

FINANCIAL SECURITY

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***FATF EXECUTIVE SECRETARY
DAVID LEWIS:***

***“Counter terrorist financing
and beneficial ownership
transparency are key
priorities for FATF”***

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DEAR READERS!

The topic of a new issue of our magazine is once again determined by a complicated international context: terrorist attacks in Kazakhstan and Turkey claimed people's lives. Another challenge is thrown down. A regular Plenary meeting of the Eurasian group in Astana started with the Remembrance day dedicated to the victims of the events of June 5, 2016 in Aktobe. Naturally, it had an impact on the agenda of the meeting with the partner states. The issue of countering terrorist financing within CIS territory has come to the forefront at the meeting of the Council of the Heads of the FIUs of the Commonwealth states, defining the necessity of prolonging work on the joint operation "Barrier". Unfortunately, today we have to admit that international system of combating terrorism needs to revise its approach. The world community is looking



for new effective ways and mechanisms of collaboration.

One of top priorities of the Russian presidency in the EAG is activating cooperation in the field of countering terrorist financing, receiving concrete results in identifying and blocking sources and channels of financial support for international terrorist organizations, particularly, Islamic State (prohibited in Russia).

With regard to the long-simmering threat posed by ISIL, the Plenary meeting of the Financial Action Task Force (FATF), held in Korea in the end of June, focused on the issue of designing measures for raising awareness of terrorist financing risks and their mitigation.

This key area is in the centre of attention of all the profile international organizations. Joint work is held within the UN, FATF and its regional bodies (in particular, EAG), Egmont Group, CHFIU, BRICS, etc. The number of our foreign partners is constantly growing: Iran, Iraq, Syria are just a part of those, with whom we are ready to fight side by side against global terrorist evil.

*Rosfinmonitoring Director –
EAG Chairman
Yury A. Chikhanchin*

COVER STORY

COUNTERING TERRORIST FINANCING REMAINS OUR TOP PRIORITY

In November 2015 David Lewis (UK) was elected FATF Executive Secretary. During his visit on 27-28 of June 2016 to Rosfinmonitoring he gave an interview to the "Financial Security" magazine, in which he featured the top priorities of the group and key work areas

Inessa A. Lisina,
Deputy editor in chief



David Lewis

FS: David, earlier you worked on AML/CFT policy in the UK Government. What are the key differences you faced with your progress from the national government to an international organization?

D.L.: The big difference is that I am no longer looking at AML from the national perspective. Now I work for the interests of all the FATF member states. That makes it very important and interesting.

One of my main challenges is to raise the visibility of FATF and to communicate more with the media. Recent terrorist attacks highlighted the importance of FATF. On behalf of FATF

I can talk about our initiatives in countering such atrocities, explain in a simple and easy way to the public what it is we are doing and why and how we can help.

The key aspect is making FATF more action-focused. The nature and intensity of the threats we are facing mean that we have to intensify our work and ensure that it has a maximum impact here and now.

FS: *Countering the financing of terrorism (CFT), particularly ISIL, is very visible in the FATF agenda. So what other key initiatives could you mention? Are there any new CFT initiatives?*

D.L.: Countering terrorist financing remains our top priority. At the FATF meeting we held in Busan, Korea (June 2016) we updated delegates on how the structure of ISIL financing is changing. Last year in February we first published a report on ISIL financing and another report in October on emerging terrorist financing risks. But the situation is rapidly changing.

At the meeting we also took a number of other steps, including the revision of the FATF Recommendation on non-profit organizations to better protect them from abuse. We approved a handbook to assist practitioners in their implementation of UN Security Council Resolution 1373 and we approved documents to help private sector detect terrorist financing. In July FATF will be reporting to G20 Finance Ministers on progress in implementation of the three initiatives I've just spoken about.

We are continuing to identify jurisdictions that represent a strategic threat to the financial system, including the field of terrorist financing. There are a number of those that have significant AML/CFT deficiencies.

Finally, we mustn't forget the importance of improving the transparency of beneficial ownership, legal persons and arrangements. The financial system is often being abused to hide illicit finances through the use of shell companies and nominally directors. We know that terrorist organizations make use of these same structures to hide the origin of their funds and their intended use.

Counter terrorist financing and beneficial ownership transparency are key priorities for FATF. With both these issues the emphasis is on implementation, effective implementation rather than technical compliance.

FS: *At the XXV International Financial Congress (Saint Petersburg, Russia) you are going to speak at a session dedicated to financial inclusion. Are there any FATF projects or initiatives in this regard?*

D.L.: Financial inclusion remains a key priority for the FATF because it helps ensure transparency of transactions, which helps us detect and disrupt the financial flows. The FATF is issuing guidance on financial inclusion in line with the FATF standards. We have also done a number of projects to help firms understand how to implement the FATF standards in order to minimize financial exclusion. This includes guidance on supervision and enforcement, guidance for the private sector on a risk-based approach for banks and a risk-based approach for MVTs (money value transfer services).

But perhaps the best way FATF supports financial inclusion is through its work to understand the risks emanating from new payment product and services, so called Fintech. It is vital that FATF keeps pace with innovations and financial services and that it develops a relationship with those providers, so that we can build risk mitigation measures into the business model instead of reacting to them afterwards.

In this coming year, we will be looking to hold events with the Fintech community and the Regtech community. We are sure that communication will help them cooperate.

FS: *David, you have already talked on the near future of the FATF. What about the longer term? How do you see the future of the FATF as a body? And how do you think it is the best way to build relationship with FSRBs?*

D.L.: To talk about the future, we need to look at how we work. It is important to understand what are FATF's strengths and weaknesses.

At the moment we are an organization that meets 3 times a year and we attend FSRBs' plenaries. In the future we need to act and behave like a global network rather than a collection of bodies. It also means building closer relationships with other international organizations, for example with the Egmont Group of Financial Intelligence Units. FIUs should be given a greater voice in the FATF as they are our operational arm.

***FS:** Turning back to the present FATF activity, we would like to inquire about Russia's role in the organization and eventual joint projects, which can be accomplished in the near future.*

D.L.: Russia plays a really important role in the FATF today. Firstly, Russia is a member of the Steering group of the FATF that advises the President on all strategic issues. Secondly, a Russian representative has recently taken over as a Co-chair of the Risk, Trends and Methods group. That group now has a more important role than ever in the work of FATF because it

helps us update our understanding of how ISIL is funded.

Finally, Russia has real practical experience of tackling terrorist financing and engagement with countries and understanding of the situation on the ground, which can provide real leadership to the FATF.

From what I've seen in Rosfinmonitoring, I think many countries around the world can learn from Russia. Russian FIU's way of information gathering, processing and understanding is very useful. Rosfinmonitoring is among the strongest FIUs globally and its activities show that FATF efforts are aimed at practical results.

RUSSIAN PRESIDENT V. PUTIN HOLDS A WORKING MEETING WITH FEDERAL FINANCIAL MONITORING SERVICE DIRECTOR Yu. CHIKHANCHIN

The Director of the Federal Financial Monitoring Service informed the Russian President of the country's efforts in counter-terrorism financing (March 9, 2016)

V. Putin: Yury Anatolievich, I know that you wanted to tell me about your work with partners abroad, particularly within the FATF, on combating financing of terrorism. Let's start with this and then move on to other issues.

Yu. Chikhanchin: Mr President, I already briefed you on the first FATF meeting. Another one has just taken place and was entirely devoted to the issue of terrorist financing.

Many countries take an ambiguous line on this issue, but we stand by our position. We have coordinated with you on this and are working in three key areas.

First, it is the international terrorist centres and their cells in different places, including on the Russian territory. Second are the terrorists fighting in Syria, in ISIL-controlled region. And third are businesses that assist terrorists and make money this way.

We are working with our colleagues abroad on these matters, especially in the CIS, with Heads of Financial Intelligence Units, and the Eurasian FATF-style regional body - EAG. We are working with the BRICS countries too, and we have just held a

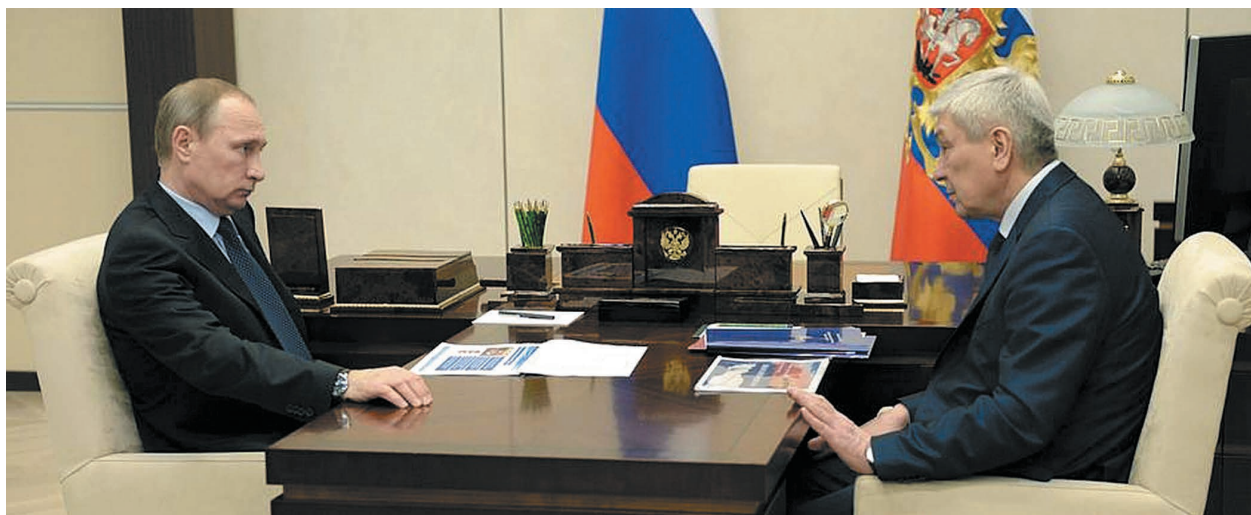
meeting with representatives of the CFT coalition from Iran, Iraq, Russia and Syria. We have approved a common approach, which has enabled us, using the FATF platform, to launch our methodology to resolve these issues.

As far as it concerns international terrorist centres and their cells, together with the Federal Security Service, we have identified 42 such cells only on the Russian territory. Cooperation with our colleagues abroad has helped to further identify around 30 cells in other countries.

Overall, as regards the terrorists themselves, 1,500 people were officially and publicly listed last year, and more than 3,500 accounts were frozen. We have data about businesses that are helping terrorists. We are investigating both Russian and foreign companies in this regard.

We cooperate with Malta and France, have some projects with Turkey at present. We are investigating international terrorist centres abroad, and working very closely with our French partners.

The members of one cell, organized by people from our Caucasus region, have already been arrested in France. More than 1,000 people here



in Russia were in contact with them and were receiving money from them. Regrettably, some of them have gone to fight alongside ISIL. This sums up our main areas of activity.

Our methods have produced the best results in the CIS territory. Kyrgyzstan has worked hard in this area and has identified around 500 people connected to ISIL. Dozens of criminal cases have been initiated. We are currently working on several cases with the Federal Security Service and Kyrgyzstan. These cases involve people who ended up in Russia. We cooperate very closely in this area.

One issue causing serious concern, and on which we are also jointly working with the Federal Security Service and government officials, is that fundraising ads for the 'war against the infidels' appear on social networks and people here in Russia respond to them and send money. This unfortunately is reality and people use e-wallets to transfer funds. What is their motive? Each individual no doubt has a motive of his own, and this is something for us to clarify. We have already identified most of these people, several dozens in total and work is in progress.

Our work within the FATF framework has also showed some good results, especially as

regards business. Experts say that now, after oil refineries and pipelines have been destroyed, efforts are underway to find spare parts for these facilities.

V. Putin: In the territory controlled by ISIL.

Yu. Chikhanchin: Yes, of course. We are currently working actively with the UN and will very soon have a list of the components needed for refining oil in ISIL-controlled territory.

A similar list of cultural heritage objects will soon appear on the European Union's website. Banks, commercial organizations and private individuals will thus be aware that these objects are being smuggled out of ISIL-controlled territory.

As for business, again, according to recent FATF experts' data, about 100 oil refineries in Europe are being dismantled, and there are concerns that their components could be taken into ISIL-controlled territory. All the FATF members and all the countries have been warned. This is another area in which we continue to operate.

This is the state of our work on preventing terrorism financing.

ROSFINMONITORING REPORTS 2015 PERFORMANCE

A meeting of the Board of the Federal Financial Monitoring Service titled “Rosfinmonitoring’s Performance in 2015 and Key Objectives for 2016” was held on February 19, 2016. It was attended by representatives of the Presidential Executive Office, Ministry of Foreign Affairs, Ministry of Defence, Federal Tax Service, Federal Drug Control Service, Bank of Russia and other agencies

*Irina V. Ivanova,
Editor in Chief*

In his welcome remarks, Rosfinmonitoring Director Yuri Chikhanchin spoke of the huge impact the past year’s events had on the work of all national anti-money laundering system participants, including its coordinator, Rosfinmonitoring. The increased terrorist threat compels us to undertake tough measures both at home and abroad.

Last year’s key performance indicators were presented by Rosfinmonitoring Deputy Director Alexander S. Klimenchenok.

In 2015 Rosfinmonitoring allocated significant resources to the establishment and development of

a fundamentally new system of interdepartmental control over defence procurement, as required by the Federal Law «On Defence Procurement» new provisions, enacted on September 1, 2015.

A list of measures initiated as part of the new oversight system includes a network of designated banks, separate accounts for payments linked to defence procurement contracts, new requirements for mandatory transaction controls, additional grounds for transaction denial, etc.

In 2015 Rosfinmonitoring monitored a total of 22,500 defence contracts worth RUR 800 billion and scrutinized the activities of about 9,500 contractors.



The total number of reports submitted by reporting entities among banking institutions stood at over 40,000, including:

- approx. 21,000 reports on new separate accounts opened for defence contractors;
- approx. 20,000 reports on financial transactions totalling RUR 1.3 trillion;

These statistics allow us to conclude that a defence procurement oversight system – designed to monitor expenditures and identify problem areas in funds allocation and contract execution – has, by and large, been established. In 2016 we will need to solve a number of complex issues intended to make further progress in this area.

As part of the efforts aimed at fulfilling the Presidential Instructions No.Pr-1032 dated May 7, 2014 «On measures to improve the stability of payment, settlement and other financial transactions by business enterprises of strategic importance for the Russian economy», Rosfinmonitoring conducted in 2015 a comprehensive review of strategic and structural enterprises.

Extra attention was devoted in 2015 to the work of financial institutions in connection with such threats as:

- involvement in shadow and criminal schemes;

- rising volumes of suspicious transactions linked to capital flight, especially offshore;
- removing of financial institutions' assets prior to license revocation;
- use of financial institutions for terrorist financing purposes.

In 2015 Rosfinmonitoring received about 22 million reports, 70 percent more than in 2014, of which:

- approx. 10 million reports on transactions subject to mandatory controls;
- approx. 12 million suspicious transaction reports (STRs), 250 percent more than in 2014.

A total of 40,000 financial investigations were conducted by Rosfinmonitoring last year.

Of these, investigations conducted, for example, in the financial sector resulted in the closure of 4 illicit encashment centres handling over RUR 140 billion and 2 centres specializing in the syphoning of capital abroad, as well as in the blocking of loans totalling RUR 3.2 billion allocated by state-owned banks to unreliable customers. More than 35 criminal investigations were launched against banking executives suspected of involvement in illicit schemes.

