

FINANCIAL SECURITY

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V. PUTIN:

“A secure barrier against laundering illegal proceeds and capital is one of the fundamental factors of the state anti-corruption policy”



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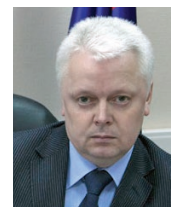
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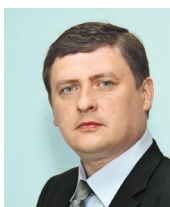
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DEAR READERS!



You are looking at the first issue of the Financial Security magazine.

This publication is current and well-timed. The laundering of proceeds of organized crime, terrorism financing, a high level of corruption in both

developed and developing countries, overall lack of transparency of the global economy are among the most urgent of global challenges today. Furthermore the situation is highly unstable — in reaction to the emergence and development of new innovative financial institutions and mechanisms, the criminal underworld seeks to use them to its advantage, and responds to the worldwide advancements of law enforcement systems with increased activity.

The main course for countering economic crime was defined by the global community represented by the FATF back in the 1980s — the fight against money laundering carried out not only by government agencies but also by financial institutions. These latter play as important a role in this struggle as the financial intelligence units, law enforcement and supervisory bodies. It is the experience of the

private sector that was the basis of the principles of customer due diligence — the basics of financial monitoring. However credit organizations and other financial institutions are not likely to achieve decisive success without the experience and methods of their colleagues from the competent state authorities.

In launching our magazine, we aim to turn it into a discussion venue for leading experts from state agencies, businesses, academia, independent research and audit firms, and civil society to address the topics of combating money laundering, financing of terrorism, the fight against economic crime and corruption. We hope to raise the role of financial institutions, increase the efficiency of control mechanisms, as well as develop more international cooperation in the fight against money-laundering.

Adopted in February 2012, the FATF Standards call for placing an emphasis on the risk-based approach in AML policy. In our magazine, we would like to launch a discussion in order to identify these risks from the point of view of all the above subjects of the anti-money laundering system, and discover ways to minimize those risks by developing mechanisms for their early neutralization.

Your opinion is vital to us. I sincerely hope that we will all work together on the future issues of Financial Security. The success of our joint work depends on the contribution of each of us.

***Very truly yours,
Yu. A. Chikhanchin,
Chairman of Editorial Board***

INTERNATIONAL COOPERATION IN ANTI-MONEY LAUNDERING AND COUNTERING TERRORIST FINANCING AS A FACTOR OF GLOBAL AND REGIONAL SECURITY

Yury A. Chikhanchin,
Director of Rosfinmonitoring

The problems of anti-money laundering and countering financing of terrorism is of immediate importance for the whole global community. Via inseparable financial bonds they are linked to the

most serious and dangerous crimes committed by transnational organized crime — terrorism, illegal trafficking in drugs, arms, and explosives, human trafficking, illegal migration, and others.

According to the UNODC estimates, the overall scope of illegal activity including purely economic offences reaches 2.1 trillion USD per year, which equals approximately 3.6% of the global GDP, with the laundered amount approaching 1.6 trillion USD.

While the globalization of financial markets leads to further blurring of national borders, an inflow of illicit funds can pose a threat to the economy of any country. It undermines the state reputation, disrupts the natural order of market mechanisms, criminalizes multiple economic

sectors, disturbs the balance, and increases the inflation pressure.

The modern advancements in information technology and telecommunications multiply AML/CFT-related risks. International experts (FATF) estimate the scope of funds laundered using virtual



systems alone reached as high as 50 billion dollars per year, and continues to grow. These schemes allow for an easy and fast transfer of money by exploiting gaps in international regulations.

The waves of the recent crisis attacking the global financial system aggravated its chronic problems, and contributed to the increase of transnational organized crime. National credit and non-credit institutions were among the first victims. These act as the initial, and in effect the main filter against illegal proceeds. Facing liquidity shortage business started turning more often towards “dirty” money.

