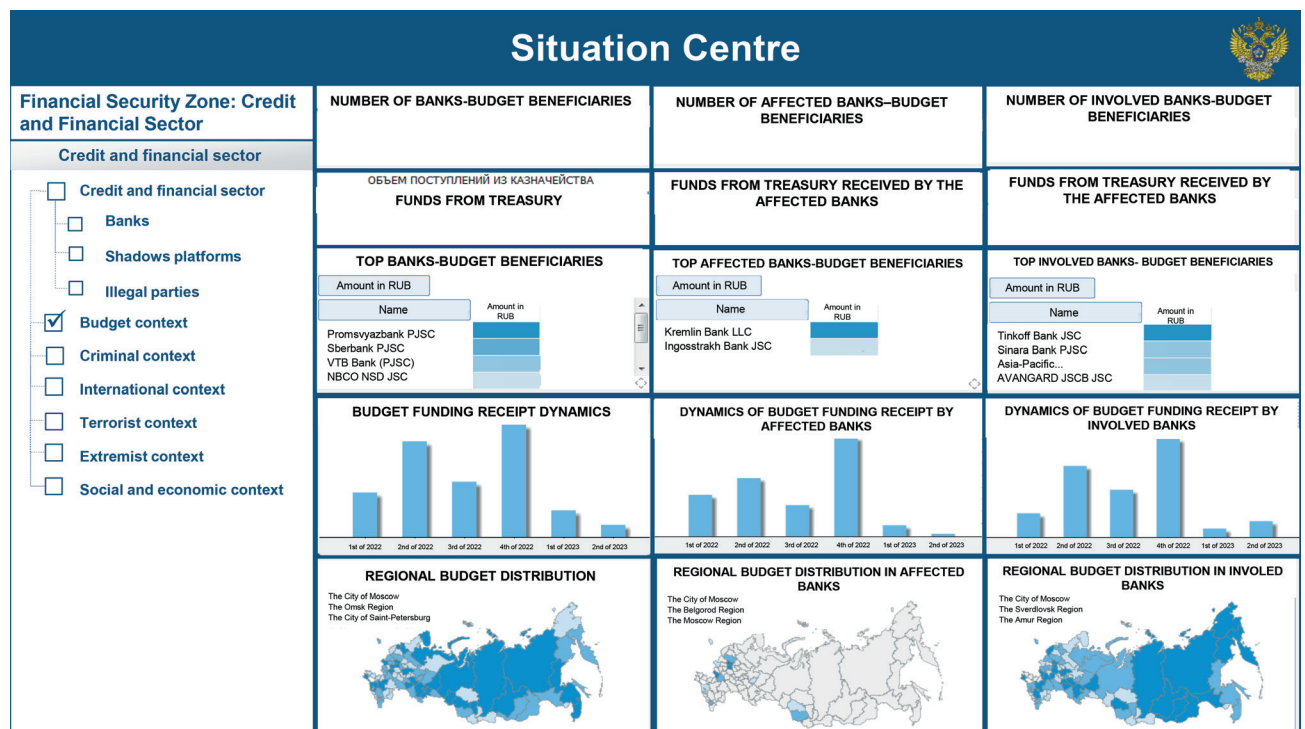


Figure 4



This approach and system of analysis allows to promptly review single entity from different perspectives. In the context of budgetary funds, the cross-analysis serves to identify contracts susceptible to risk, pinpoint regions with a preponderance of

high-risk public contracts, recognize banks with a significant accumulation of precarious contracts, and assess the potential for misuse of budgetary funds to finance extremist or terrorist undertakings, among other insights.

Figure 5



Moreover, when assessing the situation from the budget perspective, the main focus of preventive, protective or combating measures will concern the supervised entities, i.e. contractors or clients in public contracts. Conversely, when appraising the situation through the credit and financial lens, the spectrum of measures pivots towards credit organizations. (See Figure 4)

The endeavors undertaken since early 2022 in the framework of the national Financial Security Zone, specifically in the budgetary context, has already yielded discernible results. Such a multi-dimensional risk assessment allowed for a faster response to risk signs of possible embezzlement of budget, and also enhanced overall monitoring over budget sector. Namely, as of 2022, our collaborative efforts with officials from various agencies, managed to significantly reduce the presence of front firms in government contracts as part of the AML/CFT/CPF system. Moreover, the share of budgetary funds channeled through high-risk banks has been cut three-fold. (See Figure 5)

Therefore, the efforts to build the national Financial Security Zone are aimed at:

- monitoring of supervised entities' status and forecasting the situation based on the analysis of collected information;

- monitoring of the current operational situation and its dynamic variation in relation to past periods, year-over-year (YOY);
- Identifying the source of threats in relation to the country's economic activity, identifying risk concentrations and assessing the risk pool;
- Identifying possible vulnerabilities and promptly prescribing measures to mitigate risks and threats to protect the economy and society from social tensions, and in exceptional cases, developing new, unique response measures;
- Measuring the impact of actions (before and after their implementation) and identifying weaknesses in the AML/CFT/CPF system through this assessment.

The collaborative efforts undertaken at the national level will inevitably contribute to reducing the risks across partner countries in the Eurasian region. Our financial systems have always been interconnected, and the current situation further strengthens this connection. By synergizing risk management strategies on a national scale with the analogous approaches embraced by other countries, which implement the same approaches as part of the supranational Financial Security Zone, enables us to develop and enhance the AML/CFT/CPF system and prevent the criminal occurrences.

NON-FINANCIAL PROFESSIONS AS COMPONENT OF FINANCIAL SECURITY ZONE

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The National Security Strategy of the Russian Federation, approved by Decree of the President of the Russian Federation No. 400 dated 07/02/2021, envisages a direction to strengthen defense capacity, domestic unity, political stability, to upgrade the economy, and develop industrial potential. This will contribute to enhancing Russia's sovereignty as a country pursuing an independent foreign and domestic policy and effectively withstanding attempts of external pressure.

The strategy includes objectives of strengthening Russia's financial system and the country's sovereignty, reducing the shadow and criminal sectors of the economy and decreasing the level of corruption in the business environment, as well as improving the system of state economic control (supervision). The project implemented by the Federal Financial Monitoring Service together with the interested authorities and representatives of the private sector to form the Financial Security Zone is aimed at achieving these objectives.

Among the primary focal points of the project is to develop mechanisms to control budget expenditures. The substantial state funding allocated to support citizens and businesses, as well as to facilitate priority infrastructure and social projects, necessitated adjustments to the internal control systems of primary financial monitoring entities to effectively manage risks.

The comprehensive nature of the financial security zone concept implies engaging not only financial service providers, but also Designated Non-Financial Businesses and Professions (DNFBPs), which have important and unique roles in the anti-money laundering framework. This is

because DNFBPs are highly competent in their field of work (for example, real estate agents are traditionally the best experts in the real estate market), and therefore are better able to recognize unusual transactions and settlements, facts of manipulation of the asset price, etc. Also, owing to closer communication with the clients, they are able to notice irregularities in their behavior (such as heightened concerns about client due diligence measures, hurried transaction execution, disparities between client social status and acquired asset value, etc.). This helps identify suspicious transactions based on specific criteria that are often beyond the grasp of even the principal providers of financial services, i.e. banks.

Auditing, as one of the DNFBP sectors, stands out for its experts' proficiency in analyzing financial and economic activities and their familiarity with the intricacies of various industries.

As of early 2023, there were slightly over 2.7 thousand audit companies and individual auditors in the Russian Federation¹. The sector is characterized by a high level of concentration. Market consolidation started in 2017, when the industry reform was adopted. The number of large audit companies with more than 50 employees accounts for about 2 % of the sector, with their share in the total services provided exceeding 70 %. More than 90 % of audit companies on the market are classified as small (under 15 employees), while their share in the aggregate volume of services provided being only 20 %. Aggregate revenue of Russia's largest audit companies at the end of 2022 was around RUB 58 billion². Audit in general (mandatory audit, proactive audit) accounted for more than 50 % of revenues in 2022, while revenues from audit-related services in 2022 stood at about 5 %. The share of revenues from other services totaled 40 % in 2022.

Individual auditors and audit companies demonstrate a commendable compliance with AML/CFT regulations. Practically all entities in the sector have registered their Personal Account on FFMS website and exercise internal control. There is a positive trend in the number of suspicious transaction reports submitted by auditors.

This achievement is largely attributed to the collaborative efforts of the Federal Treasury, the "Sodruzhestvo Association" self-regulated organization of auditors, the Ministry of Finance of the Russian Federation, and the Federal Financial Monitoring Service. For example, a joint notification of the Ministry of Finance of Russia and the Federal Financial Monitoring Service urges industry representatives to comply with mandatory requirements to report suspicious transactions discovered in the course of audit services provision to relevant authorities.

It is noteworthy, amid a general decline in audit companies' revenues in 2022, the volume of audit revenues remained at the level of 2021. This revenue stability can be primarily attributed to the stipulations of mandatory auditing of accounting (financial) statements as outlined in the Federal Law No. 307-FZ on Auditing Activities dated December 30, 2008.

The compulsory annual audit encompasses a broad spectrum of business entities, including major companies (revenues exceeding RUB 800 million or assets exceeding RUB 400 million), public sector entities, companies with securities admitted to organized trading, as well as issuers of securities obliged to disclose information under the Federal Law on Securities Market, and others.

One can confidently say that budgetary funds related to the implementation of the state defense order, national projects, etc. mainly flow through the entities subject to mandatory audit.

Therefore, it seems reasonable that the legislator's notion of the business entities subject to compulsory audit should be aligned with the auditor's notion of priority areas of audit, as well as with the range of issues that require closer review and analysis in the course of the audit. An example of such an approach is the Standard Terms of Reference for mandatory audit of entities whose authorized (share) capital consists of at least 25 % of public property, and federal state unitary enterprises³, as approved by the Ministry of Property Relations in 2002.

Should auditors pinpoint budgetary expenditures (procurement) as a priority domain, this could

¹ <https://www.kommersant.ru/doc/5459116>.

² <https://minfin.gov.ru/ru/performance/audit>.

³ Instruction No. 4521-r dated 12/30/2002.

effectively institute an additional control mechanism, create an expansive information repository for identifying suspicious transactions within audited entities, and facilitate timely notification to FFMS.

Raising the auditors' awareness of risks is promoted by informing them of types and signs of suspicious transactions via their Personal Accounts on the FFMS website, as well as through regular preventative (explanatory) events supported by the International Training and Methodology Centre for Financial Monitoring. Since last year, the Federal Treasury and the "Sodruzhestvo Association" self-regulated organization of auditors have been jointly conducting videoconference events attended by professors of the International Network AML/CFT Institute member universities. Adhering to the client-centered principle, attendees are invited to take a survey on their personal profile — to assess the relevance of the matters discussed and the quality of presentation materials, to explain the issues covered, and to gather suggestions for future actions.

FFMS regional branches continuously work to engage the audit community in the AML/CFT system and to raise the auditors' awareness of the risks and legal requirements in the area.

For instance, the regional branch of the Federal Financial Monitoring Service in the Southern Federal District held a series of meetings (regional compliance council) with representatives of the major audit companies of the Southern Federal District in 2022–2023. The key topics of discussion were the risks in budget sector, relevant methods, and techniques of money laundering.

The Federal Financial Monitoring Service, following its meetings with the auditors, has compiled an information letter approved by the Federal Treasury and the auditors' self-regulated organization dated March 31, 2023. This letter encompasses an inventory of indicators for auditors to heed when scrutinizing transactions involving budgetary funds (including those with public contractors and subsidy beneficiaries). Specifically, these indicators are as follows:

- cashing out (including signs of transit transactions aimed at cashing out);

- splitting public contracts, in particular, transfer of money under multiple contracts having similar procurement items and concluded within a short period of time with the same contractor;

In addition, the following situations may require informing the Federal Financial Monitoring Service:

- payment for goods and services showing signs of inflated valuation;
- granting large loans, including to affiliates, without due economic justification;
- withdrawal of funds abroad on suspicious grounds;
- repayment of debts, including under enforcement documents that show signs of unjustified withdrawal of funds in favor of other persons, including affiliates.

Currently, the FFMS regional branch, in conjunction with industry representatives, is actively addressing issues pertaining to the evaluation of financial viability among systemic entities. Furthermore, collaborative efforts are underway to report to the FFMS concerning discerned signs of asset withdrawal within entities, inclusive of public ones, and indications of deliberate insolvency.

Another sector of particular importance in the context of the financial security zone is the sector of intermediaries in the real estate market — one of the largest in the anti-money laundering framework.

FFMS's assessment of the risks of using real estate for ML/TF purposes showed that the main vulnerability lies in the high liquidity of real estate assets and their comparatively modest transaction costs, rendering them susceptible to exploitation as investments. Moreover, another risk-contributing factor is cash transactions for real estate property with individual persons (mostly in resale). Increased mortgage lending is helping reduce the volume of cash transactions in real estate industry⁴, and so does the development of non-cash settlements (e.g., bank letter of credit).

In recent years, real estate market has experienced heightened consolidation, with small-scale real estate agencies (comprising fewer than 15 employees) focused on regional markets witnessing a decline

⁴ When providing these products to customers, banks implement not only standard customer due diligence procedures, but also conduct a detailed analysis of creditworthiness using various rating systems. Credit institutions thoroughly assess real estate transactions for signs of ML and, if identified, report to the FFMS or/and block the transactions.

in their competitive stance. This phenomenon can be attributed, among other facets, to digitization—a pivotal trend that swept through the industry several years back. The development of real estate aggregator platforms (Dom Click, MirKvartir, Cian, etc.), various online services, including virtual property tours, the use of AI for automated real estate valuation, and the embrace of new business models such as iBuying, are profoundly reshaping the landscape of the realtor profession.

iBuying (instant buying) represents a business strategy in which a company acquires real estate directly from private sellers with the intention of later reselling the properties. This approach enables sellers to promptly receive cash for their sold properties. The company's website or application permits prospective home buyers to peruse available properties, arrange property tours, and solicit information. Concluding a transaction with an iBuyer is expedited, partly due to the elimination of the necessity for clients to synchronize with the timetable of a conventional seller.

