

# **FINANCIAL SECURITY**

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**T. KHABRIEVA**

*"The challenge of confronting  
ML as a phenomenon  
of social reality can only  
be met by a counteraction  
system built jointly by  
the state and civil society."*



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## DEAR READERS!

The purpose of conducting research into money laundering and terrorist financing at the current stage of Russia's development and in the conditions of ongoing sanctions is threefold:



to maintain national security, to promote sustainable economic development of the country and to enhance the effectiveness of AML/CFT efforts. This work is carried out in compliance with Russian President Vladimir Putin's instruction to develop new software solutions and conduct integrated researches in the field of the financial monitoring.

The recent period has seen much progress in this area, including creation and operation of research teams at the universities and research centres of the International Network AML/CFT Institute; and the implementation, with support from the Ministry of Science and Higher Education and the Presidium of the Russian Academy of Sciences, of a comprehensive research programme "Mathematical and

Socio-economic Modelling to Combat Money Laundering and Terrorist Financing."

With respect to the journal's cover story, I would like to highlight a significant contribution to the development of scientific research made by the RAS Presidium. Our joint and fruitful cooperation began on the initiative of the Institute of Legislation and Comparative Law under the Government of the Russian Federation.

When it comes to training and research, we work closely with our counterparts from the FIUs of Russia's international partners, including through the International Network AML/CFT Institute, the Egmont Group, the FATF and FATF-style regional bodies. The results of this work were demonstrated to FATF assessors during their visit to Russia in March 2019. Acknowledging the progress made by the Russian AML/CFT system, the FATF assessment team emphasized the need to maintain the forward momentum, otherwise professional money launderers can leave behind financial monitoring specialists in terms of qualifications.

*Yours sincerely,  
Yury Chikhanchin  
Rosfinmonitoring Director*

## COVER STORY

# RUSSIAN SCIENTIFIC COMMUNITY'S PARTICIPATION IN THE NATIONAL AML/CFT SYSTEM

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**Taliya Khabrieva** is the Director of the Institute of Legislation and Comparative Law under the Government of the Russian Federation, deputy president of the Russian Academy of Sciences, Russia's representative in the Venice Commission (European Commission for Democracy through Law), academician of the Russian Academy of Sciences, doctor of law, professor, full member of the International Academy of Comparative Law, member of the Presidential Anti-Corruption Council, Honoured Lawyer of the Russian Federation and Honoured Lawyer of the Republic of Tatarstan.

117218, 34 Bolshaya Cheremushkinskaya Str., Moscow,  
E-mail: [office@izak.ru](mailto:office@izak.ru)

In the first decades of the 21st century, money laundering represents a threat that is faced by both individual countries and the entire international community. In this regard, Russia is no exception. In fact, the relevance of this challenge for Russia is even greater than for most other countries due to a number of factors, including the lack of transparency of ownership structure of the largest enterprises, insufficiently effective (in terms of the fight against shell companies) regulations for registration of legal persons, excessive offshorization of the economy, etc.

Any analysis of AML/CFT challenges should include considerations for the ongoing changes in the global economic, legal and, to a certain extent, political architecture. The quickening pace of economic globalization means that borders between countries become increasingly penetrable to goods, people and capital, placing many issues that were historically the prerogative of individual nations under the intensive international spotlight.

Another round of scientific and technological progress, within which, as figuratively put by Microsoft CEO Satya Nadella, “technology ceases to be a reflection of the world and becomes a means of managing reality”, adds a new dimension – and a new dynamic – to these processes. Philosophers use the term “phase transition” to describe the current phase of social development, to be followed by, and culminating in, the emergence of a new type of society (a socio-economic formation), whose outlines, despite many futurological forecasts, are not yet clear. What is clear, however, is that the increasing digitalization of all strata of human society plays a key role in this transformation.

At the same time, these processes – the growing connectivity of the global economy and the emergence of new technologies, including digital – create new opportunities not only for the socio-economic development of society, but also for committing various offences, including ML/TF. Thus, for example, criminals take advantage of the anonymity afforded by today’s virtual technologies used by banks to change the way they carry out illicit transactions, including those involving cryptocurrencies, which are increasingly used for criminal purposes. In other words, the growing pace of digitalization contributes to a quantitative increase in ML/TF activities.

The scale of these processes, which threaten the political and economic foundations<sup>1</sup> of Russian society, and their receptiveness to the latest scientific and technological developments compel the Russian scientific community to step up its involvement in the fight against ML and TF.

Science of law professionals were among the first to respond to emerging challenges, building on the foundation for research into money laundering and terrorist financing previously laid by renowned research institutions. For example, the crime and criminology school, established at the Institute

of Legislation and Comparative Law under the Government of the Russian Federation (the Institute was created in 1925 and was called the Institute for the Study of Crime and Criminal) almost immediately after its creation, laid the scientific foundation for the study of criminogenic factors, the overall criminal situation, its trends and the emergence of specific conditions for the commission of the most common and most socially dangerous criminal acts, as well as for developing approaches to combating crime and ensuring public safety. Here we should also mention the scientific school of international law, which, having its roots in the classical doctrine of international public law as well as in the scientific theory that was developed back in the years of the USSR, when our country was the target of aggressive attacks emerging in different parts of the world at different periods of time, developed progressive ideas about the nature of international interagency treaties, their current status and the role of federal authorities in enforcing them<sup>2</sup>. The scientific groundwork laid by the representatives of these and other research institutions has allowed Russia to not only quickly develop a legal AML/CFT framework that meets the requirements of international standards in this area and rivals the best foreign legislative practices, but also to effectively uphold its position in the international arena, by concluding multilateral and bilateral international agreements. There are over 50 of them today: 40 bilateral agreements and 15 intergovernmental agreements (in addition to 9 universal conventions, 14 UN Security Council Resolutions and 40 international standards).

In 2019, Russia officially entered the active phase of the FATF fourth round of mutual evaluations, whose key features include the focus of the assessment of the national AML/CFT system “...not only on compliance with international standards but also on effectiveness.”<sup>3</sup> The findings of the assessment of the Russian AML/CFT system will be discussed at the FATF Plenary week in Paris in October 2019.

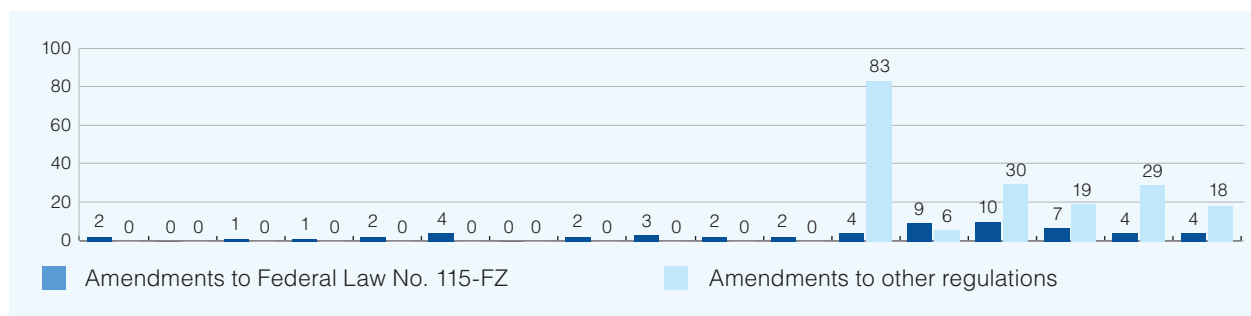
<sup>1</sup> As is well known, criminal proceeds pose a threat not only to the economic but also to political stability of any state, by disrupting functioning of market mechanisms, increasing the criminalization of economic sectors, strengthening ties between criminals and public officials, and undermining public trust in authorities.

<sup>2</sup> I. Tiunov, A. Kashirkina, A. Morozov. *International Interagency Agreements of the Russian Federation: a Monograph*. Moscow. 2008

<sup>3</sup> Yury Chikhanchin. FATF Assessors Arrive in Moscow for an On-site Visit. 11.03.2019 // <http://www.fedsfm.ru/releases/382>



**Fig. 1. Amendments to Federal Law “On combating money laundering and the financing of terrorism” and other AML/CFT regulations**



Today's legal AML/CFT framework consists of an impressive package of both domestic (in the broad sense of this word) and international (universal and regional) legal instruments<sup>4</sup>. As was already said<sup>5</sup>, this package represents a system made up of two interacting subsystems: international and domestic, both of which are developing rapidly.

In particular, when it comes to the domestic subsystem, AML/CFT regulations are incorporated in different branches of law: criminal, civil, administrative, financial, tax and banking. To date, Russia has purposefully adopted, or incorporated AML/CFT requirements into: 90 Federal laws (including Codes); 10 Decrees and Orders of the President of the Russian Federation; 25 Resolutions of the Government of the Russian Federation; more than 20 orders and other departmental regulations; and more than 50 regulatory acts.

And this subsystem is constantly changing. The AML/CFT framework law – Federal Law No. 115-FZ of August 7, 2001 “On Combating Money Laundering and the Financing of Terrorism” – has been amended more than 50 times since its enactment. The purpose of many of these amendments was to update the list of entities covered by AML/CFT requirements and to clarify their rights and obligations.

Amendments affecting various aspects of AML/CFT are also regularly made to other laws and regulations: 18 legal acts adopted over the past 6 years made such changes to almost 110 legal acts (Fig. 1).

Amendments made to financial, banking, tax, administrative, civil, criminal and other regulations primarily concern changes in the AML/CFT rights and obligations of such AML/CFT system stakeholders as:

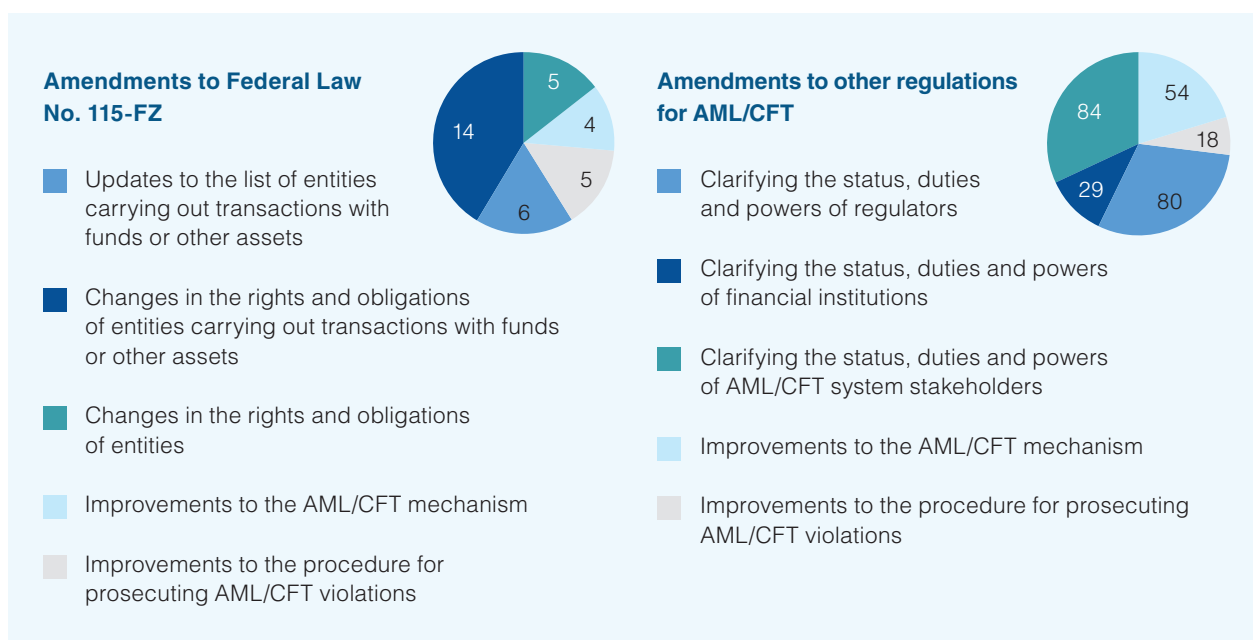
- public authorities and other entities performing public administration functions in the area of AML/CFT, as well as their officials;
- credit and other institutions carrying out transactions with monetary funds or other assets, as well as their officials;
- physical and legal persons that according to the legislation of the Russian Federation have certain rights and obligations related to AML/CFT.

In addition, a significant number of amendments made to existing legislation are aimed at clarifying the list of grounds and procedures applicable to certain categories of persons and entities for failure to comply with AML/CFT requirements, as well as at streamlining the AML/CFT efforts (Fig. 2).

<sup>4</sup> V. Bukarev. *International Experience in AML Regulation* / V. Bukarev. Y. Truntsevsky, N. Shulepov // *International Public and Private Law*. 2007. No. 4 p. 54.

<sup>5</sup> T. Khabrieva. *Combating Money Laundering and Terrorist Financing in the Digital Economy: Strategic Objectives and Legal Solutions* // *Russian Journal of Criminology*. 2018. Vol.12. No. 4

*Fig. 2. Main types of amendments made to Russian legislation to improve the fight against corruption, money laundering and terrorist financing*



Further changes to the Russian AML/CFT law are expected to be related to the following:

- development and adoption of uniform criteria for the determining of “politically exposed person” subject to AML/CFT and anti-corruption requirements, and determining the unified monetary value of gifts such persons are allowed to accept;
- development of special programmes to coordinate the search for corrupt officials and enable the recovery of their assets;
- optimization of legal mechanisms for the search and recovery (repatriation) of illegally obtained assets from abroad;
- application of common approaches to the declaration and control of politically exposed persons.

It seems likely that the FATF Recommendations concerning virtual assets and virtual asset service providers will have a substantial impact on the development of various elements of the national AML/CFT/CPF framework. The main purpose of these recommendations is to harmonize the

application of AML/CFT requirements by applying general rules to virtual assets (VA). Among the fundamental and practical objectives of the study into virtual assets turnover regulation research are:

1. to determine the legal status and the nature of new digital entities used in the financial sector;
2. to establish legal grounds and procedure for using the distributed ledger technology (blockchain);
3. to create a legal framework for the use of cryptocurrencies while maintaining the dominance of national currencies;
4. to regulate initial coin offerings and mining;
5. to specify the conditions and assess the prospects for compliance with the FATF standards in the emerging EAEU common financial services market;
6. to explore the possibility of the EAEU-wide regulation of the issues concerning the application of AML/CFT regulations to transactions with digital currencies and combating the abuse of the emerging common EAEU financial market for ML/TF purposes.



The above data confirm the validity of the earlier hypothesis<sup>6</sup>, that AML/CFT legislation represents a “cyclical legal framework” whose attributes include an extrovert nature and the ability to penetrate all or most of the elements of the legal system, integrate into its established elements, interact with them, and determine their content, functionality as well as the vector and pace of further transformations. As a result, the legal framework undergoes a kind of readjustment to refocus on finding solutions to social problems and meeting social needs that brought to life the legal norms that form the pinnacle in the creation of “cyclic interconnection in law.” In this case, the AML/CFT regulations.

It is important to emphasize that the study of the AML/CFT legal framework and the potential for its classification as a cyclical legal framework is not a whim or a desire of a group of scientists to satisfy their curiosity. Instead, by studying these issues as well as the mechanism of formation of cyclical legal frameworks, we will be able, on the one hand, to speed up the efforts to identify and fill the gaps in legislation, and on the other, to prevent (eliminate) situations where any increase in the number of regulations results in uncertainty about which legal norms regulate relations in a given period. An equally important task, the solution of which will be facilitated by studying the nature of cyclical legal frameworks, is to shift the

emphasis in the AML/CFT regulation of public relations to the use of flexible instruments (by-laws) as well as quasi-legal regulators that ensure the efficiency of regulatory impact and streamlining of legislative process. In general, fundamental legal studies of these issues should serve as the basis for research into the systematization of the AML/CFT legal framework, the prerequisites for which, in our opinion, already exist.

Along with the above and other<sup>7</sup> fundamental studies, legal scholars conduct a significant volume of scientific and applied research of the international legal framework, domestic and international AML/CFT regulations<sup>8</sup>. In particular, given that government officials alone cannot create an effective system for safeguarding Russia's financial security, legal scholars analyse the AML/CFT efforts undertaken by not only Rosfinmonitoring and the Bank of Russia, but also reporting entities. They also study the role of AML/CFT efforts in the search and recovery of criminal assets, as well as the approaches to solving this problem developed by various international organizations (UN, EU, FATF, Egmont Group, etc.), foreign financial intelligence units and other agencies of the USA, the UK, Canada, China and CIS states, including involving the use of extrajudicial procedures. The impetus to these and other substantive scientific studies, which have by now acquired the status of comprehensive, often arrives from the need of Rosfinmonitoring, the Bank of Russia, the International Training and Methodology Centre for Financial Monitoring, and other AML/CFT system stakeholders in providing scientific support for AML/CFT efforts. And today the results of these studies form a solid scientific basis for the development of adequate legal regulation of public relations in the field of AML/CFT, including public relations associated with the use of innovative financial and other technologies, which, in turn, should boost the effectiveness of AML/CFT.

<sup>6</sup> T. Khabrieva. *Law in the Context of Digital Reality* / T.Y. Khabrieva, N.N. Chernogov // *Journal of Russian Law*. 2018. No. 1 pp. 85–102; T.Y. Khabrieva. *Combating Money Laundering and Terrorist Financing in the Digital Economy: Strategic Objectives and Legal Solutions* / T.Y. Khabrieva // *Russian Journal of Criminology*. — 2018. — Vol. 12, No. 4. — pp. 459–467.

<sup>7</sup> See, for example: monographic studies of the Institute of Legislation and Comparative Law under the Government of the Russian Federation “Criminal liability of legal entities”, “The Future Use of the Mechanisms for Freezing, Seizing, Confiscating and Managing Illicit Assets”, “Transparency of Legal Persons and Arrangements: Ways to Mitigate the ML/TF Risks”; *Financial Security Risks: Legal Format*, “Financial Security Institutions”; *Criminal and Jurisdictional Work in the Digital Economy*, etc.

<sup>8</sup> Here we can mention the scientific and practical comments prepared by various teams of authors on Federal Law of August 7, 2001 No. 115-F3 “On Combating Money Laundering and the Financing of Terrorism”, the scientific and practical manual “Legal Liability Established in Foreign Countries for Laundering Corruption Proceeds” and other works.



