

FINANCIAL SECURITY

NO. 11 *DECEMBER 2015*

V. MATVIENKO:

*“Strengthening
control of the
objectives set by
The Russian President
in the field of raising
budget use effectiveness
is essential”.*



FINANCIAL SECURITY

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DEAR READERS!



As I present to you the last issue of the Financial Security magazine in 2015, I traditionally wish to take a moment to look back at the passing year's biggest highlights.

It was a tough year for all of us. And although many at the end of 2014 hoped this time last year that the upcoming year would give us some respite, it was not to be. Instead, as Russian President V. Putin aptly put it at his annual news conference on December 17 when talking about one's life consisting of white and black stripes: "Looks like it was the white one last time."

2015 can be described not so much as a difficult year as a turning point for both Russia and the entire world. It will be remembered for rapidly changing geopolitics, exemplified by the emergence of new tension hotspots, rising of old threats and fresh challenges.

New fronts were also opened in Russia's battle against money laundering. And although we continued to work on addressing the tasks set to us earlier – defending the country's financial system – the emergence of new challenges meant that we had to revise our list of priorities.

First of all, I am talking about terrorism, which has transcended the borders of individual states to evolve into common evil that we must now fight together and at all levels. We are being challenged and must respond. It is time for the international community to join efforts in a fight against the global risks that threaten the established system of international security. Having transformed itself into a centre of gravity for all terrorists, ISIL has exposed the growing problem linked to its use of foreign fighters. The bloody terrorist attacks that shook the civilized world's conscience prompted the FATF to convene a special session in Paris in December 2015 to discuss a rapid response to the on-going escalation of terrorism. In light of the growing ISIL threat, the FATF has resolved to tighten its counter-terrorist financing standards. In order to better understand and reflect the volatile nature of

risks, it plans to revise its entire strategy (read more about this on p. 27).

During the plenary, the Russian delegation called for the incorporation into the FATF standards of the UN Security Council Resolution 2199 provision and delivered a presentation titled "Russia's Approaches to Emerging ISIL Funding Risks", which was enthusiastically received by the participants.

For the Russian financial intelligence authorities, one of the main tasks in 2015 was to fulfil the instructions of Russian President V. Putin included in his address to the Federal Assembly of the Russian Federation on December 4, 2014: to tighten control over defence procurement. This work resulted in amendments to the Federal Law "On the State Defence Order" and other regulations, as well as in additional powers for Rosfinmonitoring to monitor transactions related to defence procurement. These powers are based, on the one hand, on a more effective application of the national anti-money laundering mechanisms and, on the other, on brand new opportunities for monitoring transactions carried out by supervised banks (read more about this on p. 10).

Another alarming issue of the passing year is represented by existing risks and threats to the country's economy. This, however, is no accident, given the financial turmoil the modern world has found itself in. The crisis continues to rage on unabated. All attempts to deal with it using traditional methods bring no relief, while the "recipes" for healing economic woes proposed by some "gurus" elicit only a sceptical smile.

On 1 November 2016, Rosfinmonitoring will celebrate its 15th anniversary. Looking back at the start of our work on the country's first anti-money laundering legislation, it is hard to believe that only a few years later the Russian AML/CFT system would be recognized as one of the most effective in the world.

Time has come for all of us to revise our *modus operandi* in order to be better prepared for attaining new goals and addressing emerging challenges. Hopefully together we will overcome all difficulties!

I wish all of you a happy and prosperous New Year!

***Sincerely yours,
Yury Chikhanchin***

COVER STORY

FAFT RECOGNIZED OUR ANTI-MONEY LAUNDERING AND TERRORIST FINANCING SYSTEM AS ONE OF THE WORLD'S BEST

*Valentina I. Matvienko,
Russian Federation Council Speaker*



Valentina I. Matvienko

Our country is currently going through a very difficult period, perhaps one of the toughest in Russia's modern history. It is characterized by numerous challenges facing us in the economic, financial, international relations and other spheres. The biggest of these challenges are the falling oil and other commodity prices, which have traditionally been the mainstay of our economy and major sources of export revenues; the ruble exchange rate volatility; capital flight; economic sanctions; and restricted access to the world's financial markets.

This list should also include the impact on Russia of the current negative trends in the global economy. However, this does not mean that the challenges faced by our country will remain insurmountable for the foreseeable future. Despite its complexity, the current situation is by no means critical. The measures we are taking to overcome the crisis and boost economic growth are already yielding first positive results. The effectiveness and impact of these measures depend on the country and business community's ability to adjust to the changing realities, including financial conditions. It would be no exaggeration to say that the pace of the country's economic and social development and our ability to deal with the current challenges depend, to a large extent, on the foresightedness and consistency of the Russian government's financial policy.

In this regard, we should note the coordinated work of executive and regulatory authorities, including the Federal Financial Monitoring Service, Federal Anti-Monopoly Service, Federal Tax Service, etc. I separately want to highlight the success achieved by Rosfinmonitoring and its management and employees in building an effective system for combating money laundering and blocking terrorist financing flows, an achievement that has been recognized both at the federal and international levels, as well as by the Financial Action Task Force on Money Laundering (FATF), which ranks our anti-money laundering and terrorist financing system among the best in the world.

It is well known that ISIL, whose activities are banned in Russia, and its affiliates receive funding from individuals and companies representing no fewer than 40 countries. Given the scale of the group's activities, the need to further improve the arsenal of tools used in the fight against it is clear. To this end, the Federation Council and the State Duma are working together to draft new laws designed to improve the effectiveness of this fight, including in the financial sector. At the same time, we are fully aware of the importance of closer engagement with relevant agencies from other countries and international organizations, especially with the FATF. We must be persistent in our calls for the use of effective economic and financial sanctions, various prohibitions and restrictions against countries and businesses involved in the provision of terrorist support.

As parliamentarians, we keep in sight all financial initiatives of the government, and stand ready to deepen our cooperation with the Federal Financial Monitoring Service, FAS, and other concerned

ministries and agencies. The result of this work should be the development of effective regulatory mechanisms designed to strengthen our country's financial security.

Strict parliamentary oversight over budget expenditure

In this work, I would place the government's fiscal policy at the top of the priority list. Although the 2016 budget has passed its final reading, given the current state of the domestic economy, the situation in the global markets and tensions in the country's international relations, its fulfilment will require considerable effort from all of us. Still, this is a realistic budget. The resources earmarked in it are sufficient to help us weather severe turbulences, including a deeper-than-forecast fall in the oil prices and ruble/dollar exchange rate. Our priority however is not budget disbursement, a process which often leads to thoughtless expenditures, but rather a shrewd and judicious use of budgetary funds. Targeted and efficient expenditure of public resources coupled with strict government oversight is, in my opinion, key to the budget stability and efficiency.

To achieve these goals, we need, first of all, to significantly reduce the country's dependence on oil prices, a task that was clearly articulated in the Presidential address. To this end, we should, as a priority measure, tap the budgetary revenues generated through more efficient tax collection and administration. After all, it is common knowledge that poor collection of exercise duties on alcohol alone costs the country as much as RUR200 billion per year in lost revenues, enough to completely cover the 2016 pension fund shortfall.

In August, the President also approved a list of instructions intended to boost the effectiveness of budget funds allocation and encourage their preservation. It is obvious that we also need to work on improving the oversight structure, a task where an important role must be reserved for the parliamentarians of both federal and regional levels.

Deoffshorization and fiscal regulation challenges

In light of Russia's continued problems with capital flight, the Federation Council has been actively working over the past few years to improve

legislation in this area. One of the outcomes of these efforts was the enactment on 1 January 2015 of the Federal Law of November 24, 2014, which makes it mandatory for all Russian taxpayers to disclose information on their participation, both direct and indirect, in foreign enterprises starting April 1, 2015. This, however, has not fully happened yet, meaning that we must continue our work here. We, legislators, believe that the focus should be, first, on the adoption of a package of anti-offshore laws and, second, on the establishment of an effective mechanism for monitoring their implementation. Since we are talking about anti-offshore legislation, the monitoring mechanism should involve constructive cooperation with foreign law enforcement authorities and international organizations.

We also believe that it is necessary to take steps to improve the country's capital amnesty law to boost the speed of repatriation of assets syphoned out of Russia in violation of tax, currency and customs laws. We should examine the reasons for the slow pace of repatriation. I believe this law should include both a more detailed description of the legal mechanisms on offer and a host of new incentives designed to encourage the return of capital to Russia. In other words, the focus should be on the carrot rather than stick.

Reducing debt burden on regional budgets and tackling inappropriate expenditure

The financial health of the constituent entities of the Russian Federation is undoubtedly one of the factors directly affecting the country's economic security. Today, unfortunately, it leaves much to be desired: the regions' debt has exceeded 2 trillion rubles. Although the Federation Council has helped increase the volume of budget loans allocated to the regions from RUR140 billion to 310 billion, the problem of unbalanced regional budgets remains unresolved. According to the Finance Ministry, the total budget deficits attributable to Russian regions will stand in 2016 at RUR412 billion.

In this situation, the task of exercising stricter control over state allocated resources and helping regions to boost local revenues becomes particularly relevant. The fastest way for the regions to achieve this goal is to fulfil, to the fullest extent possible, their own potential, be it environmental, economic, social or human. Today's reality, however, tells us that only very few Russian regions cannot, for



obvious reasons, become completely self-sufficient. The experience of successful regions shows that if you create the right growth strategy – which must include measures to identify growth areas, create a favourable business climate, encourage investment, effectively manage human resources and aggressively fight corruption – and then persevere its implementation, you will not have to wait long to see the results.

Unfortunately, we must acknowledge that we have not yet been able to address the problems related to public procurement in the regions, as the cost of transgressions identified there by oversight authorities every year continues to run into dozens and even hundreds of billions of rubles. One of the ways to deal with this malice is to automate all key stages of the procurement process. The introduction of integrated procurement and trading software systems in some regions has shown that this does lead to a more transparent procurement process. The next step is to facilitate the adoption of this practice across the country.

I do not wish to indulge in recounting all the problems we face; instead, I would like to dwell on those issues whose resolution is in the hands of parliamentarians. By signing the law on the budget, President V. Putin has approved the provisions designed to give parliaments more power over the budgetary process. All we need to do now is ensure their active and skilful implementation.

As is well known, parliament is currently working on a new version of the Budget Code. It is essential that this document should help render intergovernmental fiscal relations more balanced and encourage regions to strengthen their own economic potential. In this regard, it is important to make sure that it contains provisions

that make delegation of new powers to the regions impossible without the accompanied allocation of sufficient funding needed to fulfil them. As a voice of regional authorities, the Federation Council will work hard to make sure that no changes in the government's fiscal policy lead to a deterioration of the situation in the regions, or, where they do, they are accompanied by measures designed to compensate regions for lost revenues.

Furthermore, I see the need to make an inventory of all state programs and establish clear mechanisms for evaluating their effectiveness. Decisions to finance a project must be taken with

account for the impact the planned activities will have on the GDP growth, living standards and clarity of the final result.

As you can see, we have our hands full. But that should not frighten us. All these challenges can be, and already are being, addressed through close engagement with the representatives of legislative, executive, fiscal and law enforcement authorities.

I sincerely wish you and all your nearest and dearest a very happy, prosperous and healthy New Year!

As long as we work hard together, we will definitely succeed!

FINANCIAL MONITORING OF DEFENCE PROCUREMENT TO BEGIN IN EARNEST IN EARLY 2016

Galina V. Bobrysheva,
Rosfinmonitoring Deputy Director



Galina V. Bobrysheva

The enactment of the law **“On the State Defence Order” on 1 September 2015 (as amended)** was the starting point for a state-run campaign to tighten controls over defence procurement. The new law was drafted in compliance with the list of the Presidential instructions No. Pr-2821 dated December 5, 2014, contained in the **Presidential Address** to the Federal Assembly of December 4, 2014.

In its role as one of the participants in the **interagency system of defence procurement oversight**, the Financial Intelligence Unit is responsible for analysing transaction data submitted by financial institutions in accordance with Federal Law No. 275-FZ of December 29, 2012 "On the State Defence Order" and Federal Law No. 115-FZ of August 7, 2015 "On Anti-Money Laundering and Terrorist Financing".

Under the new system of oversight, Rosfinmonitoring's powers to monitor defence procurement transactions – which, on the one hand, are based on a more effective application of the national anti-money laundering mechanisms and, on the other, on new opportunities for monitoring transactions carried out by supervised banks – have been expanded.

Other advantages of the newly created system include the possibility to assess the risks linked to the financial behaviour of defence contractors through the use of the banks' internal control systems designed to detect suspicious financing transactions based on specified risk profiles.

One important aspect is the ability to **implement preventive measures** based on the assessment of contracts and contracting parties along the entire cooperation chain, and the evaluation of attending transaction risks.

These measures primarily include the ability to refuse to carry out high-risk transactions, as well as to suspend them, thereby preventing the misuse of funds linked to defence procurement.

It is worth noting that in the interagency system of defence procurement oversight, **Rosfinmonitoring performs the functions of an analytical centre tasked with detecting the risks of nonfulfillment of defence orders.**

I would like to emphasize once again that the idea of creating an interagency system for monitoring defence procurement is based on five mutually supportive elements:

- *banking support* as a key tool of preliminary and on-going operational control;
- *monitoring by the government customer* during all phases of the state contract lifecycle;
- *anti-money laundering mechanisms* as a tool for assessing the risk of defence contract nonfulfillment;

- *control over pricing and compliance with defence procurement legislation* by FAS;
- *use of subcontractor management tools* by chief defence contractors.

Interaction among the system participants is based on the principals of **information sharing**, which enable the creation of information resources necessary for the proper functioning of each of these elements.

To understand the role played by anti-money laundering mechanisms in the system of defence procurement oversight, it is important to understand the **general algorithm** for combating money laundering. The essence of this algorithm, which is developed by each country on the basis of international standards, is as follows: financial institutions (banks, insurance companies, securities market participants and other financial services providers) conduct customer due diligence measures, which include the identification of customers and beneficial owners and implementation of the so-called internal customer transactions controls. These measures help banks identify transactions that exceed the designated threshold or match specific risk profiles.

Information about such transactions is then submitted to financial intelligence units for further analysis and, where there is sufficient evidence pointing to money laundering or terrorist financing, transfer to law enforcement authorities.

In Russia, the functions of a financial intelligence unit are performed by Rosfinmonitoring, which traditionally shares its intelligence with the Interior Ministry, the Federal Security Service, Prosecutor General's Office and other law enforcement authorities. Here I would like, once again, to emphasize that the **initial warning about suspicious transactions and customers at risk of involvement in shady schemes comes from banks and other financial institutions.**

Nowadays, banks have the technology that allows them to prevent high-risk transactions at an early stage and refuse to carry out transactions of customers involved in illicit schemes. The information about these customers and transactions is also submitted to the financial intelligence unit.

In general, since its establishment 14 years ago, the Russian anti-money laundering system has proven its effectiveness at cleansing the business and financial sectors of unfair practices. The credit

for this success must, of course, be shared among all system participants, from financial institutions, to the Bank of Russia and other regulators to law enforcement authorities. And it is for this reason that a decision was taken to use the potential of the country's anti-money laundering system to supervise defence procurement.

Targeted efforts undertaken jointly with the Defence Ministry officials in respect of certain procurement contracts have shown that the **lack of transparency in defence procurement encourages the creation of embezzlement schemes involving the use of intermediaries** engaged in the supply of non-existent goods and services, the proceeds from which are then transferred abroad, converted into cash and spent on luxury items and real estate. Meanwhile, the fulfilment of these defence contracts is put in jeopardy, while the work on them requires additional funding.

There can be no doubt that Rosfinmonitoring's work in supervising defence procurement has its particularities compared to its role in the anti-money laundering system.