In the opinion of Antonio Costa, the former head of the UNODC, at the height of the crisis a number of banks around the world were saved with their assets replenished by several billion dollars of drug cartels’ money.

In many countries the financial sector comprises tens of thousands of organizations. Multiplied by the number of states the figure reaches tens of millions

of banks, insurance, leasing and other companies that are used to channel inter alia illicit profits.

According to international experts’ estimates, the shadow sector comprises from 20% to 35% of the global economy.

Inflating the global financial system with “dirty” money, not unlike an infected blood transfusion, threatens the contamination of the whole organism.

To provide an adequate response to the global AML/CFT challenge in 1989 the G7 initiated the creation of intergovernmental organization - the FATF, that was tasked with the development and implementation of international AML/CFT standards.

The foundation for this organization was laid down back in 1988 with the adoption of the Vienna UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which criminalized money laundering as a serious criminal offence.

In addition to defining the international standards now known as the 40 Recommendations the FATF implemented a respective compliance control mechanism effective in all the countries. These efforts received full support of the UN Security Council and the G20 format, which obligated the states to abide by the international requirements.

The FATF Recommendations act as a comprehensive organizational and legal framework covering the issues of criminal justice and regulation, preventive measures for financial and non-financial institutions as well as interdepartmental and international cooperation.

The creation of the FATF opened new possibilities for combating national and transnational forms of laundering illegal proceeds and financing of terrorism. The established mutual evaluation mechanism set up a system for exerting pressure on countries not conforming to the standards. This system took shape in early 2000's with the publication of FATF black lists of countries posing a threat to the global financial security.

What are the FATF black lists? Financial institutions in other countries, first and foremost banks, are advised to limit their relations with countries included in these lists.

Being subject to FATF sanctions not only damages a state's reputation, but also hampers international settlement, and reduces investment appeal.

These considerations served as a stern signal for a number of world's economies ultimately leading to the formation of a global anti-laundering system via the adoption of relevant laws and designation of competent authorities, usually financial intelligence units (FIUs). Collaborative mechanisms began

From a small organization the FATF grew into a powerful global AML network spanning all the continents and comprising over 180 countries.

to appear on both domestic and international levels.

Today its primary objective is to uncover jurisdictions with strategic AML/CFT deficiencies, and establishment of effective AML/CFT means in all the countries.

Starting in the 1990's the FATF repeatedly reviewed its standards responding to new challenges and threats. In 2003, in view of the rising terrorist threat the 40 Recommendations were supplemented by 9 Special Recommendations.

The global community demonstrated its determination not only to curtail illicit financial flows, but also to close terrorist organization financing channels.

Later on the FATF mandate extended towards combating the proliferation of weapons of mass destruction.

The new FATF Recommendations of 2012 for the first time laid down an obligation for states to conduct a national ML/FT risk assessment. It calls the countries to uncover, interpret, and evaluate the national ML/FT risks, as well as effectively distribute the available resources for their minimization.

Currently, the FATF has eight fellow organizations — FATF-style regional bodies — the Eurasian Group (EAG), the Asia/Pacific Group, the Caribbean Financial Action Task Force, and others. They are responsible for ensuring stable development of national AML systems, and countering regional threats and challenges.

In the Eurasian space, an important tool for the integration of countries into the international AML/CFT system is the Eurasian Group created in 2004 upon the initiative of the Russian Federation. The EAG works on its objectives in close collaboration with other regional organizations — the Commonwealth of Independent States (CIS), the Collective Security Treaty Organization (CSTO), the Shanghai Cooperation Organization (SCO), and the Customs Union. The EAG has nine current members (Belarus, China, India, Kazakhstan, Kyrgyzstan, Russia, Tadjikistan, Turkmenistan, and Uzbekistan).

The key factor of combating ML/FT on an international scale is the availability of a mechanism for effective collaboration between national FIUs.

Here the primary part belongs to the international association of financial intelligence units — the Egmont Group.