The FFMS regional branch has consistently organized preventive measures for realtors in recent years, leading to an improved quality of AML/CFT efforts within the sector. Notably, the rising count of intermediaries within the real estate market has led to increased reporting of suspicious transactions and associated risks, such as corruption offenses and misuse of budget funds, to the FFMS. These reports are utilized effectively in the analysis process. Also, the market representatives are increasingly more cooperative with FFMS (through Compliance Council).

Educational videos for entities subject to anti-money laundering legislation on various issues of law enforcement practice are also highly popular.

For instance, a video produced jointly with the ITMCFM on realtors' compliance with AML/CFT regulations was posted on professional associations' websites and real estate information and analytical agencies (RBC Real Estate, etc.).

Furthermore, members of the professional community actively contribute to enhancing realtors' understanding of obligatory legal obligations and associated risks. In 2022, FFMS regional branches established cooperative agreements with over 30 realtor guilds and associations.

The Personal Account for professionals is currently operational. It enables prompt notifications to the community about sector-related risks, sharing materials concerning business entities' compliance with AML/CFT legislation requirements, announcing events, and inviting members of relevant professional communities, among other functions.

Pursuant to the amendments introduced in Federal Law No. 115-FZ in June 2021, the Sectoral Risk Assessment (SRA) implemented by supervisory authorities is now a mandatory component of the risk-based approach. SRA is intended to elaborate the results of the National Risk Assessment and to identify areas (activities) in the sector most exposed to ML/TF risks. The SRA results are used in risk assessment models applied by supervisory authorities.

In collaboration with the professional community, a risk assessment of the real estate sector was conducted in 2022–2023.

To achieve SRA goals, a survey was conducted among intermediaries in the sector through their Personal Accounts. The survey is intended not only to obtain information from respondents about risks, trends in their sectors, and the challenges they face in complying with AML/CFT legislation, but also to provide them with guidance on best practices within the anti-money laundering framework. This approach allowed to cover a rather wide audience (more than 2 thousand people) and facilitated the automated summarization of collected data, which can later be applied in ML/TF SRA processes and in the formulation of recommendations for intricate issues in law enforcement practice.

Main aspects of real estate agents' compliance with AML/CFT legislation requirements



Signs of possible use of real estate property for unlawful purposes

Notification of the Federal Financial Monitoring Service and the Federal Chamber of Notaries No. 2192/01-01-40/4546 on Signs of Possible Use of Real Estate in Money Laundering Schemes dated 03/04/2019.

Letter of the Federal Financial Monitoring Service on Increasing Awareness of Individual Entrepreneurs and Intermediary Service Providers in Real Estate Sale and Purchase Transactions to Identify High-Risk Transactions dated 04/26/2021

Currently, SRA results are used in the Risk Assessment Model approved by the Federal Financial Monitoring Service as of April 2023.

According to information received from real estate agents, supervisory authorities have identified risks of abuse of budget financing in public programs aimed at providing/improving housing for citizens in need. In March 2023, the Federal Financial Monitoring Service, together with the sector representatives, drafted an information letter⁵ listing the signs of clients' suspicious activities, focusing on examples of abuse of public housing certificates.

Risk assessment model is a range of parameters that includes, in particular, a risk indicator, NRA and SRA results, an algorithm of their application in assessing the non-compliance risks, and the frequency of such assessment. The risk assessment model is approved by the supervisory body in coordination with the Federal Financial Monitoring Service, and the auditors' self-regulatory organization (in terms of risk assessment of audit organizations other than those providing audit services to publicly interest entities) — with the Federal Treasury.



Presentation of the Financial Security Zone concept at the National Conference of the Russian Guild of Realtors

⁵ <https://www.fedsfm.ru/news/6431>.

In June 2023, the Federal Financial Monitoring Service, utilizing aggregated data on reported suspicious transactions from realtors, crafted and distributed an information letter containing indicators of corruption-related risks. Mitigating the risks associated with catering to public officials and individuals holding managerial and administrative roles within the public sector stands as another pivotal component of the Financial Security Zone. This is implemented through an exhaustive evaluation of client-associated risks, the identification of suspicious transactions involving the client, and the subsequent communication of such instances to the competent authorities.

One should note that the number of realtors' reports on suspicious transactions has more than doubled since the launch of the above project. This is indeed a solid indicator of the effectiveness of the supervisory body's cooperation with the sector.

In general, efforts to build the financial security zone allowed to implement new and rather effective practices of communication and providing feedback to DNFBPs, and to develop additional mechanisms of budgetary expenditures supervision at the level of primary financial monitoring entities.

EMBEZZLEMENT OF BUDGET FUNDS WITHIN THE FRAMEWORK OF NATIONAL FINANCIAL SECURITY RISKS AND THREATS

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Deputy Head of the Risk Assessment Department of the Federal Financial Monitoring Service



Evgeny Semenov

Any country is facing the basic objectives – safeguarding the state budget, protecting it from the criminal influence, and ensuring that allocated funds are used for their designated purpose.

Budget violations cause negative social consequences potentially depriving vulnerable social segments of essential funding, lead to absence of necessary public infrastructure, worsen quality of life and the

general welfare level, and result in the consequent growth of social tensions.

However, regardless of the source of criminal proceeds, whether stolen from the budget, deposits fraud, or drug proceeds, criminals exploit various vulnerabilities of the national anti-money laundering system in their laundering schemes, making it possible to disguise suspicious transactions with criminal proceeds as legitimate financial and economic activities, and to conceal the criminal origin of the funds. The structure and nature of the methods used by the criminals may vary dynamically depending on the evolving economic situation at the national and international levels, and the measures enacted by the state to counteract adverse trends in specific sectors.

Therefore, the key to building an effective national anti-money laundering system (including proceeds of crime related to budget embezzlement) is to ensure that all ministries, agencies and institutions, as well as entities and persons involved in transactions with money or other property (in private sector) fully understand the risks specific to the country. These risks comprise potential instances of laundering criminal proceeds from specific threatening activities arising from weakness of financial and other areas and causing overall adverse impact.

The most effective AML/CFT/CPF mitigation measures are identified, prioritized, and assigned

based on a clear understanding of the actual risks. This creates the foundation for the implementation of a risk-based approach in the operations of both public and private sector.

The Russian Federation maintains a comprehensive system of risk identification, analysis, and awareness through efficient interagency and private sector cooperation, as well as the consistent work of the National Security Threat Assessment Center (for transaction with money and other assets)¹, which together with the competent authorities and organizations assesses the ML/TF environment. A wide range of response measures are implemented to the identified adverse trends from outreach to accountable entities to refining the existing legislative framework.

Beyond situational risk assessments, the state undertakes periodic strategic analyses. The outcomes of these assessments are integrated into documents outlining the current state of affairs and anticipated shifts. Notable examples include annual analytical reports on national security threat evaluations and comprehensive reports detailing the national risk assessment, which undergo periodic updates.

The national risk assessment is based on specially developed and interagency-approved methods that incorporate international standards in the area of national risk assessment², best practices of other countries, and recommended measures following the mutual evaluation³ of the Russian Federation by the Financial Action Task Force (FATF) completed in 2019.

All affected ministries, agencies, and institutions were involved in the national risk assessment process: law enforcement (Federal Security Service, Ministry of Internal Affairs, Federal Customs Service, General Prosecutor's Office, Investigative Committee), supervisory (Bank of Russia, Federal Tax Service, Federal Assay Chamber, Roskomnadzor, Ministry of Finance, Ministry of Justice, self-regulating organizations of auditors, Federal Chamber of Notaries, Federal Chamber of Advocates), other

(Ministry of Foreign Affairs), and private sector. In the pursuit of enhancing data collection efficiency, refining the review of draft reports, public sector officials collaborated through a temporary working group on the platform under the auspices of the specialized AML/CFT/CPF Interagency Commission.

In accordance with the methodology, the national risk assessment unfolds in three stages: identification, analysis, and assessment.

The identification stage includes collection and analysis of information from various sources, including: documents of strategic nature, materials of interagency and international cooperation, provisions of current legislation, results of AML/CFT/CPF supervision/monitoring, findings of financial investigations of the Federal Financial Monitoring Service, criminal cases and court sentences, classification and attributes of suspicious transactions, information on financial transactions (collected by FFMS from the private sector), and numerous others.

At the analysis stage, the temporary working group systematized and classified money laundering methods and then developed a toolkit to uniformly describe specific forms of money laundering as a set of parameters (i.e. risk factors), as well as prepared glossary classifiers for these risk factors. With this toolkit, agencies, officers of financial institutions, and DNFBPs were surveyed to assess the likelihood of ML risk occurrence under specific combination of inherent factors (threats, vulnerabilities, consequences, etc.), as to report other information on known laundering methods and other relevant factors. The resulting expert assessments combined with previously collected data were used as the basis in calculating ML risk level. Statistical data, actions taken and their risk mitigation impact (so-called residual risks), and other sources of information were also analyzed.

At the assessment stage, the working group determined the ML risk level followed by the development of risk minimization measures and their prioritization depending on the combination of the above factors.

¹ In accordance with clause 1 of the Regulations on the Federal Financial Monitoring Service (approved by Decree of the President of the Russian Federation No. 808 dd. 06/13/2012)

² Including the FATF Guidance on national ML/TF risk assessments (2013), available in Russian on the official ITMCFM website: <https://numcfm.ru/d/7plyOuZJNRcii6k4GiPZUtlgD0ALwzTqhlujnp0Q>

³ The 2019 Mutual Evaluation Report in Russian is available on the official EAG website: https://eurasiangroup.org/files/uploads/files/OVO_RF_final_.pdf

To date, the Russian Federation has conducted two full-scale ML/TF risk assessments, in 2018 and 2022⁴.

Following the National Risk Assessment 2022, the state has identified the main money laundering threats, i.e. crimes that generate illicit proceeds that require laundering.

First of all, these are various forms of fraud: namely, credit fraud, contractual non-compliance, Internet fraud, operations orchestrated by fraudulent brokers, forex dealers, and leaders of financial pyramids. Furthermore, a considerable portion of fraudulent crimes is related to embezzlement of budget in the course of execution of government contracts, receiving of illegitimate grants, and VAT refunds. For instance, in addition to the schemes earlier discovered by the Federal Financial Monitoring Service associated with the cashing out maternity capital and travel cashback, this year, schemes involving cashing out and embezzlement of funds from Pushkin Cards* emerged.

There's a significant amount of drug trafficking, including transnational. In particular, this encompasses large-scale production of opiates in other countries and their subsequent smuggling via existing trafficking routes (which, according to some estimates, may increase even more in the future), as well as underground production of synthetic drugs in Russia.

Corruption-related offenses traditionally pose substantial peril, encapsulating bribery, intermediation in bribery, commercial graft, abuse of authority, among others. A large part of these crimes is committed when spending budgetary funds.

Illicit banking activities are also a topical threat: within the framework of informal payment platforms, provision of illicit lending services to the population, as well as arrangement of "shadow platforms" designed to transfer funds abroad and their cashing out.

Large amount of criminal proceeds laundering is intertwined with embezzlement or misappropriation of the budget, namely, the theft of funds and assets owned by commercial companies, citizens, and state, committed by persons in their official position (officers, cashiers, accountants, bank managers, etc.).

Of particular importance are crimes linked to fiscal settlements: tax offenses (in particular, associated with tax evasion by legal entities), evasion of customs payments (for example, through speculation of the transported goods value).

The main threats include information and communication technology crimes in the context of all high-level threats, gaining unauthorized access to restricted information, and soliciting funds using malware.

Special emphasis was placed on the significance of threats linked to the organized criminal groups and communities that engage, inter alia, in the above criminal activities, usually resulting in large criminal proceeds, which later require laundering.

The national risk assessment report outlines risks, detailing laundering methods or their groupings, classified according to the products and instruments integral to illicit financial transactions.

Non-cash transfer methods designed to bypass preventive measures include transfers disguised as payment for goods and works, intangible services or loans, "transit" transactions, suspicious transfers routed through individual accounts and executed via executive documents, letter of credit or notary deposits, as well as transfers disguised as payments for promissory notes using budgetary accounts and assignment of claims.

The risks of cash criminal proceeds entering the financial system include depositing funds into bank accounts via cash acceptance machines as well as utilizing the bank's physical cash counter. Additionally, clearing outstanding debts via cash payments forms part of this activity.

⁴ Reports on the national risk assessment are available on the official website of the Federal Financial Monitoring Service: <https://www.fedsfm.ru/fm/nor>

* The Pushkin Card is a virtual bank card, which can be connected to a smartphone. The card is issued in a virtual format, but if necessary, a uniquely designed plastic card can be ordered at an office of Post Bank. The money credited to the card may be spent by a young person only at cultural institutions, such as museums, theatres, concert halls, philharmonic halls, libraries.

Besides that, the reports list a wide range of cash withdrawal methods. From the traditional use of individual and corporate accounts to the increasingly popular “shadow cash collection” mechanisms. Furthermore, these schemes involve the participation of entities endowed with substantial cash turnovers, or alternatively, entities from the microfinance sector.

The cross-border movement of cash has also been subjected to assessment.

In addition to bank transfers, the reports note the risks of using products and services of financial institutions and DNFBPs in laundering schemes, e.g. money transfer systems, electronic wallets, securities market, insurance, leasing, gambling, and other sectors.

Additionally, the reports encompass risks associated with the utilization under-regulated settlement systems for money laundering, e.g., virtual assets, foreign payment services, and informal systems (such as Hawala).

Finally, the laundering of criminal proceeds involves transactions with real estate, luxury goods, vehicles, precious metals and gems, as well as investing illicit capital in the economic activities of legal entities.

Despite the wide range of measures, shell companies are still widely used in unlawful schemes, mostly lacking the traditional suspicious characteristics. Consequently, the reports emphasize the involvement of legal entities in money laundering as a dedicated section. The most vulnerable, both in theory and in practice, are LLCs. Non-public joint stock companies, consumer cooperatives, and non-legal entities are of medium vulnerability. All other categories of legal entities represent a low degree of vulnerability.