Rosfinmonitoring's 2015 Performance

Total public funds saved

RUR 100.2 billion

Seized property	RUR 44,6 billion
Blocked funds to unscrupulous contractors	RUR 30,8 billion
Blocked loans by state-owned banks to unreliable customers	RUR 3,2 billion
Additional taxes charged	RUR 9,5 billion
Additional customs payments collected	RUR 0,4 billion
Blocked illegal VAT refunds	RUR 1,3 billion
Blocked withdrawals of funds abroad	RUR 10,4 billion

Total public funds recovered

RUR 15,7 billion

Taxes collected	RUR 6,4 billion
Customs payments collected	RUR 0,03 billion
Confiscated property and paid criminal damages	RUR 6,4 billion
Confiscated property and paid civil damages	RUR 1,8 billion
Criminal penalties levied	RUR 1,1 billion

RUSSIA WITHIN THE INTERNATIONAL AML/CFT SYSTEM

MEETING OF THE HEADS OF CIS FINANCIAL INTELLIGENCE UNITS

A meeting of the Heads of CIS financial intelligence units signatories to the Agreement on the Council of Heads of Financial Intelligence Units of CIS member states (CHFIU) was held at Rosfinmonitoring on January 21, 2016 under the chairmanship of Yury A. Chikhanchin, Director of the Federal Financial Monitoring Service. The meeting was attended by the heads and representatives of the financial intelligence units of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and CIS Executive Committee

Irina V. Ivanova,
Editor in Chief

In his opening remarks to participants Yury A. Chikhanchin highlighted the importance of combining efforts of CIS financial intelligence units in the fight against terrorism in the context of the growing threat from Islamic State (terrorist organization banned in Russia). One of the cooperative areas is the operation «Barrier», whose aim is to cut off funding to fighters and facilitate intelligence sharing among CIS FIUs.

The Russian delegation presented the outcomes of Russia's participation in the FATF's special meeting, held in Paris in December 2015. Among the key proposals put forward by Russia at that meeting was a call for the international community to focus

efforts on cutting off funding and supplies to ISIL and ensuring compliance with the relevant provisions of UNSCR 2199.

This primarily involves a proposal by the Russian delegation to incorporate into the FATF standards the new binding provisions from this resolution aimed at combating ISIL and containing a number of fundamentally new elements not covered previously. In particular, the Russian financial intelligence unit proposed to add to the FATF glossary the term «economic resources» that may be transferred to or used by terrorists, and their freezing. Resolution 2199 sets out a detailed description of these resources, which include oil, oil products, other natural resources,



and any other assets which may be obtained with their help.

In addition, Russia intends to demand the use of tough measures against financial institutions deliberately violating the sanctions regime. The resolution calls for the adoption of effective measures designed to cut off ISIL's access to the global financial system. In this regard, Russia intends to seek the introduction of clear commitments for financial institutions to identify and combat all ISIL's attempts to use them to generate and channel proceeds from the sale of assets subject to freezing, receive donations, purchase weapons and carry out any financial transactions.

One important element of Russia's stance is its determination to compel the international community to criminalize any trade with Islamic State. For the first time in history, the international community is confronted in its fight against terrorism not by a radical

organization but a force which has declared itself a state and which considers itself entitled to conduct international trade. The introduction of the term «terrorist financing crimes» in the Criminal Codes of the FATF member states will allow any purchase or sale of «terrorist» oil to be viewed as a conscious act of sponsoring ISIL.

FIUs representatives ended the meeting with a discussion of specific outcomes of the fight against terrorist financing and proposals for further action, both practical and methodological.

Entry into force of amendments to the Russian AML/CFT legislation introduced by Federal Law FZ-134 of June 28, 2013, the Federal Financial Monitoring Service and the Financial Monitoring Department of the State Control Committee of Belarus resulted in signing a revised AML/CFT Cooperation Agreement of January 21, 2016.

RUSSIA – COUNCIL OF EUROPE: 20 YEARS TOGETHER

April 21, 2016 saw the Federal Financial Monitoring Service, headed by Yury A. Chikhanchin, host a round table discussion titled “Place and Role of Anti-Money Laundering Mechanisms in the European Institutions”, dedicated to the 20th anniversary of Russia’s membership in the Council of Europe

The meeting was attended by Pavel V. Livadny, State-Secretary and Deputy Director of Rosfinmonitoring; Elzbieta Franków-Jaskiewicz, Head of Department at the Polish Ministry of Finance and Vice-Chair of MONEYVAL; Claudio Ramponi, Attaché of Financial Guard at the Italian Embassy; John Ringguth, scientific expert and former Executive Secretary of MONEYVAL; Marian Božović, Counselor-Envoy on Economic Affairs at the Serbian

Embassy; and Artur Manaseryan, Special Envoy and Minister Plenipotentiary at the Armenian Embassy in Russia.

In his welcoming remarks, Yury A. Chikhanchin congratulated the participants on the 20th anniversary of the Russian Federation joining the Council of Europe, reminding everyone that the Council of Europe, established back in 1949, was one of the first international organizations to focus its efforts on combating money laundering.



Yury Chikhanchin:

“Today, the Council of Europe is one of the region’s best recognized leaders in setting universal international anti-money laundering standards. Suffice it to say that the Strasbourg Convention 1990 on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime was prepared by this organization. This convention expanded the scope of the UN Vienna Convention 1989 to cover not only the proceeds of drug trafficking but also a wide range of other

crimes. In addition, the convention laid the basic for the development of various mechanisms and provisions for the confiscation of property derived from criminal activity.

Further development of international law in the European region led to the drafting and adoption of the Council of Europe Warsaw Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and Financing of Terrorism 2005. I’d like to inform you that Rosfinmonitoring is currently finalizing a bill that will pave the way for the ratification of this convention by the Russian Federation.”

Elzbieta Franków-Jaskiewicz, Vice-Chair of MONEYVAL, presented a timeline of Russia's progress in this organization right until the

country's removal from the follow-up process in September 2014.



Elzbieta Franków-Jaskiewicz:

"I'm impressed with the level of expertise shown by Russia's representatives during the discussions of their country's reports. As highly trained assessors, they also take an active part in the evaluations and discussions of reports prepared by other countries. The Russian Federation has always supported, and continues to support the MONEYVAL Secretariat with its experts. Rosfinmonitoring personnel participate in the Committee's missions, prepare

reports and research documents submitted by member states. I'd like to stress the importance to MONEYVAL of Russia's experience gained through its work in the FATF, EAG, APG and other international organizations. Notably, Russia attaches great importance to its participation in activities aimed at developing and improving international AML/CFT standards, as well as to their incorporation into the legal systems of the countries involved. This work is carried out by Rosfinmonitoring within the FATF, FATF-style regional bodies and other international organizations."

Ms Franków-Jaskiewicz also highlighted the growing importance of anti-terrorist financing efforts in the work of all international organizations, including MONEYVAL, whose members should strengthen cooperation in this area.

John Ringguth, who recently held the post of the MONEYVAL Executive Secretary and now works as

its expert, spoke of his long-standing connection to the Council of Europe, which is approximately as long as Russia's membership in this organization.

Mr Ringguth talked about the evolution of the Council of Europe's AML/CFT system and Russia's influence within MONEYVAL, which has been steadily growing ever since its accession.



John Ringguth:

"This is my seventh visit to Russia, and I'd like to take this opportunity to thank Yury Chikhanchin for the friendship that has been formed between us over all these years of joint work and, of course, thank Viktor Zubkov (Rosfinmonitoring's 1st Director), whom we still remember with warmth and gratitude. I was privileged to head the first evaluation mission to Russia as part of the first round in June 2000.

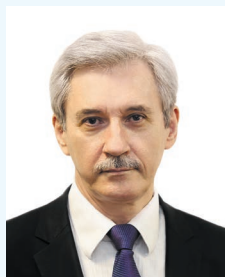
It was the time when Russia was taking the first steps towards the formation of its national anti-money laundering system as part of a process whose pace proved to be exception by any measure: already by June 2002, prior to the start of the 2nd round of evaluations, Russia had exited the black list and, only one year later, became a full-fledged member of the FATF. I'd like to separately mention the immense amount of work carried out for MONEYVAL by Vladimir Nechaev in the posts of Chairman, Vice-Chairman and member of the Bureau."

Mr Ringguth spoke of the objectives of the new round of mutual evaluations, namely, each country must be able to demonstrate to the evaluation team

its ability to put into practice the requirements of the international standards against the backdrop of the actual ML/FT risks faced by its financial system.

According to experts, the recent mutual evaluation practice highlighted the need for prosecution and law-enforcement authorities to henceforth provide statistics on court referrals and asset confiscations. Mr Ringguth also stressed the need to set up in 2016 a system for tracking, gathering and submitting data

which Russia will use to substantiate its responses in 2019 to the FATF, MONEYVAL and EAG. In his speech, Vladimir Nechaev, EAG Executive Secretary, drew participants' attention to the importance of horizontal cooperation between regional FATF-style groups.



Vladimir Nechaev:

"In my role of the President and Vice-President of the FATF, I had the opportunity to visit all nine existing regional groups. I believe MONEYVAL is the strongest, followed by, in my opinion, APG, given that the latter includes about ten FATF members among its participants,

including the US, Australia and China. I'd like to note that the Eurasian Group and MONEYVAL have been working very closely, including through joint training activities, workshops and participation in the evaluation of Armenia. I don't exclude the possibility of holding a joint MONEYVAL/EAG plenary, which will help Russia to contribute to the strengthening of horizontal cooperation between our FSRBs."

In his closing remarks to the participants, Rosfinmonitoring's Director thanked them, stressing once again a special place and role of the international and national anti-money laundering systems in the functioning of the European institutions.

Yury Chikhanchin: "Summing up all the previous

statements, I'd like to say that the Russian delegation's multi-year experience of working in MONEYVAL has convinced us all that the Council of Europe, represented by MONEYVAL, rightfully occupies one of the key positions in the Global Network of FATF-style regional bodies."

INTERNATIONAL NEWSBLOCK

TOWARDS NEW WORKING GROUPS STRUCTURE

From 1 to 5 February 2016 in Monte Carlo, Monaco, a regular Meeting of the Egmont Group Committee and working groups was held. The core issue of the agenda was combating the financing of terrorism and transformation of working groups structure

Inessa A. Lisina,
Deputy editor in chief

The opening ceremony was attended by the reigning Prince of Monaco Albert II. In his welcoming remarks he highlighted that the modern world can only exist in the context of security, the integral part of which are the standards of anti-money laundering and financing of terrorism. The constant expanding of the Egmont Group shows its effectiveness and importance.



A significant number of issues, discussed at the event, was linked to the transformation of the working groups structure: election of Chairman and Co-chairmen, approval of work plans and internal procedures, discussion of incomplete projects

continuity. In line with the alterations, the Group's structure will comprise four working groups:

- policy and procedures;
- technical assistance and training;
- membership, support and compliance;
- information exchange on ML/FT.

Issues of countering terrorist organizations and foreign terrorist fighters' activity make it crucial to provide effective and timely information exchange between FIUs and eliminate all possible obstacles in the process of data exchange. The major part of participants mentioned the absence of significant obstacles in the field of information exchange and was enthusiastic about its strengthening.

A series of recent terrorist attacks has made the issues of cooperation between FIUs, law enforcement authorities and security services even



more urgent. Meetings of all 9 regional groups were dedicated to these issues. In the course of new group on information exchange session it was decided to execute a project regarding designation of control action list after the emergency.

Enlarge the number of members is a priority task for the Egmont Group. For now the candidates for membership are Turkmenistan (the decision will be taken at the next meeting), Iraq, Nigeria, and

El Salvador. Ecuador was recommended as a member of the Egmont Group and the membership of Panama was approved since the state had eliminated significant deficiencies in the national AML/CFT system.

The closing ceremony was attended by the Monaco Minister of Finance Jean Castellini. He thanked all the participants for the important work within the framework of their FIUs all over the world.

Official statement

AT its regular intersessional meeting in Monaco, the Egmont Group adopted a communiqué on reinforcing efforts in combating terrorist financing (TF). The document was signed, inter alia, by the delegation of the Federal Financial Monitoring Service, headed by Rosfinmonitoring First Deputy Director Yury F. Korotky.

The increasing number of actions of terrorists and terrorist organizations such as ISIL, al-Qaeda and their respective accomplices, as demonstrated by recent terrorist attacks in Indonesia, Egypt, France, Lebanon, Mali, Saudi Arabia, Turkey and the United States, and the proliferation of Foreign Terrorist Fighters (FTFs), poses serious threats to security and international financial stability.

In response, the Egmont Group members have enhanced the efforts to produce an operational analysis of the financing for ISIL fighters. The project identified challenges and highlighted successes

in information exchange in combating terrorist financing (TF).

Recognizing its important role, on February 1, 2016, the Heads, or their designated representatives, of 102 Financial Intelligence Units, convened an extraordinary meeting of its governing body to discuss how the Egmont Group could positively respond to this increasing threat. As an international group that unites its members to exchange financial intelligence and expertise, the Egmont Group is committed to capitalizing on its unique global network.

During this extraordinary intersessional meeting, the Heads of FIUs, within the context of each jurisdiction's TF risk assessment, adopted the following recommendations and initiatives to:

- provide indicators of terrorism financing to industry partners to assist the identification of suspicious financial activity;

- engage with domestic intelligence agencies to improve the flow of TF-related information;
 - examine the utility of cross-border wire transfer information in the context of combating TF;
 - consider the reporting of couriers transporting cash or non-cash instruments across borders;
 - identify the need to expand the range of reporting entities subject to Suspicious Transaction Reports regime;
 - update the Egmont basic documents to enable spontaneous and multilateral information exchange;
 - implement solutions for appropriate access to more sources of information necessary to share actionable financial intelligence to counter TF threats;
 - continue cooperation with the Financial Action Task Force (FATF) - which sets the international AML/CFT standards - to overcome information access and sharing challenges and ensure the international standards enable effective combating of terrorist financing; and,
 - commit to improve FIUs' capability of leveraging expertise and technology to better capitalise on data, exchange financial intelligence and enable cooperation.
- By undertaking these initiatives and taking on-board these recommendations, the Egmont Group demonstrates that it recognizes its important role in combating terrorist financing. Continuously improving the flow of financial intelligence through its unique global network is a priority of the Egmont Group. The Egmont Group is committed to support its members and further cooperate with its international partners in combating terrorist financing.

PARTICIPATION IN THE FATF PLENARY MEETING

Rosfinmonitoring employees in the interagency delegation comprising representatives of the Russian Ministry of Foreign Affairs, Federal Security Service, Ministry of Internal Affairs, Finance Ministry and the Bank of Russia took part in the Financial Action Task Force (FATF) Plenary meeting, held in Paris from 15 to 19 February 2016

*Irina V. Ivanova,
Editor in Chief*

In light of the growing terrorist threat, the main theme of the plenary discussions was once again the efforts to combat terrorist financing.

One of the key agenda items was a review, initiated by the Russian Federation, of the FATF Standards, i.e., Key Recommendation 5 («Criminalization of terrorist financing») to ensure prompt and comprehensive implementation of UN Security Council Anti-Terrorist Resolutions 2199 and 2253.

However, participating countries' opinions on this issue differed, in particular in the context of Russia's proposal to add the term «economic resources and other types of financial support for ISIL» to the classification of «terrorist financing». It was decided that during the intersessional period, the FATF would draft a document justifying the need for changes in the FATF Standards for presentation at the next FATF plenary meeting in June 2016.