The FATF standards require all the FIUs to seek membership of the Egmont Group. It already comprises over 130 financial intelligence agencies from around the world. Its primary mission is to foster speedy, constructive, and efficient cooperation between FIUs. The Egmont secure network alongside regular working meetings assists its members in their operative collaboration in pursuing specific international financial investigations.

For instance, the Russian FIU currently conducts financial investigations in partnership with financial intelligence units of over 60 countries. The closest



About 1.6 trillion USD is annually laundered (UNODC)



Global Trends and Challenges

Globalization of Financial Markets



Inflow of illicit assets seriously endangers domestic economies

Development of Telecommunication Technologies



Possibility of quick and easy money transfer using gaps in international regulation

Financial Crisis



Lack of liquid funds leads business to attract illicit assets

cooperation is with Spain, France, Czech Republic, Cyprus, as well as the Baltic and Scandinavian states.

There are cooperation agreements in place with around 70 FIUs. In 2012–2013, agreements were signed with the FIUs of Belize, Greece, Indonesia, Jordan, Kazakhstan, Columbia, Lebanon, Mali, Nauru, the Isle of Man, Tadjikistan, Ukraine, the Philippines, Sri Lanka, as well as a Memorandum of Understanding with Turkey.

Pressure upon European off-shores causes capital flows to drift towards the South-East Asia. In view of this Russia is enhancing its ties with Japan, Singapore, Malaysia, and China. There is exchange of experience with Australia and New Zealand..

One of the aspects of the global AML network is far from completion. This is uncontrolled territories,

non-recognized states or states with limited recognition, and even parts of states, where central

Despite all the efforts of the international community transnational organized crime remains a large scale profitable business.

authorities exercise only partial control, or none whatsoever. These territories reside outside of almost any FATF monitoring processes.

Here FIUs are either non-existent, or have limited potential and authority for information exchange. This situation can be exemplified by the Somali international piracy base.

With that said the greatest income of transnational organized crime proceeds from illegal drug trafficking amounting to 20% of all the criminal profits, which is equivalent to 0.5% of the world's GDP, or approximately 320 billion USD.¹ The observed growth of illegal drug trafficking is enabled primarily by the market expanding to new countries.

Drug trafficking may be divided into two parts — merchandise and finance. Whereas there is a considerable body of international experience with respect to the merchandise, the topic of uncovering the financial flows, assets related to drug trafficking currently remains poorly explored.

According to the UNODC data, Afghanistan is the largest global producer of opium poppy (63% of the world's produce). It is used to produce 90% of the world's heroin.² But where are the assets of Afghan drug industry?

Russia maintains an active stance with respect to combating drug trafficking in many international venues, striving to integrate the efforts of states and international organizations in the fight against the financial part of the drug industry.

For instance, as per the Vienna Declaration (the Pact of Paris), Russia alongside other countries and under the guidance of the UNODC takes an active part in compiling a map of financial flows distribution and financial centers of the Afghan drug industry.

This February, via the FATF platform Russia initiated a typology study of the Afghan drug traffic financial infrastructure. This research received considerable attention from the APG, India, USA, RSA, and the UNODC. It would help to engage the Middle Eastern, European and Central Asian countries in solving the Afghanistan problem, and to create an antidrug belt around this region.

Nowadays it has become clear that financial flows and drug routes differ geographically. Drug-related

profits tend to leave the consumer states to the so-called financial centers — nodes of money transfer networks. The movement of drug proceeds is now more often concealed by means of various Internet payment systems.

One of the best examples of effective international cooperation is the regional counter-drugs operation "Channel" carried out under the auspices of the CSTO. It is aimed inter alia at uncovering the financial part of the drug industry. This project successfully brought together the FIUs and law enforcement authorities of the EAG and CSTO member states. The participants of the last iteration were the FIUs of Armenia, Kazakhstan, Belarus, Ukraine, Poland, the Netherlands, Turkey, the USA, and other countries.

Another example of successful cooperation in combating illegal Afghanistan drug trafficking and its financial element is the implementation of the American-Russian initiative (within the framework of the Presidential Committee). This experience has no precedents in international practice. Furthermore this year the project was joined by India.