At the same time, it should be noted that the dynamics of criminal behaviour and the ways of counteracting it, including with respect to ML/TF, are determined by the combination of social, economic and other factors that form the corresponding challenges for the state at a particular stage of its development<sup>9</sup>. The key features of the current phase of development of Russian society are still largely determined by the outcomes of the transition from a planned to a market economy. Among them, the following are of particular note:

- income inequality. Plato at one time named income inequality one of the key factors contributing to crime. "It is permissible that the property of the wealthiest should only be four times the wealth of the poorest," the scientist believed<sup>10</sup>. In modern times, the words of the great philosopher of antiquity are backed up by a number of scientific studies<sup>11</sup>, including fundamental ones that won the Nobel Prize<sup>12</sup>, as well as by economic studies by L. I. Abalkin and criminological studies by A. B. Sakharov. The latter pointed out that "...a more adverse criminal situation is found in those of the compared regions where higher living standards, as measured against a set of key indicators (average wage, per capita and real income, etc.), are contrasted with a greater disparity in the level of material wealth of particular social groups."<sup>13</sup> The high level of economic inequality between social strata within the country, which is typical for modern Russia, is a fertile ground for shadow economy and for ML/TF in particular.

- adherence by individuals and businesses to "the ethics of efficiency inherent in capitalism, which is derived from the calculation of capital"<sup>14</sup>. According to this ethics, each individual and business in a market economy should, on the one hand, strive to maximize its welfare and profits, and on the other, externalize and shift their expenses onto society or other market participants, which can be achieved, among others, through money laundering.
- periodic economic and financial crises and unemployment. The insufficiently stable state of the Russian economy, the financial and economic crisis, as well as the shortcomings in the creation and distribution of wealth, contribute to many negative processes taking place in society, including high crime rates. At a society level, this primarily translates into higher social tensions, uncertainty about the future and, as a result, the setting in of the "après nous le deluge" ideology.

Obviously, all of the above factors create a suitable context for the commission of illegal acts, including ML/TF. However, when it comes to ML/TF, the situation is exacerbated further by the fact that the staff and management of financial institutions, one of the cornerstones of the national AML/CFT system, by adhering to the aforementioned ethics of efficiency, often become the masterminds of ML schemes.

In addition, speaking of ML/TF offences, it is important to note that they, like any other illegal act, represent a reflection or social projection of psychological laws, phenomena and ideas, and,

<sup>9</sup> I. Chestnov. *Principles of Law in the Post-classical Era* / I. Chestnov // *Principles of Law: Collection of Articles* / Ed. by D. Pashentsev. A. Chernyavskogo. — Moscow: Ruscience, 2015. — p.18.

<sup>10</sup> Plato. *Laws* // Plato. Three volumes. V.3. Part 2. Moscow, 1972. p. 219.

<sup>11</sup> See, for example, S. Barsukova. *The Informal Economy: Socio-Economic Analysis*. Moscow, 2004; S. Barsukova. *The Merger between the Shadow Economy and Shadow Politics (as exemplified by election campaign and political party funding)* // *Shadow Economy 2007: Economic Analysis of Criminal and Law Enforcement Activities*. / Ed. Gy L. Timofeev. Moscow. 2008; Y. Gilinsky. *Socio-economic Inequality as a Criminogenic Factor (from K. Marx to S. Olkov)* // *Economics and Law*. St. Petersburg. 2009; S. Ol'kov. *Analytical Criminology*. Kazan. 2007; O. Shipkova. *Regional Analysis of the Socio-economic Determination of Crime (as exemplified by the constituent entities of the Siberian Federal District)* // *Shadow Economy 2007: Economic Analysis of Criminal and Law Enforcement Activities*. / Ed. by L. Timofeev. Moscow. 2008, etc.

<sup>12</sup> See: G. Becker. *Human Behavior: An Economic Approach. Selected Works on Economic Theory*. Moscow. 2003.

<sup>13</sup> A. Sakharov. *Social Environment and Crime // Methodological Issues of Studying the Social Environment of Crime*. — Moscow, 1979. pp. 29-30.

<sup>14</sup> P. Kozlovsky. *Farewell to Marxism-Leninism. On the Logic behind the Transition from Developed Socialism to Ethical and Democratic Capitalism*. St. Petersburg. 1997. p. 69.

therefore, feature socio-psychological factors among its most determinant. The factors of this type are very diverse and include both personal determinants as well as the dominant in our society moral, sociocultural and other imperatives of individuals' social engagement.

The above arguments suggest that legal scholars alone cannot tackle AML/CFT challenges. Psychologists, sociologists, economists, mathematicians and representatives of many other sciences should also take an active part in the formulation of conceptual approaches to maintain Russia's financial security.

Recent years have seen Russia implement just such an integrated, intersectoral approach to improving the performance of the national AML/CFT system. A scientific report by Yu. Chikhanchin<sup>15</sup>, PhD in Economics, entitled "Conceptual Approaches and Algorithm for Ensuring Russia's Financial Security" was presented as a part of the RAS Board's fundamental research programme "Financial and Legal Mechanisms for Ensuring the Transparency of Business Practices"<sup>16</sup> at its meeting in 2015.

Here we should also mention the research into financial security undertaken by the RAS Central Economics and Mathematics Institute under the leadership of its director, RAS academician and doctor of physical and mathematical sciences V. Makarov. Researchers explored the possibility of mathematical modelling of financial flows and their "highlighting." The development of adequate measures should be based on the results of monitoring of domestic and foreign financial markets, as well of their influence on social and economic processes. Here the focus should be on the tracking (including through the use of various marks and "highlights") and studying (including through computer modelling) of diverse financial flows within the network of various entities, and economic operators. Relevant programmes are currently being developed by CEMI. In addition, CEMI develops models of general economic

equilibrium, including in multicurrency systems where subspaces (blocks) are identified and the balance is calculated.

An equally significant area of research is the mathematical modelling of ML schemes, which allows us to identify the working mechanisms behind such schemes and their weaknesses. It is no secret that persons involved in money laundering are most vulnerable when their ML activities intersect with a legitimate business conducted by various economic entities, since ML often requires the documentary recording of transactions. Accounting plays an important role in ML schemes: ML process is considered complete only when the dirty money has found its way into the business's cash flow on assumingly lawful basis and been entered into its accounting records. The job of national financial institutions lies in blocking dirty money from accessing the financial system and preventing the criminal abuse of financial institutions. Mathematical modelling helps identify such "intersections" of licit and illicit transactions and develop tools (mechanisms) for blocking illegal transactions.

Finding an effective solution to the challenge of building an effective AML/CFT system and safeguarding financial security in general, as well as of developing financial and legal mechanisms designed to promote the transparency of business processes, requires a considerable volume of sociological research. In particular, specific sociological studies of the factors of social reality and social actions of an individual that give rise to ML/TF should be carried out. In addition, we need to develop a decision-making algorithm that uses mathematical calculations to formulate a scientific justification of the consequences associated with a change in social reality to safeguard the country's financial security. It is about targeted decisions and the scientific justification of the possible consequences of decision-making. Today, however, few justifications are made, while decisions are taken on the basis of trial and error, that is, largely subjectively.

<sup>15</sup> Y. Chikhanchin. *Russia's Financial Security Framework: Conceptual Approaches and Solutions: A Scientific Report* / Ed. by T. Khabrieva, RAS academician, and Y. Chikhanchin, PhD. – Moscow: Science, 2015. – p.51 – ISBN 978-5-02-039188-8

<sup>16</sup> The Institute of Legislation and Comparative Law under the Government of the Russian Federation took an active part in the implementation of the RAS Board's fundamental research programme by focusing its research on the issues of the state's financial stability and the fight against illicit transactions.

The aforementioned and other studies are currently being conducted under the auspices of the Russian Academy of Sciences, the country's top research institute, as a part of the RAS comprehensive research programmes "Mathematical and Socio-economic Modelling to Combat Money Laundering and Terrorist Financing".

Given the relative commonality of the situation described above – when managers and employees of financial intuitions, which form the cornerstone of the national AML/CFT system, are actively involved in the creation of ML schemes – it is clear that only through zero tolerance for these phenomena from Russian society as a whole and from every individual Russian citizen progress in the fight against ML/TF can be made. This, in turn, requires the mindset of each person and society in general to undergo major changes. Obviously, this challenge cannot be tackled solely by legal means, as it requires the use of a full range of scientific, organizational, educational, economic and legal measures, including state support for the production, distribution and replication of television and radio AML/CFT legal education programmes.

An even more important area of activities aimed at preventing and eliminating the causes of ML/TF and promoting zero tolerance among each and every person for their manifestations should be the provision of the relevant training for citizens designed to promote the formation of a new ideology. We can say that the modern system of upbringing and education faces a fundamental challenge: not only to reflect the established norms and stereotypes of social development in the upbringing and education system, but also lead the innovative process of forming a new paradigm of modern culture based on the ideology of using legal framework to solve problems; to implement the establishment of a system of advanced

education designed to promote zero tolerance for ML/TF.

Given the stereotypes of public consciousness and the fundamental patterns of the relationship between being and thinking, it will not be easy to address this task. However, without it, any success in the fight against ML/TF will be temporary and inconsistent. That is why it is so important now to identify and support any undertakings in this area.

Certain steps in this area are already being taken. In particular, Russia has established the International Network AML/CFT Institute, which acts as a scientific and educational consortium as well as a common repository of intellectual, material, information resources; expert, scientific and educational potential; and innovative technologies of its participants<sup>17</sup>. Almost every university of the AML/CFT Institute has developed the necessary AML/CFT training programmes and publishes a fairly large number of educational and scientific literature. At the same time, one must admit that such literature does not always meet the requirements set by the Russian state for such publications, which makes the task of their scientific review particularly relevant. It seems that the responsibility for this could be assigned to the Board of the International Network AML/CFT Institute.

In general, it can be stated that we are currently witnessing the crystallization of the necessary prerequisites for the formation and adoption in the personal and social development of a culture of zero tolerance for ML/TF. Among these prerequisites are the following:

1. The adoption of the relevant dominant idea in the system of upbringing and education; facilitating understanding by the public of the imperatives of zero tolerance for ML/TF and any of its manifestations;

<sup>17</sup> For example, the focus of the current research conducted by students of the universities of the International Network AML/CFT Institute is on the following: the role of cryptocurrencies, and particularly bitcoins, in money laundering; the future of the cryptocurrency market: potential ML/TF risks; money laundering through multiplayer online games as a threat to economic security; improving Rosfinmonitoring's AML/CFT supervision; the use of a risk-based approach to assess risks and develop risk indicators for reporting entities; the use of the interaction graph in social networks to identify terrorists and extremists; a comprehensive analysis of the database of graphs of court decisions related to ML/TF; development of a mechanism for identifying potential terrorist threats in social networks; typologies of illicit transactions in the securities market; the use of data mining to analyze typologies of fraudulent activities in the insurance sector.



2. The deployment of the processes of self-regulation and self-realization as a way to facilitate individual growth focused on the reinterpretation of the experience of past cultures and active spiritual search in the border areas of scientific and other forms of knowledge; combating the banalization of ML/TF;
3. Penetration into the experience of other cultures; the development of alternative approaches to identifying and overcoming the personality destruction syndrome; the study of typological predictors of ML/TF activity as a phenomenon of social reality.

Summing up, we can state that it is by no means easy to combat specific ML/TF acts, while the challenge of confronting ML/TF as a phenomenon of social reality can only be met by a counteraction system built jointly by the state and civil society, a system within which the AML/CFT efforts undertaken by authorities will be complemented by those of civil institutions. This work should be based on a solid scientific foundation, the formation of which is the primary objective facing Russian scientists. For, as the famous Russian mathematician, one of the founders of the Petersburg Mathematical School P. Chebyshev once said, “a theory without practice is dead and barren, while practice without a theory is useless and harmful.”

## NATIONAL AML/CFT SYSTEM

*June 3, 2019 15:30 Gorki, Moscow Region*

# MEETING OF PRIME MINISTER OF RUSSIAN FEDERATION DMITRY MEDVEDEV AND DIRECTOR OF THE FEDERAL FINANCIAL MONITORING SERVICE YURY CHIKHANCHIN

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*The parties discussed measures to monitor the funds allocated for national projects.**From the stenograph notes:*

**D. Medvedev:** Mr. Chikhanchin, the country has begun the implementation of major national projects costing considerable amount of money: up to 26 trillion rubles over a six-year period. This money, the bulk of which will be spent over the next three years, will come from federal and regional budgets as well as from private sector.

Your agency, the Financial Monitoring Service, monitors the movement of funds for compliance with our international commitments and domestic legislation.

I'm aware of some measures taken at your agency to monitor the funds allocated for national projects. Could you tell me more about them?

**Yu. Chikhanchin:** You're right, Mr. Medvedev. In line with the presidential instruction, we've begun tracking these funds. In fact, this kind of work first started in response to the instructions and legislative initiatives related to defence procurement. It's back then that we set about creating a mechanism for monitoring

defence spending, applied the system of bank supervision and the Treasury oversight, set certain parameters, and later moved on to government contracts.

As for the nature of these measures and their application, there're two main factors at play: banking support, which involves the authorization of competent banks, opening of special accounts, identification of particular clients, contracts and so on; and treasury oversight, which is basically the same except for some variations.

Both of these two factors have enabled us to solve a number of major tasks. For one, monitoring measures in the defence procurement sector now cover approximately 80,000 entities, including 38,000 contractors. Financial monitoring allowed to reduce the number of shell companies involved in defense procurement and also to reduce the number of dubious transactions (sharp decrease by 1.6-fold.). Number of "technical" companies was reduced by 1.3-fold.



How do we intend to carry out this work? Well, it will have to be done primarily through the chief controllers of budget funds (CCBF). This is also subsidies, budget funds, etc. Next come controllers of budget funds on the ground, contractors and end-users. In other words, by monitoring specific transactions and events, we identify those that deserve scrutiny by law enforcement.

In the process of our work in the public procurement sector, we're currently monitoring a total of 3.6 million contracts (not only those related to national projects, but in general) worth 6.8 trillion rubles. This has allowed us to reduce the volume of funds bound for offshore jurisdictions by more than half (that is, contractors became aware of being monitored) and by 1.5-fold for shell companies.

With regard to our plans for monitoring the national projects, this will be done through CCBF, plus the monitoring of the industry as a whole, separate regions, contractors and, last but not least, the procurement process itself. All this is done on an assessment basis.

We identified agencies, officials, and also criteria for identification. In other words, we don't inspect everyone, but only areas of a high risk.

**D. Medvedev:** And those who make decisions.

**Yu. Chikhanchin:** Yes. As for agencies, we collect information from law enforcement and supervisors

about financial institutions and banks, their fulfilment of contractual obligations, etc. Approximately the same is done in relation to the controllers of budget funds, that is actual executive body.

**D. Medvedev:** Even ordering customer sometimes.

**Yu. Chikhanchin:** Similar things are looked at in the industry, where we use certain parameters and indicators to determine the level of crime in each sector, the existence of dubious transactions and "transit" entities, price setting structure, etc.

The same goes for regions, where we additionally pay attention to the existence of ML centres, scrutinize credit institutions for possible involvement in dubious transactions, look at the situation with social tensions, including tax liabilities, etc.

An even greater focus is placed on contractors, including those working outside the public procurement sector. In particular, we look at their performance. Will they keep their promises under the contract? Do they have outstanding liabilities? Aren't we going to end up giving money to a bankrupt and never see it repaid?

Next comes the monitoring of the procurement process itself, when we identify risks, coordinate them with the Treasury and tax authorities, and begin tracking the relevant transactions. This allows us to see possible violations.



What, in our opinion, needs to be changed in addressing national projects? First, we, in collaboration with ministries and agencies, should look at price setting transparency. We want the main contractors to provide at least a general estimate of the main expenses, overheads and all social payments. This alone will enhance our possibilities.

Of course, it would be of great help to have a separate accounting system, that is independent accounts and to create authorized banks. Otherwise it's very difficult to spot the funds related to national projects in the overall stock of money. Finally, we need to clearly distinguish the contracts related to national projects, through the use of some kind of symbols or marks.

**D. Medvedev:** Introduce a marking system.

**Yu. Chikhanchin:** Yes. It will definitely help. I'd like to point out the following.

The Treasury doesn't have the powers that banks have when it comes to suspending and terminating transactions and initiating comprehensive reviews. So this area needs to be looked at. For our part, we, along with the Treasury, are ready to examine the issue and draft some proposals for you.

We also need to combine the information resources of at least three agencies: of our Service, the Treasury and the tax authorities (unfortunately, still problems with that). Additional automation of existing processes is also needed.

On our side, we've launched a lot of projects and automated many processes using the risk assessment centre. There're still differences, however, between the tax authorities and the Treasury that need to be harmonized.

Most of the products we use are of Russian origin. We are performing research ourselves, and don't rely on the help from abroad.

This is how we believe things should be organized. If you give us the go-ahead, we'll draft proposals on how we should proceed forward.

**D. Medvedev:** All right.



With respect to additional regulatory decisions, in particular concerning additional powers – be it for the Treasury or other agencies – I'm ready to consider your proposals. Please work with the Finance Ministry and the Treasury to prepare relevant proposals.

As for an integrated database, this is something urgent; you're one hundred percent right here. In this field we have leaders, so to say. Our tax authorities have done much to digitalize these processes to facilitate automation. This, however, can't be said about all agencies. As for the task of setting up an integrated database and unified interaction algorithm, this should be a cross-cutting solution for all agencies, not just for the Federal Tax Service, the Treasury and the Financial Monitoring Service with application of common approach. Except that each agency might have a different access mode to different data depending on its functions. We should tackle this urgent task together.

As for oversight in general, experience tells us that, despite the banking support and the Treasury oversight as an alternative to bank support, there are still all kinds of "bottlenecks", or "lacunae", as they say, different ways to avoid compliance with Russian legislation or ways to engage in some kind of manipulations. This is where monitoring should come in, which is what your agency does by monitoring the relevant transactions, with subsequent decisions being taken either by the executive branch or law enforcement.

I would like you to work with your colleagues in the Government on this.

**Yu. Chikhanchin:** We will do this.

**D. Medvedev:** Agreed.

# ROSFINMONITORING REVIEWS RESULTS OF ITS 2018 ACTIVITIES

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

Notably, 2012 saw a major revision of the FATF Recommendations, followed, in 2013, by the approval of the methodology for assessing compliance with the revised international standards, including the efficiency of AML/CFT measures.