In order to strengthen the fight against terrorist financing, the plenary approved a Consolidated FATF Strategy on Combating Terrorist Financing, setting out the key objectives and priorities of the global FATF/FSRBs network. One of the key elements of the updated strategy is the work to improve information sharing, internationally and domestically. In this regard, just prior to the plenary meeting, the FATF

held two special meetings attended by Russian experts: with the private sector and the Counter- ISIL Finance Group. The outcomes of these activities were also reflected in the Strategy.

The FATF modified its methodology for assessing AML/CFT systems to include requirements related to banning the financing of foreign terrorist fighters. Participants also revised the framework document governing the FATF/FSRBs relations: «FATF Global Network Objectives and Principles».

The work on risk mitigation and the proper implementation of a risk-based approach in various sectors was continued, with the plenary approving the revised «Guidance on a Risk-Based Approach for Money or Value Transfer Services» and continuing work on a similar document covering correspondent banking.

During the plenary meeting, participants updated the grey and black lists of jurisdictions with strategic AML/CFT deficiencies that pose a threat to the global financial system.

Following a review of progress since October 2015, Myanmar quitted the blacklist, meaning



that it currently contains only 2 countries, North Korea and Iran. Among the countries quitting the grey list during the period were Algeria, Angola and Panama.

With regard to Brazil, the FATF issued a special public statement, highlighting the country's failure to adequately criminalize terrorist financing even following the adoption of the new law.

A landmark event of the forum was the election of Boris V. Toropov of Russia (formerly the Executive Secretary of the EAG and currently First Deputy Director of the International Training and

Methodology Centre for Financial Monitoring) to the post of Co-chairman of the FATF Risks, Trends and Methods Working Group.

The FATF granted full membership to Malaysia at this plenary, making it the 37 member of the organization, and observer status to Israel.

On the side-lines of the plenary, the Russian delegation held bilateral consultations with the delegations of India, Spain, China, UAE, USA and France, as well as participating in the already traditional BRICS Council on AML/CFT and the EAG Consultative Meeting.

Co-chairman of the FATF working group on Risks, Trends and Methods (RTMG), ITMCFM Deputy Director Boris V. Toropov answers the questions of the editorial board

FS: *Mr Toropov, would you please tell us when the Group was established and what are its main fields of work?*

B.T: Here we should more likely talk not about the precise date of the FATF working group on Risks, Trends and Methods establishment, but about its roots, genesis and transformations.

As such this group has evolved from the working group on typologies. Technically the idea of introducing changes in the FATF working bodies' structure emerged as an initiative of the Norway Chairmanship in 2012-2013 and it was de facto realized in the course of the Plenary week in Oslo in June 2013, when the WG mandate was adopted.

WG institutionalization generally was linked to the innovations that had once absorbed all the world AML/CFT community. It was precisely in 2012 that the new edition of the FATF Recommendations was approved and it succeeded to the previous 2004 version as a standard setting document for the improving of national systems. The FATF and the FATF-style regional bodies had only entered the practical phase of preparing for new rounds of mutual evaluations. The agenda included basic concepts, such as elaboration of new methodology and procedures of the FATF mutual evaluations.

These papers were very relevant as they would be a landmark not only for FSRBs but for other AML/CFT assessing structures.

One of the important fields of work was distinguishing the main approaches to the principals of mutual evaluations. As we know, the new edition of the FATF Recommendations included a very significant Recommendation 1 that regarded the risk evaluation. It is not by chance number one. In the same period the FATF Methodology of mutual evaluations was being designed (adopted in 2013) as well as the paper regulating the procedures of mutual evaluations' new round. It suggested the organization of national mutual evaluations by all the states, participating in the global AML/CFT system. Naturally, the states and the designers themselves had a lot of questions regarding that new area of work.

Hence it was decided to transform the working group on typologies, whose typological research in fact always involved practical risk identification, into RTMG. Any risk detecting aims at revelation of an overall trend and consequently of methods that could have bilateral understanding: *pro* and *contra*. The main area of work today as well consists of: practical recognition of specific processes and trends threatening both the global and jurisdictional

stability, designation of measures for mitigating risks and threats within the FATF functions framework and on these grounds performance of methodological guidelines for the states.

FS: *What are the core risks and challenges for the global AML/CFT system today, according to you?*

B.T: I suppose that practical efforts in detecting main risks for the world community linked to terrorism financing should be enhanced. These risks include lone actors, groups and businesses that fully contribute to financing homicide and destruction that terrorism has brought to our lives. We all see how dangerous is the released black beast of ISIL and other similar groups. Attacks in the city of the EU headquarters, Brussels, in the city of the FATF headquarters, Paris, Middle East population sufferings (I intend Syria and Iraq) and many other outrages of the criminals against humanity and humaneness noted worldwide - we should be fully engaged in countering all this. It is clear that if there is no financing of terrorism the professional terrorism fades away.

However, life goes on and the humanity will defeat terrorism anyway. It is inevitable. But it is important to create specific conditions for world financial system's operation so that this black hydra couldn't rise from the ashes.

Still we shouldn't forget about other traditional fields of our work: typological research revealing money laundering technique, dishonest moneymakers, etc. the WG will be concerned about that as well.

FS: *In your opinion, which are the areas mostly exposed to the AML/CFT risks in the future?*

B.T: As I have already mentioned above, now the main risks are concentrated in the financing of terrorism and this issue will remain within our field of work. At the same time the RTMG doesn't intend to leave our traditional areas.

I suppose, that our Busan meeting's agenda this summer will include (apart from counter-terrorism issues) organization of information exchange between competent AML/CFT authorities, national risk assessment, transparency of beneficial owners and moreover coordination of typological work



Boris V. Toropov

within the FATF global network. Here a wide range of typological issues discussed by the RTMG should be highlighted.

Moreover, the WG intends to discuss the prospects of the Korean Chairmanship's initiative of establishing a permanent AML/CFT research centre in Busan, the so-called "TREIN" initiative.

FS: *What methodological guidelines for mitigating risks and threats are now being approved by the FATF working group that could be named to our readers?*

B.T: Our work linked to the terrorism financing risks may be considered keynote of the WG efforts in designing methodological recommendations and guidelines at present.

At the Plenary week in October the FATF research on new terrorist financing risks outcomes were approved and then published. We will continue this work. The paper's translation in Russian is also available.

Jointly with the Egmont Group we keep working on the present initiatives concerning information exchange between competent AML/CFT authorities. There are interesting projects in the sphere of beneficial ownership transparency.

MONEYVAL 50th PLENARY MEETING

Governmental delegation, headed by Rosfinmonitoring and including representatives of Russian Ministry of Foreign Affairs, Bank of Russia and Ministry of Finance, participated in the 50th Plenary meeting of Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) on 11-15 April 2016 in Strasbourg

Alexey G. Petrenko,

Head of Rosfinmonitoring International Cooperation Department

In her opening remarks to the event Deputy Secretary General of the CoE Mrs Gabriella Battaini-Dragoni emphasized the relevance of effective combating the financing of terrorism (CFT) and recognized that it remains more of a “good intention” than a regular practice. She mentioned the recently adopted FATF Strategy on enhancing global CFT efforts as an incentive and instrument which could contribute to meeting this challenge.

In turn the FATF Executive Secretary Mr David Lewis, invited to participate in the MONEYVAL Plenary meeting as well, highlighted the necessity of further strengthening of cooperation between FATF, FATF-style regional bodies and specialized international organizations in the field of countering the financing of terrorism and other security challenges and threats.

Within the MONEYVAL Plenary week a special meeting was held. Unprecedentedly it was exclusively dedicated to CFT and aimed at the Committee member jurisdictions’ better understanding of rapidly changing terrorist



financing risks, from ISIL first of all, and of timely de-risking measures. Russian experts held a presentation, explaining the essence of Russian-sponsored anti-ISIL UNSC Resolutions 2199 and 2253 and the importance of their implementation into the FATF Standards. The presentation was met with keen interest by the audience.

The Eurocommission delegation informed of practical steps aimed at prompt implementation of the 4th CoE Directive on preventing the use of financial system for purposes of money laundering and terrorist financing, adopted in May 2015, by the

European countries. Within the framework of the mentioned steps the EC is evaluating supranational risks according to specially elaborated methodology, and designating the list of ML/FT high-risk countries, whose financial institutions will be subject to enhanced customer due diligence (CDD).

Discussion, concerning the report on mutual evaluation of Serbia within the framework of the new round, was long and intense. The debates focused not so much on the technical compliance of Serbian AML/CFT regime with the FATF Standards but rather on the effectiveness of their law enforcement. In particular, a number of delegations claimed that Serbia had a vague understanding of its terrorist financing risks, a low rate of investigations and absence of convictions for this crime. Gaps in

supervision for traditionally high-risk NPO sector were indicated as deficiency as well.

Participants heard the reports on AML/CFT national systems' improvements in Lithuania, Macedonia, Moldova, Poland, Romania, Slovakia, Croatia, Montenegro and Czech Republic. The major part of results was recognized insufficient for quitting the follow-up process.

On the sidelines of the session were organized both a series of bilateral meetings and negotiations on relevant issues of profile cooperation with FIU of Jersey, Israel, Latvia, Lichtenstein, Malta, France, Estonia and the Executive Secretaries of FATF and MONEVAL.

The next regular Plenary meeting will be held in Strasbourg in September 2016.

RUSSIAN FEDERATION PRESENTED ACTION PLAN FOR ITS PRESIDENCY IN EAG

The 24th Plenary Meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) chaired by the Director of the Federal Financial Monitoring Service Yury Chikhanchin was held in Astana, the capital of the Republic of Kazakhstan, in June 2016

A part from the delegations of the EAG member countries, the Plenary Meeting was attended by the representatives of 12 other countries and 14 international organizations that had the observer status, including the United Nations, World Bank, Organization for Security and Cooperation in Europe (OSCE), Regional Anti-Terrorist Structure of Shanghai Cooperation Organization (SCO RATS), Asia Development Bank, Financial Action Task Force (FATF), Egmont Group, FATF-style regional bodies (FSRBs) and others.

The Meeting started with a minute of silence: June 9, 2016 was declared the national day of mourning in Kazakhstan in memory of the victims of the terrorist attack in Aktobe.

In his welcome address, Baktyzhan Sagintaev, First Deputy Prime Minister of the Republic of Kazakhstan, also stressed that the recent appalling events in the world and new emerging terrorist challenges and threats force the global community to look for new effective ways and mechanisms of cooperation.

Yury A. Chikhanchin, EAG Chairman:

“These events inevitably had an impact on the agenda of our meetings, both the Plenary and the Council of the Heads of FIUs of the CIS member countries held yesterday, bringing the counter-terrorism financing issues to the forefront. Today, the entire international anti-terrorism community should revise its approaches for joining the efforts aimed at countering this deadly threat.”

Yury A. Chikhanchin presented his Action Plan as the Chairman of the Group. The main provisions of the Action Plan include:

- enhancing effectiveness of the national AML/CFT systems of the EAG member countries and undergoing assessments conducted by the FATF's Global Network;



- intensifying counter-terrorism financing cooperation and achieving meaningful results in detecting and disrupting the sources and channels of financing of international terrorist organizations, in particular ISIL (banned in Russia);
- assisting the member countries in preparation for the second round of the EAG mutual evaluations.

Granting the EAG observer status to Iran was one of the outcomes of the Plenary Week. Besides, the Eurasian Economic Commission (EEC) also obtained the EAG observer status.

Removal of the Republic of Kazakhstan and the Republic of Uzbekistan from the follow-up process, after they had improved their national AML/CFT systems, was another important milestone.

The Plenary also discussed fight against drug trafficking and disruption of routes of transportation of narcotic drugs across the Eurasian Region and adjacent countries, money laundering and terrorist financing risk and procedures of mutual evaluation of the national AML/CFT systems.

The special counter-terrorist financing (CFT) session was held during the Plenary Week. In her presentation, Svetlana Martynova, the representative of the UN CTC, focused on the use of legal instruments for combating the financing of ISIL¹ and foreign terrorist fighters (FTFs). The outcomes of the FATF's Terrorist Financing Fact-Finding Initiative (TFFI), launched in 2015 and enabled to monitor the relevant risks and vulnerabilities, were presented to the meeting participants. In February 2016, this work was assigned to the FSRBs so that the regional bodies

could use the FATF methodology for developing their own CFT monitoring procedures and identify vulnerabilities of their respective member countries. The results of this exercise undertaken by the EAG demonstrate that sound enough mechanism and legal frameworks have been established by its member countries for combating the financing of terrorism. The participants were informed about another survey conducted by the FATF where countries are requested to analyze terrorist financing risks, information exchange, accessibility of information, and operational countermeasures.

One of the important decisions made by the Plenary Session was optimization of the EAG Working Groups. This work is one of the priorities of the Russian presidency. The number of Working Groups decreased from 5 to 3, namely: Working Group on Mutual Evaluations and Legal Issues (WGEL), Working Group on Typologies (WGTYP), and Working Group on Technical Assistance (WGTA). The optimized structure of the Working Groups will help to reduce number of duties of the member countries and to focus the efforts on the EAG priorities.

The workshop dedicated the EAG member countries preparation to the national risk assessment and mutual evaluations was held on the side-lines of the Plenary Week. The experts from Armenia, Lichtenstein, China, Russia, the Council of Europe and the FATF shared their experience in this area.

The participants of the Plenary Session expressed their appreciation and gratitude to the leadership of the Republic of Kazakhstan for the hospitality and excellent organization of the event. The next 25th EAG Plenary Meeting will take place in November 2016 in New Delhi (Republic of India).

¹ Banned in the Russian Federation

COMBATING THE FINANCING OF TERRORISM

COUNTER-TERRORISM: NEW ASPECTS IN THE ACTIVITY OF FINANCIAL INTELLIGENCE UNITS MONITORING FINANCIAL COMMUNICATIONS



Evgeny L. Loginov,

Doctor of Economics, twice winner of the Russian Government award in the field of science and technology, Deputy Director for Science at the RAS Market Economy Institute (Moscow)

«**T**errorism is an independent military-political category, a special kind of war, a component of political culture and the direction of the ideological mindset including power and other actions constituting a threat, manifestations and trends on the part of organized structures operating outside the state format.

Terrorism is an absolute weapon of a minority against the majority. Terrorism is the extreme of the political, social, religious, and ethnic-based

violence spectrum (that partially separates it from the organized crime, which is the subject of a cost-based violence). Terrorism is a strategy.» (Aras Dzhangir¹).

A series of terrorist attacks in Paris, unexplainable plane crashes, explosions in different cities around the world, terrorist war against the legitimate authority in Syria, and earlier the terrorist war in Russia's North Caucasus – all of these events have raised the problem of the ongoing processes of enlargement of the terrorist component in the activity of global

¹ A. Dzhangir The Fourth World War // <http://www.archipelag.ru/geopolitics/piryadok/terror/fourth/>

geo-strategic players as a way of manifestation of acute crisis of current global economic governance system. Terrorist operations of geostrategic nature are an integral part of the globalized competition in today's geo-economic and geopolitical environment.

The phenomenon of geo-strategic terrorist operations is used by global political players with a view to change the areas and trends of development of various countries, including members of the group of countries that are considered to determine the fate of the world development (G8, G20, etc.). Thus, geo-strategic terrorist operations are almost indistinguishable from a conventional war in their destructiveness, but they are «compressed» in time and require incomparably lower spend of various resources from their organizers, hiding the customer and vindicating real beneficiaries of such operations.

It is a highly complex polycentric organizational terrorist megasystem, a part of the most important (though latent) world community institutions used for temporary power resolving of contradictions and phase transition of the world system's segment on the basis of accumulated imbalances to a new format of controlling the processes of life and society (they are also a source of accumulation and multiplication of political and financial capital by certain political and economic groups (clans), which are the real commissioners and beneficiaries of such socio-terrorist crises²).