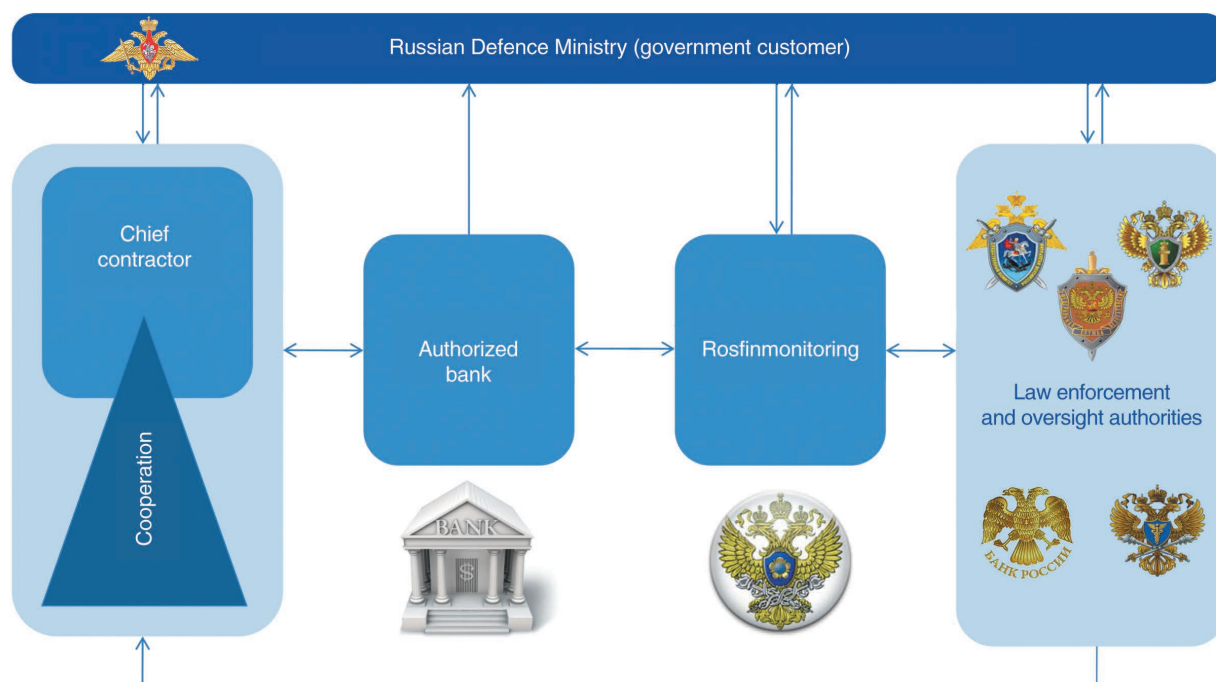
Firstly, the system provides for a high level of transparency in the flow of funds in the system of individual accounts, as well as the use of a rather high threshold of RUR50 million for transactions

subject to mandatory controls between individual accounts.

Although our goal does not lie in ensuring total monitoring of all business transactions, the experience of using the anti-money laundering system shows that its standard mechanisms also apply to individual accounts in authorized banks used for defence procurement transactions, as well as to all other accounts held by defence contractors in other banks. **Transparency in the defence procurement process is only possible when you have a complete picture of the movement of funds and financial ties.**

The second distinguishing feature of the system is its focus on prevention. The law provides for a clear list of prohibited transactions, while all attempts to carry them out are closely monitored, including by the Financial Intelligence Unit.

A list of preventive measures includes **suspension mechanisms**, which are currently applied sparingly. They are used in respect of transactions that allow transfers of funds from a closed system of individual accounts to an open system of settlement accounts in any credit institution under certain conditions. In this case, the bank is not obliged to apply this mechanism, unless it considers it necessary. The suspension



period must not exceed 5 business days, during which the bank must notify the chief contractor. The chief contractor must then confirm to the bank the necessity of such a transaction. The main purpose of this mechanism is to send a signal to the chief contractor.

A list of these criteria, established by the Bank of Russia in consultation with Rosfinmonitoring, includes five indicators. Probably, a subsequent analysis of law enforcement practice may lead to the criteria adjustment.

Finally, the most important feature of the system that involves the use of anti-money laundering mechanisms for control over defence procurement is that the outcomes of the work to identify the risks of non-fulfilment of defence contracts will be passed on to the government customer: until 1 January 2017 to the Defence Ministry, and thereafter to other customers connected to the system. In other words, the main users of the information on the expenditure of funds will be the agency that places a defence procurement order.

The new system includes a number of mechanisms that have already proven their effectiveness in practice. Among them are not only anti-money laundering mechanisms but also the mechanisms of banking supervision over major investment projects, which have been used by

banks for over a year now, including pricing and process audits. Back in the Soviet times, there was also a well-functioning system of preliminary control over payments made by state banks, including by the Soviet Promstroibank, whereby costing bills and other documents confirming the performance of works were closely monitored.

As of now, a list of authorized banks that meet the criteria established by Federal Law No. 275-FZ of December 29, 2012 "On the State Defence Order" includes 9 financial institutions: Gazprombank, VTB Bank, Sberbank, Bank of Moscow, Russian Agricultural Bank (included in the list on the basis of Government Order No. 1702-r dated September 1, 2015), AB Rossiya, Russian Capital, Novikombank and Vnesheconombank.

Rosfinmonitoring's involvement in finding solutions to these problems allows us to take advantage of the specifics of the **system for combating illicit financial transactions and money flows**. After all, **Rosfinmonitoring's database of suspicious transaction reports is unique, comprising over 100 million records on approx. 12 million individuals and legal entities**. Its collection of finely tuned methods and techniques allows it to identify at an early stage and prevent the misuse of funds allocated for state defence orders.

Rosfinmonitoring's functions in the system of defence procurement oversight



It is important that both businesses and authorized banks take steps to prepare themselves for the full launch of the system of financial oversight over the defence procurement process starting January 1, 2016.

Recalling the launch of our field-specific law 115-FZ "On Anti-Money Laundering and Terrorist Financing", I would like to remind the readers of the arduous process of adaptation to this law undergone by banks and other financial institutions, of the doubts and misconceptions. Those times

are over though, as today the Russian banking system is ready to work hand in hand with the state on issues of government oversight, ensuring transparency and stability of the financial system and the economy as a whole.

I am confident that we will overcome all those difficulties and frictions attributable to any transition period, allowing us to improve the quality and efficiency of financial management not only in the field of defence procurement but also the defence industry as a whole.

RUSSIAN PRESIDENT V. PUTIN MEETS ROSFINMONITORING DIRECTOR YU. A. CHIKHANCHIN

Vladimir Putin had a working meeting with Director of the Federal Financial Monitoring Service Yury Chikhanchin. In the run-up to the special session of the Financial Action Task Force on Money Laundering (FATF), Mr Chikhanchin told the President about the Russian initiatives to fight the financing of terrorism

V. Putin: Mr Chikhanchin, you were going to meet with colleagues from the FATF and discuss combatting the financing of terrorism.

Yu. Chikhanchin: That's right.

V. Putin: What proposals are they working on?

Yu. Chikhanchin: In the coming days, the FATF will hold its special session. This has to do with the decision made by the G20 summit, where you spoke and raised the issue of terrorist financing. The Russian delegation is going and we will raise several issues.

The first issue pertains to UN Security Council Resolution No. 2199. We suggest criminalizing, or freezing, economic resources, first and foremost, oil, oil products, cultural assets and

everything else. We will insist on the adoption of a new standard and for all countries to adhere to this decision.

The second issue we would like to draw attention to is the creation of a unified international list of terrorists – in other words, individuals who participated in ISIL-led activities. These are the people who participated and went back, and there should be a Security Council resolution about them, as with the Al-Qaeda list. We believe this is justified. Naturally, this should be followed by corresponding measures, i.e. freezing these people's assets, imposition of other sanctions, and so on.

The third set of issues we would like to raise has to do with identifying financial centres and



financial institutions used by ISIL, and taking corresponding measures directly in the country involved.

V. Putin: To monitor money wires.

Yu. Chikhanchin: Yes, through money wires, as you also said at the G20 summit. We currently have a methodology, and we will try to explain it at a certain point. Moreover, I would like to say that this methodology has been launched in the CIS countries under the auspices the CIS heads of financial intelligence.

We have proposed it and already talked it through with several countries, shared our methodology, particularly with our Australian colleagues. They were able to use our methodology to identify several people participating in ISIL, and appropriate actions are being taken. The same is true for South Korea. Today, we are working with Armenia and Kazakhstan. In other words, the methodology is yielding results. We would like for the entire world to try it out. That is our primary objective, our main goal for this visit. I will report to you about the results.

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RUSSIA AND ITS PLACE IN THE INTERNATIONAL AML/CFT SYSTEM

RUSSIA TAKES ON LEADERSHIP OF EURASIAN GROUP

The 23rd Plenary of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) ended on 13 November in Moscow

*Konstantin V. Litvinov,
Deputy Editor in Chief*

*Anna V. Bulaeva,
Reporter*

The events of the Plenary week were attended by the delegations of all the EAG member states (Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan), representatives of the international EAG observer and partner organizations, including the CIS ATC, SCO RATS, UNODC, CSTO, the World Bank etc., as well as the EAG observer countries (Armenia, Italy, Korea, Poland, USA, Turkey and France). A list of the plenary participants also included President of the Financial Action Task Force on Money Laundering Je-Yoon Shin of South Korea.

One of the most significant outcomes of the Plenary was the election of Rosfinmonitoring Director Yury Chikhanchin to the post of EAG Chairman, who replaced India's Ajay Tyagi. The Rosfinmonitoring Director had already acted as EAG Chairman from 2011 to 2013. The post of EAG Deputy Chairman went to Kyrgyzstan's FIU Director Melis Mambetzhonov.

Among the high-profile events of the week were the removal of Turkmenistan from the EAG follow-up process, granting observer status in the EAG to South Korea and the signing of a bilateral agreement on AML/CFT information sharing between the FIU heads of Armenia and Kazakhstan.

During the Plenary meeting, participants listened to the presentation dedicated to the International Training and Methodology Centre for Financial



Monitoring (ITMCFM, Russia), which is celebrating its 10th anniversary this year. The presentation was delivered by the ITMCFM Director Oleg Ivanov, and contained information on its history and stages of development.

In line with the established tradition, the autumn EAG Plenary included a contest for the best financial investigation. After listening to three presentations, the jury awarded the prize to an investigation by Uzbekistan's FIU.

The Plenary ended with the adoption of the final communiqué.

The next, 24th, EAG Plenary will be held in June 2016 in Astana, the capital of Kazakhstan.

A joint EAG/Anti-Terrorist Centre of the Commonwealth of Independent States (CIS ATC) workshop titled "Strengthening Cooperation between Financial Intelligence Units and Law Enforcement in Investigating Terrorist Financing Crimes" was held in Moscow on 11 November 2015 as part of the 23rd Plenary week of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).

The event was attended by representatives of Armenia, Azerbaijan, Belarus, India, Kazakhstan, China, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkey, Turkmenistan, Uzbekistan, as well as the CSTO and the SCO RATS. Its key objective was experience sharing in order to better understand the capabilities of financial intelligence units and the needs of law enforcement authorities in combating terrorist financing.

Welcoming remarks to the participants were delivered by the EAG Executive Secretary Vladimir Nechayev:

"The CIS ATC has held an observer status in the EAG only for a year, but we're already holding a joint workshop. In September this year, in Moscow, we held a joint workshop with UNODC and ITMCFM on a similar subject: 'Strengthening Cooperation between Financial Intelligence Units and Law Enforcement in Combating Drug-Related Money Laundering', organized with the assistance of UNODC Regional Program for Afghanistan and neighbouring countries.

The goal of the Eurasian Group as a FATF-style regional body is to assist in the establishment and monitoring of the system for combating money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. We can use the resources available to us to help other countries in information sharing and staff training.

The traditional system that existed in every country for a long time was source -based; the new anti-money laundering system is based on the implementation of international resolutions of the UN Security Council, the FATF Recommendations and on the information provided by financial institutions. In this case, we're talking not only about financial institutions but also non-financial and, above all, non-profit organizations, which, although often held in high public regard, could be used for terrorist financing purposes.

I can assure you of the Eurasian Group's intentions to do our utmost to further strengthen



cooperation with the CIS ATC and assist countries in developing competences in this and other areas."

Acting on behalf of the Anti-Terrorist Centre of the Commonwealth of Independent States, Oleg Zemskov, head of CIS ATC, presented a thank-you note reading as follows: "To the Eurasian Group on Combating Money Laundering and Financing of Terrorism for an Invaluable Contribution to Strengthening Coordination and Cooperation among Public Authorities of the Commonwealth of Independent States in the Fight against Terrorism" to the EAG leadership, as well as commemorative medals "CIS ATC's 15th Anniversary" to the EAG Executive Secretary, V.P. Nechayev; the Deputy Executive Secretary and EAG Senior Administrator, A.M. Seleznyov; and the head of the Department of Financial Analysis & Financial Investigation Initiatives of Rosfinmonitoring's Anti-Terrorist Directorate, E.A. Mozgov.

Reference

The Commonwealth of Independent States Anti-Terrorism Centre (CIS ATC), established by the decision of the Council of the CIS Heads of State on June 21, 2000, is a permanent specialized institution of the CIS responsible for coordinating the activities of the CIS competent authorities in combating international terrorism and other acts of extremism.

The Council of the CIS Heads of Security Bodies and Special Services is responsible for the overall management of the Centre's activities.

The workshop ended with an agreement between the EAG and the CIS ATC to continue the joint fight against terrorist financing.

FOCUS ON COMBATING TERRORISM

The 6th meeting of the Council of Heads of Financial Intelligence Units of CIS Member States (CHFIU CIS) was held on 11 November in Moscow

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

The meeting was attended by CHFIU Chairman Yuri Chikhanchin, representatives of the Council member states, Executive Secretary of the Eurasian Group on Combating

Money Laundering and Financing of Terrorism (EAG) Vladimir Nechayev, representative of the CIS Executive Committee Albert Druzhinin, and representatives of India's FIU.





Much of the participants' attention was devoted to combating terrorism, and in particular to the highly relevant problem of ISIL. In order to mitigate the risk of arrival of individuals involved in the activities of international terrorist organizations in the territories of the CIS member states, a decision was taken to step up information sharing efforts among the CIS FIUs in this area and adopt adequate response measures.

A proposal by the Financial Monitoring Committee of Kazakhstan's Finance Ministry to establish an electronic library of the national lists of persons and entities involved in terrorist activities and financing of terrorism in the territory of the Commonwealth of Independent States received unanimous approval. To this end, Kazakhstan's FIU and the CHFIU Secretariat were tasked with drafting a document

that would govern the establishment and use by the CIS member states of this electronic library.

Participants discussed the draft versions of the CIS Cooperation Strategy for Combating Money Laundering, Terrorist Financing and the Financing of Proliferation of Weapons of Mass Destruction, and the CIS Treaty on Combating Money Laundering, Terrorist Financing and the Financing of Proliferation of Weapons of Mass Destruction.

During the examination of the agenda items, the Council members approved the status of India's FIU as a CHFIU observer along with the Council's emblem.

The next meeting of the Council of Heads of Financial Intelligence units of CIS Member States will take place in Astana, the capital of Kazakhstan, in June 2016.

NETWORK EDUCATIONAL INSTITUTIONS PROVED THEIR EFFECTIVENESS

Vladimir V. Godin,

*President of the Association of BRICS Business Schools (ABBS) 2013-2015,
Doctor of Economics, Professor, Head of the Information Systems Department
of the State University of Management*



Vladimir V. Godin

During the FATF meeting in Paris in February 2015, network Anti-Money Laundering and Terrorist Financing Institute and the Association of BRICS Business Schools (ABBS) signed a Memorandum of Understanding, whose goals include creating opportunities for the BRICS personnel training in the field of financial and economic security, conducting joint research and developing educational ties.

In their quest to take advantage of the newly created opportunities, network AML/CFT Institute and the Association of BRICS Business Schools (ABBS) organized a joint international scientific and practical conference titled "Risks and Threats Faced by BRICS Economies", held from 10 to 12 November

at NRNU MEPhI (Moscow). The event was organized with the assistance of the Presidential Executive Office of the Russian Federation, Federal Financial Monitoring Service, Ministry of Education and Science, Federal Agency for Scientific Organizations and the Russian Academy of Sciences.

The conference was opened by Yu. A. Chikhanchin, Director of the Federal Financial Monitoring Service and Chairman of the network AML/CFT Institute Board. In the speech he stressed the importance of the efforts aimed at training professionals capable of raising the level of financial capacity and contributing to the transparency of both businesses and non-profit organizations. In his view, the growing complexity of economic entities' organizational, functional, economic and financial structures has created a demand for specialists with additional interdisciplinary skills. One of the institutions specializing in the training of such versatile specialists is the National Research Nuclear University MEPhI, a base of network AML/CFT Institute, whose graduates from among financial and economic security experts boast a wide range of skills and knowledge, including modern information technologies.



Among other high-profile attendees of the conference were Mikhail N. Strikhanov, MEPhI's Rector, Alexander A. Klimov, Deputy Minister of Education and Science, and Mikhail M. Kotyukov, Head of the Agency of Scientific Organizations.