That is why the 2019 assessment will focus not only on technical compliance of the country's legislation with international standards, but also on the actual results of law enforcement practice.

Russia has already submitted to the FATF its preliminary AML/CFT progress reports and been informed about the identified problem areas for all participants of the national AML/CFT system to focus on. Now we just have to wait for assessment findings to be made public, which is scheduled for this fall.

## STATE POLICY AND LEGAL REGULATION

President of the Russian Federation endorsed on 30 May 2018 the **National AML/CFT System Development Concept**, outlining the key ML/TF risks, objectives, focus areas and the steps that need to be taken to implement it.

In addition, to facilitate compliance of the Russian legal and institutional framework with the FATF

Recommendations, as well as to provide the competent authorities with appropriate powers and procedures to the appropriate powers and procedures, Rosfinmonitoring has initiated the adoption of regulations in certain unregulated sectors.

## KEY RISKS

### Money Laundering Risks in the Financial Sector

To **mitigate the ML risks** in the financial sector, the following sets of measures are used:

- Legislative measures
- Supervision measures
- Private sector preventive measures
- Law enforcement measures.

The measures taken have allowed Rosfinmonitoring to not only significantly reduce the volume of suspicious transactions, but also block penetration into legal financial system of several hundred billion rubles of dubious origin.

In 2018, in line with the FATF requirements, Rosfinmonitoring coordinated the efforts of supervisors to assess the risks faced by their reporting entities, as

well as **conducting its own sectoral risk assessment (SRA)**. The outcomes of these efforts have been included in the report on the effectiveness of the country's AML/CFT system.

The Compliance Council, made up of representatives of financial and non-financial institutions responsible for compliance with AML/CFT requirements as well as Central Bank and law enforcement experts, remained an effective mechanism for cooperation with the private sector.

Regulatory **law abidance** is one of the key indicators of a financial institution's effectiveness. To help financial institutions improve compliance, Rosfinmonitoring has added the Personal Account function to its official website. The legal framework for the use of this tool was adopted in 2018.

It allows financial and non-financial institutions to "look at themselves with the supervisor's eyes", in order to understand what the latter is guided by in its assessment of a given legal entity, and to find out what measures they should take to avoid being placed in the high-risk category and facing sanctions.

Thanks to the work carried out by supervisors with the help of Rosfinmonitoring's intelligence, the share of businesses and individual entrepreneurs (IEs) subject to Law No. 115-FZ that use the Personal Account reached **76% in 2018, up from 63% in 2017**.

In 2018, Rosfinmonitoring launched on its website the **Supervisor's Personal Account**, a service designed to form the basis of a unified inter-agency system of ML/TF risk-based supervision.

## Financial Sector

In 2018, Rosfinmonitoring, in collaboration with the Bank of Russia, the General Prosecutor's Office, operational and investigative departments of law enforcement agencies, the Federal Tax Service and the Federal Customs Service, worked to **mitigate the ML risks faced by the financial sector**.

As a result, the volume of reverse money laundering and capital siphoning transactions declined considerably.

In 2018, some of the intelligence shared with law enforcement was used to initiate new or support ongoing criminal proceedings.

## Cooperation with Judicial Authorities

Much of Rosfinmonitoring's work in 2018 was focused on identifying the **abuse of the judicial system – submission of bogus claims to achieve favourable rulings – to obtain illegal proceeds and following ML**.

Rosfinmonitoring reviewed **more than 350 arbitration cases** in 2018, identifying several dubious claims.

### Case study:

One of Rosfinmonitoring's Interregional Department participation in court proceedings as a third party who did not file independent claims concerning the subject matter of the dispute, contributed to the City of S. Arbitration Court's ruling to prevent the enforcement of forfeiture orders against the assets of one of the region's largest developers for the benefit of foreign entities.

The former beneficial owners of the developer tried to use the company's assets to pay off their debt to the Ministry of Finance and several foreign commercial banks.

To prevent the loss of investors' funds invested in the developer's shared-equity construction projects, a Rosfinmonitoring representative informed the court that the actions of the developer's management and shareholders at the time of conclusion of the disputed deals may qualify as an attempt to carry out an illicit financial transaction, including made for the purpose of causing deliberate bankruptcy and siphoning funds off overseas, and as such could pose a direct or indirect threat to Russia's interests. The court agreed with this opinion, thereby **preventing 6.4 billion rubles from being taken out of the country** and staving off the developer's bankruptcy.

## Corruption-Related Money Laundering Risks

Another priority area of Rosfinmonitoring's work lies in **combating corruption-related money laundering risks** stemming, among others, from the use of:

- cash;
- intermediaries/affiliates.

### Case study:

Inter-agency cooperation involving Rosfinmonitoring's SibFD led to the launch of a financial investigation against the deputy head of the Siberian Department of Rosreserv.

The ensuing investigative and legal proceedings conducted on the basis of Rosfinmonitoring-supplied intelligence resulted in the **detection and seizure of the defendant's property worth more than 200 million rubles**. Following the enactment of the court verdict, this property has been forfeited.

To mitigate corruption risks by verifying the completeness and accuracy of the information on income, property and property obligations provided by federal and other public officials, as well as their compliance with restrictions, prohibitions and duties (Presidential Decrees № 1065 and 1066 dated September 21, 2009), Rosfinmonitoring conducted anti-corruption inspections in 2018 in response to requests from the Presidential Anti-Corruption Department.

## Money Laundering Risks Related to the Embezzlement of Public Funds

The key risks facing the public sector are associated with the following:

- risk of misuse of nominee legal persons resident in the country (shell companies);
- the involvement of individuals (intermediaries) affiliated with officials in ML schemes;

- the use of cash in ML schemes;
- the use of fictitious import/export transactions in ML schemes.

To mitigate these risks, Rosfinmonitoring has been cooperating with state financial control, prosecution and law enforcement authorities. Rosfinmonitoring, in collaboration with the Anti-Monopoly Service, has been working to identify and disrupt the activities of cartels and other anti-competition arrangements in the public procurement sector.

Rosfinmonitoring's cooperation with the inter-agency monitoring system participants has helped to **prevent the embezzlement of public funds allocated for the defence industry totalling more than 3.4 billion rubles, with total amount of reparations estimated at over 770 million rubles**.

Rosfinmonitoring's intelligence was used to open **about 170 criminal investigations** into abuses in the defence procurement sector totalling **approx. 11 billion rubles**.

To mitigate the risk of embezzlement/misuse of public funds, Rosfinmonitoring, as a part of Treasury oversight of government contracts, has intensified its cooperation with the Federal Treasury, resulting in the auditing of **more than 1200 legal entities and individual entrepreneurs**.

In 2018, Rosfinmonitoring, jointly with the Accounts Chamber, monitored transactions of state-financed entity charged with the implementation of targeted investment programmes, identifying instances where public funds were transferred to nominee resident entities to overstate the value of government contracts. Information about the identified risks of public funds misuse has been passed on to auditors for a follow-up action.

As a part of the efforts to mitigate the risk of embezzlement/misuse of public funds, Rosfinmonitoring monitors the implementation of federal targeted programmes (FTP) and large infrastructure projects. **Now 57 large infrastructure projects are being under monitoring**.

In 2018, Rosfinmonitoring worked on the implementation of a number of **projects to decriminalize certain**





**sectors of the economy**, including by identifying the risks faced by them.

As a part of the efforts to decriminalize the utilities sector, Rosfinmonitoring launched in 2018 **the Vodokanal project**. In conjunction with the General Prosecutor's Office's Anti-Corruption Directorate, Rosfinmonitoring **audited 88 of Russia's largest water utility companies** that collected **more than 700 billion rubles** in utility payments in 2015-2017, **80%** of which were from businesses and the public.

Analysis of these companies' financial flows on bank accounts helped to identify **corruption risks stemming from the involvement of affiliated entities in the performance of work**, possibly resulting in opaque transactions between water utilities companies and affiliated suppliers, signing of bogus transfer and acceptance certificates, overstatement of contract values and, as a result, higher bills for end-users.

A total **57 criminal cases** were opened in response to the audit findings.

In addition, prosecution authorities in the constituent entities of the Russian Federation **initiated 25 administrative anti-corruption proceedings**. Directors of water utility companies in **5 constituent territories** lost their job; the Omsk Region's minister

of property relations was found guilty of abusing his office for the benefit of Omskvodokanal; and authorities issued **8 remedial instructions** in connection with violations of anti-corruption legislation.

### Drug-Related Money Laundering Risk

In 2018, Rosfinmonitoring conducted **more than 500 financial investigations** into drug trafficking. Rosfinmonitoring's intelligence was used to open **about 80 criminal cases**, **about 50** convictions followed. About **50** cases were opened on ML charges which was followed by 30 convictions.

### Terrorist and Proliferation Financing Risks

Among Rosfinmonitoring's objectives in the fight against terrorist and extremist financing are:

- To improve the CFT regulatory framework;
- To improve inter-agency information sharing;
- To improve TF detection, prevention and suppression system.

Rosfinmonitoring takes measures on an on-going basis to **detect and cut off funding for international terrorist organizations**, as well as to identify individuals traveling to areas of high terrorist activity to fight for terrorists, and returnees.

One important component of these measures is the Rosfinmonitoring-led annual **international operation "Barrier"**. This work has allowed the operation participants to identify transactions carried out by **more than 840 persons** suspected of involvement in terrorist activities, cases were opened in relation to **250 persons** for participation in armed conflicts on the territory of a foreign state.

Since early 2018, financial institutions have frozen **funds of more than 2,000 persons** from the the List of organizations and individuals in respect of which there is information about their involvement in extremist activities or terrorism ("the List"), **totalling 26.9 million rubles**.

In 2018, the **Inter-agency Counter-Terrorist Financing Commission** continued to use the extrajudicial suspension mechanism to block transactions of individuals and entities in respect of which there are sufficient grounds to suspect their involvement in terrorist activities.

As of December 18, 2018, decision was made to block transactions of **more than 1600 individuals and 5 entities** suspected of involvement in terrorist activities (including TF).

As a part of its CFT efforts in 2018, Rosfinmonitoring denied entry into the Russian Federation to foreign nationals or stateless persons posing a threat to national security.

The findings of Rosfinmonitoring's financial investigations were used by the FSB in 2018 **over 90 criminal cases were opened to counter** terrorist and extremist financing.

### *Case study:*

In 2018, Rosfinmonitoring actively cooperated with law enforcement agencies on measures to prevent reputational damage to the Russian Federation during the preparation and hosting of the World Cup in 2018. In the course of this work complex screening of 10,000 physical persons was made. Using Rosfinmonitoring information FSB has taken decision in relation to more than 70 individuals that their stay in Russia is undesirable.

## EURASIAN GROUP

## OUTCOMES OF EAG ANNIVERSARY PLENARY MEETING IN MOSCOW

*The 30th Plenary and working group meetings of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) were held in Moscow (Russia) on 27 - 31 May 2019. The Plenary meeting was chaired by Hao Jinghua (China) and co-chaired by Director of Rosfinmonitoring Yuri Chikhanchin (Russia)*

The meeting was attended by more than 200 delegates from the EAG member states – Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan – representatives of observer states and organizations – Armenia, Iran, Italy, Mongolia, Poland, Serbia, Turkey, France, Financial Action Task Force (FATF), Egmont Group, CIS Anti-Terrorism Centre (CIS ATC), Analytical Support and Sanctions Monitoring Team of the UN Security Council 267 Committee, Eurasian Economic Commission

(EEC), Eurasian Development Bank (EDB), European Bank for Reconstruction and Development (EBRD), CIS Executive Committee, International Monetary Fund (IMF), Collective Security Treaty Organization (CSTO), Shanghai Cooperation Organization (SCO), United Nations Office on Drugs and Crime (UNODC), Central Asian Regional Information and Coordination Centre for Combating Illicit Trafficking in Narcotic Drugs, Psychotropic Substances and their Precursors (CARICC) – and representatives of the Islamic Development Bank and the New Development Bank.







Assistant to the President of the Russian Federation A. Seryshev addressed participants with a welcome speech.

In line with the EAG 2nd round of mutual evaluation procedures, participants reviewed and endorsed the IMF/FATF/APG/EAG joint report on the mutual evaluation of the People's Republic of China, which had already been reviewed and endorsed by the FATF Plenary meeting last February.

The Plenary heard and took note of the 1st follow-up report of the Republic of Kyrgyzstan, presented as a part of the EAG 2nd round mutual evaluations procedures.

Kyrgyzstan informed the Plenary of its plans to present the follow-up report and technical compliance re-rating request at the EAG 31st Plenary meeting, setting out improvements made to its AML/CFT legal framework.

The Plenary, after considering requests from Kazakhstan and Uzbekistan, approved the updated EAG 2nd round mutual evaluations schedule.

The Plenary also adopted the EAG Strategy 2019-2023, which outlines the strategic goals for the EAG, its member states and the Secretariat for the

coming years, underscoring the need of the regional ML/TF risk assessment and announcing the launch of a pilot project, to be run with participation of one of the EAG member states that has undergone the mutual evaluation, based on the proposed approach to technical assistance coordination within the EAG.

The Plenary addressed issues related to the practical steps being taken by the EAG member states to combat TF, reaffirming the urgent imperative of the fight against terrorism and its financing. The EAG member states are encouraged to continue their efforts to prevent and disrupt terrorist financing and to share terrorist lists.

The Plenary approved the typologies report and guidance for the typology report on the Use of Electronic Payment Instruments and Cryptocurrencies in Cross-Border Drug-Related Payment and Money Laundering Schemes, which will be uploaded to the EAG website.

After approving the EAG Activity Report 2018 and the EAG Budget 2020, participants listened to the findings of the external audit of the EAG Secretariat.

The delegations voted to grant observer status in the EAG to the New Development Bank, highlighting the importance of strengthening cooperation with

this institution, with which the EAG held a joint workshop during the Plenary week on the Use of New Technologies to Improve AML/CFT.

During the EAG Plenary and working group meetings, the delegation of the International Training and Methodology Centre for Financial Monitoring presented to the EAG member and observer states the projects that are being implemented by ITMCFM both within Eurasia region and beyond its boundaries. The goal of ITMCFM's technical assistance projects is to promote compliance of national AML/CFT systems with the FATF standards. ITMCFM jointly with EAG member states provides trainings, develops e-courses and manuals, and upgrades the skills of the teaching staff of national universities in the framework of the International network AML/CFT institute.

The Plenary endorsed the CIS ATC's initiative to hold a joint workshop on CFT in 2020 with support from ITMCFM.

Given the high priority assigned to operational cooperation between EAG FIUs, the Plenary

also endorsed Russian Federation's proposal to include in EAG Plenary meetings agenda regular reports on the work carried out by the Heads of CIS FIU's.

Participants supported Kyrgyzstan's initiative to hold the Eurasian AML/CFT Forum on the shores of Issyk-Kul Lake in September 2019.

The EAG member states briefed the Plenary on their progress in improving the national AML/CFT legal framework and conducting the ML/FT risk assessment. Belarus, China, Kyrgyzstan, Russia, Tajikistan and Uzbekistan presented their experience and best practices in preparing for the assessment of national AML/CFT systems for compliance with the FATF Recommendations.

The Plenary thanked the Russian leadership for its hospitality and providing for excellent organization of the EAG 30th Plenary and working group meetings.

The EAG 31st Plenary meeting will take place in November 2019 in Turkmenistan.



## NEW DEVELOPMENT BANK STANDS READY TO ASSIST FIUS IN DEVELOPING NEW TECHNOLOGIES

*The workshop on the Use of New Technologies to Improve AML/CFT, organized jointly by the New Development Bank (NDB), the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) and the International Training and Methodology Centre for Financial Monitoring (ITMCFM), was held in Moscow on 29 May 2019. The workshop was organized within the EAG 30th Plenary week*





The purpose of the workshop, attended by 180 representatives of financial intelligence units, law enforcement and supervisory agencies, the business community and scientific and educational institutions of the EAG and BRICS states, as well as Iran, Italy, Poland, Serbia, US and Turkey, was to promote the use of AI-powered technologies to improve AML/CFT efforts and provide the competent authorities with special tools for investigating crimes involving cryptoassets and the blockchain technology.

Welcoming remarks to the participants came from the Deputy Director of Rosfinmonitoring Vladimir Glotov, the EAG Executive Secretary Sergey Teterukov and Head of the NDB's Compliance Department Srinivas Yanamandra (Republic of India).

**Vladimir Glotov:** “For many years, New Development Bank has been contributing to the efforts aimed at strengthening the global AML/CFT framework. And today we are taking another step towards improving cooperation between EAG, BRICS and NDB states... We are certainly interested in the practical initiatives being undertaken by New Development Bank as a part of its investment and infrastructure projects.

In the future, the NDB could play a key role in providing technical assistance for elimination of the identified shortcomings in preparation for mutual evaluations and follow-up reports. Today, New Development Bank is carrying out extensive work to receive observer status in the EAG and the FATF.

We are confident that the achievement of this goal will contribute to the strengthening of the global AML/CFT framework.”

**Sergey Teterukov:** “I would like to thank the representatives of New Development Bank, Rosfinmonitoring and ITMCFM for their assistance in organizing this workshop. We welcome our partners’ approach to organizing events, as we believe the joint format is particularly useful for a fruitful cooperation. I would also like to point out that the Eurasian Group plans to adopt a rather ambitious technical assistance programme, to the implementation of which, I believe, New Development Bank could contribute. The theme of this workshop is very interesting not only in itself, but also in the context of the FATF priorities.”

**Srinivas Yanamandra:** “I would like to thank the Russian Federation for the invitation to take part in this workshop and for its excellent work in organizing the EAG Plenary week. New Development Bank has been a part of BRICS framework since 2015, providing funding for infrastructure and sustainable development projects both within BRICS and in other developing markets and countries. We are engaged in AML/CFT efforts through the BRICS AML/CFT Council. This cooperation has convinced us of the potential benefits an observer status in the EAG and the FATF can give us, which explains our desire to seek it. We stand ready to provide technical assistance and render help to financial intelligence units in developing and adopting new technologies.”

*The workshop consisted of four thematic sections:*

- New technologies and the risk of their misuse to commit financial crimes and measures to combat such misuse.
- Use of artificial intelligence to strengthen the FIU's performance.
- Investigation of financial crimes involving cryptocurrencies.
- Environmental crimes, money laundering and artificial intelligence.