Moreover, in the laundering schemes of proceeds of crime in the budgetary sector, the most commonly used fictitious grounds for the transfer of funds between affiliated legal entities are those disguised as payment for goods, works, services (marketing, advertising, consulting services, and others that are not supported by tangible assets and/or have no objective price references). To cover up the real transaction participants, fraudulent bank accounts or accounts under the names of nominal owners may be employed. Cashing out of stolen budget funds occurs through accounts belonging to legal entities and individual entrepreneurs (in particular, using corporate cards),

as well as from the accounts of individuals (including front accounts). The orchestrators of these schemes employ the criminal proceeds laundered in this way to purchase real estate, vehicles, and luxury goods, and channel investments into the business activities of existing or newly established companies.

However, understanding the country-relevant risks is only the first step in building a risk-based approach in the public and private sector. The most important is the development and implementation of measures to minimize the identified risks, which in turn helps improve the national AML/CFT/CPF system, including by increasing its sustainability and reducing vulnerabilities.

In this context, the national risk assessment in 2022 resulted in the development of an interagency risk mitigation plan, structured to identify the responsible authorities for each of the measures and prioritize their implementation.

The Plan's paragraphs are grouped into key sections, encompassing diverse activities.

In terms of improving interagency collaboration, one should note the enhanced coordination mechanisms for investigating money laundering cases, improved information exchange concerning tax and state duties payment on behalf of third parties, and educational initiatives to learn best practices based on NRA findings. Preventive and law enforcement measures address the issues of updating sectoral risk assessments, increasing the effectiveness of measures taken to prevent the registration and operation of front companies, updating suspicion indicators for banks, and improving approaches to cash handling. Ensuring transparency of beneficial ownership involves preparation of proposals following the analysis of the effectiveness of criminal prosecution of beneficial owners of legal entities involved in illicit activities. International cooperation section covers improvement of mechanisms for identification, seizure, and recovery of assets, enhancing cooperation with financial intelligence units of foreign countries and increasing the efficiency of processing international requests. Finally, improving mechanisms for working with the private sector involves the formulation of financial profile indicators for private sector entities, raising their awareness of emerging money laundering types, and educating them on the findings of national and sectoral risk assessments.

ISSUES SURROUNDING TARGETED ALLOCATION OF BUDGETARY FUNDS: EFFECTIVE AND LEAN PRINCIPLES

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For the government, budgetary expenditures serve as means to fulfill its financial obligations. The budget acts as a mirror reflecting various economic processes. Government uses budget as a tool to regulate economy by managing its monetary resources available to the public (in other words, through expenditure). Executing its budgetary policies, the government wields a manifold influence over the economy: subsidizing and funding corporations, directing public investments, and financing the conversion of the defense industry. The outcome is the augmentation of national income, resolution of pressing social concerns, expansion or contraction of both aggregate demand and supply, and establishment of necessary infrastructure.

Budgetary expenditures correspond to economic relationships that arise with the allocation of monetary resources across diverse sectors and regions. These expenditures are specifically categorized in terms of both qualitative and quantitative facets. Qualitative aspect allows to establish the economic nature and social purpose of each type of budget expenditures, while the quantitative one specifies the precise quantum.

The effective execution of republican budgetary expenditures poses preeminent concern, extensively covered in economic literature. The discourse on budgets, budgetary process, inter-budgetary relationships, and particularly budgetary expenditures is prolific and not always unanimous. Consequently, it is necessary to systematize the extant information, proffering the most precise data, raising issues of state budgetary expenditures over several years, and marking prospects to enhance budgetary framework of the Republic of Tajikistan.

Hence, the study delves into two principles underpinning the budgetary framework of the Republic of Tajikistan. One of them is efficiency and economy in the use of budgetary funds. This implies that both the authorities and the beneficiaries should rely on the need to achieve specified results using funds defined by the budget.

Given the multifaceted nature of aggregate expenditures, budgetary savings pose a formidable challenge. Yet, the concern extends beyond the

quantum of expenditures to their efficacy. Tajikistan's budgetary policy frequently lacks clarity in shaping financial allocations and harmonizing them with strategic priorities. Except for the infrastructure projects funding, many other categories of public expenditure remain discrete in terms of their objectives. This can be attributed to the infrequent application of program budgeting principles in Tajikistan. Consequently, expenses are predicated not on intended outcomes, but on procedural norms. A considerable proportion of public economic entities secure funding not grounded in their undertakings, but rather headcount of personnel and the financial requisites for facility maintenance, equipment provisioning, and the like. Furthermore, certain expenditure ratios within public entities are based on documents adopted back in Soviet times.

As evident, in Tajikistan, the novel national development strategy centers on establishment of innovation economy, along with the challenge of nurturing human resources. It is worth noting that the development strategy of Tajikistan requires full-scale efficiency, that is focused on safeguarding and strengthening national sovereignty and defensive capabilities and ensuring food autonomy. To achieve this, the assessment of budgetary expenditure efficiency and the procedure of prioritization assume pivotal roles.

Undoubtedly, appraising the efficiency of budgetary spending in absolute terms, sans consideration for the chosen spheres of financing and their time horizon, as well as the present state of the system and its transformations, would be an inadequate approach. Equally unsuitable is an assessment of budgetary expenditures without specific objectives, such as devising corrective measures that positively influence economic expansion. The temporal dimension is equally significant, namely, taking into reckoning prolonged periods of economic flux linked to the implementation of budget funds.

Henceforth, pillars of a systematic approach to evaluating the efficiency of the budgetary process must encompass the following:

- dynamic essence of the process within budget expenditures: comparison the projected impact within the investment domain to the assessment of the given domain upon the outcomes review;
- permanance in evaluation criteria at the beginning and end of the evaluation period;

- cyclical nature of evaluation processes: subsequent to each corrective intervention, monitoring efficacy of budgetary expenditures changes;
- curtailing the extension of costs. Previous budgetary expenditures should not justify funding increase, once the avenue of investment is not effective anymore;
- qualitative evaluation of budgetary expenditure with intrinsic expense quantities that are impervious to reduction due to social reasons.

The purpose of efficiency assessment resides in the refinement and rationalization of the budget, ensuring that inevitable fiscal losses are minimized to the utmost extent.

Another principle involves the targeted allocation of budgetary resources, whereby they are assigned to specific recipients for precise objectives.

Targeted allocation signifies that budgetary expenditures are disbursed exclusively for their designated intent, in alignment with the expenditure categories delineated within the financial blueprints.

In order to attain the utmost efficiency in the execution of public expenditures, the state must apply the principles of lean management. This can be defined as a system of methodologies and structures that consistently minimize costs in relation to the achieved outcomes. The lean principle is not always linked with the mere reduction of expenses; rather, it implies their most rational utilization.

The funding of public expenditures encompasses various forms:

- self-financing;
- budget financing;
- credit financing.

Self-financing is designed to address the financial needs of public entities through their internal financial resources.

Budget financing on the other hand, is used to provide for costs of national significance.

Budget expenditures implies costs related to the state's fulfillment of its tasks and functions.

These expenditures ensure use of the nation's centralized monetary resources across diverse sectors.

The economic character of budget expenditures is discernible in numerous guises. Each category of expenditure can be characterized in terms of quality and quantity. In this context, quality delineates the economic essence and the purpose of budget expenditure, while quantity denotes their magnitude.

The multiplicity of distinct budgetary expenditure types can be attributed to various factors. The basic ones are nature and functions of the state, its administrative and territorial structure, level of socioeconomic development, depth of interactions between the budget and the national economy, and mechanisms of budgetary fund provision. Combination of these factors culminates a particular system of budgetary expenditure within any given state at a specific phase of socio-economic advancement.

To define the role of budget expenditures in the public economy, they are categorized based on specific criteria. Finance principles and practices offer various classifications of budget expenditures.

First and foremost, budget expenditures are stratified based on their influence on expanded reproduction. Here, a distinction is drawn between current and capital budget expenditures.

Current expenditures encompass the allocation of budgetary resources to legal entities to maintain current needs. These encompass expenses related to government consumption (maintenance of economic and social infrastructure, state branches of the national economy, procurement of goods and services of both civilian and military nature, present expenses of governmental agencies). This also include current subsidies for subordinate authorities, state and private entities, transportation fees, payment of interest on public debt, and other expenses. Typically, these expenditures are largely in line with those reflected in the regular budget or current expenditure and revenue budget.

Capital expenditures encompass monetary expenses tied to investments in fixed capital and the expansion of inventory. This category includes budget-funded capital investments spanning various sectors of the national economy, investment subsidies, and long-term budgetary loans extended to both public and private entities, as well as local authorities. This group of expenditures is reflected in the state's capital expenditures and revenues.

The criterion of purpose facilitates expenditures categorization. The latter establishes a foundation for the prudent utilization of budgetary funds, being necessary tool for effective oversight over allocation of funds. This, in turn, requires transparency of Tajikistan's budgetary landscape.

The public finance management system warrants more efficiency and transparency. Transparency of the budget, as the main financial instrument for realization of social and economic policy, is one of the main conditions for openness of state decisions. The timely and accessible dissemination of budgetary reports will facilitate legislative bodies and the public to control budgetary determinations and their execution. This, in turn, increases the responsibility of executive authorities for budget development and helps control targeted funds expenditure.

Efforts to increase budget transparency brings significant benefits to the entire society and public authorities.

To provide budget openness, executive branch draft budget, mid-year report, annual report, and audit report should reflect information adequacy. It remains vital to ensure the publication of the preliminary budget draft and the mid-year report. Particular emphasis should be placed on budget refining containing easy-to-understand and accessible language, an explication of fundamental macroeconomic indicators, accessible data concerning the ratio of national budget expenditures to revenues, and most notably:

- comprehensible and neat revenue items description;
- comprehensible and neat explication of expenditure items by grouping;
- budget deficit and method of its financing, conveyed in an easily accessible manner;
- emphasis on expenditure part of the budget aimed at social needs.

Market relations still necessitate measures aimed at addressing deficiencies and preventing financial violations. To this end, it is necessary to consistently conduct audits of public entities, ministries, departments, institutions, and organizations of all types of ownership. These entities utilize public assets, spend budget funds, enjoy tax benefits or pay taxes to the state budget.

State financial control furnishes the essential economy feedback, entailing methodical plans and realized outcomes compliance — imperative for sound managerial decision-making.

To control the national budget implementation, the country has instituted supervisory bodies, autonomous from the executive authority. Notable among these entities are the Accounts Chamber of the Republic of Tajikistan and the Agency for State Financial Control and Combating Corruption of the Republic of Tajikistan.

The Accounts Chamber of the Republic of Tajikistan was established in accordance with the Law of the Republic of Tajikistan *On the Accounting Chamber of the Republic of Tajikistan*. The Accounts Chamber constitutes a permanent state financial oversight body established by and accounted to the Supreme Assembly (*Majlisi Oli*) of the Republic of Tajikistan.

Pursuant to the responsibilities delineated in the extant legislation, the Accounts Chamber of the Republic of Tajikistan stands administratively and functionally autonomous.

Among the functions of the Accounts Chamber is to control punctual execution of state budget revenue and expenditure items and off-budget funds, encompassing the quantification, composition, and intent. Additionally, the Chamber evaluates the efficiency and propriety of public fund disbursement and public property utilization.

While executing budget process, the Accounts Chamber of the Republic of Tajikistan controls comprehensive and punctual disbursement of funds, actual expenditure of budget allocations in comparison with legally approved indicators of the state budget, identifies violations, analyzes them and makes proposals for their elimination.

The Agency for State Financial Control and Combating Corruption of the Republic of Tajikistan, as an authorized entity for state financial oversight and a law enforcement body, exercises state financial control over effective use of public funds and assets. Its activities serve to safeguard the state's economic security by preventing, detecting, and combatting corruption offenses, unveiling, interrogating, and conducting preliminary investigations on corruption and tax-related crimes. Moreover, the Agency fulfills

other responsibilities stipulated by the legal and regulatory frameworks of the Republic of Tajikistan.

The Agency operates under the President of the Republic of Tajikistan. The outcomes of investigations and financial audits are reported to the Assembly of Representatives of the Supreme Assembly (*Majlisi namoyandagon Majlisi Oli*) of the Republic of Tajikistan.

Budgetary expenditures of all levels play significant role in addressing social concerns, which have assumed the most radical shapes in Tajikistan, and have once again intensified during the transition to a market-based economy. The escalating significance of budgetary expenditures within social dynamics is strengthened by a fundamental shift in the budgetary mechanism of financing social sphere institutions. It is well-recognized that a multitude of crucial sectors pertaining to social services—including education, healthcare, and social security—derive their funding from the budget. Growing socio-cultural needs of citizens necessitate assurance, even at the expense of deficit financing - as the number of functions assumed by the state grows, so do public expenditures. The consensus holds that the role of the state budget in social dynamics will increase in the future. This is explained by the fact, that budgetary resources (augmented by off-budgetary funds) serve as the financial base for social transformations and the ascension to a new level of social service quality.

Hence, the enhancement of the budgetary structure can positively influence the entire market framework. This augmentation should be realized not only in relation to internal and inter-budgetary interactions but also with regard to the quantitative and qualitative budget indicators. Such improvements facilitate its sustainability and engender effective oversight over budgetary resources. After all, only as whole these changes can transform the state budget from a means of destabilizing the economy into a powerful stimulus for economic growth.

METHODS OF ML/TF RISK ASSESSMENT AS POTENTIAL BASIS FOR KNOWLEDGE ENGINEERING AND ARTIFICIAL INTELLIGENCE IN CONTROL AND SUPERVISORY ACTIVITIES

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By the decision of the Interagency Commission on the Russian Federation taking measures following the fourth round of mutual evaluations of the Financial Action Task Force on Money Laundering dated December 08, 2022, the report on the national risk assessment (hereinafter the “NRA”) for money laundering and financing of terrorism (ML/TF) was approved.

Prior to the NRA, the above Commission approved methodological recommendations for risk assessment on 05/20/2021, based on new conceptual principles, with the following being key among them:

1. The risk assessment targets ML/TF methods (schemes, types of ML/TF). The primary sources to formulate a comprehensive list of ML/TF methods included:

- types (schemes) of suspicious transactions identified by the Federal Financial Monitoring Service and the Bank of Russia following the monitoring of financial transactions as part of their supervisory activities, including those described in their methodological recommendations for the private sector;
- lists of signs indicating the unusual nature of a transaction listed in Regulation No. 375-P of the Bank of Russia on Requirements to the Internal Control Practices of Credit Organizations to Combat Money Laundering of Proceeds of Crime and Financing of Terrorism dated 03/02/2012 and Regulation No. 445-P of the Bank of Russia on Requirements to the Internal Control Practices of Non-Credit Financial Institutions to Combat Money Laundering of Proceeds of Crime and Financing of Terrorism dated 12/15/2014.