The key theme of the conference was the concept of interdisciplinarity, which brought together not only academics and higher education specialists but also representatives of the economic sector, contemporary business education, civil servants and professional associations. The specificity of this theme was highlighted in his speech to the conference participants by one of the ABBS

founders, Professor Joseph Philip. According to him, the conference was unique in terms of both participant mix and formats: roundtables, panel discussions, presentations of projects, sports activities, etc. The professor noted that every year about 2,300 MBA graduates from India join the discussion in the framework of a single intellectual space of economic and financial security of the BRICS countries. An important feature of this space is its reliance on networking, a concept that allows the leading educational institutions and business schools to combine their intellectual potential in the field of economic security. In this context, the conference events included a roundtable discussion between representatives of the Russian Association of Business Education (RABE), which is celebrating its 25th anniversary this year, and the Association of BRICS Business Schools, whose participants proposed a number of initiatives designed to strengthen ties among various BRICS business schools, including joint research projects and publications. Head of the business school of Guangdong University of Foreign Studies (GDUFS, China) Yuan Denhua stressed the importance of creating a professional network, which allows its participants to meet each other not only at conferences but also on a more regular basis. Dr. Denhua also pointed out that, unlike Russia, China does not have a single association of business schools, which makes membership in the ABBS and close engagement with network AML/CFT Institute and RABE even more valuable.

Several presentations made at the conference were devoted to specific AML/CFT research tools. One of them was a highly interesting presentation by Valery L. Makarov, academician of the Russian Academy of Sciences and Director of its Central Economics and Mathematics Institute, dedicated to the subject of project modelling.

During the second day of the conference, participants took part in several key discussions that highlighted the involvement of big corporations in the process of creating a common educational platform in the area of economic security, anti-money laundering and compliance. Thus, much interest was devoted to a roundtable on compliance, a subject whose relevance in the BRICS space has grown considerably in recent years. Representatives of major Russian businesses expressed their vision of personnel training issue in the field of economic security during a roundtable titled "The Real Business and Business Education".

Separate attention should be reserved for the 7th BRICS Student Forum, which took place during the conference. The forum of BRICS students, which has become a regular feature of the ABBS conferences, was held this time in a wider format. Besides business school students, it was attended by postgraduate students from such Russian universities as MEPhI, State University of Management, Lobachevsky University, Rostov State University of Economics, Moscow Financial and Law University, Financial University under the Government of the Russian Federation, Buketov Karaganda State University, Sevastopol State University, Ivanovo State University and others. The attending students were particularly enthusiastic about the BRICS Universiade, a traditional for all student forums sporting event that is organized jointly with the sporting organization Dynamo No. 33 and the Central Sports Club of the Russian financial authorities.

As part of a team project, students presented their vision of the future international financial and economic regulator. In their projects, students highlighted the deficiencies of the existing unipolar system, the instability of financial institutions in crisis, and the fact that the global financial regulatory system is often used as an instrument to exert political pressure, forcing countries to adopt economic and financial measures that harm their economies and, in particular, small businesses.

Among the winners of the team projects were students from the business school of Guangdong University of Foreign Studies (China), Xavier Institute of Management and Entrepreneurship (India) and Sevastopol State University (Russia). They proposed original approaches to solving the problems of centralized financial regulation that took advantage of both international experience and national specifics of the BRICS countries.

The conference also included several traditional organizational events such as meetings of the Board of network AML/CFT Institute and the Board of the Association of BRICS Business Schools. Members of the ABBS Board agreed to hold the next conference and the 8th Student Forum in November 2016 in Bangalore (India).



In general, both the conference and student forum were held in a very friendly and open atmosphere, highlighting the future potential of network-based educational structures and the benefits of fruitful cooperation among BRICS universities, economic entities and business schools.

Discussion of issues not constrained by specific formats allowed participants to summarize diverse experience, study the prospects for the development of AML/CFT-related science and education, evaluate the stages of formation of scientific and educational schools, and identify and localize the centres of AML/CFT knowledge expansion and accumulation.

The cumulative outcome of these discussions is the intensive generation of ideas which, in turn, will help generate new insights, attitudes and policy initiatives, as well as open up new opportunities for all participants. Among the proposed initiatives are the creation of an information exchange network, a virtual centre of transdisciplinary research and global risk management, and a system to encourage the substitution of imported corporate consulting services. In fact, Rosfinmonitoring and network AML/CFT Institute demonstrated during this conference the existence and development of a robust system capable of carrying out independent, specific and unique activities in the economic and financial spheres, creating its own products (services), utilizing its own specific methods and tools (with its own practice, science and engineering), and involving, both directly and indirectly, the administrative and expert potential of other agencies in finding solutions to its problems.

ROSFINMONITORING'S PARTICIPATION IN MONEYVAL 49th PLENARY

An interagency government delegation led by Rosfinmonitoring and comprising representatives of the Russian Foreign Ministry, Federal Security Service, Ministry of Internal Affairs and the Bank of Russia took part in the 49th plenary meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism (MONEYVAL), held from 8 to -11 December 2015

Alexey G. Petrenko,

Head of International Cooperation Department of Rosfinmonitoring

The plenary was opened by the President of the Financial Action Task Force on Money Laundering (FATF) Je-Yoon Shin of South Korea, who dedicated his speech to the intensification of joint efforts of the FATF and FATF-style regional bodies in combating modern challenges and threats to global security. He pointed out that the recent terrorist attacks required immediate action to undermine the financial infrastructure of terrorist groups, especially ISIL, which claimed the responsibility for these attacks. Speaking of priorities, Shin highlighted

the importance of improving intrastate and interstate information sharing among Financial Intelligence Units, law enforcement and other agencies; continuing a large-scale project to identify countries with strategic deficiencies in counter-terrorist financing, with the use against them of appropriate enforcement mechanisms (black and grey lists) to ensure prompt elimination of the identified deficiencies; conducting typological studies; and modifying universal standards to ensure timely response to emerging risks.

Jan Kleijssen, Director of the Information Society and Action against Crime Directorate of the Council of Europe, also highlighted in his speech the need for all stakeholders to join efforts in the fight against ML/FT risks facing the global financial system.

An important event of the plenary week was the election of the MONEYVAL leadership, which culminated in the Director of the FIU of Liechtenstein, D. Thelesklaf, being elected Chairman of the Committee, with the post of Vice-Chairman going to E. Frank w-Jaskiewicz of Poland. The Russian representative, A. Petrenko, was re-elected as member of the MONEYVAL's Bureau (the governing body), which also includes the Bulgarian N. Krumov and the Frenchman F. Oehlert among its members.

A European Commission representative reported on the practical measures to insure a prompt implementation of the 4th EU Directive on the prevention of the use of the financial system for money laundering and terrorist financing purposes, adopted in May of this year. A list of these measures includes activities to clarify the provisions of the said document and facilitate the exchange of the best industry-specific practices among European experts.

A discussion of the mutual evaluation report of the UK Crown Dependency of Jersey went on as planned. With regard to Armenia's report, its discussion was quite intense and revolved not so much around the findings of the evaluation of the technical compliance of Armenia's anti-money laundering regime with the FATF Recommendations as the effectiveness of their implementation. In particular, among the identified shortcomings were



a low number of proactive financial investigations conducted by law enforcement agencies and problems with the application of a risk-based approach to AML/CFT supervision.

Participants also listened to the reports on progress in improving the national AML/CFT systems of Azerbaijan, the Vatican City State, Israel, Cyprus, Latvia, Lithuania, Moldova, Poland and Slovakia.

Following a review of Georgia's report, the Plenary decided to remove this country from the MONEYVAL follow-up process until its next mutual evaluation in 2018.

A series of bilateral meetings were held on the side-lines of the plenary, including negotiations on the topical issues of industry-specific cooperation with the FIUs of Azerbaijan, Armenia, Hungary, Israel, Italy, Liechtenstein, Moldova, Poland, Serbia, France and Montenegro, as well as with the FATF President and MONEYVAL Executive Secretary.

The next MONEYVAL plenary meeting will be held in Strasbourg in April 2016.

ROSFINMONITORING'S PARTICIPATION IN FATF SPECIAL SESSION

Russian interagency government delegation headed by Rosfinmonitoring Director Yu. A. Chikhanchin took part in the FATF special session in Paris on 12-14 December 2015, convened to discuss a rapid response to the continuing escalation of terrorism

Alexey G. Petrenko,

Head of International Cooperation Department of Rosfinmonitoring

In light of the unprecedented ISIL threat, the FATF has resolved to tighten anti-terrorism financing measures. In order to understand better and reflect the volatile nature of terrorist financing risks, the FATF has decided to amend its strategy to:

1. Review the impact on ISIL of recently adopted measures

Despite the fluid nature of the events in Syria and Iraq, the available knowledge about ISIL obtained in the course of the February study into its funding structure remains highly relevant.

The terrorist organization continues to derive much of its revenue in the territories under its control from the sale of oil, gas and other natural resources, extortion and looting of the local population, seizure

of agricultural products and smuggling of items of cultural heritage.

With a view to conducting an on-going monitoring of risks and promoting awareness of the private sector, the FATF, jointly with the United Nations, Counter-ISIL Finance Group, the Egmont Group, Interpol and other concerned agencies, has prepared an updated report on ISIL funding sources. This will allow the private sector to take the necessary action and understand better emerging risks.

In addition, the FATF has scheduled for February 2016 a consultative meeting with the private sector, where it will present the indicators of



terrorist financing risks and assist in improving information sharing with national competent authorities.

2. Take steps to improve information sharing

There is a need to strengthen information sharing between operational departments, both at the national and international levels, as well as between competent authorities and the private sector. The recent tragic events have demonstrated the important role played by financial and analytical information in investigating terrorist attacks. This information should also help eliminate the sources of terrorism financing, thereby making a significant contribution to the prevention and suppression of terrorism in general.

In this regard, the FATF intends to immediately commence a review of the member states' risk awareness level, as well as to study the difficulties in conducting effective information sharing and the specific steps taken to address them. The review findings will form the basis for an action plan that will be part of a comprehensive strategy for detecting and undermining terrorist financing, which, in turn, should ultimately contribute to the success of global efforts to weaken and eventually defeat ISIL.

In addition, the FATF and the Egmont Group will work together to remove obstacles to effective information sharing, as well as review the need to revise the international standards in this area.

Urgent steps will also be taken to improve information sharing between governments, countries and the private sector.

3. Consider the need for tightening the FATF standards and their subsequent implementation

The FATF establishes international standards required to counter the financing of terrorists. In order to ensure that these standards meet modern challenges and threats, the Group will take the following steps:

- following a review of anti-terrorism financing measures undertaken by 196 jurisdictions making up the FATF's global network, the countries that have failed to criminalize the financing of terrorism as a crime or apply targeted financial sanctions will be placed, starting February 2016, in special monitoring process;
- at the February plenary, we will begin discussing areas in which standards can be tightened with a view to ensure better compliance with the UN Security Council resolutions aimed at combating the financing of terrorism.

During the plenary, the Russian delegation called for the incorporation into the FATF standards of the provisions of the UN Security Council Resolution 2199 and delivered a presentation titled "Russia's approaches to emerging ISIL funding risks", which was caused a keen interest among the participants.

On the side-lines of the plenary, bilateral meetings were held with the representatives of Argentina, Australia, Israel, India, China, the Netherlands, the US and France, as well as with the FATF President and Executive Secretary.

EDUCATION AND SCIENCE IN AML/CFT SYSTEM**ITMCFM 10th ANNIVERSARY!**

In December 2015 the International Training Centre for Financial Monitoring celebrates its 10th anniversary. In this edition we present to our readers reminiscences of the ITMCFM Directors about their executive experiences in the Center



Igor A. Alexeev

**Igor A. Alexeev,
ITMCFM General Director in 2005-2008**

In 2005, Rosfinmonitoring Director V. A. Zubkov and his deputy S. K. Osipov told me about their plans to establish the Centre and offered the post of its director, requesting a reply within two day. The idea struck me as being interesting and I embraced it, despite having no previous experience of registering and setting up autonomous non-profit organizations.

As it happened, on November 25, 2005 participants of the founding meeting adopted a Decree on the Establishment of Supervisory Board, and on 12 December the Centre was registered. Opinions are still divided though as to which of these dates should be considered the birthday of the ITMCFM.

We began our work inside the Rosfinmonitoring building, office 310-m, which was big enough for all of us at the time. Later, as the number of

the Centre employees increased, our premises expanded... The first six months were challenging: space constraints, shortage of computers and constant pressure to deliver concrete results. At the same time, we continued to recruit staff and prepare the new office in Staromonetny Lane. Despite these problems, we managed to organize our first workshop for insurers and took part in several international events, even though our staff numbered only 8 persons at the time.

Seeing today how many the ITMCFM representatives attend outside events brings back the memories of our participation in the 7th EAG Plenary in the Chinese city of Sanya, where the ITMCFM was represented by only two persons – the Director and my deputy – with me having to, among others, take care of refreshments, personally select menus and so forth.

I separately want to mention the support we received from Rosfinmonitoring Director V. A. Zubkov. Whenever Mr. Zubkov had time to listen to our proposals, he – a man with enormous experience and considerable reputation – was always able to quickly grasp the essence of the problem and make a good judgment call, even on things like premises repairs.

Furthermore, he immediately set the ITMCFM really high performance standards, insisting that the Centre's front doors should always stay open, so to speak. Later on, we began working on tasks coming to us through the national Anti-Terrorist Committee, and after that, on research work... In the end, we were compelled to hire outside experts to work on technical specifications...

In short, a lot of things had to be learned literally on the go. There were multiple issues where we lacked even basic training and had to find solutions to the problems not connected with the immediate objectives of the Centre... But the main achievement of the initial stage, I believe, was that the ITMCFM became what it is today – a successful, highly regarded institution that carries out really important work in several areas.

Alexander G. Batalov, ITMCFM General Director in 2009-2010

Recalling my stint as Director of the International Centre, the first thing that comes to mind is the team's professional and coordinated work in three key areas.



Alexander G. Batalov

First of all, I am talking about the Centre's contribution to the transformation of the Eurasian Group, including the drafting of its development strategy and launch of an information portal. The ideas embodied in these projects not only helped chart the future course of the AML/CFT-based integration and cooperation in Eurasia but also gave impetus to the promotion of Russian initiatives within other international AML/CFT forums. A video conferencing (hereinafter "VC") system linking together all EAG member states lies at the heart of the Centre's information portal. The VC system, which first began with Belarus, Kazakhstan and the EAG Secretariat and subsequently expanded to include other EAG countries, laid the foundation for expert opinion sharing, coordination of EAG members' positions and creating conditions for the implementation of joint educational and training projects. Another important milestone of this period was the development and approval of the EAG technical assistance strategy, which represents a major step towards promoting cooperation between EAG countries. Although some may call it an overstatement, but this work helped prompt the organizations providing technical assistance to EAG countries – such as the World Bank, UNODC and donor countries – recognize in 2010 the need to align their on-going technical assistance initiatives in Eurasia with Russia and the ITMCFM.

One important contribution to the success of the Russian AML/CFT regime made by the ITMCFM was the creation of a training system for AML/CFT specialists, comprising, for the first time, modal training programs for different target audience groups, ranging from law enforcement and supervisory bodies to financial institutions and AML/CFT trainers. The Centre began to prepare and implement unique training programs based on the annually approved curriculum. Special modular programs were developed for the training of young financial intelligence units specialists, including those from Rosfinmonitoring. One of the most difficult tasks in this area was perhaps the establishment of a training system catering to the needs of anti-money laundering and terrorist financing experts working for financial institutions. Among other training methods introduced by the Centre were ad hoc briefings, for which it developed a special program and established, in a space of just two months, a national network of participating educational institutions from among the ITMCFM partners. Within just six months of the system functioning, the quality of training provided by the system participants reached a new level. All these ideas are still being used today, including at the network AML/CFT Institute and more generally as part of undergraduate and post-graduate courses. It is important to point out that the greatest value and most impressive achievement produced by this work is a team of teachers, experts, practitioners, researchers and top professionals, the very people without whom none of these programs would have been possible and who form the intellectual core of a modern AML/CFT system.

In terms of internal development of the Centre, my job, as its director, was both simple and difficult: to create conditions conducive to the professional growth of each every employee, realization of their potential and channeling of their professional efforts and skills towards the fulfilment of the objectives set by Rosfinmonitoring and EAG.

And if we look at the outcomes produced by our projects and their subsequent use and development in the Eurasian space, we may say that to a certain extent these conditions were created and objectives fulfilled.