The workshop ended with the adoption of the Final Declaration.

## ***Declaration of the NDB/EAG/ITMCFM joint workshop on the Use of New Technologies to Improve AML/CFT***

*May 29, 2019  
Moscow (Russia)*

Participants of the NDB/EAG/ITMCFM joint workshop "The Use of New Technologies to Improve financial monitoring" underscored the importance of promoting cooperation and coordination between EAG and BRICS states to boost the effectiveness of national AML/CFT systems with the help of AI-powered IT solutions.

To promote cooperation and collaboration, consideration should be given to the following:

1. Consolidation of the efforts of international organizations, government agencies, the business community and scientific and educational institutions in developing common approaches to the understanding of the risks associated with new technologies and developing measures to mitigate them.
2. Continuing the discussion and development of measures focused on virtual assets to manage and mitigate the ML/TF risks.
3. Provision of assistance in building the capacity for a constructive, timely and on-going information sharing to manage the ML/TF risks.
4. Promoting the development of innovative oversight tools for a rapid response to the ML/TF risks related to the adoption of new financial technologies.
5. Improving the availability of new information technologies and training resources (remote, web-based, mobile apps, etc.)

In pursuance of the above, the workshop participants call on New Development Bank to consider the provision of the necessary technical and/or financial assistance, in line with its mandate and internal policies, for research projects into new technologies, such as the development of AI-powered AML/CFT software and hardware designed to boost the capacity of national financial intelligence units to investigate ML/TF offences.



## THE COMMONWEALTH OF INDEPENDENT STATES (CIS)

## NEW COMMUNICATION CENTRES WILL INCREASE SPEED OF INFORMATION SHARING BETWEEN CIS FIUS

*The 13th meeting of the CIS Council of Heads of Financial Intelligence Units (CHFIU), chaired by Director of Rosfinmonitoring Yuri Chikhanchin, was held in Moscow on 29 May 2019*

During the meeting, Heads and experts of financial intelligence units discussed cooperation in conducting joint ML/TF operations across the CIS as well as issues related to the assessment and mitigation of the ML/TF risks. The meeting was also attended by

**A. Druzhinin**, director of the CIS Executive Committee's Department of Cooperation in Security Matters and Combating New Challenges and Threats, and the delegation of the Collective Security Treaty Organization, led by its acting Secretary General **V. Semerikov**.





In his speech, Yury Chikhanchin noted that each CHFIU meeting confirms the correctness and relevance of the chosen policy to combine the efforts of the CIS member states in combating money laundering and terrorist financing.

**Yury Chikhanchin:** *The purpose of the CHFIU's ongoing operation "Milky Way" is to analyse cross-border ML/TF risks and identify foreign ML centres responsible for the siphoning, redistribution and laundering of criminal proceeds. CIS states face common money laundering risks: criminal proceeds are typically siphoned off to foreign jurisdictions specializing in the provision of ML and related services. CIS FIUs are currently observing major shifts in the direction of dubious cross-border financial flows caused by the emergence of new ML centres in Asia and Eastern Europe.*

FIUs participating in the operation share intelligence on foreign IT companies, registrars and lawyers providing intermediary services, account managers and mass registration addresses used in illicit schemes, as well as on foreign banks acting as recipients of dubious funds.

The purpose of the CHFIU's "Barrier" operation, conducted since 2015, is to identify individuals possibly involved in terrorist financing. To date, the list of the operation participants includes

seven countries: Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan.

Participants of the CHFIU 13th meeting reviewed results of the CHFIU's activities in Q4 2018 and Q1 2019.

Joint efforts helped identify approx. 100 suspected terrorists from among the nationals of the countries participating in the operation, and more than 150 of their counterparties in different countries, including Turkey and Afghanistan, as well as transactions carried out by 200 individuals whose identity details fully or partially matched the details of persons in international wanted lists for terrorist and extremist crimes.

At the same time, participants pay close attention to monitoring of the rapidly evolving situation in the region. Thus, to address the threat posed by the increased migration of terrorists caused by the Russian Aerospace Forces' actions in the war zones, the scope of the operation "Barrier" is expected to be expanded to cover migrants.

It is not possible to track illicit assets and share information on the financial investigation targets without stable and secure communication channels, meaning that effective information sharing is key to AML/CFT efforts. In October 2017, the CIS Heads of State signed the AML/CFT Cooperation Strategy, laying the foundation for an information sharing system for use by the CIS competent authorities.



CHFIU, at its 10th meeting in 2018, approved the procedure for creating an information sharing system for the FIUs of its member states. Meanwhile, the commissioning of communication centres in Russia, Kyrgyzstan and Kazakhstan this year will increase the speed of information sharing between the CIS FIUs.

Next in line are Tajikistan, Armenia, Uzbekistan and Belarus. This system is scheduled to become fully operational in 2020.

Since November 2018, the International Training and Methodology Centre for Financial Monitoring, a CIS base training institution, has conducted approx. 50 AML/CFT experience/best practice sharing and training/skills-upgrading workshops for AML/CFT personnel of the national anti-money laundering systems of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan. In the reporting period, more than 1,800 persons, including employees of FIUs, law

enforcement and supervisory authorities, CIS private sector organizations and the teaching staff of universities of the International Network AML/CFT Institute, attended trainings.

In addition, in pursuance of its Resolution dated 29 May 2019, CHFIU signed the Protocol on Cooperation with the Collective Security Treaty Organization.

### *Background:*

The CIS Council of Heads of Financial Intelligence Units was established on December 5, 2012 to coordinate cooperation in this area.

The list of the Council members includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Uzbekistan and Ukraine.

# MEASURES TO COUNTER CIS CROSS-BORDER CRIME

*A regular expert group meeting dedicated to the development of a mechanism for sharing information related to the fight against cross-border crime between the CIS competent authorities and industry cooperation bodies tasked with maintaining security and law and order, hosted by the CIS Executive Committee, was held in Minsk on 5 - 6 June 2019. The meeting was attended by representatives of Rosfinmonitoring and ITMCFM*





The meeting featured a presentation by the ITMCFM representative on strengthening information sharing between the CIS financial intelligence units as a part of the project being implemented by the CIS Council of Heads of Financial Intelligence Units.

The meeting participants reviewed and discussed a report by the Russian Interior Ministry on the current state and future prospects of information sharing within the Interstate Information Bank.

After reviewing the proposals submitted by Armenia, Belarus, Moldova, Russia, Uzbekistan, the CIS Executive Committee, the CIS ATC, the CBTC Coordination Office and the CCPG Secretariat, experts approved the draft Concept for Promoting Information Sharing in the Fight against Crime between the CIS Competent Authorities and

Agencies Tasked with Maintaining Security and Law and Order, as well as finalized and endorsed the relevant draft CIS CHFIU resolution.

Participants decided to transmit copies of the expert group meeting proceedings to the CIS member states for interstate coordination prior to their submission in the prescribed manner for consideration by the CIS Council of Heads of State.

The draft Concept was developed with a view to facilitating the CIS-wide sharing of information related to security and law and order. The rationale for the drafting of the document stems from the need to further systematize and coordinate cooperation in streamlining the contractual legal framework and creating effective organizational mechanisms for harmonizing the coordinated sharing of information related to the fight against cross-border crime in all its forms.

The Concept represents a set of views on the updated system for sharing information related to the fight against crime between the CIS competent authorities and agencies tasked with maintaining security and law and order, its structure, key elements and functionality. The Concept updates the algorithm for a systemic and coordinated information sharing, which includes its procedure and key principles, as well as the main directions and basic rules of the mechanisms for organizing and implementing interstate information sharing.



## EDUCATION AND SCIENCE IN AML/CFT AREA

# INTERNATIONAL NETWORK INSTITUTE SETS AN EXAMPLE OF SUCCESSFUL COOPERATION BETWEEN SCIENTISTS, TEACHERS AND PRACTITIONERS

*The 11th meeting of the Board of the International Network AML/CFT Institute (INI) was held on the margins of the 30th Plenary week of the Eurasian Group on Combating Money Laundering and Financing of Terrorism*





The meeting was attended by Director of Rosfinmonitoring **Yury Chikhanchin**, Vice President of the Russian Academy of Sciences **Taliya Khabrieva**, Deputy Minister of Science and Higher Education **Marina Borovskaya**, Advisor to the Embassy of the Republic of Kyrgyzstan in the Russian Federation **Bubaira Abdyzhaparova**, Head of China Centre for Anti-Money Laundering Studies (CCAMLS) Moscow office **Chen Hailin** (Fudan University), Rector of the National Research Nuclear University MEPhI **Mikhail Strikhanov**, Rector of the Moscow University of Finance and Law (MUFL) **Aleksey Zabelin**, President of Rostov State Economic University (RSUE) **Adam Albekov**, Rector of Plekhanov Russian Economic University **Viktor Grishin**, Director General of the International Training and Methodology Centre for Financial Monitoring **Yevgeny Legostaev**, and representatives of INI universities and research centres.

In his opening remarks, Yury Chikhanchin, Head of the Russian FIU and chair of the Board of the International Network AML/CFT Institute, emphasized the inextricable link between the work carried out by the INI universities and research centres and EAG FIUs.

**Yury Chikhanchin:** *2018-2019 saw some EAG states, including Russia, undergo mutual evaluations of compliance with the FATF requirements. As the Head of the Russian FIU, I would like to acknowledge the role played by INI universities in preparing Russia*

*for a mutual evaluation, a job that went beyond the training of personnel for AML/CFT systems, which is the core function of INI universities, to include their direct involvement in the assessment. After welcoming the visitors, the Financial University under the Government of the Russian Federation and the International Training and Methodology Centre for Financial Monitoring informed the FATF assessors about all the stages of the training process, from student training to staff advanced training. The teaching staff of the INI universities involved in the assessment preparation process enjoyed face-to-face communication with the assessors, learning about the FATF Secretariat's requirements and, accordingly, the requirements we ourselves should apply to the training of AML/CFT personnel.*

Director of Rosfinmonitoring recognized the contribution of the management and academia of the INI universities, who help to build the INI's image not only during the assessors' visit.

**Yury Chikhanchin:** *One of our main achievements lies in expanding specialists' training practice to regions and other countries. It is important to remember that AML/CFT efforts are not limited to capitals, while there is always a risk that students who undergo training away from their home regions may don't come back to their regions. It will influence professional qualifications of regional anti-money laundering and counter terrorist financing specialists for sure.*





In her opening remarks, M. Borovskaya emphasized that, as a representative of the Ministry of Science and Higher Education, she was pleased to note the integration of science and education at the International Network AML/CFT Institute as a symbol of its work.

**Marina Borovskaya:** *For our ministry, which is yet to celebrate its first anniversary, integration of science and education is ranked among the top state priorities. In fact, this is how we want it to be in all universities and research centres. For this, we need to determine ways of interaction that are the most actual now. Talking of the International Network AML/CFT Institute, whose 30-plus universities tackle such important and complex tasks as AML/CFT, I understand that is more than just about having a comprehensive knowledge of the subject matter and providing training and retraining for both teachers and students; rather, it is about the state of mind. Unfortunately, in those subject areas where we provide training, this process looks a little linear. We would like – perhaps with your help – to provide network-based, multidisciplinary knowledge, when students understand that IT technology, financial literacy and economic studies form an interdisciplinary approach designed to help them direct their multidisciplinary knowledge to tackling the challenges facing us, including in the fight against ML/TF.*

According to Vice President of the Russian Academy of Sciences and Director of the Institute of Legislation and Comparative Law under the Government of the Russian Federation T. Khabrieva, special complex law constructions are created on the basis of AML/CFT regulations. As a result, they influence all institutions of law branches.

**Taliya Khabrieva:** *AML/CFT legislation subordinates other branches of law to its purpose of development, meaning that even transactions must comply with it. At the same time, similar regulations, particularly those governing the fight against corruption, merge. Our training programmes, unfortunately, do not yet reflect this, while persons involved in identifying illicit schemes must have this knowledge, which in turn underscores the importance of continuity in the learning process. We all take part in the scientific research for the training programmes that form part of the comprehensive scientific research agenda “Mathematical and Socioeconomic Modelling for AML/CFT Purposes”. At one of the previous meetings, we talked about the importance of adding a legal dimension to this programme in order to shift the focus of scientific and applied AML/CFT research to the understanding of ML schemes, which is also important for lawyers.*



As a way of optimizing today's training programmes, Khabrieva proposed to set up a Methodological Council with working groups focused on analytical, legal and economic-legal areas. At the end of her speech, Khabrieva thanked the Ministry of Science and Higher Education and Rosfinmonitoring for helping the International Network AML/CFT Institute to become an example of successful

cooperation between scientists, academia and practitioners.

During the Board meeting, its participants proposed to create new AML/CFT training programmes, projects and training manuals, as well as discussed the development of an independent AML/CFT qualification assessment system.

# INTERNATIONAL RISK ASSESSMENT CENTRE TAKES COOPERATION BETWEEN FIUS IN EURASIA TO A NEW LEVEL

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*The round table “The International Centre for ML/TF Risk Assessment through the Use of AI-powered Firmware” was held in Moscow on May 29, 2019 during the 30th Plenary week of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)*

In his opening remarks, **Nikolay Kolachevsky**, director of P. Lebedev Physical Institute, noted that, while the EAG IRAC concept was still being developed, some opinions about its future use, including in terms of its ideology, toolset, participation of universities, etc., have already been formed.

Keynote speeches to the round table participants came from **Mikhail Fedorov**, Head of Rosfinmonitoring's Department on developing IT for financial monitoring, and **Oleg Ivanov**, deputy director of the P. Lebedev Physical Institute (co-speaker).

According to M. Fedorov, the creation of an IRAC will enable financial intelligence units – through the use of various communication formats and effective information sharing, including external information systems – to achieve higher levels of cooperation. The

IRAC would provide FIU senior personnel with access to up-to-date analytical data on the current state and trends in information sharing between FIUs, cross-border financial flows and related ML/TF risks, as well as create conditions for the holding of effective joint thematic international preventive operations involving FIUs and other EAG national agencies, said Fedorov.

O. Ivanov's supplementary report focused on technologies involved in the creation of IRAC. It was noted that the emergence of each new technological solution renders obsolete all those that came before it. According to O. Ivanov, the success of the IRAC will depend on the availability of high-quality ML/TF databases, their terminological compatibility and a common understanding of risks. However, the standards of contemporary databases, according to the speaker, largely fail to meet the requirements for complex web search queries.





After a question-and-answer session and ensuing discussion, Director of the Federal Financial Monitoring Service **Yury Chikhanchin** summed up the outcomes of the round table.

**Yury Chikhanchin:** *The creation of IRAC is listed among our near-term priorities. If we fail to learn ourselves and teach students how to solve the problems facing us, we will inevitably lag behind. Meanwhile, the emerging risks will live their own lives, and we will not be able to take the necessary*

*measures to mitigate them. Rather than requiring economic, legal and other types of experts, we need personnel with universal knowledge – and we need them now! To make it a reality, the thematics of the International Centre for Risk Assessment and Use of Artificial Intelligence should appear in course works, diplomas, guidelines and graduation papers. In 2021, the year when the IRAC is scheduled to open its doors, we will need cross-functional specialists capable of taking on these challenges.*

## V. GLOTOV: “THE INDEPENDENT AML/CFT QUALIFICATION ASSESSMENT SYSTEM NEEDS A ROADMAP”

*An independent qualification assessment system in the form of professional practice examination may become a tool that can be used to transform the learning environment, establish clear rules for entering the profession and outline its development trajectory*







A roadmap for adopting an independent qualification assessment system for financial market specialists was unveiled at the meeting of the Russian Union of Industrialists and Entrepreneurs (RUIE) on 10 July 2019, an event that also included a meeting of the Financial Market Professional Qualifications Board.

Welcoming remarks came from **A. Murychev**, RUIE executive vice president and chairman of the Financial Market Professional Qualifications Board (FMPQB); **A. Aksakov**, chairman of the State Duma's Financial Market Committee and chairman of the Board of the Association of Russian Banks; **V. Glotov**, Rosfinmonitoring deputy director; and **R. Vesterovsky**, deputy chairman of the Bank of Russia.

Opening the meeting, **A. Murychev** said that the Russian Union of Industrialists and Entrepreneurs was actively involved in key projects aimed at improving labour productivity in Russia. The development of a professional qualification system is one of the key projects designed to boost the quality of human capital in Russia, paving the way for a dramatic increase in labour productivity across all business and government sectors of the economy. In this work, the leading role belongs to the financial sector.

1 July 2019 will see changes to the procedure for assessing qualifications of financial market specialists in favour of an independent system provided for in Federal Law No. 238-FZ "On Independent

Qualification Assessment". In the run-up to the transition to an independent qualification assessment system for financial market specialists, the Bank of Russia and FMPQB adopted the relevant Action Plan (Roadmap), developed in accordance with the Russian Financial Market Vision 2019-2021.

The Roadmap sets out the strategic vision for an independent qualification assessment system for the financial market, namely, the development of tools for professional and public accreditation of training programmes, automation of the independent assessment system processes, and achievement of international recognition of certificates of financial market specialists.

The Financial Market Professional Qualifications Board and Rosfinmonitoring have also entered into a cooperation agreement to improve the effectiveness of the independent AML/CFT qualification assessment.

In his remarks, V. Glotov said that Rosfinmonitoring also had a roadmap for a gradual adoption of an independent system for assessing the qualifications of Rosfinmonitoring staff, emphasizing that an independent qualification assessment system in the form of professional practice examination may become a tool that can be used to transform the learning environment, establish clear rules for entering the profession and outline its development trajectory. Much, however, needs to be done for an independent assessment to become such a tool.

Since 2018, the Russian FIU has made significant progress in implementing the roadmap:

- the AML/CFT Professional Qualifications Commission is in operation;
- agreements to test the system and develop approaches to an independent assessment have been concluded with the Qualification Assessment Centre;
- a draft version of the updated occupational standard, which complies with the provisions of the Roadmap, has been developed;
- the list of qualifications of AML/CFT personnel, which will be approved after the adoption of the revised occupational standard, has been updated. Applying different qualification requirements to different types of reporting entities is an innovative approach that will ensure the completeness of assessment procedures;
- proposals for amendments to the existing AML/CFT regulations, made according to requirements of 238-FZ "On Independent Qualification Assessment", have been prepared.