Such operations are regularly implemented against Russia.

Virtually no country can consider itself safe from such risks and threats. Such operations include the September 11, 2001 events in the United States and a series of terrorist attacks in Paris in mid-November, 2015.

At the global level, one of the most important areas to counter these risks and threats is rapid development of national systems of combating illegal financial transactions. The support and management of this strategic trend has been the subject of a number of international meetings resulting in the adoption of recommendations and resolutions defining the direction of effort of government agencies in different countries. Such key meetings include St. Petersburg, Brisbane and Lough Erne summits.

A number of states have gained considerable experience in this field, which needs to be studied

in order to clarify the most effective measures of development of Russian system of counteracting illegal financial transactions. The experience of G20 countries and, particularly, the experience of 7 leading countries are of the utmost interest to us.

The main methodological thesis defining resolutions of Brisbane, St. Petersburg and Lough Erne summits is that the key node of functioning of the illegal financial transactions' mechanisms in the global economy is criminal financial communications.

That is why the role of financial intelligence units that monitor criminal financial communications has sharply increased in developed and new industrial countries.

The problem of informal system operations (primarily shadow banking, etc.), taking into account the superlarge scale of operating financial and material resources and the control of assets in modern conditions, is considered as a qualitatively new one, not yet solved neither in Russia nor abroad both in theoretical and in practical terms.

From this perspective, in the framework of implementing resolutions of the aforementioned international summits by G7 countries, it is advisable to identify the following aspects that should be taken into account when implementing the strategy of development of Russian national system of counteracting illegal financial transactions.

Great importance should be attached to the increase of transparency of non-banking financial institutions' activity. The key trend is the identification of explicit and hidden beneficiaries that exercise substantial control over legal persons directly or indirectly. The identification of beneficiaries includes expanding international information exchange and increasing the threshold of its importance in relation to the objects of study – legal entities and individuals. This is an objective international trend that will be further developed. In fact, it is a gradual sequential formation of a single, integrated global information field, equally available for the analysis by financial intelligence structures in various countries. That is a separate country voluntarily loses a part of its sovereignty in ensuring the protection of its business entities from external actors. Thus, each country transfers some of its powers in the sphere of monitoring its own residents to financial intelligence units but receives the ability to monitor the activities of foreign non-resident companies.

² E. L. Loginov The globalization paradigm of terrorism: Terrorism as a strategic tool of globalized competition //Systemic problems of economic security: Collected works issued in 20 volumes - M.: Nauchtekhizdat, 2008. Volume 17 – 296 pp



The enhancement of the role of financial intelligence units that monitor criminal financial communications is even more urgent in our country than abroad.

The current stage of our country's development, with all its complexities, has identified a fundamental qualitative change in the role of Rosfinmonitoring. This new role involves the transformation of the department from one of many others carrying out control functions over certain types of financial transactions to an important organizational tool that supports the economic stability of the state.

The evaluation of threats and risks to national security posed by money laundering and terrorist financing is an activity of Rosfinmonitoring as the key body for the development of measures to counteract these threats. It involves the analysis of information on transactions of funds or other assets obtained by the Service, on the basis of which the risks are identified, studied, and evaluated, and measures to address them are developed.

A complete cycle of electronic financial monitoring of economic entities' operations is the basis for ensuring the sustainability of social and economic development of our country on the basis of reducing the shadow component through the development of a system of countering money laundering and terrorist financing, including the

guarantee of preventing the «interception» of state power by the criminalized economic structures of oligarchic nature.

The financial monitoring becomes an effective instrument of Russia's economic management amid the crisis, and the Federal Financial Monitoring Service becomes a strategic frame for Russian state agencies, whose functions include combating illegal financial transactions with the coordinating role of the Federal Financial Monitoring Service.

This is evidenced by the inclusion of the Federal Financial Monitoring Service in the newly created inter-agency system of control over the use of budgetary funds in the placement and fulfillment of the state defense procurement.

A reasonable forecast can be made that this trend will develop in the future. This is the reason of increasing the relevance of systemic integrated development of various Russian agencies interaction, including those based on the Unified Information System and the Common Transport Service of the Rosfinmonitoring and the need to develop a network-centric information management system that integrates segments of the information and telecommunication infrastructure of public authorities, as well as fiscal and law enforcement authorities.

The USA experience shows that it is research and information technologies that create a qualitatively new and previously unattainable transparency of financial and other transactions conducted by legal entities and individuals. The USA has implemented and continues to increase the quality separation from other countries, including Russia, in the sphere of information and analytical technologies used by special services. The USA have implemented the establishment of a powerful group of reconnaissance, communications and computing systems, creating brand new opportunities for the analysis of almost any operational space, including those providing simulation and opening of latent relationships between seemingly unrelated dynamic systems that reflect any characteristics of interest to an American analyst.

Therefore, based on the USA experience, it is required to continue developing the strategy implemented by Rosfinmonitoring.

Thus, the new developments in this area are aimed at ensuring more sustainable computing and communication technologies and elaborating of entirely new approaches to the use of

information networks and computer systems³. These technologies create new opportunities in the field of financial monitoring, identification and forecasting terrorist operations; more efficient use of network resources and improving the performance of the computing and communications infrastructure⁴.

The capabilities of new information systems in this area should allow a better understanding of economic, technological and social environment, opportunities, intentions and actions of allies and enemies, expand the rights and options of those who participate in management processes, create efficient strategies, tactics and plans, and carry out operational people and resources management necessary for the success of the Federal Financial Monitoring Service in this field of activity.

The new role of the Rosfinmonitoring determines the need to become a nodal point of concentration of expertise and competence for anti-crime and anti-corruption activities in the implementation of an effective regime of countering money laundering and terrorist financing. This includes the implementation of brand new information technologies and analytical services by the Federal Financial Monitoring Service and interacting departments. Rosfinmonitoring should generate a pool of core competencies, including standard management, fiscal management, operational search and investigative activities within the framework of models of implementing an effective mode of countering money laundering and terrorist financing in Russia and – in the future – in member states of the Eurasian Economic Union.

³ E. L. Loginov, E. N. Barikaev New information technologies for monitoring, identifying and forecasting of illegal actions: push on to new control quality // Bulletin of the Moscow Law Enforcement Academy. – 2013. – No. 2. – S.226-231.

⁴ E. L. Loginov, A. G. Matveev The problem of detection and identification of members of organizational networks, carrying out covert manipulation of financial and property assets // The fight against corruption as a key element in strengthening the global AML/CFT system: proceedings of international scientific and practical conference, Moscow, May 14, 2015 / Federal Financial Monitoring Service, International Training and Methodology Centre for Financial Monitoring; under the editorship of V. I. Glotov – M.: ITMCFM; Yaroslavl: Litera, 2015. – S.4450.

FINDINGS OF THE INTERNATIONAL TYPOLOGY RESEARCH INTO THE EXISTING AND EMERGING TERRORIST FINANCING RISKS

The Financial Action Task Force (FATF) published in October 2015 a report titled “Emerging Terrorist Financing Risks”, hereinafter the Report



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Background

FATF is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognized as the global anti-money laundering and counter-terrorist financing (AML/CFT) standard.

The main objective of this Report is to analyse recently identified terrorist-financing methods and trends, referred to as emerging TF risks. The report also provides an overview of traditional methods, techniques and tools in which funds are raised, moved and stored by terrorists and terrorist organizations to assess their current significance.

Combating the financing of terrorism (CFT) continues to be a priority for the FATF, given the threats posed by terrorist organizations. This threat includes small terrorist cells or lone actors capable of committing attacks and significantly harming society. It is therefore important to identify and dismantle the financial networks of all types of terrorist groups.

The Report analyses the financial activities of a range of terrorist organizations from lone actors or small terrorist cells to well-established international networks such as Islamic State of Iraq and Levant (ISIL), Boko Haram and Al-Qaeda and its associates and affiliates. The organizations featured in the Report have either been designated by the UN or national listing regimes.

The Report structure includes:

1. Financial management of terrorist organizations,
2. Overview of traditional terrorist financing methods and techniques, and
3. New emerging terrorist financing risks.

The Report incorporates input from a wide variety of other delegations within the FATF's Global Network. Delegations submitted information and case studies which identify emerging trends and risks.

The Report notes that while the number and type of terrorist groups and related threats have changed over time, the basic needs for terrorists to raise, move and use funds remained the same. However, as the size, scope and structure of terrorist organizations have evolved, so too have their methods to raise and manage funds. The main objective of the Report is to analyse recently identified terrorist financing methods and also the so-called «emerging TF risks».

In assessing the continued relevance of traditional terrorist financing techniques, the general conclusion is that while all these techniques are evolving, they still represent significant TF risks.

In the section on emerging TF risks, the FATF explores the threats and vulnerabilities posed by:

1. foreign terrorist fighters (FTFs),
2. fundraising through social media,
3. new payment products and services,
4. exploitation of natural resources.

The FTF phenomenon is not brand new, but the recent scaling up of individual traveling to Iraq and Syria has been a challenge for many FATF members. Foreign terrorist fighters are predominantly using traditional methods, particularly self-funding, to raise the funds they require to travel to the conflict areas. In order to move and get access to funds, FTFs also rely on traditional methods and techniques. These



primarily include the physical movement of cash, use of ATMs to access funds from bank accounts and use of money value transfer services (MVTs).

However, the novel aspect for jurisdictions is the challenge in identifying these individuals because of the relatively low amounts of funding they require and the speed with which they can acquire it.

The criminal proceeds remain a source of funding. However, in the case of TF, funds raised from criminal activity have generally been petty and relatively unorganized crimes. One emerging trend includes suspected FTFs applying for small short-term loans to many providers simultaneously with no intention to repay.

The Report notes that although the role of social networks in breeding violent extremism has been well reported, less is known about how it is used to raise funds for terrorists and terrorist groups. The Report finds that there are significant vulnerabilities associated with social media, including anonymity, access to a wider range and number of potential sponsors or sympathizers and the relative ease with which it integrates electronic payment mechanisms. It is also apparent that donors are often unaware of the end-use of funds supported by social media, including crowdfunding, which represents a risk that terrorist organizations can exploit.

The Report points out that electronic, online and new payment methods pose a vulnerability which may increase over the short term as overall use of these systems grows. Many of these systems can be accessed globally and used to transfer funds quickly. A number of online payment systems and digital currencies are also anonymous by design, which makes them attractive for TF, particularly when the payment system is based in a jurisdiction with a comparatively weak AML/CFT regime. Although most remittance transactions are traceable, identifying the actual end-user or beneficiary remains challenging.

The exploitation of natural resources for terrorist financing purposes raised a substantial concern in the context of ISIL. However, the Report has confirmed that it is also relevant for other terrorist organizations and regions. The ability to reap high rewards from the natural resources sector, coupled with the weak institutional capability, particular in or near areas of conflict, creates a significant vulnerability for terrorist organizations to capitalize on. The Report finds that this issue is linked with criminal activity including extortion, smuggling, theft, illegal mining, kidnapping for ransom, corruption and environmental crimes.

In conclusion, the Report notes that while terrorist organizations continue to adapt and counter law enforcement responses, it is clear that they continue to require resources to meet their destructive goals. Following the financial trail, and understanding how all types of terrorist organisations, whether specific territory-based or small cells operating autonomously, raise, use and manage funds is critical in detecting, preventing and sanctioning terrorist and terrorist financing activity. Understanding and exchanging information on the financial management of terrorist organisations is important in order to implement CFT measures effectively.

While the emerging risks identified in the Report require monitoring by law enforcement agencies, it is important to note that the traditional terrorist financing methods and techniques continue to represent significant TF risks. These risks evolve. For example, criminal proceeds are an important source of funds for terrorists; however, jurisdictions have noted an increase in self-funding through legitimate means such as personal and business income.

The Report notes that financial intelligence is a necessary component for all counter terrorism activities, and use of relevant and appropriate non-financial information is essential for TF investigations.

Background

The following terrorist financing methods and techniques are designed by the FATF as traditional:

- **Legitimate sources:** terrorist organizations receive substantial support, including funding, from legitimate sources such as charitable entities and legitimate businesses. Another popular option is self-funding (work, savings, social security benefits, etc.). All these methods for raising funds can often be used without raising suspicions thanks to their legitimate nature.
- **Criminal activity:** terrorist groups are increasingly using alternative sources of funding, including funds derived from criminal activities such as arms trafficking, money laundering, kidnapping for ransom, extortion, racketeering and drug trafficking.
- **States sponsors of terrorism:** safe havens, failed states and sponsor states remain the most important sources of funding for terrorist organizations. Safe havens or territories with weak jurisdictional control, states tolerant or supportive of terrorist organizations are also important in how terrorists move and use finance, in addition to their role in raising terrorist funds.

National counter terrorism authorities should continue to leverage financial intelligence, and also promote international financial intelligence-sharing on priority CT issues through organizations such as the Egmont Group¹ or Interpol and bilateral and multilateral information exchange through financial intelligence units. In order to capitalize on the benefits of financial intelligence, FIUs, operational authorities and intelligence agencies must continue to improve information exchange on emerging risks. Focus should be on identifying and targeting financial collection/aggregation/accounting points within a terrorist organization. This would increase law enforcement agencies' ability to concentrate their efforts on ultimate recipients of the funds, rather than just the sources.

¹ The Egmont Group of Financial Intelligence Units comprises 151 jurisdictions that are provided with a secure communication channel for information exchange.

PRIVATE SECTOR

EXPERTS DISCUSSED COUNTERING MONEY LAUNDERING AND CORRUPTION

Third annual GRS¹ Forum, organized by Thomson Reuters, was held in Moscow on April 12, 2016. The event traditionally brought together representatives of public authorities, experts and bank employees. These specialists daily face the issues of countering money laundering, illegal financial transactions, frauds and corruption

*Inessa A. Lisina,
Deputy editor in chief*

Participants noted that to date the most relevant issue for the employees of financial institutions remains customer and counterpart due diligence. It is attributed to emerging terrorist threats, money laundering and countering corruption. Last year significant legislation amendments were made in this field. As its follow-up, a draft law on simplified client identification, a draft law on increasing an overall value of exchange transactions and a draft law on distance opening of accounts on the basis of earlier natural persons' identification were introduced to the Federation Council. Mr Andrey Yemelin,



THOMSON REUTERS

Chairman of the National Financial Market Council, hopes that these draft laws will have been approved by autumn. In his opinion, it is crucial to have (within the framework of the upcoming round of the FATF mutual evaluations) a system, which as any financial institution, will be capable of accessing distantly to the customer profile from a public database.

¹ Governance, risks and compliance



Mr Matt Kelly, an independent compliance consultant, highlighted the key GRS trends. For governance it includes understanding of the fact that compliance isn't a critical factor for financial institution operation. Financial institutions governance system, preventing the violations of the law, is much more significant. For risk it is ignorance of proper risks which may be defined only via analysis, for compliance – improvement of transparency towards third parties (not only clients, but suppliers and counterparts as well, etc.).

The speech of Mr Vadim Tarkin (Rosfinmonitorng) was dedicated to the issues of beneficial ownership identification, which have a cross-border character. To date a draft law, designed by Rosfinmonitoring within the framework of the National de-offshorization plan 2014, passed the first reading in the State Duma. The present project includes clauses on beneficial ownership data possession and obliges legal persons

to maintain, keep and annually update information on their owners and provide this data to the authorized authorities. This requirement derives from a series of international legislation acts and is one of the crucial AML/CFT system's elements.