The spirit and energy of that team, along with its unbridled desire for future success, professional growth and leadership ambitions, helped rebrand the image of the Centre. That trademark work style used by the ITMCFM today represents to a large

extent a mirror image of the ideas implemented by us and Rosfinmonitoring both in Russia and across the EAG. The same applies to the style of the new website, which was one of the results of 2010. A beautiful idea that lies at the heart of the ITMCFM's logo consists of several elements. The emblem depicts a globe with a tail in the form of number 5. The globe represents the organization's international scope of activities, and together with the number 5, it symbolizes the highest standard of education and educational work, since 5 is the highest mark in Russia's academic grading system. In addition, when viewed together, the symbols closely resemble the Russian letter "F", which stands for financial monitoring. The colour of the logo – turquoise blue – epitomizes a sense of novelty and freshness of ideas designed to help ITMCFM win new friends and gain a leading position in all areas of its activity.

I would like to take this opportunity to thank the team that worked with me at the Centre. It was a group of like-minded people that formed a young, creative and cohesive team. Many of them have since successfully realized their potential within various government agencies and large private companies. And today,

I have great respect for and warm memories of my work as a member of the ITMCFM team.

Galina V. Bobrysheva, ITMCFM General Director in 2010-2013

I remember my three and a half years spent at the Centre as a very exciting, creative and positive period.

I consider myself lucky that there was already a well-balanced, professional team working at the ITMCFM at the time, a team that was quite prepared to face up to new and difficult challenges.

This was obviously the results of the work done by the former management of the Centre, who had worked very hard to create from scratch a training facility and lay a solid foundation for the EAG's future success.

One of the key components of this success was, without a doubt, the comprehensive and all-encompassing support the Centre received from Rosfinmonitoring, its parent organization and an active participant in all of the Centre's endeavours.

This support came in many forms, ranging from a wise advice and subtle correction of the strategy



Galina V. Bobrysheva

to personal involvement of Rosfinmonitoring executives in all of the Centre's key activities and events, helping not only strengthen its brand awareness but also instil confidence in and augment the experience of the Centre staff.

Many thanks to Yury A. Chikhanchin, who, despite his busy schedule, always found time to help us in word and deed.

It is with a feeling of huge gratitude that I recall the help and support that came from the Supervisory Board and specifically from Igor A. Nagorny, an international relations expert and deputy head of the Presidential Foreign Policy Department, whose help in setting priorities in international projects is both invaluable and always available.

Vera E. Tchistova, an experienced professional in the field of public finance and auditing, helps keep the work process within the boundaries formed by the general direction of fiscal discipline and resource optimization initiatives.

I still appreciate the support the Centre's international projects received from our country's foreign partners, especially the heads of the financial intelligence units that stood at the origins of the EAG.

I am confident that the Centre has a bright future ahead of it. With its strength, experience, support and expertise, the team led by Oleg Ivanov, the current Director of the Centre, will continue to

pursue new and interesting projects and ideas, putting into each and every one of them their own heart and soul.

Happy first anniversary, dear friends and colleagues!

Vladimir V. Ovchinnikov, ITMCFM General Director in 2013-2014

During my tenure as the ITMCFM Director, I, quite naturally, had to immerse myself in the day-to-day business of the Centre, addressing the tasks set to it by Rosfinmonitoring. First of all, it related to the job of organizing various events attended by the Eurasian Group. Unfortunately, the main event scheduled to take place during my directorship – the 25th FATF Plenary in Moscow in the summer of 2014 – was cancelled for certain reasons. Despite this, we used the vacated time slot to hold the 20th EAG Plenary, which, in my opinion, was pretty well organized and featured an extended list of attending foreign delegations that chose to come to Moscow despite the international sanctions against Russia.

Another area of work involved obtaining Rosfinmonitoring's quota for foreign students attending the universities of the network AML/CFT Institute, a backbone educational establishment whose contours became more clearly defined during that period as we realized what direction its development should follow. In order to provide the network AML/CFT Institute with all possible support, a decision was taken to establish an Interagency Working Group under the chairmanship of Rosfinmonitoring Director Yu. A. Chikhanchin, made up of representatives from the Federal Agency for Scientific Organizations, the Ministry of Education and Science, and the Federal Financial Monitoring Service. I am glad that the ITMCFM still plays a major role in the activities of the network AML/CFT Institute.

Another important milestone of this period was the work to develop an occupational standard for Rosfinmonitoring employees – "Financial Monitoring Specialist" – which began after the issuance of the relevant order by the Rosfinmonitoring Director, and has been completed only recently following its approval by the Ministry of Labour and Social Protection and the Ministry of Justice. Importantly, the only other law enforcement body in Russia to have developed its own occupation standard is the Investigative Committee. The Centre's future efforts

in this area may be devoted to the following: the development of an educational AML/CFT standard and an educational program based on it, and the creation of a training and methodology association of the universities comprising the network Institute that would specialize in the training of AML/CFT experts both for Rosfinmonitoring and financial intelligence units of Russia's partners around the world.



Vladimir V. Ovchinnikov

In 2013, the Director of the Federal Financial Monitoring Service, Yury A. Chikhanchin, signed an order providing for the establishment of *Financial Security*, a magazine of Rosfinmonitoring designed to act as an information sharing and analytical forum for experts from Rosfinmonitoring's partners in Russia – such as representatives of other agencies and the private sector – and from the EAG and CIS financial intelligence units. *Financial Security*, 10 issues of which have been published so far by the ITMCFM, has gone from a humble beginning to winning the hearts and minds of members of the AML/CFT community both in Russia and beyond.

I would like to say a few words about the ITMCFM staff. There, we have a small team of dedicated employees who are working in full view of both the Rosfinmonitoring and Centre executives, meaning there is absolutely no chance for anyone to work

below par, as it will be immediately noticed. It was a great pleasure for me to work side by side with these highly professional and dedicated people whose very presence in the ITMCFM team is the best proof of their professional competencies, as was unfailingly highlighted by the successful completion of all the tasks assigned to the Centre.

Oleg A. Ivanov, ITMCFM General Director since 2014

The ITMCFM owes its excellent reputation at home and abroad to the many years' efforts put in by its staff, direct support provided by Rosfinmonitoring and its engagement with educational and research institutions and international experts. Special thanks must also go to the EAG Secretariat, for long and fruitful cooperation.

The adoption of the revised international AML/CFT standards, the commencement of the new round of mutual evaluations, the signing of the agreement on the network AML/CFT Institute, the establishment of the Council of Heads of FIUs of the CIS, the granting to the ITMCFM of the status of a backbone CIS organization for AML/CFT training and the development of cooperation among BRICS financial intelligence units have all helped chart the course of the Centre's future development.

At the same time, the Centre's traditional areas of work – such as the organization of international events, provision of technical assistance, expansion of video conferencing capabilities, implementation of research projects and skills development – have retained their relevance for representatives of both the domestic and global anti-money laundering communities.

One the most important medium-term tasks facing the Centre is the work to prepare experts, government officials and representatives of the private sector for the upcoming FATF and FSRBs mutual evaluations, and to raise public awareness of the main areas of development of the international and national AML/CFT systems. This should be accompanied by the development of common approaches to teaching; integration of education, science and practice; exchange of intellectual, material and information resources; and promotion of e-learning and distance learning programs.

Already today, however, the educational establishments comprising the network AML/CFT Institute are offering new training programs,



Oleg A. Ivanov

specialties and study subjects, including “Financial Monitoring”, “Combating Illegal Financial Transactions”, “Management of Economic Security”, “Information Analysis Systems of Financial Monitoring”, etc.

Universities of the network AML/CFT Institute have begun to train foreign specialists. Among the students who have enrolled in these programs are over 70 foreign nationals.

The role of the Centre lies in combining the efforts of universities and international educational and research centers; developing new occupational standards, educational programs and teaching materials; as well as in studying, compiling and disseminating best AML/CFT practices.

I am confident that the ITMCFM team will boldly confront the challenges facing it and contribute to the development of the Russian and the international anti-money laundering and terrorist financing systems.



The collective of ITMCFM

RISK-BASED SUPERVISION

An international workshop “Risk-Based Approach to Supervision as a Mechanism for increasing Effectiveness of AML/CFT system” was held in Moscow from 16 to 17 December 2015. The event was organized by the Federal Financial Monitoring Service and the International Training and Methodology Centre for Financial Monitoring

*Inessa A. Lisina,
Editor and Reporter*



Inessa A. Lisina

The list of the event participants included more than 90 specialists - international experts-evaluators, representatives of the EAG member states FIUs and supervisory authorities. A range of the topics discussed spanned issues related to international experience and best practices in the application of RBA to supervision, preparation and conducting national risk assessment, remote monitoring, interagency cooperation, etc. The FATF guidance for a risk-based approach (RBA) “Effective Supervision and Enforcement by AML/CFT Supervisors of the Financial Sector and Law Enforcement” (October 2015) was also reviewed within the event framework.



Welcoming the participants, Rosfinmonitoring Director Yuri Chikhanchin stressed the importance of the application of the FATF approaches to RBA within national AML/CFT systems especially in supervision. Risk analysis should be carried out in a comprehensive and systematic way that must also include the development of countermeasures, as it affects the health of the economy.

Over the past few years, Russia has seen a number of systemic changes in this area, including the establishment of the National Risk Assessment Centre at Rosfinmonitoring, designation of the Bank of Russia as the country's mega-regulator, creation of a network of authorized banks with special powers to control public funds, development of the modern forms of monitoring and control over the activities of financial/non-financial institutions, etc. All these changes underscore the importance of cooperation between the FIU and supervisors for effective risk analysis.

As noted by the Rosfinmonitoring Deputy Director Galina Bobrysheva, the Eurasian region faces common risks and problems that are not confined to individual countries. To address these challenges, countries should work together. Russia has been actively exploiting the new channels and tools of information sharing between various anti-money laundering system participants. Rosfinmonitoring, for example, regularly sends the findings of its ML/FT risks analysis to supervisory authorities for use in planning and conducting future inspections.

Michael Stellini, MONEYVAL's expert in AML/CFT monitoring, training and typologies, shared with the participants the outcomes of the evaluations

of Armenia, Spain, Malaysia, Norway and Belgium, highlighting the key areas countries should pay attention to in preparation for the next round of mutual evaluations.

Vahe Petrosyan, the representative of the Central Bank of Armenia, spoke of his country's experience of undergoing the evaluation of its AML/CFT system. Equally popular with participants was a report by the Italian FIU's chief analyst, Alessia Cassetti, on the best examples of application of the risk-based approach to banking supervision.

Representatives of the CIS member states and participants of the Russian AML/CFT system – including the Central Bank, the Federal Tax Service, the Federal Supervision Agency for Information Technologies and Communications, and the Assay and Notary Chambers – also shared their experience in application of risk-based approach for supervision.

According to the most part of participants, an effective supervisory system must include a variety of tools, such as preventive measures, sanctions, etc. Their use, however, should be appropriate and commensurate with the risks that may emerge in the financial sector, and should not lead to excessive control and regulation. Alternative tools, on the other hand, should include information sharing between the FIU and supervisory authorities, eliciting feedback from supervised entities, etc.

The workshop ended with the adoption of several recommendations for the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) member states on the application of a risk-based approach to supervision.

INTERNATIONAL NEWS BLOCK

LONG-TERM FINANCIAL SECURITY EXPERIENCE OF THE EUROPEAN UNION AS A REFERENCE MODEL FOR ESTABLISHING AND DEVELOPING THE CUSTOMS UNION FINANCIAL RESOURCES CONTROL SYSTEM

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Budget Revenues and Expenditures are the Financial Foundation of the European Union

The basic document governing the EU budget is the multiannual financial plan adopted by the Council of the European Union on 2 December 2013 as the EU Multiannual Financial Framework (MFF) Regulation.

The MFF regulation enables the European Union to spend up to EUR 959.99 billion in commitments and up to EUR 908.40 billion in direct payments in 2014-2020. This is 3.4% and 3.7% respectively less than under the MFF 2007-2013, ensuring budgetary discipline for the EU and reflecting the particular budgetary pressure that member states currently face at national level.

The MFF puts strong emphasis on expenditure aimed at boosting economic growth and creating

jobs, reducing economic gap between the EU's various regions, promoting sustainable agriculture and rural development, enhancing the security system, providing assistance by the EU to third countries and covering the administrative expenditure of the EU institutions.

EU Budget Revenues

The EU budget cannot run a deficit. Annual expenditure must be completely covered by annual revenue. The different types of own resources and the method for calculating them are set out in a Council decision on own resources. It also limits the maximum annual amounts of own resources that the EU may raise during a year to 1.23 % of the EU gross national income (GNI).

The sources of the EU own resources include: customs duties on imports from outside the EU, sugar levies, a uniform rate of 0.3% levied on the harmonized VAT base of each member state and percentage of GNI of each of the EU member state transferred to the EU.

Financial Security Legal Base

The key principles of securing and protecting the EU financial resources are set out in the EU basic document – in Article 325 of Chapter 6 (Combating Fraud) of Title II (Financial Provisions) of Part VI of the Treaty on the Functioning of the European Union.

In particular, Article 325 of the said Treaty states that:

- The Union and the Member States shall counter fraud and any other illegal activities affecting the EU financial interests through effective protection in the member states, and in all the Union's institutions, bodies, offices and agencies;
- The member states shall coordinate their action aimed at protecting the financial interests of the Union against fraud. To this end, they shall organize, together with the Commission, close and regular cooperation between the competent authorities;

- The European Parliament and the Council, acting in accordance with the ordinary legislative procedure, after consulting the Court of Auditors, shall adopt the necessary measures in the field of the prevention and fight against fraud affecting the financial interests of the Union with a view to affording effective and equivalent protection in the Member States and in all the Union's institutions, bodies, offices and agencies.

Another equally important document regulating the anti-fraud efforts is the Convention on the Protection of the European Communities' Financial Interests adopted by the European Council on July 26, 1995. The main reasons for adopting this document included:

- Need to ensure that the criminal laws of the EU member states contribute effectively to the protection of the EU financial interests;
- Need to make fraud punishable with effective, proportionate and dissuasive sanctions;
- Need for the EU member states to combat together fraud affecting the EU financial interests.

This Convention also contains other provisions that help to improve effectiveness of the anti-fraud efforts. In particular, the Convention gives the common definition of fraud (subdivided into fraud in respect of expenditure and fraud in respect of revenue):

“For the purposes of this Convention, fraud affecting the EU financial interests (hereinafter fraud) shall consist of:

- a) in respect of expenditure, any intentional act or omission relating to the use or presentation of false, incorrect or unreliable statements or documents, which has as its effect the misappropriation or illegal retention of funds from the general budget of the European Union or budgets managed by, or on behalf of, the European Union;*
- b) in respect of revenue, any intentional act or omission relating to the use or presentation*

of false, incorrect or unreliable statements or documents, which has as its effect diminution of the resources of the general budget of the European Union or budgets managed by, or on behalf of, the European Union”.

All the EU member states undertook to harmonize their national criminal law in line with this definition and criminalize this conduct. Apart from criminalization of fraud, the Convention also requires to make this type of criminal activity punishable by effective, proportionate and dissuasive criminal penalties, including imprisonment. The minimum amount of losses inflicted by fraud may not exceed EUR 50,000.

The cornerstone of the Convention is the provision regarding close and effective cooperation among the EU member states, especially in situations where criminal activities are committed in several member states. In this case, the member states are required to apply such procedures as mutual legal assistance, extradition and transfer of prosecution proceedings to another member state.

Soon after adoption of the Convention on the Protection of the European Communities' Financial Interests, the decision was made to step up fight against corruption. In this context, the so-called First Protocol to the aforementioned Convention was adopted by the Act of the Council on September 27, 1996.

This Protocol focuses on types and forms of corruption affecting the EU budget. In particular, passive and active corruption was defined:

“Passive corruption – a deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties in a way which damages or is likely to damage the EU financial interests.

Active corruption – a deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official for himself or for a third party for him to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties in a way which damages or is likely to damage the EU financial interests”.

Pursuant to this Protocol each EU member state takes necessary measures for criminalizing



passive and active corruption. Subject to criminal prosecution for these types of offences shall be the national officials who commit these criminal offences in the exercise of their functions as well as the EU officials who commit these offences in the exercise of their duties.

However, even after adoption of the First Protocol to the Convention, the Council of the European Union noted that the aforementioned documents should be further extended for intensifying the fight against criminal offences affecting the EU financial security. To that end, the so-called Second Protocol to the Convention on the Protection of the European Communities' Financial Interests was adopted on June 19, 1997.

This document states that, apart from corruption and fraud, the EU budget is also significantly damaged by offences committed by legal persons and by acts involving money laundering.