Our current efforts are directed at setting up a framework for an independent assessment system for use in all Russian regions; providing equal opportunities for preparing for and taking exams; and finding ways to transform the existing system of admission into the profession (upgrade

qualifications) for integration with an independent assessment of qualifications.

According to V. Glotov, to ensure further movement towards an independent qualification assessment system, we need:

1. A speedy consideration of the updated occupational standard and the list of qualifications.
2. Assistance of the Board in deploying an independent qualification assessment system, taking into account the specifics of financial monitoring sphere.
3. Consolidating efforts of supervisors, including, in particular, the Bank of Russia.

In addition, efforts are underway to approximate the qualification requirements for financial market specialists within the EAEU. In light of the rising migration flows within the EAEU labour market and the growing demand for mutual recognition of workers' qualifications, there is an urgent need for cooperation in standardizing the requirements for the training and evaluation of the labour resources in the EAEU financial markets.

Pursuant to the Decree of the Government of the Russian Federation No. 584 dated June 27, 2016, starting January 1, 2020, state and municipal institutions, state and municipal unitary enterprises, as well as state corporations, state companies and businesses where the state holds more than 50 percent of shares, will be required to use occupational standards.

***Photo from the RUIE website***

***<http://xn--o1aabe.xn--p1ai/news/view/16718>***

## INTERNATIONAL BLOCK

## EGMONT GROUP PRESIDENCY PASSES TO ARGENTINA

*Egmont Group 26th Plenary meeting was held in the Hague, the Netherlands, from 1 to 5 July 2019. The meeting marked the end of the two-year term as chair of the Egmont Group of Hennie Verbeek-Kusters, Head of FIU of the Netherlands. The presidency has now passed to Mariano Federici, head of the Argentinian FIU. The meeting was attended by representatives of the EAG member – states and Secretariat*

Queen Consort Maxima of the Netherlands addressed the meeting participants with a welcome speech, highlighting the Egmont Group's important role in strengthening the integrity of the AML/CFT system and improving financial inclusion. Queen Maxima has been UN Secretary-General's Special Advocate for Inclusive Finance for Development since 2009. As a part of her functions, she works closely with representatives of government agencies and financial institutions, discussing ways to improve financial inclusion and overall public literacy. The Queen highlighted the Egmont Group's significant contribution to the efforts to reduce the negative effects of de-risking in the financial sector around the world.

According to Ferdinand Grapperhaus, the Minister of Justice and Security of the Netherlands, the meeting has two objectives: to enable representatives of national FIUs to share best practices and then use them to develop best AML/CFT techniques.

According to Mr. Grapperhaus, the fight against organized crime has now been expanded to include efforts to identify and combat activities of lone terrorist actors:

The Plenary meeting agenda was dominated by issues of public-to-public (inter-agency) cooperation. The list of best practices and experience shared by the Group members included the creation of fusion centres, anti-smuggling efforts, and predicate fiscal crimes and their link to corruption. The Russian delegation presented its experience of interagency cooperation in combating money laundering and terrorist financing, conducted with the help of the Interagency Group for Combating Illicit Transactions and the system for the identification of risks in the public procurement sector.

During the meeting the 9th Best Egmont Case Award (BECA) was held. This year, the top prize went to the FIU of Peru, whose case focused on the corruption



scandal involving the country's former president. The same case study also won the prize of the World Bank's Stolen Assets Recovery Initiative, making Peru the first country to win two awards for a single case.

Following the discussion, membership in the Egmont Group was granted to the Dominican Republic, Ethiopia, Palestine, Papua New Guinea, Turkmenistan and Uganda. Meanwhile, the Egmont Group Committee, by its decision, restored membership to the FIU of El Salvador, bringing its total membership to 165 FIUs.

On the margins of the meeting, representatives of the Egmont Group FIUs visited Europol, which has held observer status in the Egmont Group for several years and whose efforts are focused on combating organized crime, including money laundering and terrorist financing. In this regard, much of the agency's work is carried out in cooperation with FIUs. The current list of the Europol's top priorities includes the fight against terrorism, the study of virtual assets, and countering of human and wildlife trafficking.

Next Egmont Group meeting will be held in the Republic of Mauritius in January 2020.



## OUTCOMES OF FATF PLENARY MEETING

*FATF President Marshall Billingslea of the United States, chaired the last Plenary meeting under the U.S. Presidency in Orlando on 19-21 June 2019. This Plenary meeting was the first under the FATF's new mandate and was marked by welcoming of a new member of the Group – the Kingdom of Saudi Arabia. During this Plenary delegates celebrated the 30th Anniversary of the FATF*

In his speech to the participants of the Plenary meeting, U.S. Secretary of the Treasury Steven Mnuchin, highlighted the critical role of the FATF, the importance of the new global standards agreed by FATF this week to protect virtual assets from abuse by money launderers, terrorist financiers, and other illicit actors.



### **Mitigating the money laundering and terrorist financing risks of virtual assets**

This Plenary, the FATF delivered on its commitment to member governments and the G20, as well as the private sector, to develop and clarify the FATF's requirement with respect to virtual asset

activities and virtual asset service providers. In October 2018, in response to the increasing use of virtual assets for money laundering and terrorist financing, the FATF amended Recommendation 15 and the glossary to clarify to which businesses and activities the FATF requirements apply in the case of virtual assets. Following a public consultation on the measures applicable to virtual asset transfers, the FATF has now finalised the Interpretive Note to Recommendation 15 which sets out in detail the application of the FATF Standards and binding measures for the regulation and supervision of virtual asset activities and service providers. The FATF also finalised guidance to further assist countries and providers in complying with their AML/CFT obligations and guidance for operational authorities to support the effective investigation and confiscation of virtual assets misused for money laundering or terrorist financing.

## Risk-based Approach Guidance on Virtual Assets and Virtual Asset Service Providers

The FATF adopted updated guidance that clarifies the application of the risk-based approach to implementing the FATF Recommendations in the context of virtual assets. The guidance benefitted from dialogue with the private sector, including the sector itself. It includes examples of national approaches to regulating and supervising virtual asset activities and service providers to prevent their misuse for money laundering and terrorist financing.

The FATF is now working on revising its methodology to assess how countries have implemented the FATF's new requirement for the October 2019 Plenary.

## Strategic Review

With a new, open-ended, mandate, the FATF moves into a new phase. As the FATF continues to lead global action against money laundering, the financing of terrorism and proliferation, it must ensure that its work is timely, targeted and effective. With the support from the G20, the FATF Plenary agreed to launch a strategic review of its own processes. This review will analyse the progress made on effective implementation of AML/CFT measures, review the FATF/FSRB assessment processes, and identify drivers of positive change.

## FATF's current action to combat terrorist financing

Combatting the financing of terrorism has remained a priority for the FATF under the U.S. Presidency. Acts of terrorism, whether perpetrated by groups such as ISIL and Al Qaeda, or terrorist groups with other extremist views, continue to pose a threat to our society. Since the February 2019 Plenary there have been a number of serious terrorist attacks. The United Nations recognised the FATF as the global standard-setter to combat terrorist financing when it adopted UN Security Council Resolution 2462(2019). This resolution, focused solely on countering terrorist financing, has embedded the need to implement the FATF



*Xiangmin Liu (People's Republic of China) FATF President 2019-2020*

This Plenary meeting was the last Plenary meeting under the U.S. Presidency. From July 2019 the FATF will be headed by the representative of the PRC, Xiangmin Liu. The FATF Plenary discussed and approved the priorities of the FATF under the Presidency of Xiangmin Liu which will commence on 1 July

2019. The main priority is the Strategic Review, but among other priorities, the FATF agreed to continue its important work to mitigate the money laundering and terrorist financing risks of new technologies and at the same time exploit the opportunities to fight these risks more effectively. Under the Chinese Presidency, the FATF will also prioritise work to promote and enable more effective supervision by national authorities.

Standards for combatting terrorist financing into international law.

During this Plenary meeting, delegates heard an updated assessment of the financing methods employed by ISIL, Al Qaeda and affiliates, and released a public statement on FATF members' actions to identify and disrupt their financing. The Plenary decided that the FATF should develop guidance to help countries effectively investigate and prosecute terrorist financing.

## Guidance on Terrorist Financing Risk Assessment

The FATF requires each country to identify, assess and understand the terrorist financing risks it faces in order to mitigate them and effectively dismantle and disrupt terrorist networks. The FATF finalised a Guidance which will assist countries, in particular low capacity countries with limited terrorist financing expertise, in assessing their risk context.

**An overview of the project to create an electronic course on teaching the FATF standards**

Training on FATF standards remains one of the priorities of the Group's Global Network as a part of the implementation of the strategy to improve the FATF global training potential. The progress achieved in creating an e-course on teaching the FATF standards was reviewed during the meeting of the Coordinating Group of the global network. As a part of the discussion of this issue, the Russian Federation presented the progress achieved by

Rosfinmonitoring and the International Educational and Methodological Center for Financial Monitoring (ITMCFM) in the field of electronic education, and also expressed willingness to participate in the project to achieve the key goal of the initiative.

The Plenary discussed the mutual evaluation reports of Greece and Hong Kong, China and the level of effectiveness of each jurisdiction's AML/CFT system and their level of compliance with the FATF Recommendations.

# UN SECURITY COUNCIL URGES COMPLIANCE WITH FATF STANDARDS

*The United Nations Security Council adopted on 28 March 2019 Resolution 2462  
“Threats to international peace and security caused by terrorist acts: Preventing and combating the financing of terrorism”*



*Boris V. Toropov,  
Advisor to Rosfinmonitoring's Counter-Terrorism Financing  
Directorate*

The Resolution reiterates the obligation of member states to prevent and suppress the financing of terrorist acts, including to ensure that any person who participates in the financing of terrorism for any purpose is brought to justice, even in the absence of a link to a specific terrorist act. It also underscores the need to respect human rights when taking any measures to counter terrorism.

The Security Council identifies the following means used by terrorists to raise funds:

- abuse of legitimate commercial enterprise;
- exploitation of natural resources;
- abuse of non-profit organizations;
- donations and crowdfunding; and
- proceeds of criminal activity (kidnapping for ransom, extortion, the illicit trade and trafficking in cultural property, trafficking in persons, drug trafficking and the illicit trade in weapons).

The Resolution notes that terrorists and terrorist groups may move and transfer funds through the use of cash-couriers, information and communication technologies, the Internet and emerging payment methods, such as prepaid cards, mobile payments or virtual-assets.

Transnational organized crime is identified as a possible source of financing or logistical support for terrorists.

The Resolution stresses the essential role of the Financial Action Task Force (FATF) and FATF-style regional bodies in setting global standards for preventing and combating money laundering, terrorist financing and proliferation financing. Member states are encouraged to actively cooperate with the FATF, including by contributing to its monitoring of terrorist financing risks.

The Resolution strongly urges all states to implement the comprehensive international standards embodied in the 40 FATF Recommendations and interpretive notes for these Recommendations.



The Resolution calls on states to intensify international cooperation between financial intelligence units and other competent authorities in combating the financing of terrorism, including through the joint development of special risk indicators. The Security Council also encourages states to make the best use of INTERPOL police capabilities.

In addition, it calls for the intensification of cooperation with the private sector in tracking the trends, sources and methods of terrorist financing.

The Resolution calls upon member states to conduct financial investigations in terrorism related cases and to seek ways to address the challenges in obtaining evidence to secure terrorist financing convictions.

It further calls upon member states to apply effective, proportionate and dissuasive criminal sanctions to individuals and entities convicted of terrorist financing activity.

The Security Council stresses the need for effective implementation of asset freezing mechanisms pursuant to Resolution 1373 (2001), including considering third party requests from other states.

The Resolution urges all states to assess their terrorist financing risks and identify the most vulnerable sectors.

States are called upon to use the risk-based approach to periodically conduct and update a risk assessment of its non-profit sector to identify the organizations vulnerable to terrorist financing.

The Resolution emphasizes the need for international organizations (primarily the UN and the FATF) to provide technical assistance to member states in implementing measures to combat the financing of terrorism.

In the final provisions of the Resolution, the Security Council, in order to prepare a report at a special meeting on terrorist financing threats and trends as well as on the implementation of the provisions of this Resolution, invites member states to submit to the UN, by the end of 2019, information on actions taken to disrupt terrorist financing.

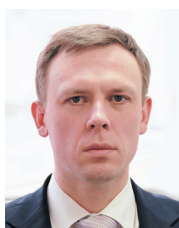
Member states' progress in implementing this Resolution is also expected to be reviewed at the upcoming high-level conference on-counter terrorism in November 2019 (Melbourne, Australia).

## EFFECTIVE SUPERVISION

# PROSPECTS FOR THE DEVELOPMENT OF AML/CFT/CPF MONITORING AND SUPERVISION ACTIVITIES

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*Rosfinmonitoring and other supervisors used their preparation for the FATF 4th round of mutual evaluations to review their past performance and, even more importantly, adjust their current strategy. We assessed the effectiveness of our control and supervision measures with regard to international standards and set objectives for the future*



*Dmitry Vitashov,  
Head of Rosfinmonitoring's Department of Supervision, Ph.D.*

**D**espite our past reliance on the use of a risk-based approach, as mandated by the FATF standards, we found ways to improve the effectiveness of its application.

To achieve this, Rosfinmonitoring, jointly with other government agencies and the private sector, conducted a national assessment of both ML and TF risks, identifying the most vulnerable sectors, which, first of all, include the banking sector, remittances and others. The wide use and accessibility of these instruments make them not only very popular with customers but also highly vulnerable to criminal abuse.

The NRA findings were taken into account in assessing the likelihood of abuse of the relevant sectors for ML/TF purposes. These sectoral risk assessments were conducted by supervisors in collaboration with Rosfinmonitoring, with findings being posted on the supervisors' websites: for dealers in precious metals and precious stones (Assay Chamber), gambling organizers (Federal Tax Service), auditors (Ministry of Finance, Federal Treasury and self-regulatory organizations), mobile and postal operators (Roskomnadzor), notaries (Federal Chamber of Notaries) and lawyers (Federal Chamber of Lawyers).

Similar guidelines for its reporting entities – leasing and factoring companies, payment acceptance processor and real estate agents – were also developed by Rosfinmonitoring after preliminary discussions and coordination with their representatives.

Sectoral risk assessments set out in detail the scenarios of possible abuse, including the key typologies, high-risk instruments and customers. In addition, to facilitate the supervisory process, each sector is broken into segments, the most vulnerable of which are identified along with planned risk-mitigation measures. For example, the assessment of the leasing sector identified small businesses as most vulnerable to ML abuse, with companies making up bank groups posing the highest potential risk. Accordingly, these reporting entities will come under extra scrutiny by Rosfinmonitoring's supervisory units.

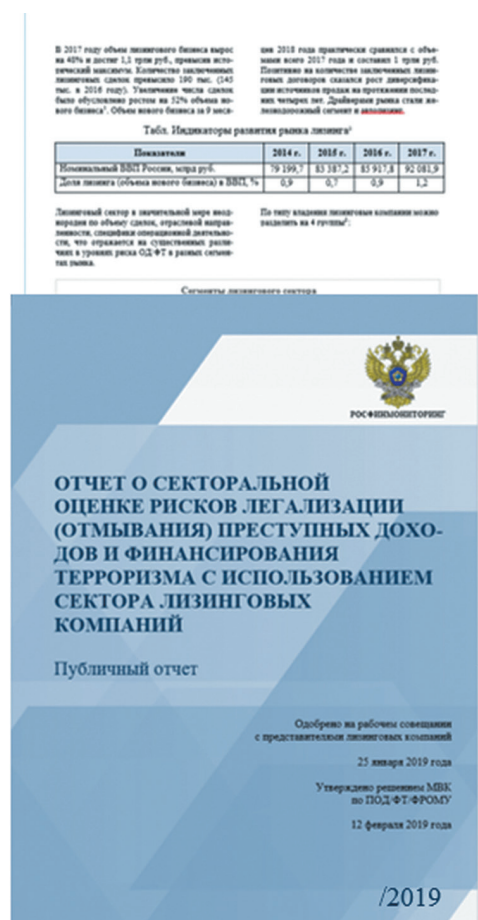
In the future, we plan to regularly – every 2-3 years – review sectoral risk assessment findings in

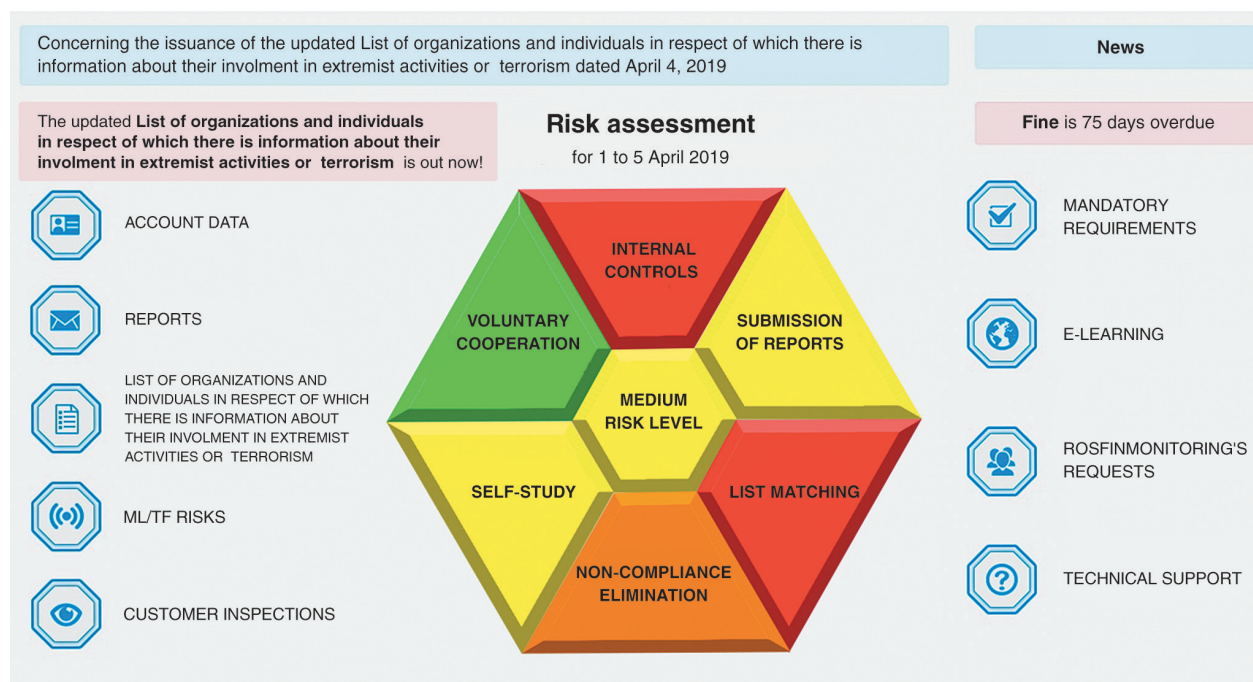
collaboration with the private sector and adjust the mitigation measures.