Mr Konstantin Sorokin (International Training and Methodology Centre for Financial Monitoring) spoke on the ITMCFM research "ML/TF risk assessment: understanding and implementation practice". The project aims at preparing the EAG member states for mutual evaluations, through the FATF as well. The private sector will participate directly in these processes. Hence the understanding of the FATF Standards perception rate among the AML/CFT experts is essential.

A particular importance of the private sector in anti-money laundering system was emphasized by the Head of Financial Monitoring Department in the State Control Committee of the Republic of Belarus, Mr Vyacheslav Reut. FIU and compliance experts' joint operation would enable the state to be more attractive both economically and safely.

Another conference block was dedicated to the issues of countering corruption. Mr Eduard Ivanov (Higher School of Economics) distinguished similarities of compliance measures in countering corruption and AML/CFT: there should be a responsible officer, client and beneficiary's identification, mandatory transaction control and other measures. Overall, the experts concluded that a modern anti-corruption system is impossible without anti-money laundering measures and vice versa. Today all the financial investigations start with the definition of funds' nature. In the modern world the trend is evident: AML/CFT and anti-corruption measures become more and more correlated and legalization of criminal proceeds is impossible without laundering. Further on the correlation will only increase and impact significantly the compliance.

IMPORTANT ISSUES OF CREDIT INSTITUTIONS' COMPLIANCE WITH THE RUSSIAN AML/CFT LEGISLATION

The XIV Annual International Conference "Important Issues of Credit Institutions' Compliance with the Russian AML/CFT Legislation" was held on April 26, 2016. The key topics addressed by the Conference included review of practical implementation of recent modifications in the legislation and analysis on new draft laws elaborated for further improvement of the Russian AML/CFT system

Yevgenia N. Kalikhova,
Editor-columnist

The Conference was attended by the Director of the Russian Federal Financial Monitoring Service Yury A. Chikhanchin, the President of the Association of Russian Banks Garegin A. Tosunyan, the Deputy Chairman of the Bank of Russia Dmitry G. Skobelkin, the State Secretary/ Deputy Director of Rosfinmonitoring Pavel V. Livadny, the Head of the FTS Interregional Major Taxpayers Inspectorate No.9 Yevgeny A. Te and others.

The Conference was opened by the ARB President Garegin Tosunyan who highlighted the importance of closer cooperation with the banking community. His speech was focused on the need for application of the risk-based approach by the regulator and further development and enhancement of effectiveness of the AML/CFT system.

The Head of the Russian Financial Intelligence Unit Yury A. Chikhanchin made a presentation "Role of

the Banking Sector as One of the Elements of the Public-Private Partnership in the AML/CFT System" and underscored the significant contribution of the Association of Russian Banks to enhancement of transparency of the banking sector and the national economy in general.

The Director of the Federal Financial Monitoring Service informed that, with the help of the Russian banks, Rosfinmonitoring prevented laundering of over RUR 100 billion last year – "The information provided by banks allowed Rosfinmonitoring to prevent laundering of more than RUR 100 billion through shady schemes and to recover about RUR 15 billion which were returned to the federal budget".

Yury A. Chikhanchin emphasized that all components of the anti-money laundering system, and primarily financial institutions, proved to be the most effective and efficient in combating the financing of terrorism.

Yury Chikhanchin:

"Around 1.5 thousand persons linked to terrorist and extremist activities were identified. All of them were included in the relevant List. Over 3 thousand accounts were frozen. About 40 cells of international terrorist organizations that operated in Russia and nearly 30 cells that operated abroad were detected with your help. The CFT-related financial investigations are being conducted in cooperation with nearly 40 countries".

The Head of the Financial Intelligence Unit particularly emphasized the need for building the crime prevention mechanism primarily for protecting the Russian financial system from illicit funds.

In his presentation, the Deputy Chairman of the RF Central Bank Dmitry G. Skobelkin stated that, over the last year, the efforts undertaken by the banking system for identifying shady transactions and assessing risks related to such transactions have become more comprehensive. We succeeded in combining the analytical, regulatory and administrative tools which allowed us to more effectively identify existing weaknesses and gaps used for carrying out shady transactions through credit institutions. And most importantly, it enabled us to take prompt countermeasures.

The Deputy Chairman of the Central Bank noted that, in 2015, the volume of cash conversion transactions decreased to RUR 400 billion. He pointed out that "according to our estimates the scope of illegal conversion of funds into cash decreased threefold down to 400 billion rubles over the last year". The 2015 balance of payments shows that the volume of shady transactions is in decline.

Dmitry Skobelkin:

"These data demonstrate more than fivefold decrease in total volume of transactions primarily related to cross-border wire transfers and withdrawal of funds abroad down to USD 1.5 billion. This is a huge amount, but it certainly can't be compared to USD 5, 8 and 26 billion that were withdrawn abroad several years ago".

The State Secretary/ Deputy Director of the Financial Monitoring Service Pavel V. Livadny noted that Rosfinmonitoring expects banks to take more responsible attitude to identification of their customers' beneficial owners.

Pavel Livadny:

"Credit institutions should not excuse themselves by saying that they requested information but failed to identify beneficial owner and, therefore, recorded the sole executive body as the beneficiary or indicated that there was no beneficial owner without taking any further measures".

In this presentation, the Head of the FTS Interregional Major Taxpayers Inspectorate No.9 Yevgeny A. Te focused on the modified approach to conducting scheduled on-site inspections with the application of new methodology.

Yevgeny Te:

"We tried to compile all breaches of tax obligations, which were found to be the offences by the arbitration courts, and assign the red flag indicators to them. For this purpose we use, among other things, accounting records and open data provided by the Central Bank and Rosfinmonitoring. After the relevant red flag indicators are assigned, we will try to build the automated system that will allow us to focus on those taxpayers that will be included in the on-site tax compliance inspection plan".

Other presentations at the Conference were delivered by the First Deputy Minister of Communications and Mass Media Alexey Kozyrev, the First Vice-President of the Association of the Russian Banks Yury Kormosh, the Deputy Director of the BoR Financial Monitoring and Foreign Exchange Control Department Ilya Yasinsky and others.

FINANCE AND RISKS

NATIONAL RISK ASSESSMENT AND RISK-BASED APPROACH: METHODOLOGICAL ISSUES



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INTRODUCTION

The 2012 FATF Recommendations,¹ that introduced the risk-based approach (RBA) concept, have substantially changed the practice of designing, implementing and developing the national anti-money laundering and counter-terrorist financing (AML/CFT) regimes. With the introduction of the RBA, the rule-based approach used for complying with the requirements set forth in certain Recommendations is implicitly considered as contravention of the basic principles of implementing the AML/CFT measures depending on the identified, analyzed and assessed ML/TF risks inherent in an evaluated entity. At the same time, there is the obvious need for conducting

national risk assessment which has gradually become one of the most important elements of improvement of the national AML/CFT regime.

In 2012 – 2016, a number of countries successfully performed the national ML/TF risk assessments, and this exercise, conducted on a regular basis, was recognized by the international community. Based on the assessment results and with the application of the RBA tools, most countries managed to substantially enhance their AML/CFT regimes in line with the FATF Recommendations. Now, it is turn for Russia to conduct the national risk assessment, and all stakeholders expect that this undertaking will yield positive effect and international recognition.

¹ The FATF Recommendations. International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation. FATF, 2012, February.

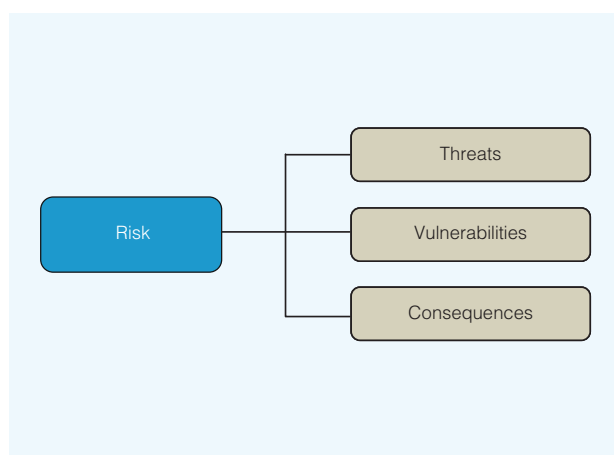
However, despite the experience gained by countries, assessment of national ML/TF risks and use of the results of such assessment for improving the AML/CFT regime still remains a complex exercise and requires allocation of significant intellectual and material resources. In particular, it applies to methodological support of assessment and development of ML/TF risk mitigation measures, since the completeness, quality and timelines of assessment will, to a large extent, depend on correctness and relevance of such support.

This article touches upon some methodological issues that, in any case, will arise in course of the national ML/TF risk assessment. Specifically, attention is paid to the risk, national risk assessment and risk-based approach concepts as they apply to the AML/CFT activities.

CONCEPT OF ML/TF RISK

The methodological issues related to the ML/TF risk concept directly arise from the provisions of the FATF Guidance, according to which risk can be seen as a function of three factors: “threats”, “vulnerabilities” and “consequences”² (Figure 1).

Figure 1: ML/TF Risk as a Function of Threats, Vulnerabilities and Consequences



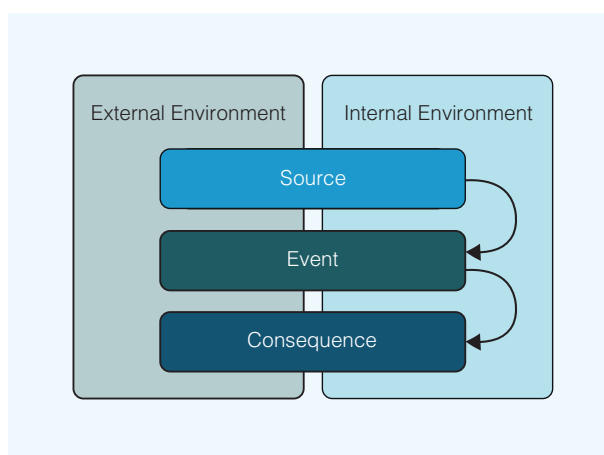
It slightly differs from the common approaches to definition of risk, according to which risk can be seen as the effect of uncertainty on objectives,³ or as possibility of losses, such as direct costs or damages,⁴ or as variable probability of sustaining losses or losing profits,⁵ etc.

The most common approach is that specified in ISO 31000, according to which risk is a combination of a risk source, risk event and its consequences, where risk sources include factors of external and internal environment of a system under consideration (Figure 2).

As it is easy to see, unlike ISO 31000, the FATF publications do not explicitly define the “event” concept, although it is used for explaining risks. In particular, this concept is used for interpreting the term “likelihood” which means a potential probability of occurrence of events that pose ML/TF risk⁶ (it should be noted that, in this context, the concepts of “risk” and “risk event” have almost the same meaning). At the same time, the term “event” is the core concept in the context of risk management, and it seems that implicit use of this concept in the FATF publications complicates the risk assessment and mitigation methodology.

On the other hand, ISO 31000 does not subdivide risk sources into such important categories as

Figure 2: Risk as a Combination of Source, Event and Consequences



² National Money Laundering and Terrorist Financing Risk Assessment. FATF Guidance. FATF, 2013, February.

³ ISO 31000 – 2009: Risk Management – Principles and Guidelines.

⁴ Business. Glossary // Graham Bates, Barry Braindly, S. Williams et al. General editor I.M. Osadchaya, PhD in Economics – Moscow: INFRA-M, “Ves’ Mir” Publishing House, 1998.

⁵ John Downes. Dictionary of Finance and Investment Terms – Moscow: INFRA-M, 1997.

⁶ National Money Laundering and Terrorist Financing Risk Assessment. FATF Guidance. FATF, 2013, February.

“threats” and “vulnerabilities”, despite the fact that these concepts make it easier to use the risk assessment methodology in practice.

For example, consideration of “threats” as a factor that leads to occurrence of risk events by exploiting “vulnerabilities” (in terms of risk, vulnerability is weakness of a system under consideration) and “vulnerabilities” as a factor that leads to occurrence of risk events by exploiting the existing “threats” allows for identifying risks in a more illustrative manner and makes it easier to identify risks.

No less important is to identify one of the consequences of a risk event, namely losses. Firstly, such approach allows for distinguishing between the negative consequences of a risk event that entail certain losses and those that do not entail such losses (e.g. financial losses). Secondly, it encourages experts to more thoroughly consider risks by specifically identifying the loss-related component.

Taking these comments into consideration, one can build an integrated risk matrix (Figure 3) that is represented as a chain of threats, vulnerabilities, risk events, consequences and losses that lead to materialization of risk. At the same time, it is assumed that threats and vulnerabilities are the factors of the external and internal environment in which a system exposed to risks operates. “Operation of a system” may mean functioning of the state (in case of national risk assessment), functioning of the state entity or functioning of other entities. In any case, it is important that an entity under consideration has certain goals achievement of which is affected by uncertainty that is inherent in the external and internal environment of such entity and is typically described in terms of risk.

Application of such approach in course of the national risk assessment in line with the FATF Recommendations and Guidelines will enable to obtain more detailed information at the risk identification stage, will make it possible to more accurately categorize and measure consequences of risk events at the risk analysis stage and will provide more flexibility in development of risk mitigation measures at the AML/CFT system improvement stage.

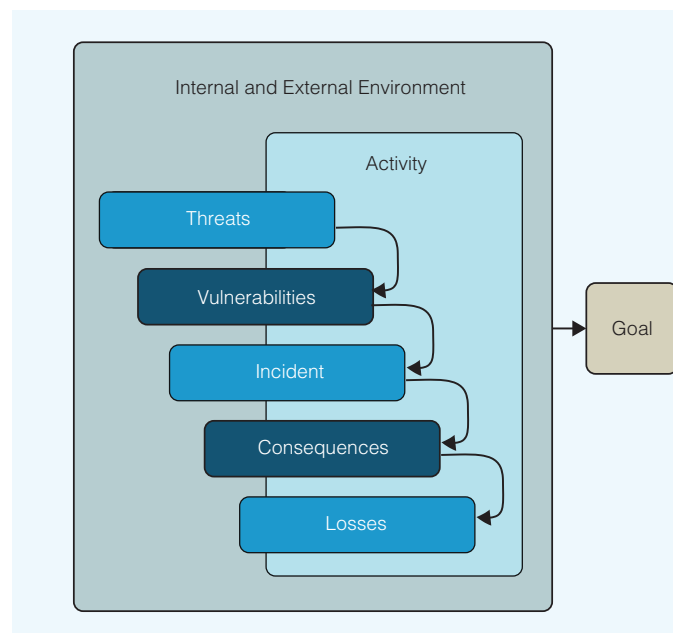
NATIONAL ML/TF RISK ASSESSMENT

The name of this section is almost the same as the title of one of the FATF documents – FATF

Guidance: National Money Laundering and Terrorist Financing Risk Assessment. Clause 1.1 of this Guidance briefly defines the scope of national risk assessment: “Identifying, assessing, and understanding ML/TF risks is an essential part of the implementation and development of a national anti-money laundering / countering the financing of terrorism (AML/CFT) regime, which includes laws, regulations, enforcement and other measures to mitigate ML/TF risks. It assists in the prioritization and efficient allocation of resources by authorities. The results of a national risk assessment, whatever its scope, can also provide useful information to financial institutions and designated non-financial businesses and professions (DNFBPs) to support the conduct of their own risk assessments”.