The results of the work were presented as a joint American-Russian report of the financial intelligence agencies of the two countries that was submitted to the national drug enforcement bodies (the Federal Drug Control Service of the Russian Federation, and the Drug Enforcement Administration of the USA).

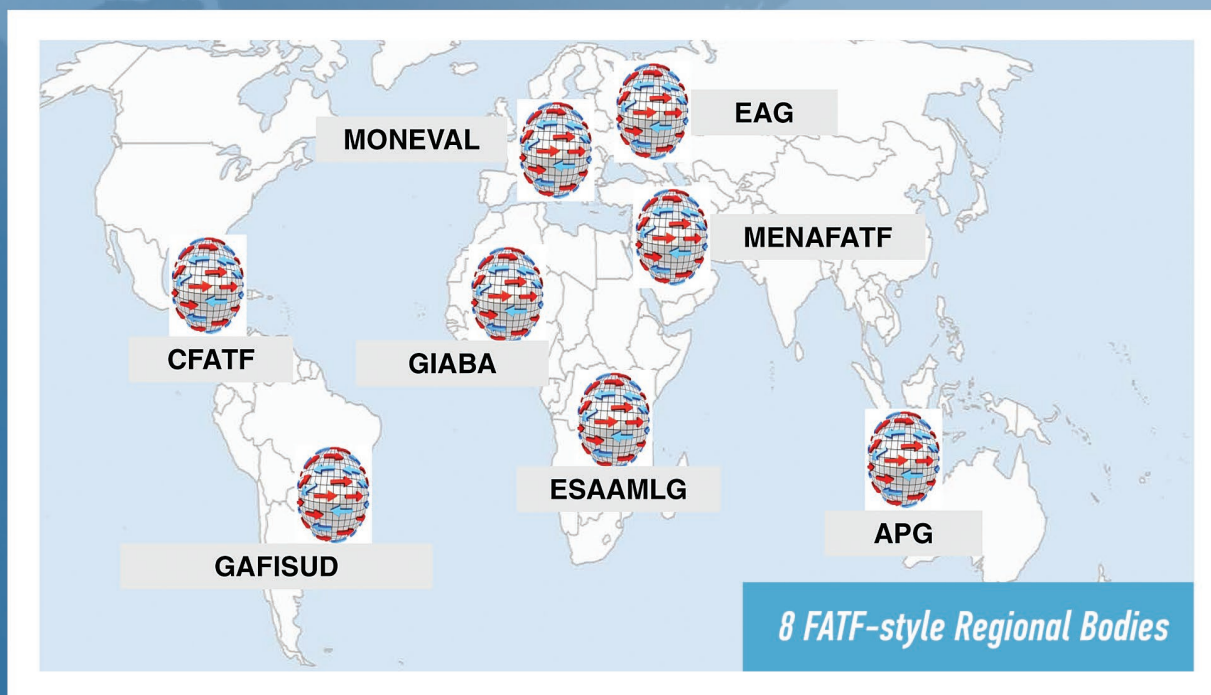
This project was successful in revealing global financial centers of drug proceeds accumulation and distribution.

For example, in 2012 the coordinated actions of the law enforcement and regulatory authorities from Russia, the USA, the UAE, the Kazakhstan and Belarus Republics coupled with Interpol's assistance led to the apprehension of the head of one of the biggest international drug cartels on the UAE territory. The cartel organized large shipments of Afghan

¹ UNODC, World Drug Report, 2012.

² UNODC, World Drug Report, 2012.

AML/CFT Global Network



Terrorists “feed” off charity by either disguising as charitable foundations, or by building web-sites for collecting donations on behalf of real or fictitious organizations. They openly promote donation via international social networks. By means of this mechanism legal assets are transferred for terrorist purposes.

opiates to the Russian Federation. This February the drug lord was extradited from the UAE to the Russian Federation to face criminal charges.