As the sector risks decrease, the number of supervisory measures will also decline. Prevention and inspection form the basis of our engagement format with the private sector, which also includes the provision of remedial feedback. In this case, inspections are seen as an extreme measure, to be used only when preventive measures have failed, i.e. violations have not been eliminated.

In this regard, in 2018, we developed a new risk-based supervision model that will be extended to all sectors of the AML/CFT system other than those overseen by the Bank of Russia.

Remote monitoring, based on the reporting entity's Personal Account on Rosfinmonitoring's website, serves as foundation of the new system. This interaction tool allows Rosfinmonitoring to monitor compliance with core requirements by all entities (IEs).





### ML/TF risks

In addition, Rosfinmonitoring uses the Personal Account function to communicate monitoring results to reporting entities in the form of a risk assessment, thereby allowing them to see their existing shortcomings and eliminate them. This, in turn, enables reporting entities to reduce their level of risk and, consequently, the possibility of supervisory measures.

The new model of supervision involves the classification of all reporting entities according to 4 levels of risk of their non-compliance with legal requirements (low, moderate, substantial and high).

At a *low* level, remote monitoring is used, as described above. As a part of this process, the supervisor conducts a remote monitoring of the entity's compliance with the established parameters such as the timeliness of transaction reporting, the use of the list of terrorists and extremists, and the frequency of verifying clients for list matching.

When the risk level increases to *moderate*, that is, when there are certain shortcomings in the reporting entity's internal control, a notice to eliminate these shortcomings will be generated and forwarded automatically. This allows us to warn the entity

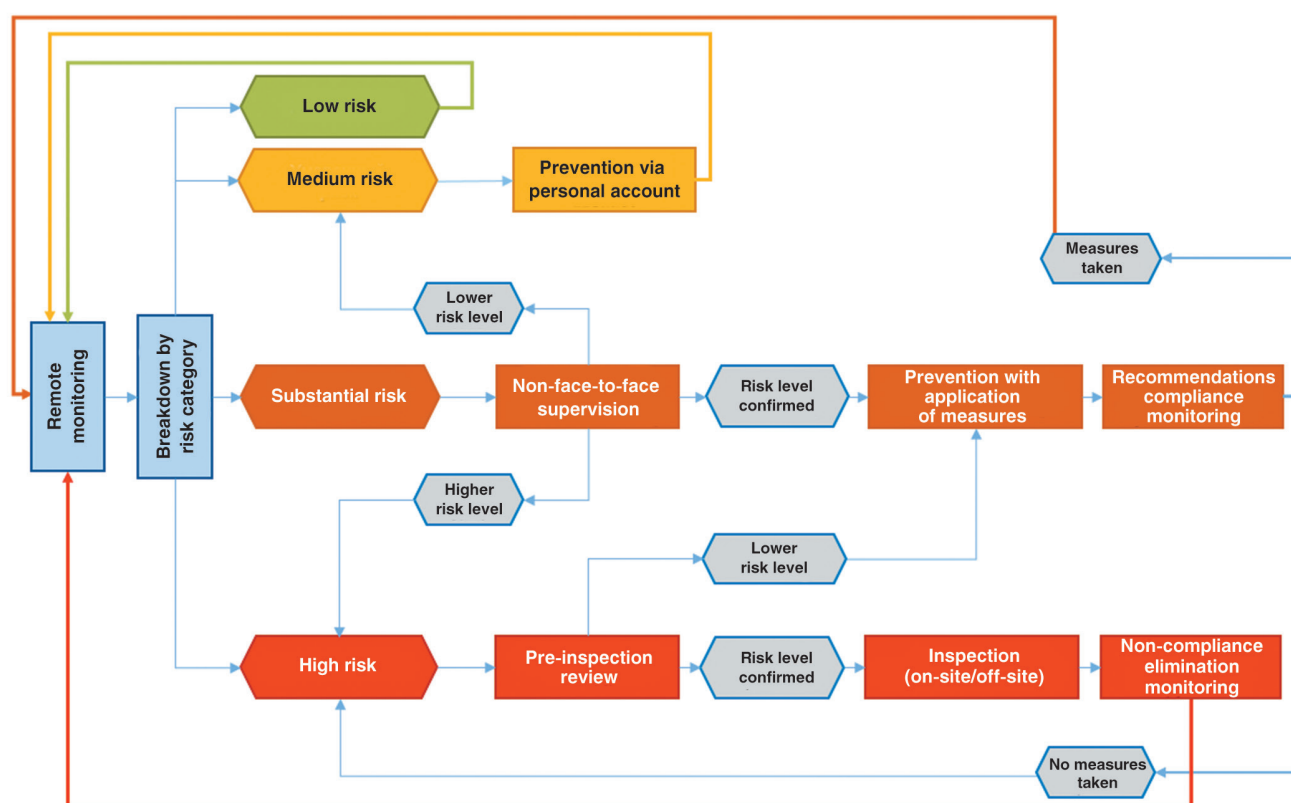
(IE) about the need to take action to address non-compliance and thereby reduce its level of risk.

At a *substantial* level of risk, that is, when the reporting entity has ignored the warning, or when remote monitoring has identified more significant shortcomings, such entity's activities are then scrutinized in person by the supervisor's staff. The type of targeted preventive measures to be taken – a letter, warning, etc. – will in this case depend on the results of such scrutiny.

If the entity fails to respond to these preventive measures, or in the event of major non-compliance with mandatory requirements or possible involvement in suspicious transactions (that is, when we see that its internal control system is ineffective), such entity is assigned a *high* level of risk and decision is taken to conduct on-site or off-site inspection.

In addition to already being implemented in practice, this approach is also envisaged by the draft federal law and related Presidential Decree which are expected in 2019-2020. This will allow us to continue to shift the focus towards the use of preventive measures while increasing the effectiveness of government oversight.





Thanks to remote monitoring and the use of face-to-face measures only in high-risk situations, the effectiveness of inspections is already very high: administrative sanctions against reporting entities supervised by Rosfinmonitoring are used in 97% of cases. Broadly speaking, even before the inspection has begun, we already know what its outcome will be. We also refrain from conducting inspections in situations where the likelihood of non-compliance and, accordingly, the need for corrective measures is minimal.

**To sum up, by utilizing the Personal Account function and following Rosfinmonitoring's recommendations, reporting entities can reduce their risk of involvement in illicit schemes and, accordingly, the likelihood of sanctions.**

Simultaneously, Rosfinmonitoring conducts an ongoing monitoring of compliance of its reporting entities with applicable requirements, whose findings are then used to identify typical violations and take pre-emptive action. Late last year, for example, we noticed certain gaps in compliance of a number of reporting entities.

For preventive purposes, we sent a letter dated January 30, 2019 to these reporting entities through the Personal Account, listing the most common violations of AML/CFT requirements and recommending them to review their internal control procedures and take steps to optimize them.

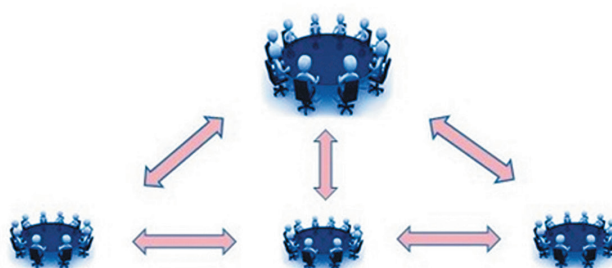
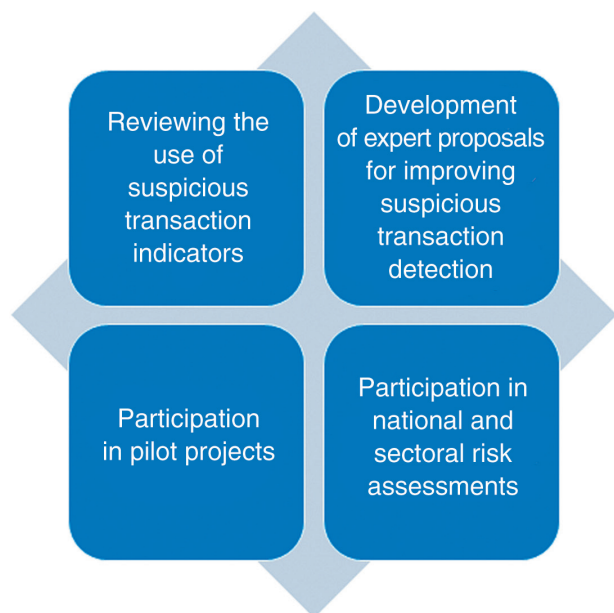
The effect produced by this letter was clearly visible at the end of the first quarter, as the level of reporting entities' compliance increased sharply: among factoring companies by 8.3%; leasing companies by 5.84%; payment acceptance processors by 3.98%; and real estate agents by 2.44%.

Meanwhile, entities that fail for some reason to follow our recommendations and take remedial action will become the subject of targeted preventive measures in the second quarter. If the results reveal entities still non-compliant with recommendations, they will be placed on the list of inspections for the 2nd half of the year.

At the same time, we see potential for improvement in our own performance. Having carried out in the run up to the FATF assessment a review of the

**COMPLIANCE COUNCIL**

9 regional branches and over 100 participants from across Russia

**Focus areas**

contents of the Personal Account, we discovered that we did not sufficiently inform the private sector about the indicators and typologies of non-compliance. To address this issue, we updated last year the contents of the relevant section. In addition, we have systematized this task by regularly – usually once in a quarter – collecting and communicating the relevant indicators to the private sector.

In this work, we are assisted by another important mechanism for cooperation with the private sector: the Compliance Council and its regional branches, which are made up of representatives of almost all sectors of the AML/CFT system. To increase the effectiveness of this format, we plan to use the experience generated by compliance councils to summarize data on all new ML/TF schemes and methods for its subsequent communication in the form of typologies through the Personal Account to all reporting entities.

In general, the self-assessment of the effectiveness of supervisory measures and their compliance with the FATF standards has shown that there is still

some room for improvement. Naturally, this work will be carried out jointly with the private sector. Our goal is to improve the quality and effectiveness of information sharing while reducing administrative burden for business.

In accordance with international requirements representatives of the private sector who conduct financial monitoring are the foundation of the AML/CFT system.

In conclusion, we would like to thank all AML/CFT system stakeholders for their fruitful work and cooperation. We are especially grateful to those who participated in the preparation and conduct of the FATF mutual evaluation and national and sectoral risk assessments, including by filling out various questionnaires.

Since there is still much to be done to improve the quality of monitoring and supervision activities, we will be glad to hear your thoughts on ways to improve cooperation.

## BANKING SECTOR

## PARTNERSHIP BETWEEN GOVERNMENT AGENCIES AND FINANCIAL INSTITUTIONS WILL HELP TACKLE EMERGING THREATS

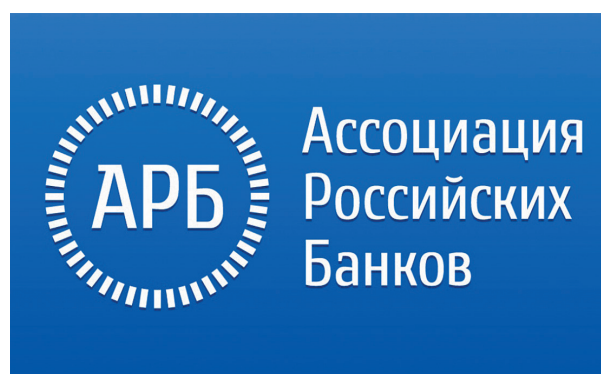
*The 17th annual conference “Relevant Issues Regarding Credit Institutions’ Compliance with Russia’s AML/CFT Regulations” was held on 26 April 2019.*

*Opening the conference, Garegin Tosunyan, President of the Association of Russian Banks (ARB), thanked the Bank of Russia, the Federal Financial Monitoring Service and the Federal Tax Service for their regular support of the conference.*

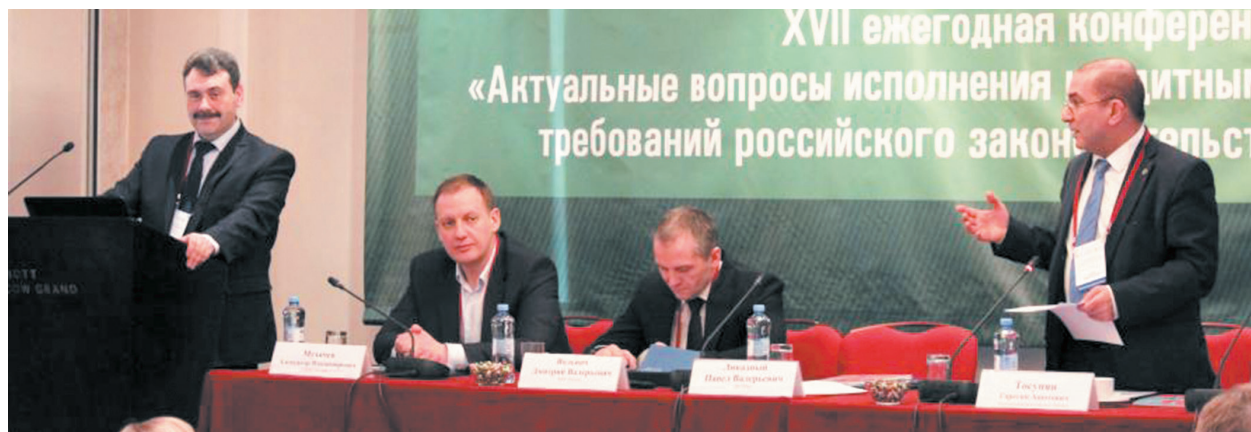
*Rosfinmonitoring was represented at the conference by the Secretary of State – Deputy Director of Rosfinmonitoring Pavel V. Livadny. Below is the stenography notes of his speech*

In the 17 years of regular meetings, the conference has proven its extreme usefulness both in terms of capturing new ideas for regulating the AML/CFT system and communicating our position to the banking community and other concerned experts. And although we may share a common mission and achieve considerable progress in what we do, staying receptive to different ideas may help understand the rationale behind certain decisions or actions.

Well, and, of course, it is extremely important for the regulator to be aware of the community’s opinion, for the communication of which this forum, with its high standing and unique character, is particularly well suited. It is particularly true given the key role played by credit institutions in the AML/CFT system, a fact that is well understood by both regulators and



law enforcement. Without your contribution and that of your organizations, the anti-crime efforts jointly with the Central Bank, the Ministry of Internal Affairs, FSB and the Investigative Committee will be of small effect.



Meanwhile, by combining our efforts, we can achieve much, no matter how cliché it may sound. From the perspective of AML/CFT system development we are now experiencing a very complicated and challenging period. The Russian Federation, as was quite rightly pointed out by Garegin Tosunyan, is currently well in the process of the FATF Fourth Round of Mutual Evaluations.

The evaluation team are assessing the Russian AML/CFT system for compliance with international standards, with a focus on effectiveness. According to the information provided by Garegin Tosunyan, assessors spent three busy weeks in Russia this March, not only in Moscow but also in the regions, particularly in St. Petersburg and Nizhny Novgorod, as well as communicated with other regions by videoconferencing. In the end, they engaged the entire financial sector, paying special attention to credit institutions.

Since government agencies involved in the planning and conduct of the evaluation, including Rosfinmonitoring, the Bank of Russia and other financial sector supervisors, are not allowed to participate in the assessors' meetings with representatives of the private sector, the information they have about the questions asked and issues discussed is incomplete.

All I can say is that those questions were tough and concerned strategic issues. Still, we believe financial institutions did well in answering them. It is somewhat too early to announce the evaluation results now, given the private nature of the working issues discussed and preliminary assessment findings

expressed by the assessors in their communication with authorities.

After all, no later than May 7 this year, we will receive the first draft report on the FATF evaluation of the Russian AML/CFT system, complete with preliminary ratings for each of the 40 recommendations and 11 immediate outcomes used to determine the level of effectiveness, a total of 51 ratings assigned using a four-tiered scale.

Once we get preliminary ratings, all AML/CFT system stakeholders – from government agencies to the financial sector – will hold detailed discussions and draw a preliminary conclusion. Again, the results will be only preliminary, meaning that the intensity of our work and the pressure that accompanies it are only increasing.

In this regard, I would like to focus the attention of credit institutions and the financial community as a whole on achieving full compliance with AML/CFT requirements, since the issues that may arise from the findings of the assessment following the submission of the MER might be addressed through the additional demonstration of our effectiveness and work results.

First of all, it applies to the identification of problem customers and adoption of preventive measures designed to block their access to the official financial system. If we do that, no laundromats will ever emerge in our country, since we will mitigate these threats before they become real. This is, in fact, what we are currently working on. Before I go any further, I would like to thank all the representatives of the banking community and those banks that had a direct contact with the assessors for their deep understanding and



professional approach to this task. Although the full assessment findings are yet to be released, we can already say a few words about the focus areas.

The key and most important criterion used in the assessment is our overall understanding of the ML/TF/PR threats, vulnerabilities and risks to the integrity of the financial system.

To what extent these risks are identified at all levels of the AML/CFT system, not only in the national risk assessment, conducted by Rosfinmonitoring, or sectoral risk assessments, carried out by individual regulators, but also by each financial institution in terms of its customer, regional and operational risks. This is what much of the FATF's work is all about and what the Russian AML/CFT system stakeholders have recently been focusing on. For this reason, the assessment of risks and the development of appropriate response measures are a top priority for all financial institutions in their fight against ML/TF. In addition, I would like to note, without exaggeration, the tremendous work being done by the Bank of Russia in focusing credit institutions' attention on specific risks.