It is necessary to make an important comment with regard to this definition: in the FATF documents, the term “ML/TF risk assessment” may be used in both broad and narrow senses, depending on a context. Assessment in a narrow term, along with identification and understanding of risk, is the integral part of ML/TF risk assessment in a broad term (Figure 4). It should be noted that this Article considers analysis and understanding of risk as equal concepts, since analysis means understanding of an entity/ system under consideration.⁷

Figure 3: Risk Materialization as Chain of Threats, Vulnerabilities, Risk Event, Consequences and Losses



⁷ A Guide to Business Analysis Body of Knowledge (BABOK Guide) v3, International Institute of Business Analysis, 2015

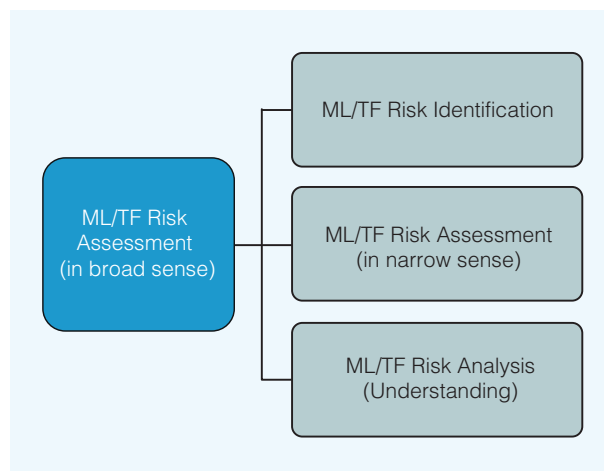
The scope of the term “risk assessment in a narrow sense” may vary in different contexts. Firstly, it may refer to assessment of whether or not the risk under consideration falls into one of the categories of already identified risks at the risk identification stage. Secondly, it may refer to quantitative or qualitative assessment of consequences (including losses and likelihood of losses) of a risk event at the risk analysis stage. Thirdly, it may refer to comparison of the existing level of risk (identified at the risk analysis stage) with the acceptable level of risk. And finally, it may refer to a combination of the above listed approaches.

The problem related to varying interpretation of the term “assessment” also applies to ISO 31000, although, it is partially solved. According to ISO 31000 the risk assessment procedure involves three stages, namely: identification, analysis and evaluation. Identification involves assessment of whether or not an identified risk matches one of the known risks; analysis includes quantitative and qualitative assessment of consequences of a risk event; and comparison of the existing level of risk with the acceptable one is a part of evaluation process.

Pursuant to the aforementioned definition national risk assessment is a part of the implementation and development of AML/CFT regime. Therefore, correlation between national risk assessment and development (including implementation) of AML/CFT regime may be schematically presented as the diagram (shown in Figure 5 at page 43).

It should be noted that the term “development”, as it applies to any system (including AML/CFT regime as a system), means a transition from the lower to the higher level of development. Therefore, “development”, in general, includes all standard stages of transition of a system from the existing into the desirable state (identifying defects of a system, developing solutions, selecting and implementing the selected solution, assessing consequences of implementation, etc.).⁸ Therefore, it seems unjustifiable to consider “implementation of AML/CFT regime” separately from the entire AML/CFT system development process. In particular, the term “implementation” may be erroneously used instead of “development” in a situation when the existing regime is upgraded and not a new one is created.

Figure 4: The Term “Assessment” in Broad and Narrow Sense



SPECIAL ASPECTS OF RISK-BASED APPROACH

The term “risk-based approach” is frequently used in the FATF Recommendations and other publications. However, its meaning is not directly defined. At best, “risk-based approach” is defined as “approach based on risk” (see below), but this definition adds nothing new. In the FATF documents, all aspects of RBA are in fact interpreted indirectly by clarifying the purposes for which risk assessment may and should be used. For example, according to the FATF Recommendations “countries should use risk-based approach to ensure that measures to prevent money laundering are commensurate with the risks identified”. And according to the FATF Guidance on National Risk Assessment “once ML/TF risks are properly identified and understood, country authorities may apply AML/CFT measures in a way that ensures they are commensurate with those risks – i.e. the risk-based approach (RBA) – which is central to the FATF standards”.

Analysis of how the term “risk-based approach” is used shows that the key element is the target of application of a risk-based approach, i.e. some type of activity. However, it is not always possible to determine the specific type of activity. In the FATF documents, depending on a context, “type of activity” may mean “combating” (i.e. directly AML/CFT) or “development” (i.e. development of AML/CFT regime) or “assessment” (i.e. national ML/TF risk assessment). Hence, the first problem

⁸ S.P. Nikanorov, Application of System Analysis Experience

that RBA methodologists face is to determine the type of activity that should be conducted with the application of this approach.

The second problem relates to the scope of the risk-based approach as it applies to the activity. On one hand, it is obvious that the RBA involves certain decisions in respect to the activity that (decisions) are based on the outcomes of assessment of risks associated with this activity. On the other hand, it is necessary to clarify what specific activities and risks are involved. The definition of risk (ISO 31000) gives a partial answer to this question. According to this definition, risk is the effect of uncertainty on objectives, and it is logical to assume that these are the goals of activity. Therefore, the scope of RBA is the method of making decisions aimed at achievement of the goal based on assessment of risks that may hinder achievement of this goal.

There are various decisions that can be made for achieving the goal. They may include decisions related to modification of executive structure and logistical support of activity, standards and procedures of activity, competences and skills of personnel, technical systems, etc. Decisions made based on assessment of risks that may hinder achievement of the goal are obviously aimed at risks mitigation. It is convenient to consider the process of goal achievement as attaining a number

of objectives, each of which is associated with various level of risk that the goal WILL NOT BE ACHIEVED. In the RBA context, solutions involve allocation resources for achievement of such objectives (Figure 6 at page 44).

Therefore, the risk-based approach may be generally defined as approach aimed at reaching the goal through allocation of resources for achieving objectives (that may lead to achievement of the goal) depending on risk of FAILURE TO REACH the goal as a result of FAILURE TO ACHIEVE a specific objective. In the AML/CFT context, the RBA may be defined as approach aimed at reaching the AML/CFT goal through allocation of resources for achieving AML/CFT objective (that may lead to achievement of the AML/CFT goal) depending on risk of FAILURE TO REACH the AML/CFT goal as a result of FAILURE TO ACHIEVE a specific AML/CFT objective.

The latter requires some comments. Firstly, it is important to clearly define the AML/CFT goal, since vague formulations will not allow for determining the extent to which the goal is reached. Secondly, it is necessary to compile a complete list of objectives which achievement may help to reach the AML/CFT goal. If any objective is missed, no resources will be allocated for its accomplishment, which, in turn, may prevent achievement of the AML/CFT goal. Thirdly,

Figure 5: National ML/TF Risk Assessment Diagram

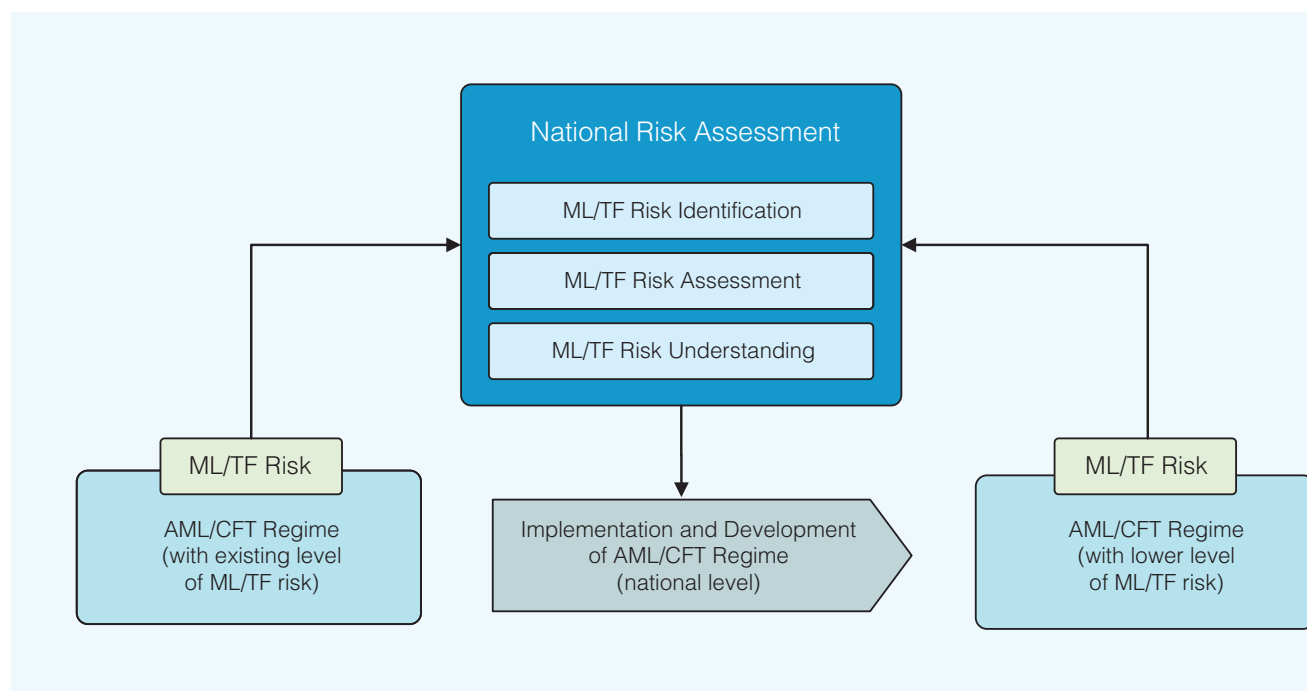
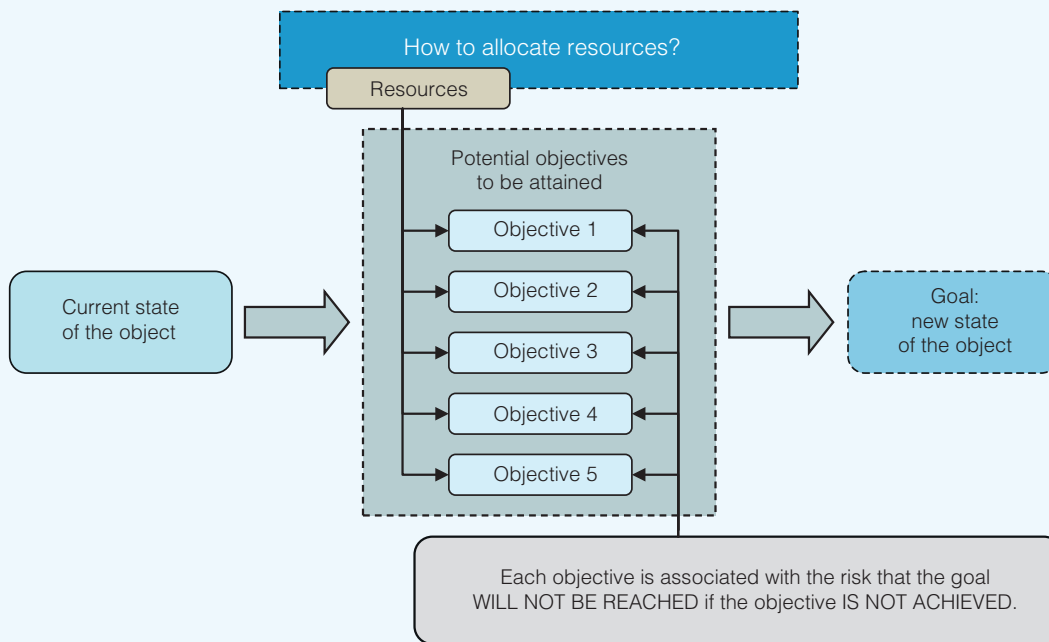


Figure 6: Risk-Based Approach Diagram



it is necessary to develop the methodology for assessing risks related to non-achievement of the AML/CFT goal (it is logical to call them ML/TF risks associated with each objective (the methodology should be developed with due consideration for interrelation among the objectives)). Fourthly, it is necessary to accurately enough evaluate resources that can be used for reaching the AML/CFT goal. Fifthly, it is necessary to develop the methodology

of allocation of such resources for achieving the AML/CFT objectives based on assessment of ML/TF risks inherent in each objective. And, finally, if the RBA is applied to activities that slightly differ for AML/CFT (e.g. to development of AML/CFT regime or to national ML/TF risk assessment), the goals and objectives of such activity as well as the risk assessment and resource allocation methodologies may require certain adjustment.

APPROACHES TO ASSESSMENT OF THE STATE'S ECONOMIC LOSSES DUE TO CAPITAL OUTFLOW AND ILLEGAL CASHING OUT



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Throughout the entire history of economic development, financial resources played critical role (both positive and negative) in the reproduction process. It was the financial resources that ensured stable and dynamic transfer of commercial value from one market entity to another. At the same time, the financial resources were used in criminal transactions, illegal commercial activities, illegal trafficking in weapons, drugs and diamonds, financing of terrorism, etc.

Financial resources play no less important role in the modern world featured by globalization, wide integration and internationalization of the economy, trade wars and economic sanctions. If the national economy lacks "healthy" (transparent, stable, diverse) financial resources, no effective extended reproduction is possible. In this context, financial resources mean monetary revenues, accumulated funds and cash inflows that are owned or disposed

by business entities or government authorities and local governments and used by them for ensuring extended reproduction, supporting social welfare programs, providing material incentives to workers and satisfying other public needs and demands.

In the market environment, financial resources are characterized by insulation, independence and quantitative specificity. Amount of financial resources needed for effective functioning of the public production system (PPS) is determined by the value of all commodities available in this system, the finance turnover rate and the extent of economic loss of financial resources (ELFR).

In the public production system, financial resources always have an owner or a person who is authorized to dispose of them. Financial resources cannot exist outside the ownership relationships. Therefore, it is no wonder that the rights and responsibilities of entities engaged in transactions with funds or other

assets include the obligation to collect and update information on customers, their representatives, beneficiaries and beneficial owners [6]. It should be noted that financial resources include only that part of funds that is owned by or is at disposal of market entities and is used for supporting the public reproduction process. Ownership by a specific market entity allows for distinguishing between these financial resources and those monetary revenues and funds accumulated by legal entities and individuals that are not involved in the public reproduction process, which along with the financial resources comprise the financial potential of the society. In the public production system, financial resources should be categorized in the following terms for conducting economic analysis and determining economic losses of financial resources:

- A. In terms of ownership by a specific market entity;
- B. In terms of belonging to a specific type of financial resources;
- C. In terms of stages of extended reproduction;
- D. In terms of geographical location.

This approach to categorization of financial resources allows for identifying the most vulnerable areas of the public production system where economic losses of financial resources occur and also for taking adequate measures for mitigation and elimination of such areas.

Depending on their ownership by a particular market entity, financial resources fall into one of the following categories:

- Financial resources owned by the state (government);
- Financial resources owned by municipalities;
- Financial resources owned by commercial and non-commercial companies and organizations;
- Financial resources owned by corporations (financial groups);
- Financial resources owned by households;
- Financial resources owned by natural persons.



Economic losses of financial resources are the negative outcome of financial turnover in the public production system for both system in general and its various entities. It means that it is possible to separately determine economic losses of financial resources at macro and micro levels.

At the macro level, the Russian economy is the open social and economic system. Therefore, economic losses of financial resources in the Russian social production system as a whole may be divided into two types:

1. Losses of financial resources as a result of their legal or illegal removal from the national public production system (from the Russian jurisdiction);
2. Economic losses due to low effectiveness of use of financial resources in the economy, including economic losses related to money laundering and terrorist financing. The main reasons of decline in effectiveness of use of financial resources include: direct misappropriation of the budgetary funds; low effectiveness of investment projects; low level of detection and successful prosecution of economic offences.