Taking this into consideration, the EU member states are obliged to take necessary measures to ensure that legal persons can be held criminally liable under the national legislation for fraud or active corruption or money laundering committed for their benefit that affect or may affect the EU financial interests.

In order to intensify the fight against offences affecting the EU financial system, the Second Protocol puts strong emphasis on confiscation measures. Each EU member state is obliged to take the necessary measures to enable the seizure, confiscation or removal of the proceeds of fraud, active and passive corruption and money laundering. To improve cooperation, the Protocol stipulates that the EU member states may not refuse to provide mutual assistance in respect of fraud, active and passive corruption and money laundering for the sole reason that is related to a tax or customs duty offence.

European Anti-Fraud Office (OLAF) – the Main European Commission Agency in Charge of Protecting Financial Interests

The European Anti-Fraud Office is also known as OLAF, from its French name: Office de Lutte Anti-Fraude.

At present, OLAF operates under Regulation No.883/2013 of the European Parliament and the Council of September 11, 2013.

As mentioned above, the European Union budget finances a wide range of programs and projects which improve the lives of citizens across the EU and beyond. Improper use of funds provided by the Union budget or the evasion of the taxes, duties and levies, which fund the Union budget, directly harms European citizens and prejudices the entire European project.

While it has an individual independent status for the investigative function, OLAF is also part of the European Commission, under the responsibility of Kristalina Georgieva, Vice-President in Charge of Budget and Human Resources.

The mission of the European Anti-Fraud Office is threefold:

- It protects the financial interests of the European Union by investigating fraud, corruption and any other illegal activities;
- It detects and investigates serious matters relating to the discharge of professional duties by members and staff of the EU institutions and bodies that could result in disciplinary or criminal proceedings;
- It supports the EU institutions, in particular the European Commission, in the development and implementation of anti-fraud legislation and policies.

OLAF has budgetary and administrative autonomy. One of the main functions of OLAF is to receive information about possible frauds and irregularities from a wide range of states. In most cases this information results from controls by those responsible for managing EU funds within the Institutions or in the member states.

All allegations received by OLAF undergo an initial assessment to determine whether the allegation falls within the remit of the Office and meets the criteria for opening an investigation.

Office History

1988	Task Force "Anti-Fraud Coordination Unit" (UCLAF) was created as part of the Secretariat-General of the European Commission. UCLAF worked alongside national anti-fraud departments and provided the coordination and assistance needed to tackle transnational organized fraud.
1993	UCLAF's powers gradually increased following recommendations by the EU Parliament.
1995	UCLAF was authorized to launch investigations on its own initiative, on the basis of information from various sources. All Commission departments were required to inform UCLAF of any suspected instances of fraud within their areas of responsibility.
1999	Further to the events which led to the resignation of the Santer Commission, proposals were put forward for a new anti-fraud body (OLAF) with stronger powers. These proposals resulted in establishment of the European Anti-Fraud Office (OLAF).

All investigations conducted by OLAF are classified under one of the following three categories:

- Internal investigations are administrative investigations within the European Union institutions and bodies for the purpose of detecting fraud, corruption, and any other illegal activity affecting the EU financial interests, including serious breaches of professional duties;
- External investigations are administrative investigations within institutions and bodies not financed by the EU for the purpose of detecting fraud or other irregular conduct by natural or legal persons. Cases are classified as external investigations where OLAF provides the majority of the investigative input;
- Coordination cases are the cases when OLAF contributes to investigations carried out by national authorities or other European

Community departments by facilitating the gathering and exchange of information and contacts.

In course of investigations, the competent authorities of the member states provide OLAF staff with all necessary information, as may be requested by OLAF. These national competent authorities should provide the opportunity for the OLAF staff to examine all information and documents related to the conducted investigations. For this purpose, the EU member states are obliged to establish or designate the national anti-fraud coordination service to facilitate cooperation and exchange of information with OLAF.

During an external investigation into potential fraud, corruption or other illegal activity affecting the EU financial interests, the OLAF staff may have access to any relevant information, including information in databases, held by the institutions, bodies, offices and agencies.

In case of internal investigations, the OLAF staff has wider powers. In particular, they have the right of immediate and unannounced access to any relevant information, including information on bank account transactions, held by the institutions, bodies, offices and agencies of the European Union and Commission. The OLAF inspectors may take a copy of any relevant documents or assume custody of such documents to ensure that there is no danger of their disappearance. Where internal investigations reveal that an official, other employee of an institution, body, office or agency of the European Union or Commission may be a person concerned, the institution, body, office or agency to which that person belongs is informed.



At the preliminary information analysis stage, OLAF is authorized to obtain necessary additional information from the European and national authorities and institutions. After an investigation is opened, the OLAF staff may interview and interrogate witnesses for obtaining data needed. A witness has the right to avoid self-incrimination. Where, in the course of an interview, evidence emerges that a witness may be a person concerned

who may be charged with committing a crime or offence, the interview is ended.

On completion of an investigation, a report is drawn up, under the authority of the OLAF Director-General. The report gives an account of:

- the legal status for the investigation;
- the procedural steps followed;
- the facts established and their preliminary classification in law;
- the estimated financial impact of the investigated conduct; and
- the conclusions of the investigation.

The report is accompanied by recommendations of the Director-General on what actions, if any, should be taken based on the presented conclusions. These recommendations should specify, in particular, the estimated amounts of stolen or misappropriated financial resources to be recovered to the EU budget. The report should also contain preliminary assessment of actions taken by the European or national institutions as well as by the recipients of the EU budgetary funds.

The operation of OLAF is monitored by the Supervisory Committee composed of five independent members holding senior positions in the national institutions of the EU member states and having experience in detection, criminal prosecution or investigation of criminal offences or irregularities that fall within the competence of OLAF. The nominees to the Supervisory Committee are proposed by the EU member states and appointed by common accord of the European Parliament, the Council and the Commission for five years. At least once a year, the Supervisory Committee draws up and adopts the report, covering, in particular, the assessment of the OLAF independent activities and effectiveness of investigations. This report is sent to the European Parliament, the Council and the Commission.

Once a year, the European Parliament, the Council and the Commission meet with the OLAF Director-General to exchange views on the OLAF strategies and methods.

The OLAF Director-General is appointed by the European Commission. The term of office of the Director-General is seven years and is not

renewable. The Director-General is responsible for ensuring that OLAF is independent from any influence which may be exerted by the institutions of the European Union and the EU member states. If the European Commission takes measures that may violate this principle, the Director-General shall inform the Supervisory Committee, and shall decide whether to bring an action against the Commission before the European Court of Justice.

The Director-General shall approve the annual management plan of OLAF and shall report regularly to the European Parliament, the Council, the Commission and the Court of Auditors. Besides that, the Director-General adopts guidelines for the staff of the Office covering the conduct of investigations, the procedural guarantee of investigation targets and data protection. In case of reasonable suspicions, the Director-General may be subject to disciplinary inquiry by the European Commission.

The total appropriations for OLAF, including for the Supervisory Committee and its secretariat, is entered under a specific budget line within the section of the general budget of the European Union relating to the Commission and is set out in detail in an Annex to that section. Employment of 421 staff members of OLAF costs the taxpayers over 57.2 million euro (in 2014).

At present, the OLAF structure consists of the Headquarters which includes the internal auditor, the data protection officer and the spokesperson. The Headquarters also includes the Investigation Selection and Review Unit and the Human Resources and Budget Unit.

The main functions assigned to OLAF are performed by 4 Directorates:

Directorate A – Investigations I: It is in charge of investigation into corruption and offences committed by the staff of the EU institutions and fraud involving funds for new financial programs and external aid.

Directorate B – Investigations II: It is in charge of investigation into evasion of customs duties, smuggling of tobacco and importation of counterfeit goods, and fraud involving structural and agricultural funds.

Directorate C – Investigation Support: It is in charge of providing workshops, training, performing timely data analysis and expert assessments, developing information system infrastructure and providing legal assessment.

Directorate D – Policy: It is in charge of conducting strategic analysis of received information and reports on illegal activities, coordinating financial aid programs to national law enforcement agencies, cooperating with other EU institutions and providing international cooperation.

The main EU offences, involving breaches of the regulations related to funding of programs and projects from the EU budget, detected and investigated by OLAF include:

- Receiving funds on the basis of false or incorrect documents;
- Misuse of funds from the EU budget;
- Overstatement of cost of equipment or services procured under projects funded from the EU budget;
- Irregularities in the public procurement and tendering procedures.

The main EU revenue-related offences investigated by OLAF include:

- Use of false customs documents and false documents for purchase and importation of goods into the EU (waybills, invoices, certificates of origin) leading to illegal underpayment of customs duties;
- Smuggling or illegal production in the EU of cigarettes leading to loss of excise duties. This problem is most critical for the tax authorities of Western Europe with high tobacco excise duties, which results in large flow of cigarettes into the “shadow market” of these countries.

Fight against corruption among the staff of the EU institutions remains priority of OLAF.

As a result of the 3 500 investigations OLAF has completed since it was set up in 1999, over 1.1 billion has been recovered to the EU budget, and 335 individuals have been convicted and received prison sentences totaling 900 years.

In 2014 the OLAF staff opened 234 investigation cases and 54 coordination investigation cases investigated by national law enforcement or supervisory authorities and concluded 307

investigation and coordination cases. OLAF made 397 recommendations for recovery of 901 million euro to the EU budget that has been misused, received on the basis of false documents, fraud or other offences. As a result of these efforts, 206.5 million euro was recovered to the EU budget. In 2014 OLAF received 1417 allegations from citizens, legal persons and institutions (1294 allegations in 2013, 1264 allegations in 2012 and 1041 allegations in 2011). It was noted as the indicator of increased trust placed in OLAF by the public.

Some of the high profile investigations conducted by OLAF in 2014 include the following:

- seizure of large amount of counterfeited pesticides, illegally imported into the EU, in Poland;
- investigation into illegal manufacturing of cigarettes in Italy;
- detection of illegal importation into the EU of goods made in China, that were subject to anti-dumping duties, by falsifying the certificates of their origin;
- investigation into financial irregularities involving the project for the development of a maritime port in Spain;
- irregularities related to the construction and purchase of equipment for a medical center in Hungary. It is noteworthy that information on potential irregularities in implementation of this EUR 674,000 project funded from the EU budget was received from journalists. The investigation revealed that the project cost was significantly increased by including a number of offshore companies into the procurement chain.

US OFFICE OF FOREIGN ASSETS CONTROL OVERVIEW

US Treasury Department's Office of Foreign Assets Control (OFAC) is a law enforcement and financial intelligence agency operating under the auspices of the Office of Terrorism and Financial Intelligence

Vadim A. Tarkin,
Deputy Director of Rosfinmonitoring Legal Department



Vadim A. Tarkin

OFAC has an annual budget of over \$30 million (RUR 1,883,400,000 at the Russian Central Bank's exchange rate for Oct. 23, 2015) and a staff of approx. 200 employees. The agency's current Director is Adam Szubin, who joined OFAC from the Department of Justice, where he oversaw issues relating to anti-money laundering and terrorist financing, U.S. sanctions programs, rogue states, proliferation of weapons of mass destruction and intelligence analysis.

OFAC, which acts under Presidential national emergency powers, is responsible for administering and enforcing economic and trade sanctions programs to advance U.S. foreign policy and national security objectives. Among those sanctioned by OFAC are states, businesses and groups of individuals.

While many of OFAC's targets are broadly set by the White House, most individual cases are developed as a result of lengthy investigations by OFAC's Office of Global Targeting (OGT). For example, such investigations can be directed against terrorists and narcotic traffickers. It should be noted that many economic and trade sanctions are administered on the basis of international mandates, including those established by the UN.

OFAC uses a number of effective enforcement mechanisms, including imposing substantial fines, freezing assets and barring parties from operating in the U.S. Thus, penalties for non-compliance with U.S. legislation on sanctions can include fines ranging from \$50,000 to \$20,000,000 and/or 10 to 30 years of imprisonment for willful violations, depending on the program. Civil penalties can reach up to \$1,000,000 per violation. In 2014, OFAC reached a record-breaking \$1 billion settlement with France's BNP Pariba. Between 1994 and 2003, OFAC collected over \$8m in violations of the Cuban embargo. At one point, it had ten times more agents assigned to tracking financial activities relating to Cuba than to Osama Bin Laden.

OFAC conducts its activities in accordance with the Code of Federal Regulations, the Trading with the Enemy Act of 1917, the International Emergency Economic Powers Act of 1977, the Antiterrorism and Effective Death Penalty Act of 1996, the Foreign Narcotics Kingpin Designation Act of 1999, the Trade Sanctions Reform and Export Enhancement Act of 2000, various existing emergency statutes (the National Emergencies Act of 1976), etc.

Importantly, the International Emergency Economic Powers Act is a United States federal law authorizing the President to regulate commerce after declaring a national emergency in response to any unusual and extraordinary threat to the United States which has a foreign source.

OFAC enforces economic sanctions by preventing "prohibited transactions," which are described by OFAC as trade or financial transactions and other dealings in which U.S. persons may not engage unless authorized by OFAC or expressly exempted by statute.



Due to the fact that sanctions programs differ in foreign policy and national security goals, prohibitions within such programs can be different too. Descriptions of specific embargo conditions and sanctions programs are available on OFAC's official website at: <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>.

OFAC has the authority to grant exemptions to prohibitions on transactions, either by issuing a general license for certain categories of transactions, or by specific licenses issued on a case-by-case basis. A general license authorizes a particular type of transaction for a class of persons without the need to apply for a license. A specific license is a written document issued by OFAC to a particular person or entity, authorizing a particular transaction. Persons or entities that are granted licenses must comply with strict license requirements.

One of OFAC's most effective enforcement tools is the *Specially Designated Nationals List* (SDN List), which lists individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries, as well as other parties with whom U.S. persons and permanent residents are prohibited from doing business. It also lists individuals, groups and entities that are engaged in activities related to terrorism, illicit trafficking in drugs, proliferation of weapons of mass destruction or transnational organized crime.

OFAC also maintains the *Foreign Sanctions Evaders List* and the *Sectoral Sanctions Identifications List*.

The SDN List is accessible to public and is maintained by OFAC in cooperation with the U.S. Department of the Treasury (<http://www.treasury.gov>).

gov/resource-center/sanctions/SDN-List/Pages/default.aspx, <https://sdnsearch.ofac.treas.gov/> (automated search). The SDN List contains such information as full name, address, citizenship, passport, taxpayer ID, place of birth, date of birth, previous surnames and pseudonyms.

The SDN List is not the same as the list maintained under Section 314(a) of the USA PATRIOT Act. As is well known, several provisions of this law were renewed on the basis of the USA FREEDOM Act, or the Uniting and Strengthening America by Fulfilling Rights and Ending Eavesdropping, Dragnet-Collection and Online Monitoring Act of 2015. According to the above-mentioned Section 314(a), the Financial Crimes Enforcement Network (FinCEN) communicates information about persons that may be involved in terrorist financing and money laundering to financial institutions.

When an entity (or individual) is placed on the SDN List it can petition OFAC to reconsider. However, OFAC is not required to remove an individual or entity from the SDN List.

As of October 7, 2015, the SDN List had more than 15,200 entries from 155 countries. Of those, 178 entries were for aircraft and 575 for ships. The remaining 14,467 entries were for designated individuals and organizations. OFAC creates separate entries in the SDN List for each alias of a designee, so the number of entries does not reflect the number of designees.

The SDN List can be used by all U.S. organizations, citizens, permanent foreign residents, etc. in order to check clients in the course of business activities. U.S. legislation does not prohibit organizations from informing their clients about their inability to continue business relations due to the fact that the client is on the SDN List, except for the denial of a credit due to this reason (the Fair Credit Reporting Act, the Equal Credit Opportunity Act). Records about transactions related to the SDN List is maintained for five years after the date of the transaction.

If a client's name matches the name from the SDN List, the assets owned or controlled by such client must be blocked (frozen), i.e. the client would still own them, but he would be unable to use them without settling the matters with OFAC. It should be noted that not all sanctions programs involve asset freezing.

The freezing of assets happens instantaneously and prohibits any further operations with the assets. The property is put into a savings account,

any withdrawals from which must be authorized by OFAC. Some banks create separate accounts, while other banks create cumulative ones, for example, with the name "Frozen Libyan Assets." Banks must report all blockings to OFAC within ten days of the occurrence. Any rejected transactions must also be reported to OFAC within the same period of time. Moreover, total property blocked must be reported to OFAC by September 30 of each year.

An individual or entity whose property was blocked can contact OFAC in order to unblock and release the property. As a rule, if all requirements are met, OFAC unblocks the property by granting the applicant a specific OFAC license.