As a result of classification and categorization of the above schemes by conditional stages of the illicit activity in question (*generating the source of money for ML/TF; introducing money into legal turnover; transfer; cashing out; transfer of money outside the Russian Federation's jurisdiction;*

use of laundered money), a classifier of ML/TF methods was developed, currently comprising approximately 70 methods.

2. To describe the various types of observed indicators of ML/TF methods, a standardized range of parameters characteristic to these methods was developed, with classifier dictionaries created to categorize their potential values. Refer to the range of parameters used

in describing ML/TF and their corresponding values¹ below.

3. Experts of government agencies and private sector organizations taking part in the NRA assessed the level of likelihood (frequency) of occurrence of certain ML/TF methods in their area or sector on a scale *low—medium—above medium—high*, with a fixed set of parameters (risk factors) values.

Table 1

Item	Risk Factors (Parameters) of ML/TF Methods	Parameter Value
1.	ML/TF threat category (predicate offence)	163
2.	AML/CFT system vulnerabilities that facilitate method implementation	74
3.	Amount of money (range) typical for the method	4
4.	Types of entities conducting transactions with money and involved in the implementation of the method	50
5.	Service/product or transaction of the entity involved in the implementation of the method, including:	x
5.1.	Type of transaction (service, product) with cash or other property	205
5.2.	Types of legal grounds for transactions	93
5.3.	Type of financial (settlement) instrument	33
5.4.	Type of product/service delivery channel	12
6.	A client provided with a service (transaction) by the entity when implementing the method:	x
6.1.	Type of client as an economic entity	127
6.2.	Client's jurisdiction	251
6.3.	Client's economic sector	129
6.4.	Client's region of economic activity	93
6.5.	Signs of client's exposure to ML/TF risk	31
7.	Source of client's money used in the service provision	18
8.	Client's counterparty in a transaction under the service provided by the entity	x
8.1.	Type of counterparty as an economic entity	127
8.2.	Counterparty's jurisdiction	251
8.3.	Counterparty's economic sector	129
8.4.	Counterparty's region of economic activity	93
8.5.	Signs of counterparty's exposure to ML/TF risk	31
9.	Country (group of countries) where ML/TF money are channeled to under the method	251
10.	Country (group of countries) from which funds are channeled to Russia	251
11.	Period when facts/signs of using this method were revealed	3
12.	Observable signs of implementation of the method	264

¹ Most classifier dictionaries shall be updated in the future.

Various experts employ the same structure and a standardized terminology to describe methods and their parameters, as well as assessment scales for gauging the likelihood of occurrence. This serves as a kind of “unified system of coordinates,” enabling mutually comparable and accurate representation, compilation, and generalization of professional judgments regarding the indicators of the mentioned illicit activity.

Indeed, the parameters of ML/TF methods can be regarded as coordinate axes of multidimensional space, any point of which would correspond to an ML/TF method indicator with a solid range of values

for these parameters. An example of the description of an ML/TF method (shadow cash collection) involving the services of a credit organization, provided by respondents during the NRA, can be found in Table 2.

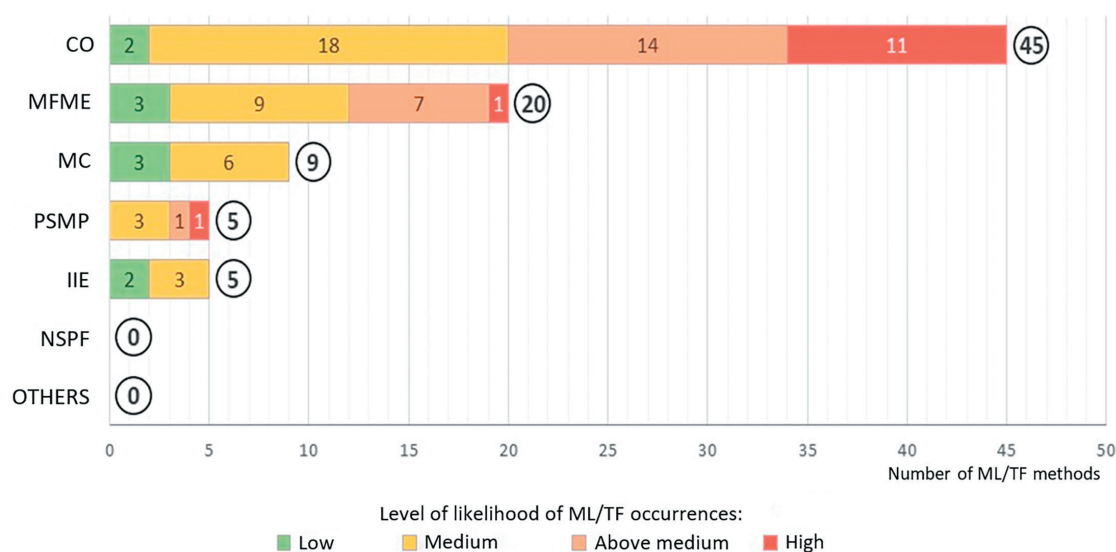
A potential “area” of this system of coordinates (multiplied by the scopes of all dictionary classifiers² on all parameters) reaches an astronomical value: over 2 x 1,042 different combinations of risk-factor values. For this purpose, the general space of methods indicators was divided into subspaces according to the values of a particular risk factor or combination thereof, and the number of ML/TF

Table 2

ML/TF METHOD (scheme)	Non-financial sector entities executing non-cash transfers for cash proceeds of a commercial company (shadow cash collection)
Parameter values	
.....
3. Amount range	From RUB 50,000,000 to RUB 1 billion per quarter
4. Type of entity	Credit organizations
5. Service/ product, transaction	5.1. Transaction type: Non-cash transfers on behalf of legal entities and individuals using their bank accounts
6. Client	6.1. Entity type: LLC / 6.2. Jurisdiction: Russia / 6.4. Region of activity: St. Petersburg; Tyumen Region / 7.5. Signs of exposure to ML/TF risk: Signs of a shell company
7. Source of money	Non-cash transfers to the client's account from a group of counterparties under business contracts
8. Client's counterparty	8.1. Entity type: LLC / 8.2. Jurisdiction: Russia / 8.3. Sector of activity: Wholesale trade, retail trade / 8.4. Region of activity: Altai Territory; Novosibirsk Region
.....
11. Period of identification	2021
12. Observable signs of implementation of the method	<ul style="list-style-type: none"> - The client's transactions with commercial company are of non-commodity nature; - Transactions have signs of fraud; - The grounds for payment are not typical for the payer's and/or beneficiary's activity; - In case of client's payments under loan/factoring agreements, there is no information on fulfillment of counter obligations (loan repayment, lender's factoring payments).
Level of likelihood of occurrence	Above medium

² See the right column in Table 1.

Diagram 1. Breakdown by type of supervised entity of the number of ML/TF methods monitored (total and broken down by the level of likelihood of their occurrence).



methods with high, above medium, medium, and low level of likelihood of their occurrence according to experts' assessments was calculated using publicly available statistical applications. See the example of such subdivision of observed ML/TF methods by a certain risk factor—Type of supervised entity³ — in Diagram 1. It clearly illustrates the highest concentration of ML/TF risks in the credit organizations sector.

The array of more than 2,000 ML/TF indicators assessed by experts in the course of the NRA allows to compile similar analytical reports on any risk factor or combination thereof, getting a picture of risk concentration, for example, in the context of types of financial services, services delivery channels, financial instruments, categories of clients (counterparties) by industry, regional, organizational, legal and other characteristics, forming ML/TF risk assessments not only at the NRA level but also at the sectoral, industrial, and regional levels.

Moreover, the resultant array of expert assessments suggests the application of artificial intelligence (AI) grounded in knowledge engineering and automated inference judgments (estimates, hypotheses, versions, forecasts, recommendations) tailored for AML/CFT objectives.

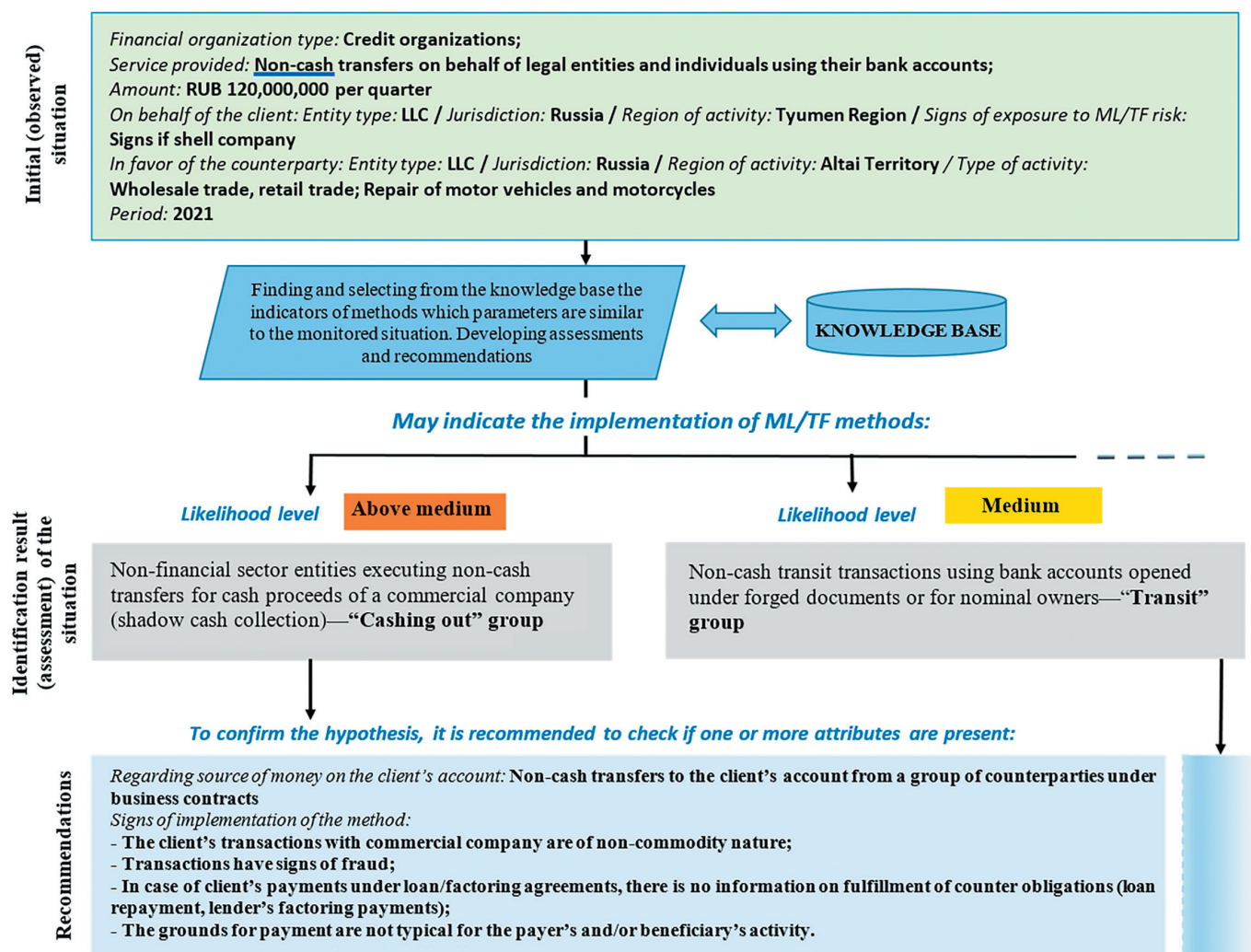
Indeed, unlike the information accumulated in databases, the array of expert assessments of ML/TF indicators characterizes not individual facts and events, but consistent, recurring, to a greater or lesser extent, parameters of a number of similar actions in the assessed period. In other words, it is a sort of models, or frames in AI terms, and is an *expert knowledge base*. The development of expert systems and knowledge repositories corresponds to the realm of artificial intelligence known as knowledge engineering.

Expert knowledge available as stable combinations of parameters of ML/TF methods enables, when observing the manifestation of only some of these parameters (risk factors): (i) automatically list methods, in which these indicators are most common (*the task of identification, hypothesizing or making versions*), and (ii) specify the expected values of other (missing) parameters in its description to test each hypothesis (*the task of targeting and making recommendations*) for each of these methods, including specific visible factors of the ML/TF method that require verification.

See Figure 1 for the illustrated example of addressing *identification* and *targeting* tasks using the ML/TF method description given in Table 2.

³ In the example — for entities supervised by the Bank of Russia. Abbreviations used: CO — credit organizations; MFME — microfinance market entities; MC — management companies; PSMP — professional securities market participants; IIE — insurance industry entities; NSPF — non-state pension funds.

Picture 1



In the future, when the knowledge base is updated with expert assessments of characteristic cause-and-effect relations between methods relating to different stages of ML/TF activity (such as, between “Transit” group methods and “Cashing-out” or “Transfer Outside Russian Jurisdiction” group methods)⁴, we will be able to automate the ML/TF forecasting. The forecasting entails generating a list of the most likely indicators of ML/TF methods at the next, expected stages of ML/TF — based on confirmed indicators of the method in previous stages.

The above tasks may be scaled to different levels of the AML/CFT system. This includes autonomous,

AI-augmented AWS of compliance officers of all levels of competence in small and medium-sized businesses who receive tools to support their activities based on best AML/CFT practices, a top-level control program in public or corporate AML/CFT support systems, communicating with the knowledge base and sending requests to distributed databases for missing information, summarizing the answers and forming expert conclusions. The latter serves as screening for the signs of suspicious transactions and identifying their new types, identifying recurring and most dangerous risk factors, conducting financial investigations, and acquiring new knowledge in the process of self-learning.

⁴ This information was not requested from the experts as part of the ML/TF National Risk Assessment.