Laundered proceeds of economic crimes are increasingly becoming the source of funding terrorist activity. Due to the loss of rich sponsors the likes of Osama bin Laden, terrorist organizations have to expand their funding infrastructure, create their own “business platforms,” extort resources from financiers and entrepreneurs.

The success of combating these trends can be illustrated by the joint work of American and Russian financial intelligence units and law enforcement authorities with respect to the Benevolence International Foundation, which resulted in a heavy prison term for the head of this fund, and the detection of episodes where the fund financed terrorist groups on the territory of Chechnya, Bosnia and Herzegovina.

In certain regions illegal drug industry, terrorist groups and illegal armed groups (IAG) show signs of mutualism on the common grounds of separatism and religious extremism.

This has been proven in the course of joint investigation by American and Russian law enforcement authorities and financial intelligence units into the channels of distribution by organized criminal groups of funds received from selling cocaine and heroin via Panamanian companies. It was established that a number of Panamanian enterprises were headed by an individual earlier involved in the UNITA rebel organization (the Angola Republic) whose funding sources included drug trafficking.

Another aspect of the FT threat is modern, readily available telecommunication channels. The Arab Spring proved that these means can be converted into vehicles of propaganda, mobilization, and management of human masses. Today, transferring money via a mobile phone or through the Internet has become the norm. The high speed of these transactions presents particular danger. They can be performed from any location in the world, and can ensure a high degree of anonymity.

The FATF standards define the outline and principle mechanisms of countering financing of terrorism. The FATF recommendations require countries to compile national sanction lists of individuals and businesses related to terrorism and their accomplices, to suspend respective financial transactions, and freeze assets. These measures are often and effectively used by the international community.

However the practice reveals that national sanction lists may contain terrorist organizations and individuals that are considered to be terrorists on the territory of one country, but are not deemed as such in another state.

The necessity to consolidate these lists or at least to develop a system for their operative exchange between competent authorities in different countries

has now become evident. This step should increase the anti-terrorist security level.

The modern global AML system is in no small extent focused on applying the countering mechanisms against corruption and on fighting tax offences as a source of illicit funds.

While undermining national economies these crimes most often have foreign trails, as they employ foreign banks for the placement of illegal proceeds. Corrupt officials can directly participate in criminal schemes, provide cover, promote or block laws and regulations etc.

The effectiveness of international collaboration in the area of corruption can be exemplified by a case involving the embezzlement of budget funds in the amount of over 100 million USD by an international criminal group. The investigation was conducted through a collaboration of fifteen FIUs (primarily Italy, Ireland, British Virgin Islands, Latvia, Luxembourg, Cyprus, the USA, France, Switzerland, and Lithuania). These joint efforts led to the identification of the respective assets held abroad. A scheme for the legalization of over 10 million USD abroad, and of a similar amount on the Russian territory was uncovered. The investigation is in progress.

Another crucial issue of national and global security is ensuring transparency of legal persons.