Talking of the current typologies of dubious transactions, today we are observing the re-emergence of illicit schemes involving promissory notes. Among other sectors of ML concern are construction and retailing. Also remain relevant are the schemes involving the enforced recovery of debt and the cashing out of funds using salary payment projects. In addition, criminals continue to abuse the services sector – particularly consulting – and arrangements involving the use of advance payments under supply contracts, to channel funds into the shadow economy. In monitoring the financial sector, we pay special attention to the analysis of suspicious transaction reports.

Recent years have seen a steady decline in the volume of all major types of dubious transactions, from pass-through transactions to the withdrawal of funds abroad.

In this regard, the Bank of Russia has repeatedly cited the relevant figures with which we fully agree and with whom we share a common position and understanding. We attribute this trend to the Bank

of Russia's aggressive clean-up measures in the financial sector. Also effective are the previously discussed preventive measures undertaken by banks, including refusals to render services to customers, even though, and I agree with that, such measures require constant and all-encompassing adjustment to avoid their thoughtless enforcement and abuse.

In general, regulators use a variety of communication channels to transmit information about the risks and the latest typologies to financial institutions, including feedback and Rosfinmonitoring's Compliance Council, comprising private sector experts and representatives of supervisors, which has its branches in all federal districts, including Crimea and the city of Sevastopol.

A personal account is another communication tool for engaging with the private sector tirelessly promoted by us, particularly given its legal recognition last year.

Here we also have a common position with the Bank of Russia, i.e. of it being the most promising tool requiring further refinement. Although its use is currently limited to the communication of information about the risks, which is the most popular and at the same time the easiest of its functions, in the future, I reckon, it will become a universal communication tool used by Rosfinmonitoring, other regulators and financial institutions to, among others, report suspicious transactions. This special-purpose tool can be used to communicate the latest typologies and indicators of suspicious transactions and activity as a part of the efforts to identify drug traffickers and foreign terrorist fighters.

We also use it to pilot-test new communication formats and to communicate online freezing orders targeting terrorist assets, i.e. the orders taken by the interagency commission. That is activity of the IAC on the application of additional CFT measures against persons not included on the List of organizations and individuals in respect of which there is information about their involvement in extremist activities or terrorism, of whose existence you are aware.

Finally, the personal account is a universal tool. According to our information, assessors particularly focused on the use by supervisors of this tool to communicate to financial institutions the lists of persons

involved in extremism, terrorism and proliferation financing. For this reason, we believe, and I hope our colleagues at the Central Bank share this belief, and will confirm dynamically developing tools. Moreover, it can be seen as a basis of AML/CFT activity-preventive component i.e. online communication of freezing decisions taken by IAC.

The personal account's capabilities are being used to assess the quality of incoming suspicious transaction reports, develop online training courses and to complete the development of a personal account for supervisors, which will be presented to our colleagues from other supervisory agencies and become a tool for interagency communication of supervisory information. For Rosfinmonitoring, the personal account has become key to remote monitoring, a supervision format that, although not concerning directly colleagues present here but rather entities supervised by Rosfinmonitoring, has become to date our primary tool for conducting inspections.

Today, emerging technologies act as the key financial services market drivers capable of updating not only traditional formats of interaction between the private and public sectors but also the relationships between financial institutions and their customers, resulting in the emergence of new vulnerabilities. To adequately understand such vulnerabilities, we need your expertise more than ever, since you are the ones who face potential risks and can understand them better than any government or regulator.

I am convinced that the partnership between government agencies and financial institutions, established with the help of, in particular, the hard work of the Russian banking associations, will help us tackle the emerging challenges.

And now, I would like, as always, to say a few words about the current state and future prospects of the AML/CFT legal framework.

Firstly, after a long time – three to four years – it has finally become possible for entities within a banking group or a bank holding company to share identification data and documents, which is something that, I am sure, will be appreciated by credit institutions, including large ones. Federal

Law No. 32 was finally adopted on March 18, 2019. Although its enactment has been delayed somewhat, the important thing is that a legal mechanism, which was long overdue, is finally in place.

The new law, designed to improve the effectiveness of entities comprising banking groups and bank holding companies, is fully consistent with the FATF Recommendations (R. 17 and R. 18 in particular), as we proudly demonstrated during the evaluation. I hope the assessors appreciated that.

Federal Law No. 32 provides for entities within a banking group or a bank holding company to share and use the identification data. To this end, the parent company of a banking group or a bank holding company, provided it carries out transactions with funds or other assets, is required to develop and approve AML/CFT internal control, including governing the sharing of information, and to monitor compliance therewith.

In other words, it introduces another set of internal regulations on the sharing of information specifically in this area. At the same time, according to Federal Law No. 32, when undertaking simplified identification procedures in respect of a customer who is a natural person, no identification of such customer's representative, beneficiary or beneficial owner is required. We believe this provision should significantly simplify the work of financial institutions without creating any additional risks.

As for the future prospects, an interesting bill has been submitted to the State Duma by deputies Aksakov and others, and to the drafting of which the Bank of Russia and Rosfinmonitoring contributed, which calls for amendments to the provisions of Federal Law 115 governing the use of mandatory control. Its number, if you are interested, is 582426-7. The bill introduces in law some of the ideas proposed by the banking community, which, once again, it has been advocating for quite some time. But, unfortunately, the modus operandi of the AML/CFT system makes it impossible for us to timely respond to any, even constructive, proposals. This is because, on the one hand, we are bound by international standards, and on the other, while you might be able to see risks deeper, regulators see them wider, so to speak.



Maybe they have a way to determine whether a given initiative is ready for adoption in terms of the overall stability of the financial system and state interests, as well as the interests of financial institution clients, just as it was in this case, when the issue was more than ready and therefore received our support.

As you know, although mandatory control constitute a key component of the Russian AML/CFT system enabling us to effectively prevent illegal activities, particularly in such important sectors of the state as defence procurement. On the other hand, its use in AML/CFT systems in general is not typical. Hence, this tool needs to be adjusted.

I can reveal some of the basic provisions of this bill here to you, to give some idea about the rationale being used by state authorities and lawmakers tasked with improving the country's AML/CFT system.

First, it calls for the use of a differentiated approach to the reporting of transactions subject to mandatory control by entities carrying out transactions with funds or other asset. That is, for each transaction, there will be its own types of such transactions. For illustrative purposes, I will use the example of banks. Banks will be required to report payment and settlement transactions and are exempt from other types of reporting – the very thing we have been talking about for many years now.

The next requirement concerns the updating of the list of transactions subject to mandatory control. Now, the List doesn't require to provide information on expenditure transactions of up to 100 000 rubles for a number of NPOs, such as state corporations, public law companies, consumer cooperatives, HOAs, countryside housing and other commercial associations of citizens.

Since such transactions are not particularly risky for these categories, the requirements developed for them by lawmakers are designed to be less stringent.

Among other transactions expected to be removed from the list of transactions subject to mandatory control are transactions involving the exchange by natural and legal persons of banknotes of one denomination for banknotes of another, certain transactions with anonymous accounts, and transfers of funds by non-credit institutions on behalf of the client. If the bill passes the State Duma – although I think this process is always quite complicated given various related issues, amendments and so on, but, nevertheless, we support it and therefore I hope it will pass quite quickly – it will reduce the regulatory burden on the banking and other sectors and bring the list of transactions subject to mandatory control in line with the existing ML/TF risks.

Finally, the third issue, which I cannot ignore here, concerns the regulation of new technologies,

particularly virtual assets. You are probably aware of the changes made to the FATF Recommendations, in particular the addition of the definition of a virtual asset as a new payment instrument in no way connected with fiat currencies or other financial instruments that are currently regulated by the FATF standards and state laws and represent traditional instruments whose value can be calculated in fiat currencies and which, therefore, are supported by governments.

The term applies above all to cryptocurrencies. At the same time, the FATF deliberately avoided the use of such terms as “currency”, “money”, including digital, or “payment instrument”, given that a virtual asset is really a new entity that is not backed up in any way by the state or other traditional financial market participants, as in the case of securities. This, I want to emphasize, is a high-risk instrument.

In addition, the FATF emphasized the technological neutrality of virtual assets. This is because everybody is focused on the blockchain technology, which is by no means the only technology out there, especially since we do not know what technology will be supporting virtual assets in the future. Nevertheless, the FATF requires countries to regulate the use of these assets, especially where they can access legal financial market legally exchanged for fiat money or other recognized values, by applying to entities trading such assets the same requirements as to those carrying out transactions with funds and other assets.

At the same time, the FATF believes that one of the forms of regulation can be a ban on the use of virtual assets in a given jurisdiction. Most important, it must be accompanied by the adoption of appropriate regulations. The ban may also be implemented in different ways: through legislation directly, through directives that have regulatory power, or through the establishment of criminal, administrative or other legal liability for the exchange of virtual assets for fiat values, or for their use in business activities. All of these types of prohibition are permitted by the FATF.

Currently, the State Duma discusses the regulation of digital financial assets and is also considering relevant draft bill. All I can say is that this initiative is currently

only at the point of expert review, with the contours of the future legislation only taking shape. Still, as a part of our commitment to the FATF, it must not only be approved by the end of the current year but also become law.

In this regard, this issue, I think, is worthy of discussion at all expert forums, including at the Association of Russian Banks, since all proposals will be welcomed and dealt with in a constructive way. And, of course, as I said above, the opinion of financial institutions and practicing financiers is key to the successful regulation of this type of activity.

...

As for cryptocurrencies, I have literally two words to say. As you know those countries that actively supported cryptocurrencies in the past have sharply decreased their efforts this year, causing a crash in the price of the most popular cryptocurrencies, which underscores the speculative nature of these assets. At the same time the popularity of so -called stablecoins has raised i.e. cryptocurrencies whose value is supported by the resources of financial and other companies from the real sector of the economy and which represent a form of uncertificated securities or cryptocurrencies issued by central banks.

The concept of cryptocurrencies is probably still under research today under research. That was used by market speculators who made huge profits in the wake of crypto fever but many wealthy and law-abiding individuals fell into this speculative trap and suffered heavy loss in fiat currency after investing in bitcoin and other instruments.

Our goal, the goal of regulators, is to prevent illegal actions in this area by administrative measures, including by conducting extensive explanatory work.

Meanwhile, the job of financial institutions, since you work with clients and are their financial advisers, lies in helping your law-abiding, respectable clients avoid losing their hard-earned cash to various speculative, semi-legal schemes. I think we should work together here, including in clarifying to the public these risks and issues.



## FINANCE AND THREATS

# MEASURES TO COMBAT SHELL COMPANIES

*Suspicious financial transactions carried out by offshore and shell companies, bank-based ML centres and other problem entities affiliated with state (municipal) clients have been registered in the Russian Federation*



*Andrey Vorontsov,  
Senior Researcher, Department of Scientific  
Support for Prosecutorial Supervision and  
the Rule of Law in the Social and Economic  
Sphere, Research Institute of the General  
Prosecutor's Office of the Russian Federation*



*Yevgeny Stupachenko,  
Senior Researcher, Department of Scientific  
Support for Prosecutorial Supervision and  
the Rule of Law in the Social and Economic  
Sphere, Research Institute of the General  
Prosecutor's Office of the Russian Federation*

Shell companies, whose definition has yet to find its way into federal legislation, are frequently used in schemes designed to misuse and (or) embezzle public funds. Meanwhile, the Federal Tax Service (FTS) defines a shell company as a non-independent entity established for purposes other than carrying on business, which lacks a unique registration address<sup>1</sup> and does not file tax returns.

In most cases, such entities are registered to nominees, including diseased persons and also using forged (falsified/lost) documents.

Among the main indicators of shell companies identified by law enforcement and supervisory authorities are:

- use of shared registration addresses;
- insignificant (minimum) size of the authorized capital;
- lack of own or legally obtained equipment and other material resources required for the performance of the (public) contract;

<sup>1</sup> FTS Letter No. 3-7-07/84 "Concerning the consideration of a request" // Official documents. 2010. No. 9 (weekly supplement to the newspaper "Accounting, Taxes and Law")

- the company's bank account was opened without personal attendance of its director (by a representative using a power of attorney);
- recent registration date (a few weeks or months before the date of the announcement of the tender);
- lack of business reputation or past experience in executing similar state (municipal) contracts;
- lack of the required number of personnel, including qualified, necessary to perform the state (municipal) contract;
- lack of direct contacts with counterparts;
- lack of identity and other documents evidencing the powers of the company director and (or) its representative;
- transactions with counterparts contain conditions that are not consistent with the standard business practice;
- lack of accountants among the company staff;
- lack of tax returns (filing of tax reports showing no business activity), etc.

A review of investigative and judicial practice shows that the main reasons behind the creation of such entities are:

- to embezzle public funds, including through participation in the state, municipal or defence procurement of goods, works or services.
- to smuggle goods or commit other customs violations (offences);
- to obtain unjustified tax benefit and (or) avoid paying taxes, or to commit VAT fraud.

A review of the existing practice points to extensive experience acquired by law enforcement and supervisory authorities, which, in our opinion, contributes to the effective identification and disruption of illicit schemes involving shell companies. In addition, information contained

in these agencies' databases may help identify indicators of shell companies and mitigate the risk of their use in public procurement. For example, the Interior Ministry maintains databases of missing and diseased persons as well as lost and invalidated passports; the Federal Financial Monitoring Service (hereinafter "Rosfinmonitoring"), of suspicious transactions, banks and legal entities involved in them; the Federal Customs Service (hereinafter "FCS"), of cases involving non-repatriation of foreign currency earnings and smuggling of goods. Meanwhile, the Defence Ministry, by monitoring special-purpose accounts, has access to information on all defence procurement participants<sup>2</sup>.

FTS has access to the largest volume of data as well as experience in identifying shell companies. According to FTS Director M. Mishustin's statement of May 6, 2019, shell companies account for less than 5% (about 187,000) of the total number of companies (about 4 million) doing business in Russia. Actual use of shell companies becomes the thing of the past.

Measures taken by tax authorities in response to the identification of shell companies vary and depend on the phase of such entity's existence and business cycle.

For example, entities that submit documents for state registration containing inaccurate information are denied registration.

Upon detection of any indicators of a shell company such as non-payment of taxes, non-submission of tax returns or Physical Persons Income Tax forms, and failure to ensure reception of electronic documents sent by the tax authority to its registered location, the tax authority may suspend transactions through such shell company's accounts or block its wire transfers, that is, it takes steps to ensure fulfilment of tax obligations.

Particular attention to the identification of shell companies is paid during pre-audit analysis and on-site and off-site audits, including those conducted with the help of departmental software<sup>3</sup>.

<sup>2</sup> Monitoring all cooperation, from Customers to the Last Nail // Kommersant. Dec. 17, 2018 No. 232



In particular, since 2015, FTS has been using a new system of remote VAT monitoring to combat the use of shell companies in VAT fraud. In the same year, FTS, with a view of consolidating, processing, analysing and storing all electronic tax information in a single place, established a Federal Data Processing Centre. All VAT reports are forwarded to the national database powered by the ASK VAT-2 software (the second version of a software for automatic monitoring of VAT payments), which automatically compares the details of each transaction at all stages of the supply chain.

Under the current VAT system, when the taxpayer purchases goods (works, services) from a counterpart and deducts VAT, it must record the VAT amount in the purchase ledger and its counterpart in the sales ledger, meaning that the accounting records of both the taxpayer and its counterpart for this transaction should match, with all discrepancies being promptly detected upon the filing of electronic declarations. Furthermore, such discrepancies are visible along the entire chain of counterparties: between the taxpayer and its supplier, the supplier's supplier, etc. As a result, if there is a shell company in the chain that fails to properly record and pay VAT, it will be identified<sup>4</sup>.

FTS documents show a rationale approach when dealing with shell companies, which is to identify the parties behind a given shell company. Upon identification of nominee directors, tax authorities, by tracking cash flows and identifying the recipient of the unjustified tax benefit, take measures to reveal the actual directors and main taxpayers (beneficiaries) of the shell company. Such measures are taken as a part of entire system of fiscal control<sup>5</sup>.

Due to the intensification of the fight against shell companies, criminals increasingly rely on the use of legal entities as "technical organizations" that, although properly registered, engage in real business activities and file tax returns, use their affiliation with state (municipal) clients and other participants in the budget execution process. At the same time, these entities may not even fall within the formal definition of affiliated companies set out in Art. 4 of RSFSR Law No. 948-1 of March 22, 1991 "On Competition and the Limitation of Monopolistic Activities in Commodity Markets" and other regulations. In this case, the identification of such shell companies requires extensive analytical work related to the identification of business contacts of both the company itself and its founders and directors, as well as a physical inspection of its manufacturing base and scrutiny of payments and wire transfers.

<sup>3</sup> P. V. Sedaev. Information Resources for Identifying Shell Companies // IT Development Prospects 2015. No. 25 pp. 44-45.

<sup>4</sup> Finance Ministry Letter No. 03-01-11/26624 dated April 15, 2019 // SPS "ConsultantPlus".

<sup>5</sup> Loc. cit.

State (municipal) ordering parties experience certain problems in screening procurement participants. Thus, pursuant to part 8 of Art. 31 of Federal Law No. 44-FZ of April 5, 2013 “On the Contract System in State and Municipal Procurement of Goods, Works, and Services”, procurement committees shall monitor compliance of procurement participants with Art. 31 of this law. Pursuant to par. 3 of Art. 62 of Federal Law No. 275-FZ of December 23, 2012 “On Defence Procurement”, the state ordering party, with a view to monitoring the targeted use by the chief contractor of public funds allocated for defence procurement, may request information from tax and customs authorities, the Russian Pension Fund and other agencies and organizations.

Although federal law does not set a deadline for the consideration by law enforcement and supervisory authorities of requests for information on procurement participants submitted by state (municipal) ordering parties, competitive procurement procedures impose tight deadlines for determining winners (e.g., 20 days for tenders, 3 business days for electronic auctions and 1 day for requests for quotation), thereby compelling state (municipal) ordering parties, without due verification, to conclude contracts with entities that have technically complied with the procedure for the submission of required documents (which may include shell companies).

We believe that, given the experience accumulated by law enforcement and supervisory authorities in combating shell companies and other fictitious entities, it is time to draft an interagency agreement on the sharing of information in this area, whose main objectives should be: the prevention, detection, suppression, exposure and investigation of crimes related to the embezzlement of public funds and commission of customs and fiscal offences, as well as the accumulation in databases of information on shell companies and their organizers.