One can estimate these losses based on the analysis of the GDP growth rate. However, this approach has significant weaknesses in terms of both theory and practice of assessment. Economic losses are not included in the list of elements that are subject to evaluation. Therefore, the value of lost GDP can be considered only as the indicator of

the qualitative condition of the economy. According to Article 15 of the Russian Civil Code, losses (lost profit and damage) are subject to evaluation [1]. Pursuant to the Russian Criminal and Civil Code it is necessary to identify market entities that inflicted losses and also legal and natural persons that suffered losses.

Let us consider the situation related to economic losses of financial resources in more detail. In our opinion, the most relevant and dangerous for the Russian economy are losses related to outflow of financial capital abroad. The significant export of financial capital from the developing national economy is the paradoxical phenomenon. According to the classical economic theory, capital outflows from countries where there is surplus in capital into countries that experience capital deficiency. This facilitates economic development of both sides and may be considered as the positive outcome. However, Russia experiences capital deficiency and at the same time, suffers from increase in the volume of capital outflows. The consequences of capital outflow are well known and include: decrease in the production capacity, shrinkage of the tax base and loss of control over the monetary aggregates, which is burdensome on the society in general and hinders implementation of the national economic policy. Capital outflow includes the financial resources that are moved irrevocably from Russia into foreign jurisdictions helping them to enhance their financial capacity.

“According to the Central Bank evaluation of pay balance, in 2014 net capital outflow from Russia increased in two-and-a-half-fold reaching USD 151.5 billion, compared to USD 61 billion in 2013. Maximum capital outflow was observed in the IV quarter of 2014 – net outflows in the private sector increased in 4.3 times surging to USD 72.9 billion from USD 16.9 billion in the fourth quarter of 2013. Capital outflow reached USD 48.5 billion in the first quarter, decreased down to USD 22.4 billion in the second quarter and further declined to USD 7.7 billion in the third quarter”. [2]

According to the RF Central Bank natural and legal persons (Russian companies and banks) remove capital from Russia using both legitimate and criminal methods. Until recently, criminal methods tended to increase.

“For example, in 2013 the financial intelligence unit detected the well-organized shadow banking schemes used for moving funds under sham foreign trade contracts with involvement of the Belarusian and Kazakh companies. The outgoing

international payments from Russia to Belarus and Kazakhstan amounted to RUR 1.4 billion and 8.4 billion, respectively (source: Rosfinmonitoring’s federal database, January 2012 – July 2013)”. [3]

Given the above, it is the state that mainly suffers economic losses as a result of removal of capital abroad. These losses include two components:

- A. Economic losses of financial resources as a result of legitimate transactions involving transfer of funds into foreign jurisdictions (CI – legitimate capital outflow) – the lost profit is calculated;
- B. Economic losses of financial resources as a result of criminal transactions involving transfer of funds into foreign jurisdictions (Cc – criminal capital outflow) – the damage and lost profit are calculated.

In this context, economic losses of the state due to capital outflow can be calculated in the following way:

1. Firstly, it is necessary to calculate the amount (inflow/outflow) of financial capital with the application of the methodology developed by the RF Central Bank. It should be noted that this methodology is not perfect, since calculation of capital outflow covers only some volume of cross-border movement of funds that fall into the “capital” category and are removed abroad. “Since the data published by the RF Central Bank do not cover all capital flows, the extended interpretation of these data gives distorted and more optimistic picture compared with reality. Therefore, one can hardly state that this indicator calculated by the Central Bank adequately reflects capital outflows from the private sector and the economy in general and that it is suitable for making macroeconomic forecasts” [4]. If this indicator has negative value, the legitimate effective transactions involving transfer of funds abroad should be deducted from it;
2. The remaining amount of capital outflow should be divided (using the law enforcement statistics) into two parts mentioned above (CI (legitimate capital outflow) and Cc (criminal capital outflow));

3. Economic Losses from CI = CI + Lost Profit.
We suggest using the following formula for calculating lost profit:
 $\text{Lost Profit} = \text{CI (or Cc)} \times \text{Bank Rate set by the RF Central Bank at the lost profit calculation date};$
4. Economic Losses from Cc = Cc + Lost Profit + Damage.
We suggest using the following formula for calculating damage:
 $\text{Damage} = \text{Cc} \times \text{VAT Rate} + \text{Lost Profit} \times \text{Profit Tax Rate}.$
If a specific criminal case related to removal of capital abroad is initiated and prosecuted, other types of damage resulted from withdrawal of financial resources of a specific owner may be added to the calculated Damage.
5. Economic Losses from removal of capital abroad = Economic Losses from CI + Economic Losses from Cc.

This approach to calculation of economic losses of the state due to removal of capital abroad enables to consider them not in the context of managerial economic theory but in the context of specific business activities.

Illegal conversion of funds into cash is the second most important reason of economic losses of financial resources.

Again, it is the state that mainly suffers these losses caused by both misappropriation of budgetary funds and decline in tax revenues. While the state suffers losses, other market entities (mainly small and medium businesses involved in this process) gain profits.

The most critical consequences of money laundering include the following:

- Criminal underworld gets the chance to officially and legitimately use proceeds of illicit transactions which allows criminals to extend and gradually legalize their activities, which, in turn, leads to growth of political influence of criminal organizations and prevents strengthening of the legal and regulatory framework;
- Money laundering facilitates corruption in the public sector and leads to increase in number of offences committed in the financial system; large volumes of capital involved in money

laundering transactions undermine stability of financial markets;

- The tax revenues of the state decline, which leads to a more disproportionate distribution of the tax burden and further social differentiation.

The illegal cash conversion problem remains urgent in Russia. On December 12, 2013, in his address to the Federal Assembly the Russian President Vladimir Putin indicated that enhancement of transparency of the national economy is one of the priorities of the law enforcement agencies: "We need to maintain our fundamental, firm position on ridding our credit and financial system of various types of money laundering operations" [5].

On December 3, 2015, in his address to the Federal Assembly the Russian President also emphasized the need to enhance control over expenditure of budgetary funds: *"It is essential that we tighten our control over public funds, including federal and regional subsidies to industrial and agricultural enterprises. I believe that they should be transferred to the end user only through treasury accounts. Government revenue must be used strictly as planned. Shadow schemes used in paying customs duties, excise taxes on alcohol, tobacco, and fuels and lubricants siphon off hundreds of billions of rubles from the budget annually. This is outright theft"*. [7]

In this context, evaluation of economic losses of the state as a result of illegal cash conversion operations may be considered as one of the ways of combating economic crime.

Economic losses of the state due to illegal cash conversion transactions (ELc) can be calculated in the following way:

1. Firstly, it is necessary to calculate amount of illegally converted cash (Cc) through various transactions, including transactions with maternity capital. However, it is necessary to distinguish between the amount of budgetary funds illegally converted into cash (Ccb) and the amount of private funds illegally converted into cash (Ccp). $\text{Cc} = \text{Ccb} + \text{Ccp};$
2. Economic losses from illegal conversion of budgetary funds into cash (ELcb) are calculated as follows: $\text{ELcb} = \text{Ccb} + \text{Lost Profit (Pcb)} + \text{Damage (Dcb)}$. $\text{Lost Profit (Pcb)} = \text{Ccb} \times \text{Russian Market Capitalization Rate as of the}$

calculation date. $\text{Damage (Dcb)} = \text{Lost Profit (Pcb)} \times \text{Profit Tax}$;

3. Economic losses from illegal conversion of private funds into cash (ELcp) are calculated as follows: $\text{ELcp} = \text{Ccp} \times \text{VAT Rate} + \text{Profit from Ccp} \times \text{Profit Tax Rate}$. Profit from $\text{Ccp} = \text{Ccp} \times \text{Russian Market Capitalization Rate}$ as of the calculation date.
4. $\text{ELc} = \text{ELcb} + \text{ELcp}$.

We suggest using the approaches described above in the management decision making process and also for imposing liability for breaching the legislation under the following articles of the Criminal Code of the Russian Federation:

- Tax Evasion – Articles 198 (199);
- Document Forgery – Article 327;
- Aiding Customers to Evade Taxes – Articles 34-198 (199);
- Unlawful Business Activities – Article 171;
- False Business Activities – Article 173;
- Laundering of Criminal Proceeds – Articles 174, 174.1;
- Illegal Banking Activities – Article 172;
- Establishment of Criminal Group – Article 210.

At present, persons engaged in illegal cash conversion schemes are often prosecuted under the above listed Articles. The presented methodologies for calculating economic losses may also be used for determining damage inflicted as a result of administrative offences committed in the financial sector.

The described approaches to calculation of economic losses of financial resources may also be useful for assessing effectiveness of the AML system and effectiveness of efforts undertaken by Rosfinmonitoring, prosecutorial authorities, Investigative Committee, etc. Objective evaluation of economic losses of financial resources will allow for a full-scale application of the risk-based approach in the national AML framework.



The following measures are proposed for improving the actual system:

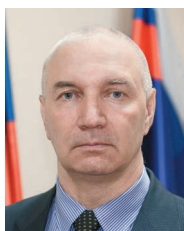
1. Introduce the concept of “evaluation of economic losses” in the legal and regulatory framework.
2. Approve the methodologies for evaluating economic losses from removal of capital abroad and from illegal cash conversion operations by adopting the relevant regulation.

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REGULATION AND SUPERVISION

ON EFFECTIVENESS OF SUPERVISORY EFFORTS



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In the current economic situation, the effectiveness of the efforts undertaken by each officer and department of Rosfinmonitoring and by the Service, as a whole, has become as timely as ever.

Being an officer of the Supervisory and Legal Division of Rosfinmonitoring Interregional Office in the Siberian Federal District, I from time to time ask myself: how well I discharge my duties and how effective is my performance?

Unlike similar divisions of other agencies with the supervisory powers, the supervisory divisions of the Rosfinmonitoring local offices have very few staff, while their responsibilities are diverse and are often beyond the standard supervisory functions.

How can one select the key and most important tasks from the daily routine and use them as the criteria for assessing effectiveness of performance of a supervisory unit or an individual supervisory officer?

In my opinion, quantitative indicators, such as *number of conducted inspections or extent of coverage of business entities and individual entrepreneurs by the AML/CFT system*, do not provide a complete picture.

When selecting entities for inspection with the application of the risk-based approach, as required by the FATF Recommendations, the inspectors primarily visit those entities that are already involved in shady schemes or fail to comply with the legal requirements. However, the number of conducted inspections, by itself, is not the criterion of effectiveness of the AML/CFT system. The outcomes of such inspections are more important, i.e. whether or not the inspected entities stopped breaching the law.

Maximum coverage of the obliged entities by the AML/CFT regime is undoubtedly the important objective of supervision. However, even full coverage of entities and their registration do not guarantee that they will actually exercise their rights

and fulfill their obligations. Partially, it is due to the extensive expenses required for performing the established obligations: in Siberia, small businesses operate on a shoestring, and acquisition, for example, of enhanced qualified e-signature with the software application package and hardware is not the intention. We still receive handwritten registration forms. Some people think that our country is vast and they do not need to comply with the legislation, since they will not be found and caught.

The quantitative indicators of supervision are undoubtedly important for assessing effectiveness of the system operation and can be quite easily calculated and taken into account. However, they do not reflect the entire effect of supervisory efforts of interregional agencies.

In my view, qualitative changes in behavior of entities covered by the AML/CFT regime as a result of continuous interaction among the supervisory agencies, government authorities and private sector are more important, in this respect. It is more difficult to assess qualitative changes, but it is these changes that to a large extent demonstrate the effectiveness of the cooperative efforts.

For example, in recent years, Rosfinmonitoring in general and its Interregional Office in the Siberian Federal District in particular closely monitor implementation of the regional leasing programs.

Leasing is one of the most effective ways of building up and upgrading fixed assets, therefore, both the central and local government authorities pay considerable attention to the development and extension of this type of activity. Decline in the growth rate of leasing volume sounds a warning bell to the national economy. The measures taken by the government for stimulating leasing activity include tax exemptions and government programs for supporting small and medium businesses.

The regional programs for supporting small businesses in the Siberian Federal District include provision of subsidies for making the first advance payment for the leased equipment and also subsidies for making some payments under leasing contracts.

Strange as it may sound, such programs are implemented in the most effective way in the regions that experience budget difficulties, for example, in Trans-Baikal Region, where leasers take small agricultural equipment. The associated risks that exist in other regions are mitigated to a maximum possible extent.

In Trans-Baikal Region, a leaseholder (who wishes to receive a subsidy) shall obtain support



Rosfinmonitoring Interregional Office in the Siberian Federal District

of both the local community and administration. The personnel of the leasing company know where and how the leased equipment will be used. The equipment is leased only to those people who have received appropriate training and know how to use it. This operator (the leasing company) had very few cases of early return of the leased equipment and early termination of lease contracts. It should be noted that the personnel of the leasing company operating in Trans-Baikal Region receives regular AML/CFT training more frequently than prescribed by Rosfinmonitoring (once in three years) in order to be aware of all amendments in the legislation.

But, in general, the programs developed for subsidizing advance payments are exposed to high risks related to embezzlement of public funds since: (1) the amount of advance payment can be artificially increased; and (2) sham leasing contracts can be signed.

For recovering the costs incurred as a result of payment for property acquired under leasing contracts to a maximum possible extent, some leasing companies require to pay up to 90% of the cost of the leased property in advance. Criterion No.3404 set forth in Rosfinmonitoring's Order No.103 of 08.05.2009 serves as a risk indicator for the regional authorities responsible for allocation and distribution of the public funds. This criterion is defined as follows: "Amount of advance payment under a leasing contract differs significantly from normal leasing practice and exceeds 30% of total cost of the leased property".

There have been also cases when sham leasing contracts were signed just for receiving subsidies from the budget, since no property was actually acquired and leased under such contracts and all transactions thereunder were counterfeit.

Examination of certain regional programs developed for supporting small businesses revealed their vulnerability to the aforementioned risks.

Firstly, it was caused by the “tick the box approach” used by the regional administrations that did not thoroughly examine the documents necessary for receiving subsidies and did not verify identity of applicants (just checked that all seals and signatures were in place).

The gaps in knowledge and skills required for conducting customer due diligence by the personnel of the regional supervisory and legal divisions were filled in very quickly. On-the-job training was arranged in the regional ministries and departments. At present, officers responsible for implementing leasing programs examine the incoming documents with the use of open sources in the Internet and also send requests to Rosfinmonitoring Interregional Office in the Siberian Federal District for verifying registration of leasing companies and their compliance with the AML/CFT legislation.

Other vulnerability was due to the fact that no clear criteria for selecting persons eligible for subsidies were set forth in some regional leasing programs and requirements for them were very vague.

The leasing programs of Krasnoyarsk Territory and Buryat Republic were modified as proposed by the Interregional Office, such as: equipment shall be acquired only from official dealers; equipment shall be legally imported into the Russian Federation; new jobs shall be created (report to the social insurance fund), etc.

These measures yielded positive results: unlike in 2013, when 5 to 10% of funds allocated in the regions for supporting leasing programs were received by potential fly-by-night companies, no such cases were detected in 2014-2015.

Given that on average 50 million rubles are allocated from the regional budgets for supporting the leasing programs, it means that one or two additional small or medium businesses operating in the real (other than financial) sector received the government support.

Although, in absolute ruble terms, the amount of the public funds that were not misused is relatively small, the achieved effect is quite important since money was received by actually working people.

As for the mala fide recipients of subsidies, the Interregional Office filed necessary information on such persons with the regional law enforcement agencies for legal assessment.