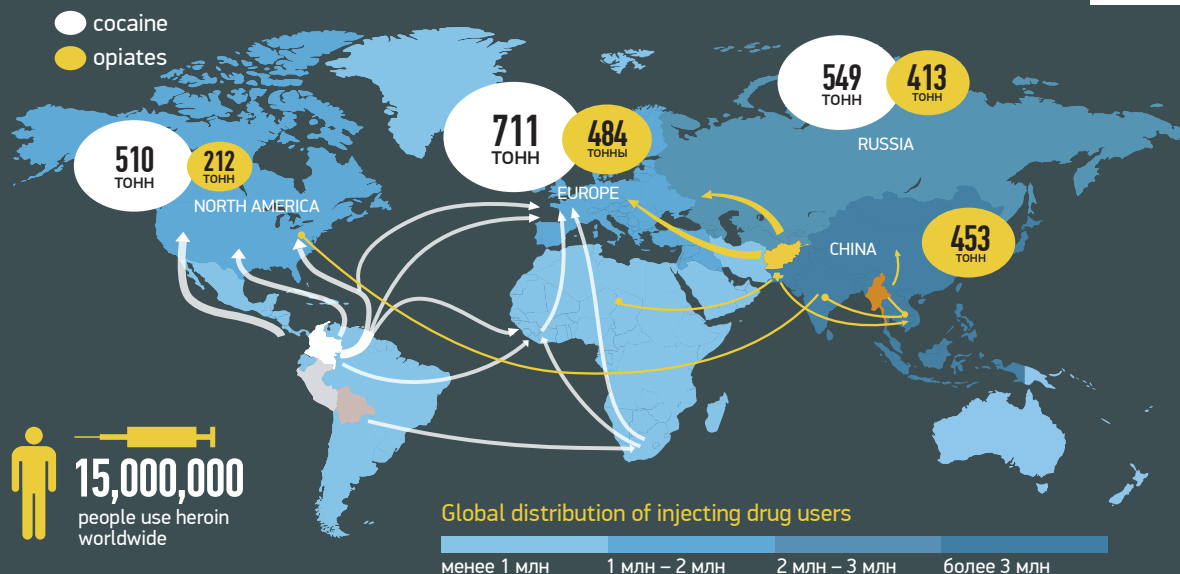
Businesses registered in off-shore jurisdictions alongside "shell companies" routinely established for criminal purposes constitute a group of particular risk. The primary efforts of the FATF are presently focused on the development of measures to identify beneficiary ownership of legal persons.

The problem of identifying and monitoring beneficiary owners of companies is relevant for most countries, not only for those where the AML/CFT system is in its initial stage, but also for states with long-standing and robust anti-laundering mechanisms.

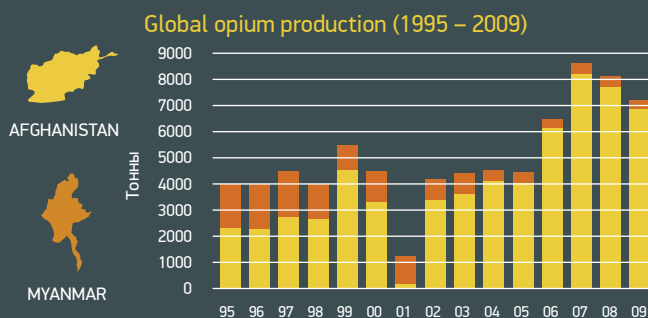
In this relation, it is noteworthy that financial organization, and first and foremost the banking

*The drug market volume is about 0.5% of the global GDP
(320 bln USD)*

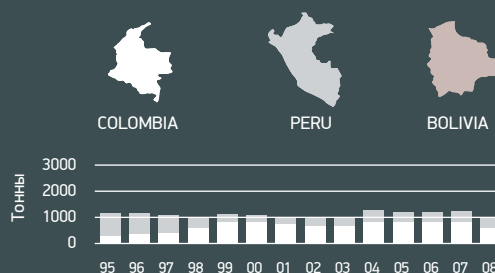
MAIN ROUTES OF GLOBAL TRAFFICK



COUNTRIES-LEADERS IN DRUG PRODUCTION



Global cocaine production (1995 – 2008)



sector, play a specific role in the anti-laundering system. On the one hand, banks serve as the main source of information on suspicious transactions and emerging negative trends.

On the other hand, it is the most vulnerable sector of the financial services market that acts as the most frequently used channel for dirty money. Striving for profits many banks are not above dealing with funds from drug trafficking and corruption. Banks have

numerous problems, and the global financial crisis encourages them to look for easy money.

Failure to meet the FATF requirements creates risks not only for governments, but also for credit institutions. There are plentiful examples where banks are wound up as laundries. The recent scandals involving money laundering committed by largest banks with dozens of branches around the globe are still fresh in memory.

Reports by regulators from various countries reflect the unwillingness of financial organizations to refuse from lucrative clientele. Once a bank enters a shady arrangement, it becomes more competitive, gets more clients, and has more liquidity and increased profits.