Verification and mutual updating of the knowledge accumulated in the process of the NRA of ML/TF through the established information exchange is considered to be the initial stage of practical implementation of the above approaches. This includes sharing of indicators of ML/TF methods and analytical products on various profiles both between participants of the domestic AML/CFT system and between financial intelligence agencies of friendly countries (e.g., as part of the International Money Laundering and Terrorist Financing Risk Assessment Center (IRAC)⁵). This ensures verification, clarification, detailing, and/or generalization, and, ultimately, increasing the credibility of expert knowledge and mutual

reinforcement of accumulated experience in detecting and countering various ML/TF techniques. The ML/TF risk factors listed in Table 1 could be one of the components of the collective knowledge base structure. This shared and regularly updated structure could be employed by IRAC participants for swift exchanges of the most pertinent ML/TF schemes, counteraction experiences, as well as analytical explorations of both general and specific trends in the realm of AML/CFT.

In conclusion, the author expresses his willingness to engage in discussions about the assessments and approaches described in this article with interested specialists.

⁵ The concept of the establishment of the International Money Laundering and Terrorist Financing Risk Assessment Center was approved by the decision of the Council of Heads of Financial Intelligence Units of the CIS Member States on 27/11/2019 (Ashgabat).

ON THE OUTCOMES OF THE “WORLD WITHOUT CORRUPTION—MYTH OR REALITY?” FINANCIAL AND ECONOMIC AGENCIES FORUM

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Deputy Director



Amalya Ustaeva

From July 17 to 20, 2023, the city of Ufa played host to the National Anti-Corruption Forum of Financial and Economic Agencies.

This event was organized by the Treasury of the Russian Federation and the government of the Republic of Bashkortostan, in alignment with the provisions outlined in paragraph 38 of the National Anti-Corruption Plan for 2021–2024. The plan had been endorsed by the Decree of the President of the Russian Federation No. 478 on August 16, 2021.

Over 600 participants from diverse areas including federal and regional authorities, financial institutions, corporations, and educational institutions convened at the Forum.

Inaugurating the event, Mr. Alexander Mikhailik, Deputy Head of the Federal Treasury, underscored the strategic selection of Ufa as the venue. The choice was deliberate, with the anticipation that the anti-corruption endeavors undertaken by Bashkir authorities, public organizations, and citizens would be demonstrated through the competitions for anti-corruption materials such as posters, leaflets, and performance-based content held across federal districts in preparation to the Forum.

In his welcoming address, Alexander Mikhailik conveyed the greetings of Anton Siluanov, Minister of Finance of the Russian Federation. The Minister emphasized the profound significance of anti-corruption policy within the broader national framework. The collaborative work and novel propositions generated through the Forum were envisioned to construct a robust foundation for fostering conscientious anti-corruption behavior and for augmenting the efficacy of the state's anti-corruption policy.

Radiy Khabirov, the President of the Republic of Bashkortostan, extended a warm welcome to the Forum participants. Expressing gratitude to the Treasury for selecting Ufa as the venue, he regarded it as honor and greater responsibility.

The Forum drew the presence of eminent figures such as senior officials from the Russian Treasury, federal divisions of the Ministry of Education, Ministry of Construction, Housing and Utilities, Ministry of Science and Higher Education, as well as representatives from the Ministry of Internal Affairs, Federal Antimonopoly Service, and Federal Financial Monitoring Service, among others. The substantive deliberations took place at the Ufa Taratau Hall on July 19–20.

The Forum's agenda encompassed five panel discussions that engaged experts in dialogues regarding anti-corruption compliance, virtual assets, digital transformation as a tool against corruption, regional and corporate strategies for combating corruption, and promoting anti-corruption conduct.

A noteworthy highlight was the Cyber.Polygon cyber exercises under the guidance of Mr. Alexander Albychev, Deputy Head of the Federal Treasury designed for students. This exercise facilitated practical learning in information security.

The plenary session, moderated by Mr. Alexander Mikhailik, brought together notable figures such as Ms. Anna Katamadze, Deputy Head of the Federal Treasury, Mr. Sergei Muzychenko, Deputy Minister of Construction, Housing and Utilities, Mr. Konstantin Mogilevsky, Deputy Minister of Science and Higher Education, and Mr. Pavel Seleznev, Dean of the Faculty of International Economic Relations of the Financial University under the Government of the Russian Federation.

The plenary segment of the Forum yielded suggestions and recommendations concerning the enhancement of anti-corruption mechanisms and the cultivation of an anti-corruption culture. These inputs are to be included in a comprehensive report for the President of the Russian Federation.

A spirited sports event Spartakiade fostered friendship among the Forum's participants. Notably, officials from Russia's federal districts, representing the Treasury, not only engaged in friendly competition but also rejuvenated themselves with positive energy, aligning with their commitment to fulfill the Treasury's mission.

Mr. Roman Artyukhin, Head of the Federal Treasury, took the stage to announce the outcomes of the sports event and to reward the best across a range of



sports disciplines. The combined experience of the Forum's deliberations and the sports activities was punctuated by an emotional uplift and sense of unity among the participants.

Undoubtedly, Ufa serves as more than a hub for business and athletic facilities. It stands as a hospitable metropolis that conscientiously upholds national values and preserves the cultural and historical legacies of the diverse ethnicities within the Republic.

The theme of this year's Forum was "World without Corruption—Myth or Reality?" All Forum participants were invited to answer this question by voting. The significant majority (59 %) voted that corruption can indeed be mitigated. However, a mere fraction of respondents (7 %) held the belief that corruption can be entirely eradicated.

Evidently, these findings reflect the respondents' perspectives on the nature and complexity of this social challenge, which remains acutely urgent and spawns numerous interconnected issues. No nation is immune to this disease, making it more fitting to evaluate the degree of corruption within a specific country. Unfortunately, Russia continues to grapple with a notable level of corruption, whereas its perception within society remains comparatively low.

Acknowledging the formidable hindrance that corruption poses to the nation's economic advancement, rule of law, and social equity, the government has undertaken substantial institutional and legal measures to combat corruption for over two decades.

The foundational components of Russia's anti-corruption framework have been codified and put into practice. In 2008, Russia enacted a pivotal legislative document, Federal Law on Combating Corruption FZ-273. This law established anti-corruption norms of



official behavior, codes of ethics, and other standards as part of the comprehensive anti-corruption strategy.

In spite of the array of anti-corruption measures implemented and the resolute efforts of law enforcement agencies in combatting criminal corruption, its prevalence unfortunately continues to persist. There are manifold reasons for this issue, with several prominent ones outlined below.

The central predicament in the struggle against corruption's inefficacy lies within the intricate nature of this complex and deeply-rooted social phenomenon, which possesses historical origins and an extensive evolutionary history. Maturing under the sway of diverse social factors and adapting to shifts in the nation's sociopolitical and economic landscape, corruption deftly exploits the vulnerabilities in the nation's legal oversight and accountability framework. In such a context, any strategies and tactics deployed to counter corruption seem belated in the face of emerging new forms that adeptly accommodate the transformed environment.

However, Russia's pivotal challenge is the lack of citizen involvement in the anti-corruption mechanism. Increasingly, experts are coming to the conclusion that the battle against corruption should begin with a shift in public consciousness.

The Russian society's perception of corruption is nuanced; a considerable segment does not view corruption as an absolute malignancy or a direct threat to their daily lives. This indicates a low level of legal awareness, an absence of comprehension regarding one's rights, and strategies to confront corruption among a certain part of the population.

Furthermore, there is a prevalent notion that bribery in Russia is entrenched as a tradition; the deficiency of

a culture that resolves issues through legal avenues leads individuals to the conclusion that combating corruption is an exercise in futility.

There is a measure of truth in this perspective. However, while acknowledging this truth and attributing the intricate social phenomenon of corruption solely to cultural and historical realms, constitutes a methodological misstep—vice cycle with no escape.

Clearly, the degree of corruption is not intrinsically tied to a nation's mentality or its genetic code. The phenomenon itself is multifaceted and intricate. The extent of corruption is influenced not only by cultural, historical, and social factors, but also by fundamental, institutional, and legal elements. History is replete with instances of countries traditionally plagued by high corruption levels successfully combating this menace over time (with Singapore serving as an illustrative case), although complete eradication remains an elusive goal for any nation.

How does the author define victory over corruption? Presently, the objective is to reduce corruption within the nation to a socially acceptable level and subject it to state and societal control.

The strategy outlined in the National Anti-Corruption Plan seeks to propagate anti-corruption efforts across the nation. Corruption represents an internal adversary that all must resolutely combat.

The initiatives undertaken by the Federal Treasury within the ambit of the National Anti-Corruption Plan, aimed to foster new values grounded in legal awareness, are poised to undoubtedly wield a positive impact on the battle against corruption.

GENERAL PROBLEMS RELATED TO THE ORGANIZATION AND APPLICATION OF METHODS OF FINANCIAL CONTROL OVER REGIONAL STATE POPULATION SUPPORT FACILITIES

Alexey Ogorodnikov,

Head of Division, Document Management Department
of the Federal Financial Monitoring Service



Alexey Ogorodnikov

Currently, there is significant disparity in social and economic development among the regions of the Russian Federation, particularly in terms of fiscal and financial capacity levels. Consequently, it becomes imperative to efficiently address issues related to the legal distribution and targeted utilization of public funds to maintain economic security across the country's regions.

The system of state financial control serves this purpose, aiming to ensure the financial and economic reliability as well as social stability of the state.

The fiscal economy of the Russian Federation supports two types of state financial control: external and internal.

External control entities comprise the Accounting Chamber of the Russian Federation and the control and accounting bodies of the subjects of the Russian Federation and municipalities. On the other hand, internal control entities include the Federal Treasury and state financial control bodies, which function as executive authorities of the subjects of the Russian Federation and municipalities.

In both cases, the control entities hold the position of chief controllers (managers, recipients) of public funds, institutions, enterprises and companies, associations, and other legal entities of various forms that receive public funds.

The first issue we would like to address concerning the implementation of supervisory powers is high administrative burden placed on monitor objects when faced with simultaneous control and audit or expert-analytical actions conducted by both external and internal control entities.

State regulatory methods, i.e., prosecutorial supervision and legislative division of powers between internal and external financial control bodies, do not fully resolve this problem.

The constituent entities of the Russian Federation continue to practice simultaneous and different specific inspections by financial control bodies in the same subject to control. *For instance, in 2021, the Territorial Compulsory Medical Insurance Fund in the Irkutsk Region underwent simultaneous inspections by representatives of the Accounts Chamber of the Russian Federation, inspectors from the Control and Accounts Chamber of the Irkutsk region, and auditors from the Federal Treasury Department of the Irkutsk region.*

At the same time, it is essential to bear in mind that individuals and legal entities are not considered participants of the budget process, according to the Order of the Ministry of Finance of the Russian Federation "On the Procedure for Forming and Maintaining the Register of Budget Process Participants, as well as Legal Entities That Are Not Participants of the Budget Process" dated December 23, 2014 No. 163n.

This raises the second issue concerning the implementation of control powers, in terms of legal relations between state authorities providing subsidies and the final recipients of these subsidies. Although these legal relations are governed by the standards outlined in the Budget Code of the Russian Federation, they do not fall under fiscal legal relations. Consequently, designating the final recipients, who are not participants in the budget process, for administrative accountability under Article 15.14 of the Administrative Offences Code of the Russian Federation for the misuse of public funds is practically impossible.

Subsidies represent the primary form of financial support within the program-based system of public administration. Federal public funds are applied to co-finance activities carried out through the treasury funds of the constituent entities of the Russian Federation, particularly in the form of subsidies within federal target programs and state programs of the Russian Federation. Entities of the Russian Federation participate in state programs solely under the conditions of co-financing.

Regarding subsidies, there is a maximum level of co-financing allocated from the federal budget for the expenditure obligations of the entities of the Russian Federation. In this regard the higher the region's assessment of the estimated budgetary security is the lesser the financial support in the form of subsidies the region can receive.

The basis for the calculation and payment of subsidies relies on the actual expenses incurred during the reporting period of the financial year, which are financed by subsidies and confirmed by the relevant primary documents.

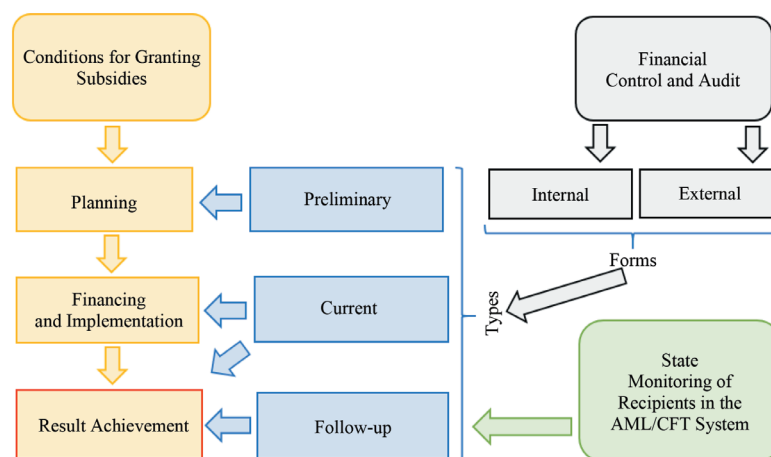
Recipients of subsidies are required to submit supporting documents (such as purchase and sale agreements, invoices, payment documents, etc.) to the executive authorities of the entity of the Russian Federation. Upon verification, the executive authorities transfer funds to the accounts of the subsidy recipients.

Subsequently, after receiving public funds, the final recipients carry out the necessary financial procedures (such as expense reimbursement, co-financing, and purchases) while adhering to the conditions and purposes of subsidy funds provision.

Financial control procedures are implemented at each stage of public funds provision (see Fig. No. 1)

The third significant challenge in implementing control powers arises from the utilization of public funds by final recipients. This challenge pertains to the inspection and review measures conducted in the form of inventory and verification of supporting documents.