Moreover, if a client's name matches the name from the SDN List, the organization can contact OFAC via hotline or email to confirm the match and clarify any other related issues before making a decision to block the assets. This is due to the fact that the SDN mechanisms allow utilizing a percentage-based scale that evaluates the match between the name under check and the name from the SDN List (from 0% to 100%).

The following mechanisms are used for checking a client's name against the SDN List:

1. Jaro-Winkler, a string difference algorithm.
2. Soundex, a phonetic algorithm.

In the first case, the Jaro-Winkler algorithm is used to compare the entire name string entered against full name strings of entries on OFAC's sanctions lists.

In the second case, the name string is split into multiple name parts (for example, John Smith would be split into John and Smith). Each name part is then compared to name parts on all of OFAC's sanctions lists using the Jaro-Winkler and Soundex algorithms.

OFAC distinguishes "weak AKAs," which is a term for relatively broad or generic aliases that may generate a large volume of false hits (for example, "Hassan the Old", "Ahmed the Sudanese", etc.). OFAC regularly analyzes the SDN List aliases to remove any weak AKAs. At the same time, OFAC does not expect that organizations will necessarily check their clients against weak AKAs, except when there are other indications that the client may be included in the SDN List. An organization that processes a transaction with a person whose

name is on the “weak AKAs” list may be subject to an enforcement action. However, OFAC most probably will not issue any penalties if (i) there is only a match with a weak AKA, (ii) the organization had no other reason to know that the transaction involved a SDN or was otherwise in violation of U.S. law, and (iii) the organization maintains a rigorous risk-based compliance program.

A fundamental element of a bank’s OFAC compliance program is the assessment of risks of product lines, customer base, nature of transactions and identification of high-risk areas. The list of products, services, customers, and geographic locations that may carry a higher level of risk in terms of compliance with OFAC sanctions programs include:

- international fund transfers;
- nonresident alien accounts;
- foreign customer accounts;
- cross-border automated clearing house operations;
- commercial letters of credit and other financial products;
- transactional electronic banking;
- foreign correspondent bank accounts;
- payable-through accounts;
- commingled accounts;
- international private banking.



OFAC Headquarters

Effective compliance programs should also include internal controls for identifying suspect accounts and transactions and notifying OFAC about blocked funds and rejected transactions. In general, such internal controls are organized the same way as within the system of anti-money laundering and counter-terrorist financing.

As evident from this brief review, OFAC’s activities are very similar to those of a typical financial intelligence unit engaged in the fight against money laundering and terrorist financing. However, there is a considerable difference in goals and some of the methods used, as OFAC’s activities are meant to serve U.S. national policy and national security objectives.

STRATEGIC PARTNERSHIP

On 26-27 October 2015, the delegation of Australia's FIU (AUSTRAC) paid a working visit to Rosfinmonitoring. The key topics of discussion were the Memorandum of Understanding further implementation, preparation of Russia for the next round of mutual evaluations, and AML/CFT cooperation at the FATF and other international organizations

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Russia and Australia are partners when it comes to their involvement in the activities of such key international AML/CFT organizations as the FATF, Egmont Group and others. Australia took over the FATF presidency from Russia, continuing the implementation of several projects and initiatives launched during the Russian presidency.

AUSTRAC delegation's visit is of strategic importance for deepening cooperation with Rosfinmonitoring, which will be based on the Memorandum of Understanding signed by the Heads of the countries' FIUs at the FATF Plenary in June 2015 in Brisbane, Australia. The document,

which had been designed for 8 years, is key to the joint activities of the two countries. It is currently being used by the parties to build a framework for a working relationship.

In the Memorandum, terrorism is identified as the main global threat to the world. As pointed out by AUSTRAC CEO Paul Jevtovic, Russia has considerable experience in fighting terrorism, which will be useful for all participants of the international AML/CFT system.

Australia's counter-terrorism experience and experience of building international cooperation in this field, as well as its research into ISIS and countries assisting this organization, were among the key topics of a roundtable discussion held on October 27, 2015. Rosfinmonitoring central office and inter-regional departments employees took part in this event.



Other important theme of the meeting concerned Russia's preparations for the next round of FATF mutual evaluations scheduled for 2017. This subject was discussed during a meeting of the AUSTRAC employees with the representatives of Russia's national agencies that participate in the preparation and conducting national risk assessment, i.e. the Federal Security Service, Central Bank, Ministry of Internal Affairs, Ministry of Foreign Affairs, General Prosecutor's Office, Investigative Committee and others.

Rosfinmonitoring Director Yury Chikhanchin noted that Australia's FIU's reputation is one of the best in the world, a fact that was confirmed by a relatively high score received by the country during the evaluation in 2014. In particular, the FATF highlighted the significant progress achieved since the previous round in 2005.

The development of cooperation between two countries is a strategic objective aimed at strengthening joint anti-money laundering and terrorist financing activities. These efforts represent a significant contribution to global security.

AUSTRAC

Australia's financial intelligence unit acts as both a regulator and supervisor. AUSTRAC was established in 1989 and currently employs approx. 300 personnel across the country. Its key area of activity is monitoring financial transactions. It receives over 100 million reports each year, 90,000 of which are suspicious transaction reports.

Among its strategic activity directions are:

- building a national financial intelligence centre that will bring together the employees of reporting entities and the FIU;
- expanding capacity for strengthening international cooperation.

SIXTH SESSION OF THE CONFERENCE OF THE STATES PARTIES TO THE UN CONVENTION AGAINST CORRUPTION

The United Nations Convention against Corruption, opened for signature on December 9, 2003 in Merida (Mexico), also known as the Merida Convention, is the best-known international agreement against corruption. In fact, it is one of the key international instruments of such a wide-ranging scope for building anti-corruption mechanism for use at the national and international levels. As of now, the Merida Convention has been ratified by 177 countries

Vadim A. Tarkin,

Deputy Director of Rosfinmonitoring Legal Department

The 6th Conference of States Parties to the UN Convention against Corruption was held in November 2015 in St. Petersburg. It was attended by representatives of 162 countries and 88 foreign non-governmental organizations, who participated in a total of over 100 different events and activities. Among the most active contributors to the discussions were traditionally the representatives of NGOs, in particular Transparency International and the UNCAC Coalition.





Participants discussed a wide range of issues, including the implementation of the UN Convention against Corruption, corruption prevention and asset recovery mechanisms, and building cooperation with relevant international and regional organizations.

During the opening ceremony, the Head of the Presidential Executive Office, Sergei Ivanov, delivered a message from the President of the Russian Federation to the Conference participants. The President highlighted the universal nature and the unique legitimacy of the United Nations, as well as the importance of building equal partnership to combat global threats. In his remarks, Sergei Ivanov emphasized the important role played by the Convention in national and international anti-corruption efforts, stressed the various national and regional standards and approaches to the fight against corruption and the need to duly take them into account in the review process. In addition, the Russian official informed participants of the corruption prevention measures taken by Russia, including building strong partnership with the private sector and the adoption by the Russian business community of the Anti-Corruption Charter. He also underlined the importance of involvement of civil society in preventing and combating corruption.

In his speech, Ivanov noted that *"many investigations are launched as a follow-up to the*

intelligence reports submitted by Rosfinmonitoring, meaning that in this sense at least globalization and the use of electronic payment systems act in our favour".

The opening ceremony also included a speech by the Executive Director of the United Nations Office on Drugs and Crime (UNODC), Yury Fedotov, who read out a message from the Secretary-General of the United Nations to the Conference participants. In his introductory remarks, the Executive Director noted the importance of sustainable development, whose objectives include, inter alia, the rule of law, effective measures to combat corruption and bribery, and asset recovery.

Alexander Konovalov, the Russian Minister of Justice, was elected Chairman of the Conference by acclamation.

The Conference culminated in the adoption of 12 resolutions and the decision to launch, starting 2016, the second review cycle of the implementation of the UN Convention against Corruption, which will be dedicated to chapters II "Preventive measures" and V "Asset recovery". Another adopted resolution was a Russian-sponsored "St. Petersburg statement on promoting public-private partnership in the prevention of and fight against corruption". Participants did not approve the agenda for the next session of the conference in 2017. The procedure will be continued in Vienna.

FINANCE AND RISKS

CATEGORIZATION OF ML-RELATED RISKS IN NEW BANKING ENVIRONMENT

Elena V. Kabakova,

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Elena V. Kabakova

The national banking system goes through tough times: the regulatory controls are becoming more stringent, banks face the liquidity problem, the customer base is shrinking and the volume of customers' payments declines, the stock market suffers heavy losses and the overdue loan indebtedness of banks increases. In this context, the effective banking control and supervision, including ML risk management, is crucial. The banking sector control system should be flexible and adaptable to any changes in the economic environment in order to withstand the current and future crises as well as to provide out-of-the-box solutions to the cyclic challenges.

At present, the FATF, the international standard-setting organization, gives priority to implementation of the risk-based approach – it is one of the key elements of the revised FATF Recommendations. In Russia, the national requirements for implementing certain components of the risk-based approach in the internal control procedures of credit institutions are set out in Regulation No.375-P of the Bank of Russia dated 02.03.2012 on Requirements for AML/CFT Internal Control Rules of Credit Institution (hereinafter BoR Regulation No.375-P). Pursuant to this Regulation implementation of the ML/FT risk management program by a credit institution necessarily involves categorization of customers with the application of several or aggregate criteria developed for assessing the level (degree) of risk of customer's involvement in ML/FT-related transactions.

Improvement of the procedures of managing risks related to misuse/abuse of banks for ML and (or) FT purposes is one of the key elements of the modern banking operation management process that should be based on scientifically substantiated strategies and tactics, regulatory framework and implementation mechanisms.

ML-related risks are the risks that occur in the process of carrying out transactions covered by Federal Law No.115-FZ of 07.08.2001 on Combating Legalization (Laundering) of Criminal Proceeds and Financing of Terrorism. As part of its supervisory functions, the Bank of Russia monitors the risks related to misuse/abuse of banks for ML purposes. However, the regulator has not specified compliance verification methods and, therefore, each credit institution independently determines the ways and methods of implementing controls for managing this risk. It should be noted that ML risk controls are differentiated into internal controls, external controls and the so-called target controls. Subject to verification is compliance with the mandatory reporting requirements set forth in the legislation, adequate qualification of personnel of the internal control unit and AML/CFT compliance officers, extent of application of IT technologies for managing ML-related risks, etc. Implementation by a bank of the automated process of filing information that is subject to mandatory control with the designated government agency reduces the risk of imposing administrative liability against such bank under Article 15.27 of the RF Code of Administrative Offences. Therefore,

banks need to categorize ML risks for assessing the overall ML risk or the risk of misuse/abuse of a bank for ML purposes with due consideration for the specificities of activities and transactions carried out by each specific credit institution.

The ML-related risks may be categorized as follows:

- risk related to non-compliance of a banks' internal control system with the BoR's regulatory requirements;
- risk related to non-compliance of professional qualification of bank employees and personnel of internal control unit to the qualification requirements established by the BoR;
- risk related to failure to file the required information within the timelines established by the RF legislation;
- risk related to "information vacuum" surrounding the senior management of a bank;
- risk related to breach of the established procedure for analyzing transactions for AML/CFT purposes;
- risk related to unauthorized disclosure of confidential information;
- risk related to exposure to IT-attack;
- risk related to immature banking technologies used by a bank.

It should be noted that this list of ML-related risks is far from being exhaustive and may be constantly modified and expanded as the market situation changes.

Pursuant to the applicable law the threshold amount of total shady transactions of bank's customers is RUR 3 billion, and the maximum share of shady cash transactions is 4% of all debit transactions carried out through customers' accounts opened with a bank.¹ Assessment of the overall ML risk or the risk of misuse/abuse of a bank for ML purposes is conducted by summing up all types of the previously identified ML risks (See Formula 1).

¹ BoR Letter No.92-T of 21.05.2014 on Criteria of Extensive Misuse of Credit Institutions for Carrying out Shady Cash and Non-Cash Transactions

When implementing both external and internal controls, ML risks should be divided and assessed separately for determining the impact of a specific type of risk on the operation of a credit institution.

Risk related to non-compliance of a banks' internal control system with the BoR's regulatory requirements

When assessing this risk in the process of applying the external control measures, the following should be taken into account:

- number of breaches of the BoR regulations in the process of development of the corporate internal control regulation (the internal control rules) identified by on-site inspections and off-site supervision;
- number of breaches of credit institutions' corporate documents/regulations related to monitoring the level of ML-related risks;
- effectiveness of allocation of duties and responsibilities among the internal control unit personnel;
- adequacy and timeliness of assessment of potential misuse of a bank by its customers for illegal activities.

The ML risk internal control system should involve the establishment of the internal control unit (as per the BoR requirements) with delineation of roles and responsibilities for each type of risks and the development of the effective internal document – the internal control rules.

Risk related to non-compliance of professional qualification of bank employees, senior official and Head of Internal Control unit to the qualification requirements established by the BoR

The external control regulations establish rather stringent requirements for credit institution executive officers in charge of internal AML/CFT controls.²

However, the practical picture is quite different when viewed through the internal control prism. The AML professional development training is provided to the employees other than the internal control unit personnel in a bureaucratic manner, and signatures by employees after receiving AML briefings are very much a "tick-box" exercise. The internal control unit personnel have to handle huge amount of information which needed to be further processed for assessing the level of each ML-related risk.

The internal control unit personnel should have not just high level of knowledge and skills in this area, but also possess the "instinct" allowing them to determine the level of "shadiness" of a customer and of transactions carried out by him. The internal control unit personnel can receive professional development training in both international (e.g. Association of Certified Anti-Money Laundering Specialists - ACAMS) and national (e.g. International Training and Methodology Centre for Financial Monitoring under Rosfinmonitoring) organizations and institutions. Although many credit institutions participate in the training and information sharing events at the national level, the international training is accessible only to few banks (mostly to those that are systemically important). It should be noted that knowledge received by employees at the international level can enhance effectiveness of the efforts undertaken by internal control unit and, therefore, reduce the ML risks.

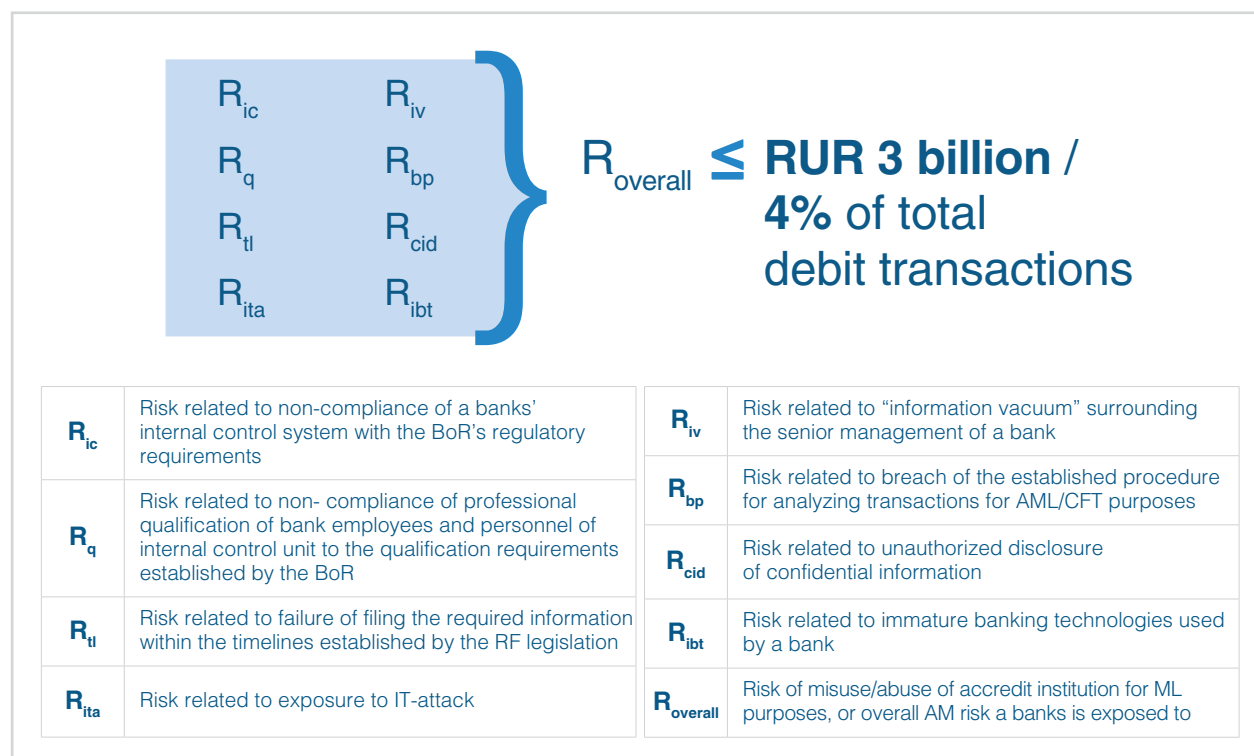
Risk related to failure of filing the required information within the timelines established by the RF legislation

This can be considered the key ML risk that is subject to the most stringent control, since the external control of compliance with the reporting obligations is exercised in parallel by two supervisors – Rosfinmonitoring and the Bank of Russia. Failure by a credit institution to file the required information within the established timelines entails harsh enough sanctions applied by the Bank of Russia, including imposition of administrative liability against such credit institution and its executive officers.