Interagency information sharing may be conducted in the following formats:

- sharing of data contained in their respective databases between law enforcement and supervisory authorities;
- notification of law enforcement authorities of the identified criminal violations, their causes and conditions contributing thereto;
- notification of tax authorities of shell companies for a follow-up action;
- provision of information on shell companies in response to requests from state (municipal) and defence procurement ordering parties.

It appears necessary that state (municipal) and defence procurement ordering parties should have online access to databases containing information on shell companies and technical organisations.



## COUNTRIES – PARTNERS OF RUSSIA

## ON METHODOLOGICAL ISSUES OF BUILDING A TAX SECURITY CONCEPT IN THE REPUBLIC OF UZBEKISTAN

*It is well known that the Government of the Republic of Uzbekistan in recent years has been carrying out large-scale measures aimed at modernizing the tax system, the important vectors of which are a radical improvement of tax administration, increasing the collection of taxes and other mandatory payments, reducing the tax burden and guaranteeing the protection of investors' rights*



Shamsiddin Allayarov,  
PhD, Head of the Vocational Education Department at the  
Tashkent Financial Institute

Successful implementation of measures to enhance the role of tax policy efficiency in ensuring the modernization of the tax system and maintaining sustainable economic growth will improve the efficiency of tax authorities' performance.

On June 29, 2018, the President of the Republic of Uzbekistan signed Decree No. UP-5468 "On the Concept of Improvement of Tax Policy of the Republic of Uzbekistan" [4] approving the Concept of reforming the tax system of the Republic of Uzbekistan developed by the National Agency of Project Management under the President of the

Republic of Uzbekistan. It contains a lot of information about the urgent problems in the country's tax practice and ways to solve them, which encourage everybody to take the pressing issues more seriously and reconsider the existing concepts. One of such methodological problems is *the issue of creating a tax security concept*.

In the current conditions of economic development, the economic security strategy of the Republic of Uzbekistan is a starting point for the development and outlining of new conceptual approaches to improving security in various sectors of the economy, adapting existing regulatory methods and tools that

can guarantee the survival and normal functioning of a market economy, despite external and internal threats. The modern transformation of economic relations takes place not only to obtain maximum and immediate profit, but also to create civilized and effective forms of management aimed at the safe, stable and long-term existence of economic entities in various conditions. At the same time, the urgency of studying the problems of security in the tax sphere is connected with the fact that the modern tax system is in an unstable condition, predetermining various negative forms of social, economic and tax relations, which directly affect the efficiency of economic and national security as a whole.

The fiscal imperativeness of State regulation of tax relations should take into consideration objectively existing economic resources of taxpayers, the degree of impact of tax burden on the financial condition of economic entities and the prospects for their development, deviance of economic behavior of taxpayers and, as a consequence, the problem of criminalization of society, which inevitably causes a conflict of interests of all participants in tax relations. That is why taxes and the tax system should be considered not only as a resource factor of the State and an instrument of influence on social and economic processes, but also as a real threat to economic security for all economic entities, specifying the types of its manifestation and modern development. The economic science has not yet developed a general idea of the peculiarities of the tax system development in the economy of the Republic of Uzbekistan and the conceptual and strategic directions of increasing its security in modern conditions.

The variety of scientific and theoretical approaches to the disclosure of individual aspects of tax relations in the system of economic security, significant for this scientific article, shows that the general theoretical problems of tax security (definition of its concept and essence, goals and objectives, basic principles and functions, etc.) have been left unattended, as well as the problems of the methodology of its formation. In order to understand tax security as a systemic phenomenon and to analyze methods of its provision, it is necessary to reconsider traditional approaches to solving existing problems in the tax sphere, to justify and allocate tax security as

a separate complex direction of the modern strategy of economic security, considering not only the efficiency of the tax system itself, but also ensuring the safe existence of all its elements.

*The conceptualization of tax security* is determined by the need to expand and systematize the knowledge about the methodology and elements of economic security in the tax sphere, which allows developing organizational and methodological regulatory mechanisms aimed at improving the level of economic security and accelerating the process of decriminalization of society. This gives an advantage in the practical application of this concept and can be used in assessing both the current state of tax security and forecasts for its maintenance.

Scientific researches and official documents still do not have categorical definitions of "tax security", which, however, are widely used in practice by economists, lawyers, sociologists, political scientists, and are as well supplemented by separate theoretical studies. All this is related to the active processes of interpenetration of various fields of science, which stimulate the expansion and clarification of the conceptual and categorical apparatus and ensure the formation of various scientific concepts, which allows reconsideration of the essence and role of socio-economic and political institutions of the State and society, to modernize the infrastructure of the public administration system in order to develop new mechanisms ensuring national and economic security.

These ideas have not yet received sufficient theoretical research and justification within existing practical experience, so the topic of this article is quite relevant, well-timed and meets the needs of today.

Tax contradictions and unbalanced conflict of interests in the tax sphere predetermine the objective need to form the concept of tax security as a separate institutional direction of the modern strategy of economic security, which is determined by principles of dialectical relationship between the development of tax relations and the socio-economic reality of today. According to the author, taxes and tax system should be considered as not only a resource factor of the State and an instrument of influence on social

and economic processes, but as a real threat to economic security at the present stage.

*Tax security* should be understood as the state of the tax system, in which the tax interests of the State, business and society are protected from internal and external threats. The doctrinal concept of tax security, in our opinion, should consolidate the tax interests of both representatives of the State and business, public organizations, as well as each individual citizen. Therefore, the subjective composition of tax security is represented by the interests of business, society and the State, which is related to national security as a part of the whole, as a subsystem of national economic security. Definition of the subjective composition of the concept of tax security allows to clarify and expand it in terminology categories such as “tax security of society”, “tax security of business”, “tax security of the State”.

The genesis of the conceptual and categorical framework shows that national security unites all types of security for individuals, businesses, society and the State and highlights the need to protect their interests and sustainable development.

When ensuring and maintaining a high socio-economic standard of living, it is necessary to take into consideration the existing tax problems caused by the fiscal and operational inadequacy of the State in relation to taxpayers, leading to the emergence of destructive factors and threats in the tax system, alarming dynamics on resolving tax disputes and tax offenses, and integration of the Russian economy into the international tax space. The creation of the tax security concept presupposes not only effective coexistence of participants in tax relations, but also provision of safe functioning of the tax system itself and all its elements.

We propose to understand *the tax security system* as a complex of legal, organizational and administrative, material and technical and other means aimed at preventing, detecting and suppressing tax threats in order to improve economic security. Based on this, the participants in tax relations in the system of tax security should be considered as integral social structures, exploring the relationships and interaction of the State, business and society. Such integral-system approach



is based on the characteristic of tax security system as a socio-economic phenomenon in the unity of its basic principles and elements.

*The problem of developing and forming a tax security concept* is complex and multifaceted, as it is an element of socio-economic regulation of macroeconomic and financial mechanisms of the State. The importance of the tax security system is primarily due to the functions it performs, which is determined by the special significance of tax relations in the modern economy, the historically established scientific-theoretical and methodological basis, as well as the accumulated experience in the field of economic security.

Considering the functions of the tax security system, providing increase in the level of economic security from the point of view of the general socio-economic approach, the following functions can be singled out: administrative, sanitizing, educational and regulatory.

*The administrative function*, in our opinion, is of primary importance, as the enormous funds collected in the form of taxes and fees, entering the budgets of all levels for further redistribution, constitute the basis of economic security of the State, which requires the implementation of effective tax administration and the collection of objective information on the existence of tax risks that threaten the economic security of the State. The administrative function is designed to contribute to the selection of the most optimal tax systems and the development of the most important for the State and society social and economic areas, streamlining tax relations, which contributes to the satisfaction of the interests of all participants in the market economy, opening the space for their activity, entrepreneurship and profit-making.

*The sanitizing function* of tax security system neutralizes destructive influence of unfair participants of tax relations on social and economic system of the State. The tax mechanism is a rather rigid system, which conducts a natural selection among the participants of economic activity, cleansing the economy from inefficient taxpayers with the help of State enforcement methods. The sanitizing function is of a secondary nature and is designed to ensure the administrative function of the tax security system only in cases where normal tax relations are violated, the economic behavior of taxpayers is deviant, interference, threats or non-payments appear, for neutralizing, localizing or eliminating tax risks in order to ensure the effectiveness of the national economy as a whole.

*The educational function* reflects a certain "tax" ideology, i.e. notions and principles expressing people's attitude to the current system of taxation, forming motives of lawful behavior of taxpayers to comply with the constitutional duty to pay taxes, and also has a socio-educational influence contributing to the elimination of arbitrariness, willfulness, uncontrollability and impunity from the practice of taxpayers.

*The regulatory function* of the tax security system is related to the regulation of tax contradictions based on civilized economic and legal behavior of both taxpayers and the State. In a period of economic decline, the regulatory function of tax security may ensure fiscal expansion of the State aimed at stimulating entrepreneurial activity by reducing the tax burden of economic entities and decriminalization of economic and tax relations. In a period of economic recovery, overproduction and rising inflation, tax regulation can provide fiscal restriction aimed at restricting the economic activity of entrepreneurs by increasing taxes and toughening the methods of government enforcement for economic and tax offenses. Various tax preferences and tax amnesties are used as the main regulatory incentives to ensure tax security, which makes it possible to create effective mechanisms for regulating the conflict of tax interests of the State, business and society.

*Methods of ensuring tax security* should be assessed in terms of the economic efficiency of

public welfare. However, due to the impossibility of achieving ideal economic relations, undeveloped legal regulation and immaturity of public legal consciousness it is impossible to provide the most effective tax security system in modern conditions. This predetermines the development of practical criteria that allow to analyze and assess the effectiveness of various mechanisms of tax security, on the one hand, identifying and disrupting obviously illegal directions, and on the other hand - reflecting and listing the advantages and positive trends in the development of the public sector of the economy and national welfare.

The existing criteria, which today are most relevant to the assessment of the effectiveness of tax security and tax system, reflect, first of all, the tax burden on enterprises and the effectiveness of the tax collection activities. It is obvious that a high level of tax burden restrains economic activity, reducing the motivation of the taxpayer to carry out entrepreneurial activities, being one of the reasons for the inefficient management of resources. In our opinion, at the present stage it is much more significant to develop criterion indicators of tax security assessment, reflecting the impact of tax burden on the efficiency of economic behavior of taxpayers and the level of their tax activity, characterizing the economy development, which in combination with other indicators can fairly objectively reflect the efficiency of the functioning of the tax system and the tax security system in various spheres and sectors of the economy.

The institutional and infrastructural methodology of economic security should be adapted to ensure tax security of the State, business and society. Based on the proposed concept, we suggest to divide all methods of ensuring tax security into two main groups:

- institutional methods of ensuring tax security, i.e. formal institutions and legitimate norms that restrict the behavior of economic entities and imperatively establish the "rules of the game" in the system of tax relations, including legal methods, international norms, tax administration, tax control, etc.;



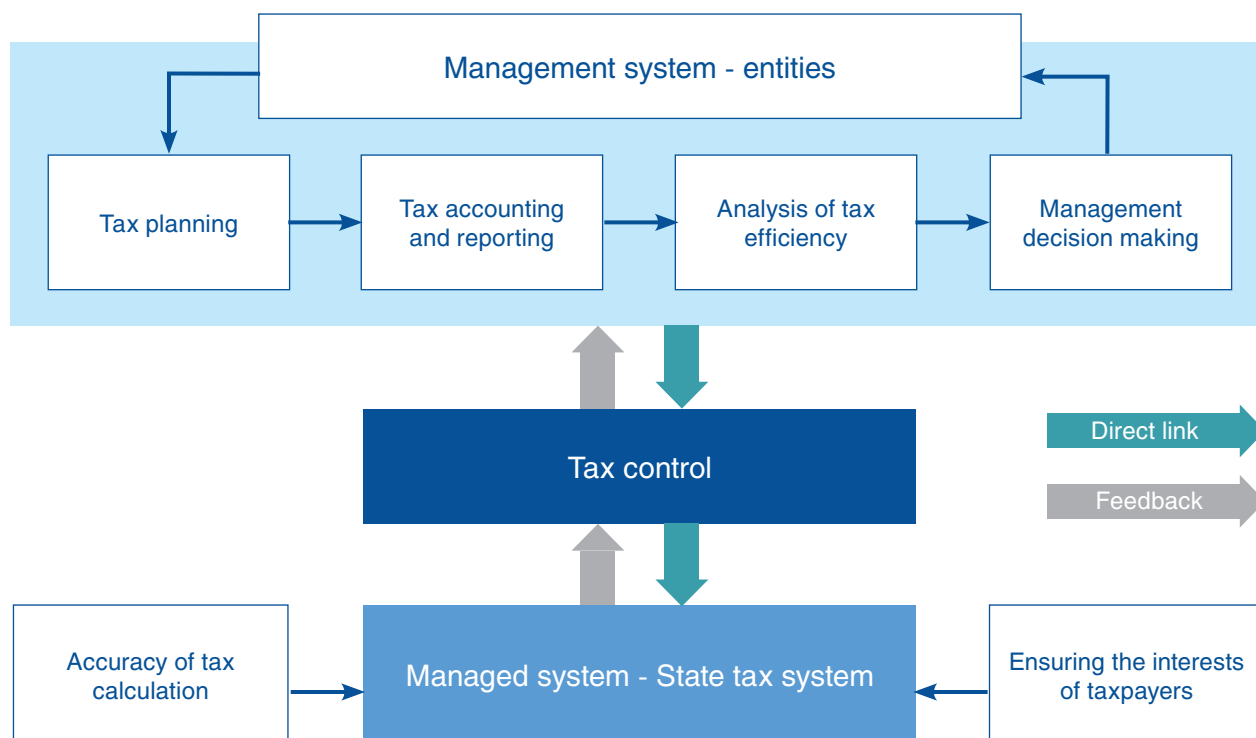


Fig. 1. Function-based structure of the tax security system

- Infrastructural methods of ensuring tax security, which represent a set of additional methods interrelated with institutional mechanisms, and provide a basis for the protection of participants in tax relations through wide implementation in practice of tax management, tax optimization, tax planning, tax outsourcing, tax preferences and other innovative mechanisms of modern management strategies.

One of the factors to increase the level of security in the sphere of tax relations is the activity of the tax security system in a structured combination of its elements. The existence of a relationship between the subject and the object of tax security determines the formation and development of the process of managing tax relations as a system. The core elements of tax security, as well as how they influence each other in the tax security system, are shown in Fig. 1.

The systemic properties of integrity are exhibited by a set of units that forms a manageable tax security

system, the composition and structure of which are determined, first of all, by the country's tax system, the functions and tasks that the State solves at one stage of its socio-economic development or another. Because of such a complex structural modeling, it is important to identify three main systemic properties of tax security: the relationship between the subject and the object of tax security; organizational coherence, normative orderliness and interaction of elements of various levels and significance; the relationship of all units of the control system, as well as their functions.

*The tax activity of economic entities* ensures the continuity of the redistribution of financial resources of the State and contributes to an increase in the well-being of society, reducing the State's dependence on external borrowed sources and on the sale of its natural resources. The task of analyzing and evaluating the tax activity of economic entities is to identify the size and assess the dynamics of tax liabilities. We propose to use the following indicators to assess tax activity.

The tax activity coefficient, which shows the turnover of tax debt in the total amount of tax revenue received for the analyzed period of time,

$$KNA = ND / NZ,$$

where **KNA** – tax activity coefficient; **ND** – tax revenues received for the reporting period; **NZ** – tax liabilities average amount (taxes payable).

While

$$NZ = NZN + NZK / 2,$$

where **NZN** and **NZK** – taxes payable at the beginning and end of the reporting period.

The indicator of duration (period) of tax debt turnover, which reflects the frequency of debt repayment and is calculated by the ratio of tax activity coefficient to the analyzed period in days (30, 90 or 360 days), is inextricably linked with the tax activity coefficient).

With an increase in the coefficient, the efficiency of taxpayers' economic behavior improves and the tax activity of entities increases, which manifests itself in a reduction in tax debt and an acceleration of its repayment period. A decrease in the coefficient indicates an increase in tax debt, a decrease in tax revenues, and a slowdown in the turnover period for tax payments.

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## SPORT

## SIMULTANEOUS CHESS EXHIBITION AT THE EAG ANNIVERSARY PLENARY MEETING

*Playing chess is an effective way to improve logical thinking and boost concentration. Success in intellectual sports depends on each person's skills, knowledge, determination, will, perseverance and the time spent practicing on the way to victory*



Anna Bulaeva,  
correspondent





O n the final day of the EAG 30th Plenary meeting, the Russian Federation hosted a simultaneous chess exhibition by Anatoly Karpov, an International Grandmaster (1970), the 12th World Champion (1975-1985), Honoured Master of Sports of the USSR (1974), Three-Time World Chess Champion Among Men (1975, 1978 and 1981), Three-Time FIDE World Champion (1993, 1996 and 1998), Two-Time World Champion as a member of the USSR national team (1985 and 1989), Six-Time Winner of Chess Olympiads as a members of the USSR national team (1972, 1974, 1980, 1982, 1986 and 1988), Three-Time champion of the USSR (1976, 1983 and 1988), Champion of the Russian SFSR (1970) and Winner of Nine Chess Oscars (1973, 1974, 1975, 1976, 1977, 1979, 1980, 1981 and 1984).

A total of 14 participants from Russia, Kyrgyzstan, Belarus, Uzbekistan, Tajikistan and Serbia took part in the simultaneous game.

Anatoly Karpov, who greeted all participants with a smile and a strong handshake, played with white pieces and began all games with the classic opening move: E2-E4. After that, the champion utilized different tactics in different games. The tournament, which lasted one hour and finished when the last game was played, ended with the convincing victory of the great chess player that was greeted with a thunderous applause from spectators.

In conclusion, Rosfinmonitoring Director Yury Chikhanchin thanked the world-famous chess player for participating in the event. In response, Anatoly Karpov thanked the tournament organizers for their invitation and compared the tactics of playing chess with financial investigations. The grandmaster also left a memorable autograph on the chessboards of the participants and invited everyone to visit the Botvinnik Chess House (14 Gogolevsky Boulevard, Bldg. 1, Moscow).



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