Fig. No. 1: The Process of Organizing and Implementing Control Procedures at Each Stage of Government Expenditure



To offer a coherent explanation for this issue, it is necessary to categorize subsidies into two distinct groups:

- **Calculated subsidies:** these subsidies have specific calculated numerical indicators, which are verified during desk and inventory inspections through comparisons of strict reporting forms and other supporting documents. *Examples of such subsidies include funds allocated for the purchase and repair of residential premises, the implementation of landscaping projects, and the acquisition of equipment on lease.*
- **Accountable subsidies:** these subsidies are based on indicators that cannot be objectively and comprehensively assessed within the framework of state financial control when achieving the ultimate result. *For instance, subsidies provided for supporting seed production, funding scientific research, purchasing livestock and feed, etc.* When conducting control and audit measures, it becomes a challenging task to confirm the results of their use due to factors such as seasonality, difficult territorial accessibility to inspection sites, inflation escalation, limited shelf life of goods, and the need for additional examinations involving subject matter specialists (such as cadastral engineers from the Technical Information Bureau, agronomists, representatives of Rospatent for intellectual property assessment, etc.).

The second category of subsidies poses a significant problem for control and supervisory authorities, giving rise to risks of illegal and criminally punishable acts committed by recipients of public funds.

When exercising state financial control over the use of federal and regional public funds provided in the form of subsidies, it becomes imperative to monitor compliance with the budgetary principles outlined in Chapter 5 of the Budget Code of the Russian Federation. The most crucial principles are as follows:

- **targeted nature of public funds:** budget allocations and limits of budget commitments are communicated to specific recipients of public funds, clearly indicating their purpose;
- **efficiency of public funds:** during budget formation and implementation, participants in the budget process must consider the need to adhere to the

principles of economy and efficiency within their designated budgetary powers;

- **budget authenticity:** reliability of indicators concerning social and economic development forecasts in the relevant territory, as well as the accuracy of budget revenue and expenditure calculations;
- **transparency (openness):** it mandates the obligatory publication of approved budgets and comprehensive reports on their implementation progress in public media.

Herein lies the fourth problem related to the implementation of control powers, concerning the high degree of formalism (legislative uncertainty) amidst the rapidly changing socio-economic and geopolitical conditions governing the formation, provision, and use of public funds. The principle of transparency loses its value if targeted and effective spending of public funds is not achieved as a result of its application. Moreover, adherence to transparency does not guarantee budget expenditure efficiency. In such instances, the principle of transparency merely exists as a formal bureaucratic element within the broader system of the Russian fiscal economy's principles.

The principle of targeted use of public funds and budget process transparency, as mandated by Russian legislation, may remain complicated formal bureaucratic elements of financial control if their implementation lacks the support of consolidated efforts from external and internal control entities, as well as public fund treasurers.

To establish effective state financial control, it is imperative to create a unified information system that integrates six key elements of interagency interaction (see Fig. No. 2). This conception should prioritize the significant reduction of bureaucratic barriers and the automation of various standard processes.

To establish the proposed system of state financial control, the following steps are required:

1. At the national level:

- Approval of a regulatory legal act that unifies and regulates the obligation of control and supervisory authorities and treasurers of public funds to securely exchange information among themselves;

- Creation of a unified digital space, similarly to the hybrid intelligent system "Electronic Budget", where access privileges are granted to prosecution authorities, the Accounting Chamber of the Russian Federation, control and accounting bodies, federal treasury bodies, financial control bodies of the entities of the Russian Federation, and representatives of internal financial audit and treasurers of public funds. This system should facilitate posting the results of inspections. A gradual and complete transition to electronic interagency interaction will ensure consistency, comparability, and completeness of information concerning the use of public funds, enhance the objectivity of implementation efficiency assessment, and provide a basis for the introduction of expert and analytical support tools, including risk management;

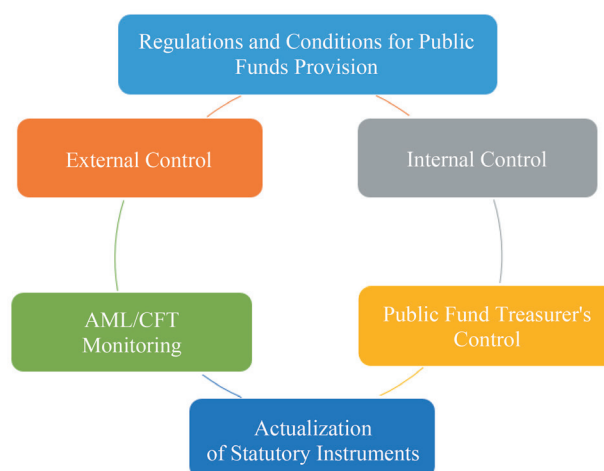
- Definition and establishment of a procedure for assessing, recording, and remedying violations of the current budget legislation.

2. At the regional level:

- Development of a transparent risk assessment system related to the provision of public funds;
- Creation of a transparent system for evaluating the efficiency of budget funds implementation, taking into account foreign economic factors, previous years' results, as well as achievements made by regions at the forefront of this field.

In this context, the lack of visible benefits from independent violation identification by monitored entities, particularly the executive authorities of the constituent entities of the Russian Federation, can

Fig. 2: Consolidation of Powers in the Unified Information System of State Financial Control



be regarded as the fifth and final problem. This circumstance allows financial control authorities to freely use all available information for their purposes, classifying detected violations as inappropriate or inefficient use of public funds, without actually conducting independent inspections. Such issues compel the executive authorities of the constituent entities of the Russian Federation to conceal violations and shortcomings within their own state support mechanisms during independent measures of internal financial audit.

Addressing the challenges presented in this article, coupled with the digitalization of control powers, the development of budget monitoring tools, and the consolidation of interagency interaction, will increase the effectiveness of the state financial control system, minimize budget costs at various levels, and consequently, prevent risks of budget violations.

TRIBUNE OF YOUNG SPECIALISTS

MONITORING STATE DEFENSE ORDER CONTRACT EXECUTION BY TERRITORIAL BODIES OF FEDERAL FINANCIAL MONITORING SERVICE

Sergey Morozov,

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the Volga Federal District*



Sergey Morozov

The issue of monitoring the compliance with the legislation regarding state defense orders (SDO) remains as pertinent as ever. During a 2023 meeting of the Russian Ministry of Internal Affairs board, President of the Russian Federation Vladimir Putin underlined the imperative to “strictly curb shadow schemes of budget embezzlement; first of all, it concerns the financing of the state defense orders, national projects, and import substitution

programs.” That is why today, against the backdrop of the ongoing special military operation, social and economic mobilization, adequate and timely execution of the state defense orders is one of the crucial tasks the government is facing. This has been repeatedly emphasized by the country’s top leadership.

For instance, a special decree issued by the President of the Russian Federation introduced measures suspending the rights of business entity members (shareholders) and the powers of their governing bodies in the event of breaches or non-fulfillment of their obligations under state defense contracts. Vladimir Putin, President of the Russian Federation, at the meeting with Mr. Yury Chikhanchin, Head of the Federal Financial Monitoring Service, emphasized the increased amount of financing and the number of contractors under state defense order. The above supports the relevance, significance, and priority of the Federal Financial Monitoring Service activity alongside its regional branches in ensuring oversight of SDO contract fulfillment.

In particular, the regional branch of the Federal Financial Monitoring Service in the Volga Federal District (hereinafter—the “Department”) has enhanced monitoring over the state defense order contracts execution, as well as analysis of financial operations by economic entities involved in SDO cooperation during 2022–2023.

Law enforcement agencies, Prosecutor's offices, and other supervisory bodies receive information from the Unit concerning potential involvement of SDO contractors in dubious financial activities — both proactively and in response to inquiries submitted to the Unit. In total, in 2022–2023, more than two hundred financial investigations of SDO contractors (subcontractors) were conducted in various areas, including contracts for constructing military facilities, as well as for supplying apparel, armaments, military and special equipment.

When auditing the financial and economic activities of SDO contractors, particular attention is paid to identifying signs of embezzlement or misuse of budget funds, corruption, tax evasion, non-adherence to contract timelines or stipulations, as well as risks of financial instability of companies.

The prevalent form of suspicious financial activity is when a contractor transfers funds from numerous accounts to settlement accounts of subordinate front firms. This maneuver aims to shift funds from the closed circuit to the open one by concluding fictitious supply contracts. Typically, such companies are characterized by a minimum authorized capital, lack a valid registration address, and are categorized by the Bank of Russia as having a high ("red") risk level according to the "Know Your Client" platform. Subsequently, budget funds withdrawn from individual accounts may be transferred to the accounts of fake individual entrepreneurs, cashed out through ATMs, and other methods.

In addition, another negative factor in the use of shell companies under SDO contracts is the likely overestimated cost of works in the course of execution of these contracts.

Proactively, in the span of 2022–2023, more than fifty case files were submitted to the competent authorities. Over this period, the Unit received more than one hundred and fifty inquiries from Prosecutor's offices, investigative bodies, and MIA bodies (the latter make up more than half of the inquiries received).

Following the review of the materials and audits using information obtained in response to inquiries, the Unit has initiated fifteen criminal cases, including

those related to crimes under Articles 159, 173.1, 173.2, 187, 201, 291 of the Criminal Code of the Russian Federation, i.e. associated with fraud, illegal incorporation of entities, unlawful turnover of means of payment, abuse of authority during the execution of the state defense orders, and corruption.

For instance, the Unit uncovered a scheme wherein an SDO contractor transferred funds from various accounts to a counterparty whose financial operations involved the transfer of funds to its founder and manager with further cash withdrawals through ATMs. Following the verification measures by law enforcement authorities, the Unit found that the products were not actually supplied under the SDO contract; therefore, more than RUB 13 million in cash was illegally withdrawn from civil turnover. Criminal proceedings were initiated on the grounds of crimes under Part 4 of Article 159, paragraph B of Part 2, Article 173.1 of the Criminal Code of the Russian Federation.

Special attention is paid to interagency cooperation and sharing of experience. The Unit is a member of a number of interregional and regional working groups on combating offenses and crimes in the military-industrial complex and the state defense orders. Regular working meetings are held with the leadership of law enforcement agencies and Prosecutor's offices to improve the implementation of materials provided by the Unit. In addition, officers of the regional branches of the Federal Financial Monitoring Service in the Volga Federal District attended the training and methodological workshop on crime prevention, detection, investigation, and solving, held at the Nizhny Novgorod Academy of the Ministry of Internal Affairs of Russia (also organized by the Prosecutor General's Office, the Investigative Committee, and the Federal Security Service), centered on the actual techniques for cashing out from the SDO contractors' accounts into the shadow turnover.

Thus, the Unit has organized systematic activities aimed at countering the embezzlement of funds appropriated under the state defense order. The efficiency of these activities is confirmed by the results of interagency cooperation with law enforcement agencies, Prosecutor's offices, and other competent authorities.

AMENDMENTS TO E-SIGNATURE LAW FOR MINIMIZING TAX REPORTING RISKS AND INNOVATIONS IN ELECTRONIC COMMUNICATION WITH THE RUSSIAN FEDERAL TAX SERVICE

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Maria Lazar

In pursuit of streamlining electronic document flow within tax reporting, the Russian Federal Tax Service (FTS) is actively formulating new document forms and formats. These documents are affixed with electronic signatures.

The FTS works to enhance and optimize tax reporting algorithms and procedures. Their viability is confirmed by the actual number of submitted reports and the

reduction of risks associated with the tax reporting procedure.

The well-coordinated collaboration between tax authorities (both HQ and regional offices) and other government agencies has resulted in a significant transformation in the issuance and utilization of electronic signatures by legal entities and entrepreneurs.

The amendments to Federal Law No. 63-FZ on Electronic Signatures dated April 6, 2011, revise the process for granting qualified electronic signature certificates. At the same time, the Russian Ministry of Digital Development has established a list of accredited public and private certification centers, as defined by the aforementioned law.

Individual entrepreneurs and notaries, as well as persons authorized to act on behalf of a legal entity without a power of attorney, can receive qualified electronic signature certificates from the FTS Certification Authority. Persons authorized to act on behalf of a legal entity without a power of attorney and engaged in activities supervised by the Bank of Russia should obtain certificates from the Bank of Russia Certification Authority. Public officials must apply to the Treasury Certification Authority.

Individuals acting as authorized representatives must apply to private certification centers officially accredited by the Ministry of Digital Development. All certification authorities are now mandated to adhere to the new stipulations, encompassing those pertaining to hardware and equipment.

These modifications allowed to significantly lower the number of accredited certification centers that had previously issued certificates to any applicant, subsequently bolstering control over certificate issuance to organization heads whose certificates had previously been exploited by third parties in fraudulent schemes.

Besides, unscrupulous taxpayers used these certificates to file fake returns. When such situations were discovered, tax authorities implemented control procedures such as verification of counterparties and other participants.

Furthermore, any nominal heads of organizations known to have repeatedly obtained certifications under falsified documents were placed under continuous monitoring. Information regarding these individuals was conveyed to law enforcement agencies vested with administrative oversight authority.

The amount of compromised private key incidents associated with qualified electronic signatures has currently declined, as have examples of their usage in nominal management.

What brought about these positive changes?

This transformation can be attributed to the early detection of fraudulent schemes by identifying misrepresentations and notifying taxpayers through the official website. For instance, identifying offers to procure an electronic signing certificate online or via courier delivery without personal presence.

The FTS Certification Authority confirms an applicant's identity in their personal presence. Next, it establishes the authenticity within the Unified Personal Data Information System, verifies whether the applicant is a genuine head of the organization, and conducts video surveillance in e-signature issuing offices. Any accompanying third parties are not permitted to attend the issuing procedure. The infeasibility of exporting electronic signature keys curtails the potential for their unauthorized use without a token.

The FTS Certification Authority also makes sure that the data in the certificate register is accurate and secure, safeguarding it against unauthorized access, deletion, alteration, blocking, and other illicit activities.

Furthermore, in order to be authorized, a certification center must demonstrate compliance and the goodwill of its head and founders. This is a significant new requirement. Who would take such risks? As a result, any unscrupulous certification centers have exited the market.

The Federal Law No. 63-FZ on Electronic Signatures dated April 6, 2011 also introduced a fresh instrument, the machine-readable power of attorney, which designates an authorized representative empowered to act on behalf of the organization's head before the tax authorities.

As a result of the decline in the amount of paper powers of attorney bearing a handwritten signature of a proxy, fraudulent schemes have likewise diminished.

The FTS remains committed to safeguarding ethical business entities from unscrupulous tactics, while these entities, in turn, increasingly opt for electronic interactions, thereby lowering the likelihood of involvement in questionable transactions with third parties and simultaneously reducing paper consumption.