Under the internal control framework, this risk is monitored and managed by development of special

² BoR Directive No.1486-U of 09.08.2004 on Qualification Requirements for AML/CFT Internal Control Compliance Officers and on Implementation of Internal Control Programs in Credit Institutions (Official Gazette of the Bank of Russia, 2004, No.54, p.4)

Formula 1



modules that are built in the information processing software used by banks. The automation of this process is intended for distribution of workload among the internal control unit personnel for reducing the manual information processing efforts.

Risk related to exposure to IT-attack

Under the external control framework, assessment of this risk should be monitored by the government agency in charge of IT technologies – the RF Ministry of Communications and Mass Media. This Ministry should regulate actions taken by credit institutions for protecting themselves against IT-attacks.

The internal control units should conduct ongoing monitoring of stable functioning of information systems and submit reports on operation of the automated banking systems. Upon detection of software integrity violation, they should report such events to the Ministry of Communications and Mass Media. The aforementioned risks can be assessed under both external and internal control frameworks. However, there are certain risks that are monitored by applying just the internal

control mechanisms. Assessment of such risks is important for determining the level of risk related to misuse/abuse of banks for carrying out shady transactions.

Risk related to "information vacuum" surrounding the senior management of a bank

In this context, the main objective of the senior management of a bank is to submit the reports on operation of the internal control unit in a timely fashion.

Risk related to breach of the established procedure for analyzing transactions for AML/CFT purposes

The internal control unit personnel develop technical regulations pertaining to business processes (typically for each division of a bank) and arrange for AML/CFT coordination and cooperation among the bank divisions. Malfunction of this mechanism disrupts the ML risk management process.

Risk related to unauthorized disclosure of confidential information

Pursuant to the legislation information on AML actions taken by a bank constitutes banking secrecy. Unauthorized disclosure of this information by a bank employee may lead to development of new money laundering schemes. This type of ML risk should be assessed under the enhanced AML/CFT confidentiality and information protection mechanism.

Risk related to immature banking technologies used by a bank

The internal control unit personnel handle a huge volume of information provided by all divisions of a credit institution. In this context, the AML/CFT skills and qualification of the personnel is of high importance. However, the internal control unit personnel not always have necessary time, qualification and experience. This problem is dealt with by implementing the automated AML/CFT information processing systems, including submission of information that is subject to mandatory control to the designated government agency and development of special software modules for

screening information against the standard ML criteria and indicators.

Credit institutions acquire rather expensive advanced software (special AML/CFT software modules) that enable them to adequately monitor ML risks. It is important for a bank to understand that expenses related to purchase of such software are paid back in the process of effective management of ML-related risks and eventually allow a bank to maintain its banking license. According to Rosfinmonitoring annual report, in 2014,³ the banking licenses were revoked from 86 banks, of which 35 banks lost their licenses for breaching the AML requirements.

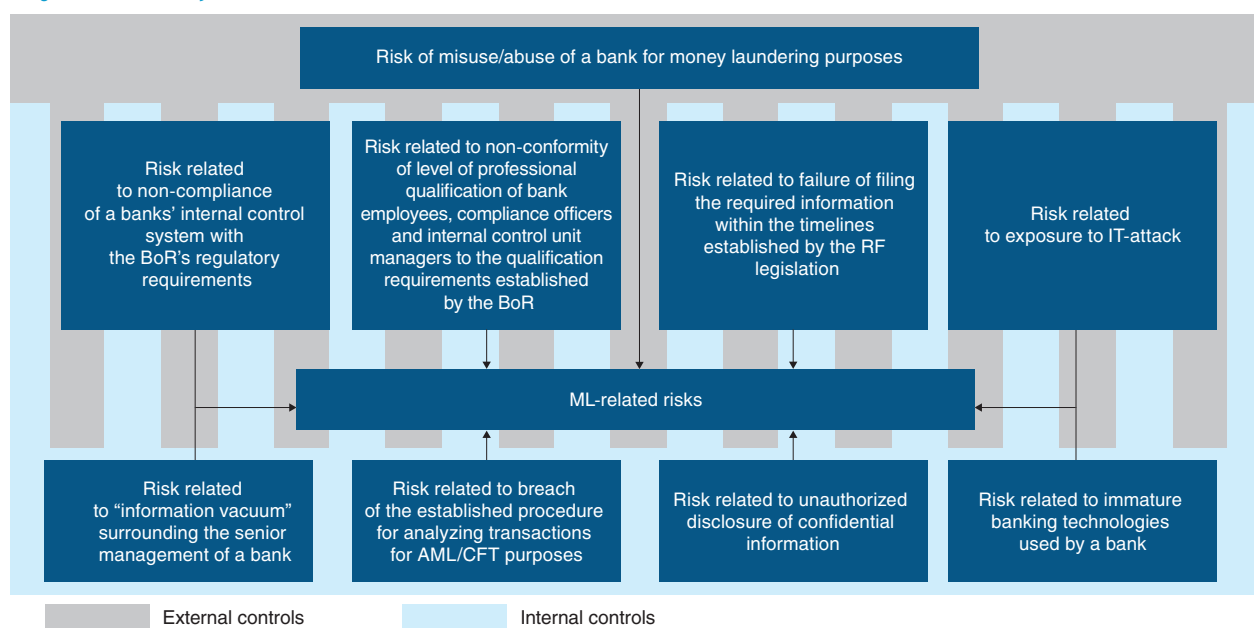
The aggregate of ML-related risks upon object of impact may be presented by the following scheme (see diagram 1).

As shown in the diagram, there are multiple ML risks (that are subject to both internal and external control) that eventually constitute the aggregate risk of misuse/abuse of a bank for money laundering purposes.

ML risks should also be controlled and managed with consideration for different types of legal powers related to use, disposal and possession of funds.

This categorization will help a credit institution to assess and determine at which stage of funds movement ML was detected for identifying specific persons, attorneys-in-fact or straw men.

Diagram 1. Hierarchy of ML-Related Risks



³ Rosfinmonitoring Annual Report for 2014, <http://www.fedsfm.ru/activity/annual-reports> (accessed on 10.09.2015)

Where the internal control unit personnel identify shady transactions at the “use stage”, it may involve front men or fly-by-night companies that may be unaware of who will be the ultimate owner of laundered funds.

At the “disposal stage”, funds are transferred or distributed by a trustee who may be aware of the ultimate beneficiary.

“Possession” is the last stage of funds movement, where funds are actually laundered and received by the ultimate owner (beneficiary).

The funds (capital) flows can be categorized as follows:

- legal movement;
- unregulated movement;
- illegal movement

Legal fund flows are fully transparent, i.e. funds are moved in compliance with the legislation and

banking regulations. On the contrary, illegal and unregulated movement of funds and associated risks are the core elements of any money laundering process. Upon detection of unregulated movement of funds, the internal control unit personnel cannot apply any measures against a customer involved in shady transactions, since there are gaps in the legislation and the customer formally does not breach the law but just uses the loopholes in the regulatory framework. Assessment of the overall risk of misuse/abuse of a bank for carrying out shady transactions should be adjusted for the potential risk of unregulated movement of funds for ML purposes.

Management of risk related to misuse/abuse of a credit institution for ML purposes is the dynamic and continuous process. Banks should regularly update their risk management procedures, with consideration for the risks related to potential use by customers of their account for ML purposes, to ensure that these procedures are effective and consistent with the goals and objectives of the bank development strategy in modern environment.

TREND

DEOFFSHORIZATION-FOCUSED TAX INITIATIVES IN RUSSIA'S ANTI-CORRUPTION POLICY

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Artem V. Tkachenko

The subject of deoffshorization has climbed up to the top of Russia's agenda recently, propelled this time round not only by the country leadership's calls for an end to capital flight and repatriation of the syphoned off funds but also concrete action. This, coupled with some practical steps aimed at tackling corruption, which is closely linked to deoffshorization, compels many of us to talk about a new phase in Russia's anti-offshore policy, as well as being a source of some positive expectations.

These changes are linked to two groups of factors. First of all, they are driven by internal causes, such as the growing threat to national economic security from offshore economy, budget exhaustion and growing public aversion towards the so-called “offshore aristocracy”, whose members generate most of their revenues in Russia but invest them overseas. Another group consists of external causes, provoked by the international community and western offshore jurisdictions’ increased focus on anti-offshore policy initiatives, which has become particularly pronounced at the time of the global economic crisis and worsening debt and budget problems, and the growing role of moral factors in the formation of economic policy, including calls for fair taxation.

The implementation of a balanced state policy aimed at encouraging investment in Russia from offshore areas, fighting corruption and legalization of criminal proceeds helps put a spotlight on this issue. The anonymity of offshore assets ownership and management facilitates crime, including tax evasion, corruption and the financing of terrorism.

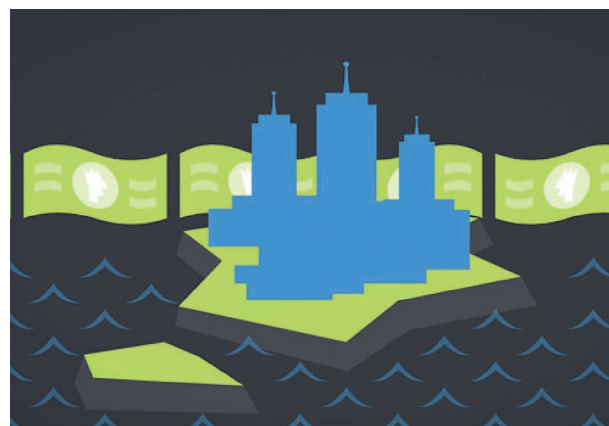
The term “offshore” has featured in the documents of many international organizations, (IMF, FATF, Organization for Economic Cooperation and Development - OECD and the Financial Stability Forum) since the late 1990s.

It is used in reference to countries that provide:

- a) opportunity to significantly lower taxes and other duties;
- b) comfortable legal environment for setting up and running businesses, including simplified administrative and financial supervision;
- c) opportunity to conduct financial transactions anonymously and to conceal the ultimate beneficiaries.

These criteria formed the basis for the establishment of offshore jurisdiction lists, which are in the focus of national and international regulators. At the same time, the driving force behind many offshores are the contradictions existing between the public and private interest, as the state seeks to control and regulate the economy while businesses seek to maximize their profits.

Russia is ranked 136 out of 175 countries in the annual Corruption Perceptions Index prepared by Transparency International, a non-governmental



international organization devoted to combating and studying of corruption worldwide.

Among other subjects of Transparency International's evaluation are multinational corporations with global influence. A list of criteria used by Transparency International in the last year's survey of 124 world's largest companies included disclosure practices of anti-corruption programs, information about the parent enterprise and its subsidiaries, and details of international financial transactions. According to the survey findings, about three-quarters of the evaluated companies did not disclose the taxes that they pay in other countries, and nearly half did not publish revenue information from their foreign operations. These figures highlight the low level of openness and transparency of companies engaged in foreign-economic activity, in particular companies registered in offshore jurisdictions.

The level of offshore investment and foreign ownership of property in Russia has become very high. Nine out of ten transactions carried out by Russian companies are subject to foreign, rather than Russian, legislation.

Meanwhile, the capital fleeing for offshore jurisdictions includes not only legitimate income but also criminal, corruption and tax evasion proceeds, as well as funds sent abroad by crime groups.

At the same time, Russia plays an active role in the emerging system of global governance. It is a member of the G8, G20 and Financial Stability Board. It is also seeking to join the OECD, which has now become a leading international structure for monitoring national policies aimed at combating legal and criminal tax evasion through offshore jurisdictions.

In his address to the Federal Assembly in December 2013, the President of the Russian

Federation committed to design the deoffshorization campaign to extend the country's tax jurisdiction and cover legal entities registered offshore but owned by Russian tax residents.

After about a year, Russian President Vladimir Putin signed a federal law that altered the tax assessment procedure applicable to foreign companies controlled by Russian nationals. The law, passed by the State Duma on 18 November 2014, introduced the term "controlling person" – an individual or a legal entity in Russia holding over 25% of the capital of a foreign entity – into the country's Tax Code. Under the new law, Russian tax residents are required to declare profit generated by such companies in excess of 50 million rubles in 2015, 30 million in 2016 and 10 million in 2017.

The document also imposes penalties for non-payment of taxes on income of controlled companies and for failure to report them, with the date of incurrance of liabilities for these actions set for 2017.

Measures aimed at establishing control over offshore areas are also being undertaken by international organizations and central banks worldwide. Among international organizations publishing lists of offshore jurisdictions, the most reputable ones are the Organization of Economic Cooperation and Development (OECD) and the Financial Action Task Force (FATF).

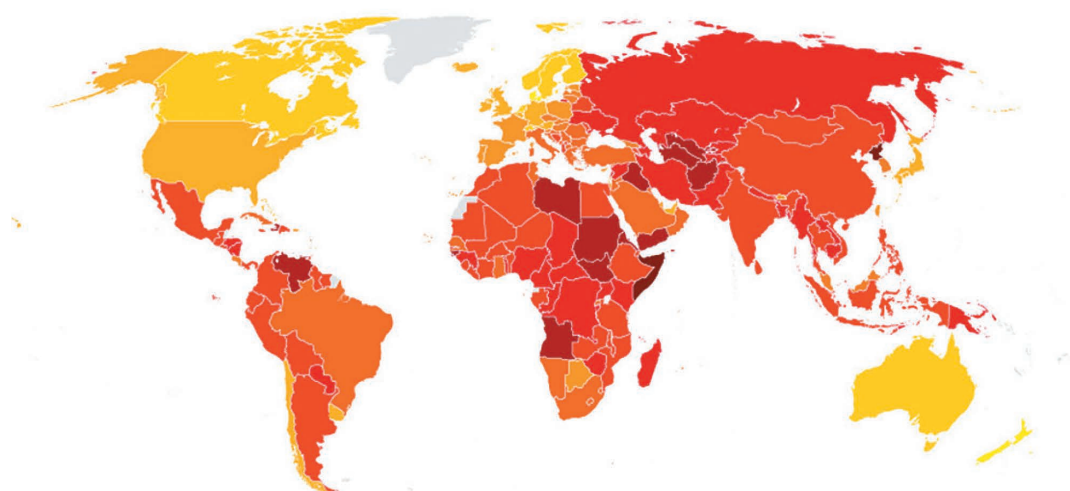
As part of the policy designed to promote deoffshorization of national economies, the OECD developed the Base Erosion and Profit Shifting Action Plan (BEPS), whose publication signalled

a turning point in the history of international tax cooperation.

One of the BEPS purposes is to enable tax authorities to form a clear picture of transactions carried out by taxpayers. This task is solved primarily through the introduction of a requirement for taxpayers to file a Country-by-Country Report (CbCR, BEPS Action 13), containing an enlarged picture of international corporations' business structure, such as profitability and revenue levels as well as the number of employees in each country of their presence.

In February 2015, the OECD released a report that provided more details on the CbCR requirements. Thus, they apply to groups of entities with a consolidated turnover of over EUR 750 million and provide for the per country disclosure of financial and qualitative metrics. The new requirements are recommended for adoption by OECD members at the start of the fiscal year beginning no earlier than January 1, 2016, meaning that the first CbCR reports can be expected in 2017. It is possible that in the near future a legal framework for CbCR requirements may also be established in Russia.

One of the most recent legislative initiatives aimed at achieving the objectives of deoffshorization of the Russian economy is the Federal Law of June 13, 2015 No. 227-FZ «On Amendments to the Federal Law 'On the Contract System of the Federal and Municipal Procurement of Goods, Works and Services'». This law introduces a ban on the purchase of goods for public needs from offshore companies. According to the



document, the procurement committee must vet all procurement participants for the presence of offshore companies and reject bids from them. The law is also intended to support domestic producers and encourage import substitution.