TREND

NEW EUROPEAN UNION DIRECTIVE ON ANTI-MONEY LAUNDERING AND FINANCING OF TERRORISM – EUROPEAN ANTI-LAUNDERING REGIME KEY INNOVATIONS



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ON June 26, 2015 a new version of the European Union (EU) Directive on anti-money laundering and the financing of terrorism entered in effect¹. The Directive's adoption is an important landmark as it will have an impact on AML/CFT standards' evolution in all 28 EU member states. Legislation of other seven candidate states will gradually converge with the European norms within the framework of the European Union enlargement programs.

The Consequences of the Directive's adoption will be resonant outside the EU as well. Legal and physical persons making transactions in Europe – from opening correspondent accounts to real estate purchase - will face new requirements on identification and information disclosure. These system effects finally will provide some unification of legislation in various world regions.

In this article we would like to touch upon most significant innovations of the new anti-money

¹ Full title is Directive (EU) 2015/849 of the European Parliament and of the Council of 20.05.2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. Further anti-laundering Directive or Directive.

laundrying Directive which will affect not only the development of the European legislation but probably will form the basis for the best global practices.

First and foremost several notes should be made on the nature of European directives. It would be completely wrong to equate them with national laws. At supranational level in the EU there is a specific hierarchy of legislative acts. On its top there are regulations – documents of direct impact. A step downwards there are directives, that have indirect impact. Differently from a regulation, a directive sets only regulation goals while methods are up to the national governments. Consequently, first directives never focus on details but only form the basis for further regulations. Second, they imply a long period of incorporation in the national legislation. In particular, clauses of the anti-laundrying Directive will be realized in the EU members' law only by June 26, 2017.

COVERAGE

As opposed to national practices, when amendments are introduced to a law in force gradually, in the European Union a new legislation act often substitutes the old one. This happened to the AML/CFT Directive. Although formally it was created from scratch, approximately 70% of its contents remained unchanged.

It is evident in regulations coverage, in particular. The sphere of predicate offences and the Directive's subjects has remained almost the same. Core changes are few.

Perhaps, most interesting is that among AML/CFT subjects there are retail stores (art.2 p.1(3)(e)². For instance, as before AML/CFT requirements are obligatory for the salesmen who accept cash over a €10 000 threshold or pay a similar sum in cash to their suppliers. It is quite a curious practice, but in real life the impact of this requirement on the retail sector will be insignificant for two reasons. First, despite decrease of the threshold sum (earlier it accounted for €15 000, the European Commission proposed to lower it to €7 500), it remains relevantly high. Hence the requirement covers mostly vendors sailing expensive goods like vehicles, antiques, luxury items, etc. They



will have to take customer due diligence measures and design an internal control program. Second, for many countries this requirement will not be relevant at all. In 13 countries of the European Union restriction on cash payments have already entered in effect. Almost in all cases the limits do not exceed €10 000 (for example, in Belgium €3 000, in Portugal €1 000). Rare exceptions can be made for nonresidents (for example, in Spain and France cash transactions for them are limited by a €15 000 threshold) – however, these requirements are likely to be toughen.

The new Directive will cover either online gambling organizers (art.2 p.1 (3)(f) – earlier the regime was relevant only for physical casinos. This defiance was considered more a flaw than a deliberate decision, and was eliminated in the new legislative act.

The states are still eligible for withdrawing obligations settled by the Directive (art.2, p.3) from certain organizations. First of all it concerns institutions for which financial activity is not the main purpose or the financial activity is provided only to the customers of the main activity of such entities. The most common example is currency exchange provided by hotels for the guests.

CUSTOMER DUE DILIGENCE

Customer due diligence (CDD) is predictably in the focus of the Directive. However CDD clauses themselves are less interesting than the regulations logic. At the supranational level and in

² Here and further we refer to the official text of the Directive: Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC // Official Magazine of the EU

most European countries a neutral (regarding CDD procedure) regulation is conventional. In other words requirements to the process itself are not designed, only basic elements are defined. Pursuant to the FATF Recommendations they are five: client's identification (data collection), verification (authenticity control) on the basis of documents and information, definition of beneficial owner, commercial relationships goals assessment, follow-up in compliance with the risk profile.

The Directive proceeds from the concept that CDD forms may vary. The most important thing is that it would contribute to risk mitigation. Herewith softening of one element (for example, the absence of data verification) may be balanced by enhancing other elements (for example, monitoring). Absence of personal presence is no longer an absolute high-risk factor.

This approach contributed to emerging of quite effective customer due diligence models in Europe. For instance, in the UK to open a bank account it is sufficient to indicate your name and date of birth or name and residence reference. If the financial institution is capable of data verifying in two independent sources CDD is considered successful. Personal presence is required if the data authenticity is doubtful or there is a ML/FT suspicion. In online payments system PayPal a client is considered fully identified if he confirms to be in possession of a payment card, issued by a regulated financial institution.

Given the common approach, customer due diligence is featured in the Directive as a whole range of various solutions which differ from enhanced to simplified CDD. Strict criteria are not applied for grouping specific procedures which are more likely to be in this or that point of the continuum.

Pursuing the logics the Directive reserves full liberation from CDD only for strictly established cases, when an anonymity level in fact is equal to cash payments. In particular CDD free are certain instruments on the e-money basis with a balance and a monthly transaction threshold not exceeding €250. Such products may be used only for purchase of goods and services, they can't be topped up anonymously and funds withdrawal shouldn't exceed €100 (p.12).

CDD is necessary for single transactions exceeding a €15 000 threshold, money transfer starting from €1 000, cash payment over €10 000 and receiving gambling gains starting from €2 000 (p.11).

European approach to CDD for example differs from Russian practices, where procedure-centric model

dominates: if a client doesn't perform the established actions he is formally considered anonymous, although in fact his mobile phone number, residence, transactions pattern, data of issued prepaid cards, etc. are well known. In our opinion, refusal of such procedure-centric models will be inevitable as switching to risk-based approach. The Directive's text confirms the trend.

BENEFICIAL OWNERS

Strengthening controls over beneficial owners was one of the FATF Recommendations innovations in 2012. In fact it was more difficult to reveal a beneficial owner than it appeared earlier. Difficulties are relevant not only for trusts and offshore companies, whose structure may be intentionally complex. In large holdings heads of small affiliated companies may not be acquainted with the beneficiary, as they have never met him, and moreover don't know his ID data. Historical business practice turned out to be unprepared for high transparency standards.

In the European Union it was decided to upfront the problem on the basic level. The EU legal persons by default will be obliged to keep data concerning their beneficial owners. The data will be transferred to national registries of beneficial owners (art.30, p.3), which most probably will be designed on the basis of the present legal persons registries. Similar approaches are being under discussion in Russia.

Access to the beneficial owners registries will be open to law enforcement authorities and subjects of financial monitoring. Upon request certain information may be available for the stakeholders like journalists and human rights institutions.

Originally the beneficial owners registries were thought to be publically available. Nevertheless for reasons of private life protection it was decided to reject that approach. Trusts caused similar preoccupations. The Directive requires applying for them same beneficiaries disclosure regulations. However in some EU countries, for example in the UK, such structures are universally used for solving everyday problems: for instance, inheritance rights protection, spouses rights protection, etc. Consequently the Directive consolidates a compromise solution – data for registries on beneficial owners will be provided only by the trusts which use is followed by “tax consequences” (art.31, p.4). The most evident example of tax consequences is when a trust gains from securities which form taxable basis in favor of third parties.

POLITICALLY EXPOSED PERSONS

Problems faced by monitored subjects, when detecting politically exposed persons (PEPs), are similar to those of beneficial owners follow-up. Consequently it is natural that during several years a possibility of similar solution was being discussed: design state PEPs registries because it is the state that has access to most relevant information on staff changes. Now market participants have to rely on PEP lists designed by third parties – specialized companies. The difficulty is that it is impossible to verify the lists' quality and a subject of financial monitoring is the one that is fully responsible for this.

However, PEPs registries never appeared. Instead the Directive enlarges the list falling under this category – in particular, it comprises members of governing parties, Accounting Chambers, central banks' boards of directors (art.3, p.9). As before enhanced follow-up should cover not only PEPs themselves but their family members as well (spouses, parents, children, children's spouses) and also "close partners" (for example, business partners) (p.23). Pursuant to the FATF Recommendations the Directive features both foreign and national publically exposed persons.

In our view PEPs' detection problem still seeks solution. Enhancing of anticorruption efforts requires additional information sources without which financial institutions won't be able to mitigate risks, as the recent case with International Federation of Association Football revealed.

FINANCIAL INTELLIGENCE UNITS' LIABILITIES

With new revision of the FATF Recommendations financial intelligence units (FIUs) had to take new liabilities. Now apart from analyzing current suspicious transaction reports they are engaged in strategic analysis of challenges and threats and coordination of national risk assessment. According to the Directive, FIUs responsibility for national AML/CFT regimes effectiveness will increase. If before the main work quality criterion was a number of investigations and sentences for money laundering or terrorist financing, nowadays the list of indicators will be broadened significantly. Financial intelligence units will have to evaluate a number of monitoring subjects, their approximate audience, market volumes. Additionally a proportion of suspicious transaction reports, which led to real investigations, is calculated. Financial monitoring subjects receive a follow-up report regarding usefulness of the data by them provided (art.44, p.2).

Such requirements are not accidental. Strengthening of the formal approach inevitably causes a dramatic raise in suspicious transaction reports. Consequently law enforcement authorities receive lots of data most part of which is insignificant. It augments expenses of a FIU itself, economics in general and, importantly, makes it difficult to detect real risks. The European legislator, following the FATF, calls attention of the governments to the importance of quality and not quantity of suspicious transaction reports.



FURTHER STEPS

Adoption of the Directive doesn't mean the end of the European anti-money laundering regime development. By 26 June 2017 the national states should have implemented its core clauses in the internal legislations (art.67, p.1). Failure of the meet the requirement may cause a series of sanctions, starting with political pressure and ending with trial in the European Court.

In the meantime by 26 December 2016 an opinion on analysis of money laundering and terrorist financing risks in Europe shall be issued (art.6, p.5). By 26 June 2017 a similar report shall be adopted by the European Commission (art.6, p.1). For the same period the issue of the Guidance on simplified CDD (specifying the Directive's

requirements for conditions and forms of simplified measures) is scheduled (art.17). Finally, by June 2019 proposals of eventual integration of national registers of beneficial ownership shall be submitted (art.30, p.10).

Meanwhile the Directive's text was being under consideration of the institutions and national authorities, global terrorist financing risks were gradually increasing. As a result the evolution of anti-money laundering regime wasn't terminated with the Directive's adoption. On 2 February 2016 the European Commission published its Plan of action for combating the financing of terrorism, which slightly modifies the decisions taken earlier. Already in the beginning of 2016 the Commission will compile a list of countries with weak AML/CFT systems. At the same period proposals for Directive's modifications

will be prepared. In particular, it is scheduled to include virtual currency exchange locations in the list of financial monitoring subjects and settle registration procedures for them. Probably all the countries will be obliged to establish registers of bank accounts on their territories. The registers will keep data regarding all the bank accounts opened by customers in the national banks. Finally the Commission will exert pressure on the states in order to make them implement the Directive's clauses not by June 2017 but by the end of 2016. It doesn't have legal leverages but political conviction is likely to be enough. During 2016 Eurocommission will submit proposals on optimization of information sharing between the EU member states, harmonization of sanctions for money laundering and improvement of assets freezing and seizure procedures effectiveness.

NEWSBLOCK

Rosfinmonitoring and the Bank of Russia Joint Consultancies with the Private Sector on Monitoring of Terrorist Financing Risk-Related Transactions

IN the beginning of January 2016 the senior management of Rosfinmonitoring and Central Bank, representatives of the most significant Russian state-owned banks, regional banks and foreign financial institutions active in the Russian territory participated in a meeting. The event was hosted by the Federal Financial Monitoring Service. Rosfinmonitoring was presented by Deputy Directors Galina Bobrysheva and Alexander Klimenchenok, while the Central Bank by – Deputy Chairman Dmitry Skobelkin.

It was decided to hold this meeting after the FATF (Financial Action Task Force) extra session that took place in Paris on 12-14 December 2015.

In the light of ISIL unprecedented threat, the FATF wrapped up the necessity of strengthening countermeasures of terrorist financing and took the decision of revising its strategy. In particular, one of the program's points intends enhancing information exchange between competent authorities and the private sector as banks and other financial institutions

Background

Indicators of a transaction's unusual character (classifier) are comprised in the Bank of Russia's Regulation № 375-P, dated March 2, 2012, on Requirements to internal control regulations of a credit organization for preventing money laundering and financing of terrorism.

have direct contacts with clients and at the transaction phase are already able to reveal terrorism financing indicators. The recent tragic emergencies proved that financial and analytical information played a significant role in preventing terrorist attacks. This data should facilitate the elimination of terrorist financing sources, contributing to prevention and extension of terrorism generally.



As mentioned Rosfinmonitoring Deputy Director Galina Bobrysheva: "Our principle goal is to improve the understanding of the threat and timeliness of information exchange between national anti-money laundering system's participants, first of all financial institutions, eliminate the obstacles for the exchange. And most important is to target their internal control systems at terrorism financing risks' profile".

"Indicators matrix" was presented to the financial institutions' representatives. It had been designed by the financial intelligence and aimed at improving the quality of terrorism financing risks detection by organizations.

Rosfinmonitoring approach intends the following classification of indicators:

- processes linked to forming radical ideology (centres of radical propaganda, recruiters, informal groups, NPOs, religious centres, etc.),
- terrorists themselves (active and returned) and their surroundings,
- terrorism sponsorship (legal and shadow – trade in oil, arms, kidnapping, etc.).

A suspicious transaction profile suggested by financial intelligence includes specific criteria for identification the level of client's suspiciousness with account of geography and pay instruments in use.

Following the results, it was decided jointly with the Bank of Russia to timely focus financial institutions on detecting transactions linked to financing of terrorism.

The outcomes of the consultancies with the private sector were presented at the FATF Plenary in Paris in February 2016.

On Participation in G20 Anticorruption Working Group First Meeting in 2016

From 26 to 27 January 2016 Rosfinmonitoring representative V. Tarkin as a member of the Russian Federation delegation took part in the G20 Anticorruption Working Group meeting chaired by China and the UK in Beijing (People's Republic of China). To date China also presides G20.

A wide range of anticorruption issues was on the agenda. In particular, China introduced the following proposals: adopt high-level Principles of anticorruption

repatriation of both fugitives and assets, enlarge G20 expert network on entry refusal and establish a G20 research centre on anticorruption repatriation of both fugitives and assets.

Besides G20 member states the session was attended by representatives of United Nations Office on Drug and Crime (UNODC), Organization for Economic Co-operation and Development (OECD), Interpol, World Bank and other international organizations.

FIU Heads from Iran, Iraq, Russia and Syria Agree to Fight ISIL Financing

ON February 3, 2016, Rosfinmonitoring hosted a meeting of FIU Heads from Iran, Iraq, Russia and Syria dedicated to strengthening cooperation in the fight against terrorist financing. The meeting was part of the international efforts to combat ISIL.

Yury Chikhanchin, Director of the Federal Financial Monitoring Service, emphasized the importance of coordinated joint international efforts in this area:

"Given the direct impact the situation around Islamic State has on our countries, it is easy for



all to appreciate the need for joint mechanisms required to combat this common evil, especially in the current challenging circumstances”.

Meeting participants praised Russia for its efforts aimed at detecting and disrupting terrorist financing channels and centres used by Islamic State. The discussion focused on coordination

of activities and development of common approaches to combating terrorist financing by the FIUs of Iran, Iraq, Russia and Syria.

On the side-lines of the meeting, Rosfinmonitoring signed information exchange agreements with the FIUs of Iran and Syria, and prepared the groundwork for the signing of a similar agreement with Iraq.

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