Besides, the head of an organization can file a notification (KND form 1150119) barring authorized representatives from submitting VAT reports (or canceling such a prohibition). Such notifications are stored in the FTS database and prohibit reports from being submitted by any individual other than the organization's head.

Further changes to the Federal Law on Electronic Signatures seek to promote a more comfortable business environment:

- automated authorization verification process;
- mitigation of risks associated with forged handwritten signatures on documents submitted by fraudsters personally or over telecommunication channels;
- cost and time savings in fraud-related proceedings;
- open information registers for more streamlined communications among all participants in electronic document management.

The FTS is an agency that deals with massive volumes of data. Electronic communications improve tax reporting performance and speed by minimizing human errors (including those stemming from fatigue or lack of focus). This benefits both the FTS and other participants in electronic document flow.

As per the prevailing Tax Code, companies exempt from VAT with a workforce of up to 100 employees possess the prerogative to select their preferred reporting method. Most businesses have already embraced electronic reporting and aspire to eliminate paper-based document flow in their interactions with tax authorities entirely.

According to 2022 statistics, over 94 % of legal entities and individual entrepreneurs favored electronic reporting form.

Moreover, the proportion rises to 99 % for taxpayers with more than ten employees and hovers at 80 % for taxpayers with fewer than ten employees.

The Small and Medium-Sized Businesses and Support of Individual Entrepreneurial Initiatives national project also boosted electronic document flow. This reflects the most advanced government agency's dedication to accepting and fostering digitization.

At the same time, collaborative working groups comprising all participants in electronic document exchange consistently deliberate upon matters related to optimizing reporting, along with strategies to mitigate risks linked to reporting and the utilization of e-signatures in fraudulent activities.



Another noteworthy initiative of the Russian Federal Tax Service is the provision of free reporting services to taxpayers, which facilitates communications with tax authorities.

Thus, Federal Law No. 389-FZ dated July 31, 2023 amended Article 11.2 of the Tax Code—individual entrepreneurs can now file their tax returns online using their personal taxpayer account. To do this, it is necessary to obtain an electronic signature from the FTS Certification Authority after passing all of the aforementioned control procedures.

BUDGET EXPENDITURE MONITORING (CONTROL) FOR NATIONAL PROJECT IMPLEMENTATION

Igor Kondratenko,

Deputy Head of the State Contracts Monitoring Unit, Public Sector Department



Igor Kondratenko

The present circumstances demand the timely monitoring of challenges and threats, the development of advanced countermeasures, and the adoption of new approaches to risk assessment and its origins, particularly in the context of reviewing budget expenditures.

As a member of the interagency system, Federal Financial Monitoring Service carries out risk analysis and assessment to ensure the monitoring and control of budget expenditures, particularly those related to national and federal projects. The Service also aims to prevent, identify, and combat potential violations and crimes. For this analysis and assessment, the agency leverages banks' internal control systems

for identifying suspicious transactions, as well as the Federal Treasury's system for budget monitoring and control over treasury accounts and transactions.

The Federal Financial Monitoring Service designates national projects as a paramount sector for budget expenditure monitoring and control.

National projects encompass various social domains and contribute to the overall development of the state. These projects encompass aspects such as population growth, the improvement of living standards, the provision of comfortable living conditions, talent development, and the enhancement of the national budget system. The magnitude of these projects necessitates the establishment of an **interagency system to monitor and control budget expenditures at all stages**, spanning from budget allocation to the fulfilment of contractual obligations (refer to Figure 1).

The interagency system consists of members from the anti-money laundering team, as well as other bodies responsible for control and supervision. These bodies are primarily focused on safeguarding budgetary funds and achieving the goals set by national and federal projects (refer to Figure 1).

Throughout all stages of the contract life cycle (refer in Figure 2), the system identifies budgetary risks, which include:

- Budget embezzlement by suppliers (contractors) during the procurement of goods, works, and services for state and municipal needs;
- Instances of corruption on the part of the client;
- Criminal attempts to embezzle budgetary funds.

Figure 1. Purposes and Outcomes of Budget Expenditure Monitoring

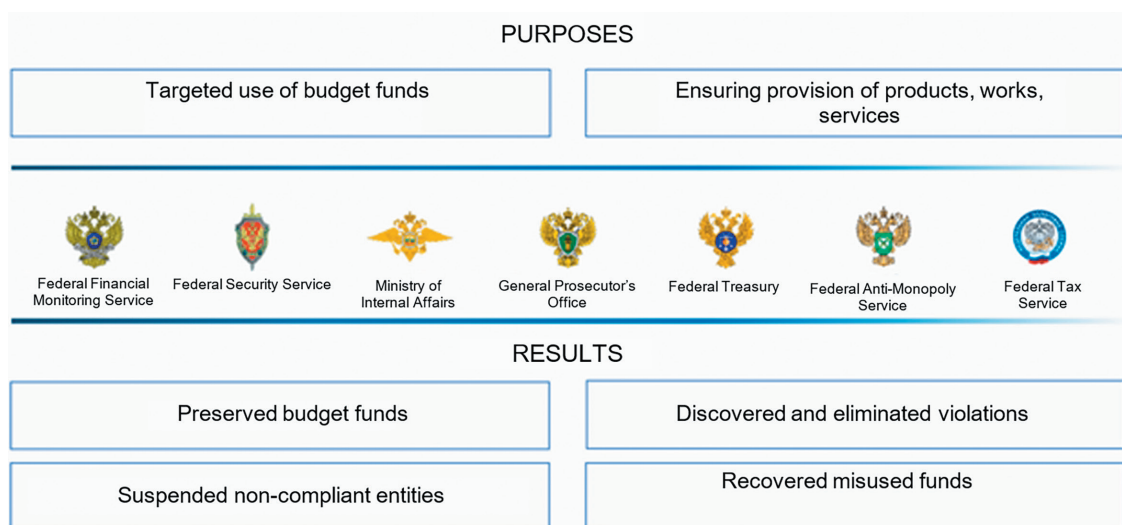
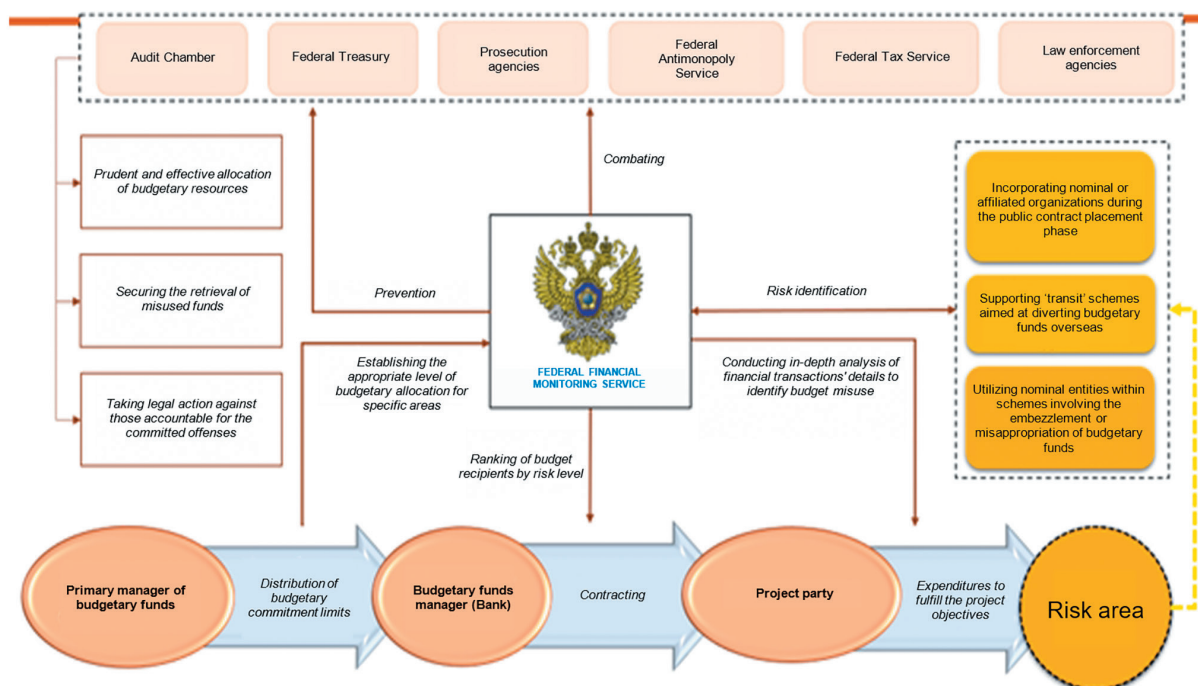


Figure 2. Procedure for Allocating Budgetary Funds for National Project Implementation



Budget monitoring and control entail the collection, analysis, and evaluation of information regarding participants in the budget allocation process and other economic entities, such as manufacturers and service providers who receive pertinent budgetary funding, including for the execution of public or municipal contracts and subcontracts. This process is carried out to identify potential money laundering risks within the budgetary domain, including instances of corruption, and to implement measures for risk mitigation.

In the course of analysing data from the Federal Treasury, credit organizations, and other sources within the Federal Financial Monitoring Service database, any identified money laundering risks associated with budgetary monitoring and control within the realm of corruption are reported to government authorities (such as supervisory and law enforcement agencies, prosecutor's offices, and others), the Bank of Russia, public clients, and credit organizations within their jurisdiction. This collaborative action is aimed to take appropriate measures to minimize such risks.

Relevant agencies have established a working group for enhanced control and mitigation of the risk of non-compliance or insufficient fulfilment of government contracts. This group is focused on devising fundamental approaches to risk management in achieving national development objectives at the National Projects Centre within the Analytical Centre under the Government of the Russian Federation. The Federal Financial Monitoring Service, in collaboration with the Federal Treasury, Federal Tax Service, Federal Antimonopoly Service, and other pertinent departments, has formulated a comprehensive list encompassing adverse occurrences, risk scenarios, potential consequences, results of response measures, and the array of measures along with their status and risk relevance. All this data is documented within the Management Government Automated System.

A pivotal tool in addressing new challenges and threats within the scope of budget expenditure is the comprehensive and multidimensional approach known as the 'Financial Security Zone', a strategy that has been implemented by the Federal Financial Monitoring Service since mid-2022.

The described approach is applicable at the agency, national, and international levels. It entails a comprehensive analysis and swift response to budget-related risks through the consolidation of resources, yielding results in interconnected domains. These include collaborations with financial institutions, international partnerships, and combating criminal entities, terrorism financing, and extremism. Essential components in executing this approach encompass resources from the Federal Financial Monitoring Service. These resources facilitate enhanced and expedited risk identification and response. The efficacy of this approach is manifest in accomplishing budgetary goals, safeguarding the budget domain from shadow activities, restitution of losses, de-criminalization.

As of early August 2023, notable year-over-year (YOY) changes are observed:

- with an increase in the number of public contracts within national projects, the proportion of contracts bearing risk (in relation to the total contract value) has declined, amounted to about 35 % this year from over 45 % in 2022.

Notably, for socially significant national projects, contract values in high-risk sectors such as 'Housing

and Urban Environment', 'Education', 'Healthcare', and 'Demography' have undergone reductions.

- The number of entities implicated in suspicious financial activity has declined, with this year witnessing a count exceeding 900, as opposed to over 1,000 in 2022.

Furthermore, the magnitude of transfers to 'technical' entities, as well as those linked to the 'cashing out' of funds, has also receded.

Rosfinmonitoring's joint work with supervisory and law enforcement agencies in the first half of 2023 made it possible to:

- suppress illicit trade-related activities totalling over RUB 24 billion;
- thwart budget embezzlement amounting to roughly RUB 3 billion;
- compensate for damages to the national budget, tallying approximately RUB 700 million.

Information concerning specific risks and their origins, systematically ascertained during public contract placement and execution, is communicated to regulatory, supervisory, and law enforcement entities for requisite action.

The potential outcomes stemming from effective interagency collaboration encompass:

- diminished risks of budgetary fund embezzlement and misuse;
- decrease in the count of economic entities implicated in dubious financial activity.

The aforementioned details regarding the outcomes of the Federal Financial Monitoring Service affirm the attainment of anticipated effects.

Joint endeavours alongside supervisory and law enforcement agencies, as well as regional authorities, have not only fostered the combatting of criminal activities, but have also thwarted misappropriation within socially pivotal national projects. Additionally, they have enabled the recovery of financial losses inflicted upon the budget of the Russian Federation.

AML/CFT NEWS

ROSFINMONITORING EMPLOYEES ATTENDED MENAFATF 36TH PLENARY WEEK

Representatives of the Federal Financial Monitoring Service have attended the 36th plenary week of the Middle East and North Africa Financial Action Task Force (MENAFATF) in Manama, Bahrain, as observers

The key items on the agenda included the reports on the mutual evaluation of Algeria's and Lebanon's national AML/CFT systems' efficacy, the report on the mutual assessment of Qatar conducted by MENAFATF jointly with the FATF, as well as the UAE's national anti-money laundering system progress review. Russian delegates actively engaged in the discussions.

Working group meetings and the plenary session addressed the necessary steps for the regional group's third round of mutual assessments, alongside technical assistance and typological matters.

The Russian delegation met with Mr. Suliman Aljabrin, Executive Secretary of the MENAFATF, and top officials from the regional group's Secretariat. These discussions aimed to explore possibilities for increased Russian involvement in these endeavors.

Russia also held a series of bilateral consultations and meetings with MENAFATF member states representatives on the sidelines of the Forum. Conversations with foreign partners focused on strengthening bilateral cooperation in the field of AML/CFT, developing technical assistance, and fostering interaction on specialized international platforms.



CIS LANDSCAPE DISCUSSED AT CIS CH FIUS MEETING

Almaty, Republic of Kazakhstan, hosted the 23rd Meeting of the Council of Heads of Financial Intelligence Units of the CIS Member States (CIS CH FIUs)

The event was attended by the heads of financial intelligence units of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan, as well as representatives of India, Iran, the CIS Executive Committee, industrial cooperation agencies, the International Training and Methodology Centre for Financial Monitoring, and the Government of the Russian Federation.

The Chairman of the Council, Mr. Yury Chikhanchin, opened the conference by underscoring the imperative of enhanced global collaboration in combating cross-border crime.