Public procurement and management of state property are particularly at risk of corruption. Only last year, a fifth of all public procurements funds – or RUR 1.3 trillion – ended up in offshore accounts through a total of 280 contracts registered abroad.

Naturally, there exists a risk of adoption of a much tougher anti-offshore policy. On the one hand, it is associated with a possible temporary decline in business activity in Russia and the upsetting of the existing balance between political and economic interests accompanied by the loss of control by the state. On the other hand, the response from big businesses could be the intensification of efforts aimed at improving the investment climate in the country, given that it is these offshore tools that put



Rosfinmonitoring NFD Directorate

them in a privileged position compared with non-offshore small and medium-sized enterprises in the first place.

A more aggressive anti-offshore policy meets the national interests of Russia and will help improve the country's image in the world.

VIDEOCONFERENCING SYSTEM

2015 HIGHLIGHTS

Konstantin G. Sorokin,
Special Reporter

Given the importance of training and methodological support for the Eurasian countries in anticipation of the completion of the current and the beginning of the new rounds of the FATF and the EAG mutual evaluations, a list of the key videoconference-based activities organized by the Eurasian Group on Combating Money Laundering and Financing of Terrorism at the ITMCFM facilities in 2015 included, besides traditional experience sharing events, numerous training activities such as workshops, training courses, discussions of scientific research findings and others. They covered a wide range of topics and attracted many participants, while allowing the EAG member countries to share best experiences in implementing international AML/CFT standards.

Reference

The EAG's videoconferencing system (VCS) includes financial intelligence units of Armenia, Belarus, Kazakhstan (Astana and Almaty hubs), Kyrgyzstan, Russia, Tajikistan and Uzbekistan. Another VCS hub is located at the Institute of Financial and Economic Security (IFES MEPhI), a leading educational organization of the network AML/CFT Institute.

VCS provides closer engagement between national FIUs and other state authorities, allowing them to organize real-time meetings, round-tables, trainings, etc.



Over 40 different events, including 3 short-term training courses (four days), 12 round-tables, 7 workshops (lasting one to two days), 3 discussions of research findings, 1 thesis defence session for IFES graduation students, 6 working meetings, 1 intersessional EAG meeting, etc. were organized during 2015 using VCS.

They were attended by over 600 representatives of the EAG countries, including:

Russian Federation	158
Armenia	12
Belarus	109
Kazakhstan	95
Kyrgyzstan	63
Tajikistan	53
Uzbekistan	108
CIS Executive Committee	3

The participation in these events of the representatives of various ministries and departments allows the EAG member states to further strengthen the capacity of their anti-money laundering systems. Importantly, the involvement of government agencies in this case is not limited to passive attendance, but rather results in experience and skills sharing and participation in discussions with the EAG colleagues of the topical issues affecting their areas of activity. In particular, the Research Centre of the Federal Drug Control Service initiated in 2015 a series of thematic lectures and round-tables dedicated to such relevant topics as “Criminal legal regulation and practice of combating drug-related money laundering in Russia” and “Regional differences in money laundering crimes in Russia”. Joint activities with the Research Centre of the Federal Drug Control Service are also scheduled for 2016.

Russia's initiative to share its best anti-money laundering experience with the EAG partners received enthusiastic support from the participants of numerous events held in 2015. There is every reason to believe that the upcoming year will be no less interesting, eventful and useful for all participants of the video conferencing system.

DYNAMO No. 33 BOARD OF TRUSTEES MEETING

A meeting of the Dynamo No. 33 Board of Trustees dedicated to a review of the year's highlights was held on 27 October in the building of the all-Russian sports society Dynamo

*Nikolai P. Dubchak,
Deputy Chairman of the Central Sports Club
of financial authorities Dynamo No. 33*



In his welcoming remarks to the participants, Vladimir Pronichev, Chairman of Dynamo No. 33, highlighted the importance of the first Dynamo-sponsored Spartakiad for Russian financial authorities. Vladimir Pronichev thanked Yury Chikhanchin, Chairman of the Dynamo No. 33 Board of Trustees and Director of Rosfinmonitoring, Oleg Shabunevich, Chairman of the organization, and heads of the relevant ministries and departments. He urged members of the Board of Trustees to study in detail the outcomes of Spartakiad and pay more attention to the employees of Russian financial agencies actively involved in the sports life of their teams and activities of the sports society Dynamo.

Reviewing this year's results, Yury Chikhanchin stressed that the organization of such events is very important not only for Dynamo but also for all participants, noting also that it is impossible to overestimate the importance of competition in terms of healthy lifestyle popularization.

The Board of Trustees, which lists among its active contributors Yury Zubarev, State Secretary and Deputy Minister of Finance, and Roman Artyuhin, Head of the Federal Treasury, approved the Russian financial authorities' Mass Sports and Recreation Strategy until 2020 along with the Activities Schedule 2016. Among the goals set by the strategy are the development of health-promoting activities and promotion of mass sports.

Dynamo No. 33's Activities Schedule includes, inter alia, participation by all employees of Russia's financial authorities in the national physical culture training program (GTO). In order to make further progress in this area, Dynamo has signed an agreement with the Military Sports Foundation's test centre. Vladimir Glotov, Deputy Director of the Federal Financial Monitoring Service, pointed



out the fact that last year contestants had already participated in the GTO tests and felt very excited about it:

"We have organized GTO tests twice this year, at the Luzhniki Stadium and during the first field forum in Anapa. All participants showed great enthusiasm when taking part in the sports tests. Unfortunately, not all people happened to be in the right place at the right time. Naturally, we would like to see as many people as possible to take part in this event, but not everyone was able to come. Last year, we tried out hand at different competitions and formats for the first time, and now we will try to learn from this experience."

Oleg Shabunevich, Chairman of the Central Sports Club of the Russian financial authorities Dynamo No. 33, noted that since the establishment of Dynamo No. 33, the involvement of the employees of various departments of the Russian financial intelligence agency in sports activities has reached a fundamentally different level. The organized competitions boost the Dynamo movement in general.

The meeting of the Board of Trustees ended with an awards ceremony for the participants and winners of the first Spartakiad of the Russian financial authorities. The cup and 1st Place Award Certificate went to the state-owned corporation Deposit Insurance Agency, with the Ministry of Finance and the Federal Treasury finishing second and third, respectively.

DYNAMO No. 33 AND BRICS: STRENGTHENING AND DEVELOPING SPORTING CONTACTS

A sports tournament for BRICS students was held at MEPhI's sports centre on 11 November 2015 during the international scientific and practical conference titled "Threats and Risks Faced by BRICS Economies" (Moscow, Russia)

*Nikolai P. Dubchak,
Deputy Chairman of the Central Sports Club
of financial authorities Dynamo No. 33*





The initiative to hold the tournament during the 7th Student Forum of BRICS Business Schools came from the Federal Financial Monitoring Service, while Dynamo No. 33, the Central Sports Club of the Russian financial authorities and MEPhI's Department of Physical Education backed the idea and put it to practice. Over 70 students from the BRICS countries took part in the tournament.

The opening ceremony of the tournament was attended by Vladimir Glotov, Deputy Director of Rosfinmonitoring, Vyacheslav Starshinov, two-time Olympic ice hockey champion, Oleg Shabunovich, Chairman of Dynamo No. 33, guests from the BRICS countries, senior staff of the universities

participating in the conference, and representatives of student delegations.

Competition winners were awarded with cups and certificates by Vyacheslav Starshinov, Oleg Shabunovich and MEPhI's Deputy Director Elena Pisarchik.

Commenting on the tournament results, Vladimir Glotov noted that Russian athletes still had some work to do. He also drew attention to a healthy rivalry between Russian and Chinese athletes existing today at all major international tournaments:

"I believe that the healthy rivalry between Russia and China is good. We need to practice more. The tournament is expected to be held annually. The next conference will be held in India next autumn, and so will the tournament, which our athletes will definitely attend. We value our international experience and view our BRICS partners as most important allies."

On the FATF President's Visit to Rosfinmonitoring



A working visit by the FATF President Je-Yoon Shin to the Federal Financial Monitoring Services took place on 11 November 2015. Je-Yoon Shin was accompanied by representatives of South Korea's FIU. The purpose of the visit was to study the Russian financial monitoring experience and approaches to supervising activities.

The meeting was attended by Yu. A. Chikhanchin, Director of the Federal Financial Monitoring Service; A. G. Petrenko, Head of the International

Cooperation Department; O. G. Raminskaya, Head of the Supervisory Activity Department; and A. A. Stepanov, Head of Microanalysis and Technology Department. The South Korean delegation at the meeting was represented by South Korea's FIU Director Byung Rhae Lee, his deputy Kivun Lee and FIU representative Jin Soo Lee.

The Rosfinmonitoring Director informed the visitors about the key milestones in the Russian FIU's development, scope of its activities, tools used, the format of cooperation with other government bodies and international partners.

Additionally, the work of the Risk Assessment Centre was shown to the delegation.

Head of the Presidential Executive Office Meets the FATF President

Sergei Ivanov met with the Financial Action Task Force on Money Laundering (FATF) President, Je-Yoon Shin. The discussion covered various aspects of Russia's participation in the FATF activities, such as combatting financial crime and corruption and countering the financing of terrorism.

According to Ivanov, Russia and the US should continue their joint work to counter the financing of terrorism. The Head of the Presidential Executive Office said the study conducted this year at the initiative of the United States and with Russia's active participation into the sources of ISIL's funding should not be the final stage in our joint work, but rather the beginning of the efforts to expose the states, legal entities and individuals involved in the funding of ISIL. No state can function efficiently without making efforts to combat corruption and to counter the financing of terrorism, the Russian official stressed.



The FATF President Je-Yoon Shin noted the advantage of cooperating with Russia in countering corruption and the financing of terrorism, which are both global challenges.

The FATF President also shared the impressions of his visit to Rosfinmonitoring, where he learned about Russia's techniques and approaches to tracking illicit cash flows. Yury Chikhanchin, who heads the Federal Financial Monitoring Service, also attended the meeting

www.kremlin.ru

On Signing Agreement between Rosfinmonitoring and Cambodia's FIU

On 24 November 2015, the FIUs of Russia and Cambodia signed an information sharing agreement to combat money laundering and terrorism financing.

The document was signed by Director of the Federal Financial Monitoring Service Yu. A. Chikhanchin and Governor of the National Bank of Cambodia Chea Chanto.

The agreement between Rosfinmonitoring and the Financial Intelligence Unit of the National Bank of Cambodia was signed after the talks between the two countries in Phnom Penh involving Russian Prime Minister Dmitry Medvedev.



Regular Meeting of the Expert Advisory Group of the National Anti-Terrorist Committee



A regular meeting of the Expert Advisory Group of the National Anti-Terrorist Committee for Combating the Financing of Terrorism was held in the hall of the Executive Council of the Federal Financial Monitoring Service on 27 November 2015. The meeting was chaired by Rosfinmonitoring Director Yu. A. Chikhanchin.

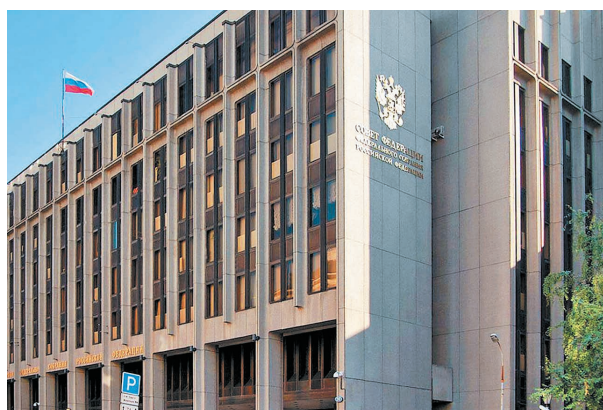
During the meeting, participants discussed joint collaboration in implementing the 2016-2018

Comprehensive Interagency Action Plan to combat the financing of terrorism and extremism, approved by the National Anti-Terrorist Committee on 13 October 2015, as well as reviewed the Group's performance in 2015 and approved the work plan for 2016.

Special attention was devoted to the development and discussion of national and international measures to cut off the funding for international terrorists, and in particular Islamic State, terrorist organization prohibited in Russia.

Round-Table Discussion at the Federation Council

A round-table discussion titled "Improving the System for Mandatory Anti-Money Laundering and Terrorist Financing Supervision" was held on 27 November 2015 at the Council of Federation of the Federal Assembly of the Russian Federation under the chairmanship of Nikolai A. Zhuravlev, Deputy Chairman of the Budget and Financial Markets Committee.



The keynote speech was delivered by Pavel V. Livadny, State Secretary and Deputy Director of the Federal Financial Monitoring Service. A list of attendees also included representatives of the expert community and the Bank of Russia.

In his speech, P. V. Livadny highlighted the importance of mandatory AML/CFT controls. Further improvements to the system of mandatory controls

may include discussions of such thorny issues as the approval of a list of transactions subject to mandatory controls. Among the future directions of mandatory control efforts identified by him are the monitoring of operations carried out by non-profit organizations, defence-related procurement and expenditure of budgetary funds by the enterprises of strategic importance for national defence and security.

Meeting of the Network AML/CFT Institute

A regular meeting of the Council of the network AML/CFT Institute was held on 10 November 2015 under the chairmanship of Deputy Director of the Federal Financial Monitoring Service V. I. Glotov.

The meeting was attended by the heads and representatives of the relevant AML/CFT structural units (specialized departments, centres and laboratories) established at various universities for the purpose of training financial monitoring and supervision experts.

Participants summarized the outcomes of the Council's work in 2015 and set goals for 2016.



Also during the meeting, the Council's most active participants received prizes for their special contribution to the training of AML/CFT experts capable of defending our country's national and financial security.

On the Meeting of the Interagency Committee

A regular meeting of the Expert Advisory Group of the National Anti-Terrorist Committee for Combating the Financing of Terrorism was held in the hall of the Executive Council of the Federal Financial Monitoring Service on 1 December 2015. The meeting was chaired by Rosfinmonitoring Director Yu. A. Chikhanchin.

The meeting was attended by I. A. Yarovaya, Head of the State Duma Committee for Security and Anti-Corruption.

Participants discussed measures designed to strengthen the fight against terrorist financing and Russia's preparation for the 4th round of mutual evaluations of the AML/CFT systems in 2018, as well

as outlined future objectives and mechanisms for achieving them.

Speeches dedicated to the key agenda items were delivered by P.V. Livadny, State Secretary and Deputy Director of Rosfinmonitoring; D.V. Feoktistov, Deputy Director of the Foreign Ministry's Department of New Challenges and Threats; G. Y. Neglyad, Head of Rosfinmonitoring's Legal Department; A.G. Petrenko, Head of Rosfinmonitoring's Department of International Cooperation; A.V. Chernenko, Director of the Ministry of Communications' Department of Informatization Projects; D.A. Kostin, Deputy Head of Rosfinmonitoring's Legal Department; and others.

The outcomes of the meeting were recorded in the meeting minutes.

New Exhibition at Rosfinmonitoring



The exhibition titled “Crimean Artists”, dedicated to the reunification of the Crimea with Russia, took place at Rosfinmonitoring on December 3, 2015.

The exposition included more than 40 works by artists from Southern Russia. The painting traditions of Southern Russia have long been known to both domestic and overseas connoisseurs and lovers of visual arts, with many of their works occupying prominent places in famous museums around the world and prestigious private collections.

Rosfinmonitoring's Deputy director V.I. Glotov led the agency's team to a meeting with Director of the SHTERN gallery Larissa Sternina.

SHTERN is a private Moscow gallery that opened its doors to the public back in 2005. In the ten years of its operation, the gallery has acquired fame and reputation for its creativity and major exhibition projects.

Larisa Sterninina introduced to Rosfinmonitoring staff the works of such renowned artists as Ramazan Useynov, Sergey Brovkin, Alexander Shadura and Nikolai Dudchenko.

Reference

Ramazan Useinov, graduate of the Tashkent Republican Art College and member of the Ukrainian National Union of Artists.

Sergey Brovkin, official representative of the Russian Association of Seascape Painters and its vice president since 2012. Starting 2004, seascapes have formed the centrepiece of his artistic repertoire.

Alexander Shadura, Crimean artist whose works have found their way into the collections of the Sevastopol and Simferopol art museums as well as private collections in Ukraine, Russia, Israel, USA, Canada, Germany, France and other countries. Open air paintings serve as an indispensable source of inspiration for the artist and the main theme of his works.

Nikolai Dudchenko, associate professor of the National Academy of Fine Arts and Architecture, a distinguished artist of the Crimea and, since 2007, of Ukraine. In 2003, he won the Crimean Fine Art award. The scope of his works spans such art forms as painting, graphics and monumental art.

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