“Today’s Council meeting represents a consistent step in the development of our partnership aimed at addressing challenges that jeopardize the financial stability and overall security of the region,” stressed Head of the Federal Financial Monitoring Service.

The discussion encompassed the current situation in CIS nations, as well as novel anti-money laundering and counter-terrorism financing laws.



The speakers emphasized the effectiveness of the joint counter-terrorism and anti-drug operations Barrier and Channel.

The attendees also reviewed certain aspects of information exchange among FIUs, the development of the “Sodruzhestvo” International Research and Educational Digital Platform, and the launch of the International Money Laundering and Terrorist Financing Risk Assessment Center.

They also focused on member countries’ participation in the III International Financial Security Olympiad.

KAZAKHSTAN HOSTS 38TH EAG PLENARY MEETING

The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) had its plenary meeting in Almaty, chaired by Mr. Yury Chikhanchin, Director of Rosfinmonitoring

More than 200 participants from 20 countries attended the event, including representatives of EAG member states and observer countries, FATF members-states and Secretariat, FATF-Style Regional Bodies, the Republic of Azerbaijan and the UAE, the Egmont Group, and other international organizations.

The Plenary approved Kazakhstan and Turkmenistan’ mutual evaluation reports and received follow-up reports from Uzbekistan and Tajikistan, noting progress achieved in improvement of their AML/CFT systems.



Furthermore, the meeting examined the outcomes of the technical assistance rendered to EAG member states by the International Training and Methodology Centre for Financial Monitoring.

The EAG Secretariat also presented the first draft of the 2024-2028 Strategic Plan.

The 38th Plenary Meeting, held in Almaty, Republic of Kazakhstan, took place for the first time following the COVID-19 outbreak, had a high number of participants (almost 300). Every delegation was present in person

The agenda of the 38th Plenary was brimming with important events. The attendees approved two mutual assessment reports (Kazakhstan and Turkmenistan) as well as the Republic of Uzbekistan's progress report, which affirmed the country's adherence to standard monitoring practices.

The member states successfully ratified the effective amendments to the EAG Agreement.

The appeal of EAG events is steadily increasing, with new formats introduced within the framework of the Plenary Sessions, attracting representatives from diverse public bodies of member states. In addition to officials from the member states, delegations composed of independent observers and invited guests participated in the Second Forum of Parliamentarians. For the first time in Plenary's history, the Secretariat facilitated bilateral meetings between law enforcement agencies and the FIUs of EAG nations.

The Unified Information System for Technical Assistance Coordination, which was launched as part of the technical assistance coordination effort, has transformed and automated such processes as filing and processing of TA coordination applications, contract and provider search, and TA performance analysis.

Almost every topic on the agenda is of critical practical importance. Numerous decisions have been made regarding the establishment and enhancement of communication and information exchange at the supranational level.

The Plenary Week in the Republic of Kazakhstan had a unique atmosphere as well. Clearly, the delegations' amicable ties have strengthened, and the establishment of an efficient anti-money laundering and counter-terrorism financing system has taken a significant step forward.

Mr. Dmitry Vorobiev
Senior Administrator, EAG Secretariat

"The hallmark event of the Plenary Meeting was the expansion of the EAG family—the Council of Heads of Financial Intelligence Units of the CIS Member States (CIS CH FIUs) received the status of an observer. This developmental step appears quite natural, considering the already strong working ties between our organizations, particularly evident during the execution of the Regional Risk Mitigation Plan. All delegations emphasized the importance of collaborative work with the CIS CH FIUs and expressed optimism for future beneficial collaboration."

Mr. Mikhail Kolinchenko
Administrator, EAG Secretariat

"The Financial Monitoring Agency invested significant effort in preparing for the event. The best personnel were assigned to address organizational and procedural concerns, and they swiftly obtained all necessary approvals. Overall, teamwork was well-coordinated. The host party showcased the renowned Kazakh hospitality, an experience that international visitors are sure to cherish for a lifetime."

Mr. Sergey Teterukov
Executive Secretary, EAG

II FORUM OF PARLIAMENTARIANS OF EAG MEMBER STATES

During the EAG Plenary Week, lawmakers and representatives of financial intelligence units from Belarus, China, India, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan attended the II Forum of Representatives of Parliamentary Committees of the EAG Member States

The speakers included officials from the EAG observer country of Armenia, the Parliamentary Assembly of the Collective Security Treaty Organization, and the UN Office of Counter-Terrorism.

The Forum agenda, moderated by Mr. Nikolai Zhuravlev, Deputy Chairman of the Federation Council of Russia, covered issues of countering terrorist and

extremist threats at the legislative level, safeguarding young people from bad influence, and implementing Financial Action Task Force (FATF) standards.

Declaration, adopted as a significant outcome, emphasized the need for EAG member states to harmonize their legislative approaches in combating regional risks.

FEDERAL FINANCIAL MONITORING SERVICE REPRESENTATIVES ATTENDED 8TH BRICS CTWG MEETING IN PRETORIA

Pretoria, South Africa's capital city, hosted the 8th Plenary Meeting as part of the Republic of South Africa's leadership of the BRICS, as well as meetings of the working subgroups of the BRICS Counter-Terrorism Working Group (CTWG)

The events were held in person for the first time in several years.

The Russian interagency mission, led by the Russian Ministry of Foreign Affairs, comprised Federal Financial Monitoring Service members.

At the CTWG subgroup session, Russian financial intelligence officers presented the latest developments of the national anti-money laundering system. The address was well received by our international partners.

Furthermore, officials from the agency attended working subgroup meetings where they discussed battling terrorist combatants as well as the use of the Internet for terrorist purposes.

Representatives from China—the country presiding over the CTWG in 2022—gave their report during the Plenary meeting. Chairpersons from other subgroups and BRICS countries also presented reports on current terrorist threats.

On the margins of the event, a working meeting was held with the delegation from the Republic of South

Africa. The meeting explored ways to deepen and expand bilateral AML/CFT cooperation, as well as coordination with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

Bilateral meetings were also held with delegations from China, India, and Brazil.

South African partners displayed an exceptional level of organization.

Next year, Russia will assume the chairmanship of BRICS.

INTERNATIONAL COOPERATION IN FINANCIAL SECURITY PANEL DISCUSSION HELD IN ST. PETERSBURG

International Cooperation in Financial Security panel discussion took place on the margins of the Russia-Africa Economic and Humanitarian Forum, which was held in St. Petersburg



Mr. Yury Chikhanchin, Director of the Federal Financial Monitoring Service (Rosfinmonitoring), attended the event. One of the event speakers was Mr. German Neglyad, State Secretary – Deputy Director, Rosfinmonitoring. The Bank of Russia was represented by Mr. Ilya Yasinsky, Director of Financial Monitoring and Currency Control Department. Mr. Oleg Ivanov, First Deputy General Director of the International Training and Methodology Centre for Financial Monitoring, also joined the discussion.

Other active participants included His Excellency Judge Ahmed Saeed Khalil, Chairman of the Egyptian Anti-Money Laundering and Counter-Terrorism Financing Unit; Mr. Mohamed Rafik, General Manager of Egyptian Financial Intelligence; Mr. Muluken Dubale, Representative of the Eastern and Southern Africa Anti-Money Laundering Group Secretariat; as well as Mr. Sergey Teterukov, Executive Secretary of the Eurasian Group on Combating Money Laundering and Financing of Terrorism.

Mr. Nikolai Zhuravlev, Deputy Chairman of the Federation Council, acted as the discussion's moderator.

One of the session's key points was the misuse of modern information and financial technology for criminal purposes in both Russia and Africa. This covers phone and Internet fraud, as well as financial pyramid schemes in virtual space. Cryptocurrency is frequently used for money laundering, and criminality is often of an international character.

The participants discussed their international cooperation experience in countering these and other crimes, as well as relevant risk and threat mitigation. All participants agreed that no country can guarantee security without international collaboration. The relevant agencies and organizations must continue to cooperate in this area.

Rosfinmonitoring also had its own stand during the Russia-Africa Forum.

UN, ROSFINMONITORING AND EAG MEET IN MOSCOW TO DISCUSS COUNTERING THE USE OF VIRTUAL ASSETS FOR CRIMINAL PURPOSES

The Russian Institute of MGIMO hosted an international joint workshop of the UN, Rosfinmonitoring, and EAG. The event was dedicated to countering the use of virtual assets for criminal activity and the financing of terrorism

The representatives of UN Counter-Terrorism Centre, the Federal Financial Monitoring Service, the Eurasian Group on Combating Money Laundering and Financing of Terrorism, the Council of Heads of Financial Intelligence Units of the CIS Member States, the Regional Anti-Terrorist Structure of the Shanghai Cooperation Organization, and the CIS Anti-Terrorism Center took part in the event.

Besides, the workshop was attended by employees of public authorities and financial intelligence units

of partner countries, as well as the representatives of Russian and foreign research and educational organizations, the International Network AML/CFT Institute, the International Training and Methodology Centre for Financial Monitoring, crypto security organizations, and the finalists of the International Financial Security Olympiad.

Ms. Olga Tisen, a UN expert, moderated the workshop, which brought together over 200 participants from 12 countries.



Participants discussed practical methods to trace the seizure and confiscation of virtual assets intended for terrorism financing, as well as methods of proving cryptocurrency-related crimes. The attendees reported on cryptocurrency crime and its prevention, as well as on the role of artificial intelligence in countering crypto crime, the latest developments in this field, the regulation of virtual currencies, and international collaboration on these issues.

The theoretical discussion was followed by master classes delivered by international specialists in virtual assets.

The workshop participants' best practices will be used in the future to mitigate the misuse of virtual assets for terrorist financing purposes in conformity with international standards and FATF criteria. The workshop materials will be presented during the December EAG plenary meeting in China.

NEXT GENERATION

ROSFINMONITORING PROVIDES INTERNSHIP FOR REPRESENTATIVES OF PARTNER COUNTRIES' FINANCIAL INTELLIGENCE UNITS

The Federal Financial Monitoring Service (Rosfinmonitoring) hosted the Next Generation program for representatives of financial intelligence units from Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan

Mr. Yury Chikhanchin, Director of Rosfinmonitoring, Evgeny Primakov, Head of Rossotrudnichestvo, and Sergey Teterukov, Executive Secretary of the Eurasian Group on Combating Money Laundering and Financing of Terrorism, all attended the opening ceremony.

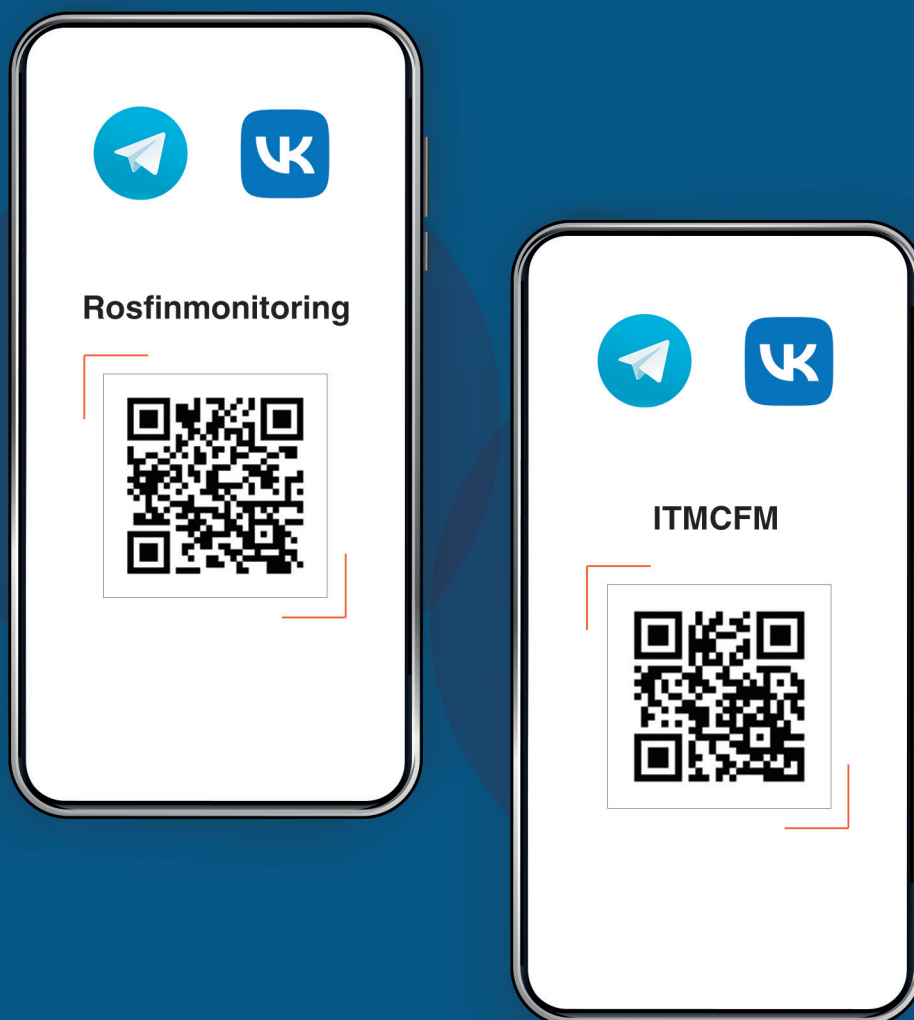
Mr. Yury Chikhanchin greeted the participants and wished them good luck. "You've already accomplished a lot," he said, "you excelled in your home nations, rose to the top, and came to Moscow. You are about to join a major worldwide movement where you'll be able to learn more about the best Russian practices, exchange experiences, interact with experts, and, most importantly, get to know one another. Take advantage of this chance. After all, new contacts mean new opportunities for you and your peers to flourish. Good luck!"

A week-long trip for young specialists included masterclasses, round tables, and interactive lectures by prominent experts of the Russian anti-money laundering system. The visitors also took part in cultural activities that introduced them to Russian history and traditions.

For reference:

The New Generation is a joint program between Rosfinmonitoring and Rossotrudnichestvo to exchange expertise among professionals from diverse departments as well as to foster direct interactions between experts and practitioners.

Rosfinmonitoring and ITMCFM in Telegram and VKontakte



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