Another significant aspect of international AML/CFT cooperation is staff training and cross-training of FIU employees from various countries.

The successful creation of a training and methodology center on the basis of the Russian FIU (which inter alia trains personnel for the EAG FIUs) is an experience worthy to be adopted by other countries. Similar centers should target personnel training and provision of technical assistance for member states of regional groups, as well as research and typology study.

In the end, the rapid changes of the modern world continue to reshape the existing threats and create

new challenges that are playing a major role in the economic security of any state.

Our strategic task can be expressed in the following succinct form: to prevent criminal groups from infiltrating the global financial system, to deprive perpetrators of illegal assets, and to cut off terrorists from any funding.

Effective countermeasures on the domestic and international scale are possible only with the participation of civil society.

As it has already been mentioned, regrettably we have to admit that the intellectual leadership of transnational criminal and terrorist organizations is more focused, mobile, energetic in their actions and better informed.

In no small measure it is explained by the necessity even for reputable international and intergovernmental organizations participating in the fight against ML/FT to observe formal procedures, which leads to a belated response.

Improvement of "terrorist watch lists" routine

Double standards

Elimination of double standards

in recognition of "terrorist watch lists" on the interstate level

Operational exchange

Development of the operational exchange of "terrorist watch lists" between competent authorities of different states

Integration

Integration of domestic "terrorist watch lists" into regional databases of intelligence agencies

Development of freezing mechanisms

Development of freezing mechanisms

This creates the need to look for more effective interaction mechanisms reaching out to all the relevant agencies of various countries with the goal to enhance AML/CFT techniques



An important step in this direction will be made by the FATF initiatives and priorities for 2013–2014, when the presidency passes to the Russian Federation. However one should not forget that Russia started its way on the FATF black list. The Russian Anti-Money Laundering system was created due to the efforts of Viktor Zubkov, the head of the Financial Monitoring Service which was just established at the time. Now, 10 years later, Russia is presiding over the FATF.

Russia as the country currently presiding in this organization considers the most important item on its agenda to advance the cooperation between the

FATF and the Egmont Group of national financial intelligence units. In addition, the information interoperability within the Egmont Group itself needs to reach a qualitatively new level via the implementation of high standards.

We have to develop synergies between law enforcement authorities and FIUs, undertake international cooperation projects and carry out special measures similar to the Channel operation.

Another current strategic objective is for each state to conduct an evaluation of domestic ML/FT risks by means of creating national risk and threat assessment centers. The understanding of domestic risks and effective allocation of resources for their mitigation are the goals of paramount importance.

Russia fully supports the international initiatives striving to expand the contacts and reinforce the partnership with the private sector and civil society with respect to AML/CFT. Our key objective is to engage the global community — heads of states and governments, representatives of authorities, business groups, mass media, scientific and educational institutions, political and civil activists — in the creation of a unified AML/CFT front.

We are confident that the designated vectors of international cooperation will help substantially strengthen global and regional security.

“THE NEW FATF STANDARDS ARE THE NEXT STEP IN THE DEVELOPMENT OF INTERNATIONAL ANTI-MONEY LAUNDERING SYSTEM”

Vladimir P. Nechaev,
FATF President, 2013-2014



Vladimir P. Nechaev

The Financial Action Task Force is an intergovernmental body that develops global AML/CFT standards, and also assesses the national AML/CFT systems compliance. The FATF was established by the G7 in 1989 in response to the growing threat of drug trafficking worldwide, and by April of the following year developed 40 Recommendations on combating money laundering. These recommendations became the standard for the national AML system development and a benchmark to assess domestic anti-money laundering regime.

Further development of AML/CFT systems combined with experience gained in this area justified the need to address new evolving trends and financial products in the Recommendations; therefore they were revised for the first time in 1996. In 2001 the FATF responded to the terrorist attacks of September 11 by developing

8 Special Recommendations on countering financing of terrorism (CFT) and expanding its mandate to deal with the issue of terrorist financing. Since then the 40+9 Recommendations (the 9th Special Recommendation was added in 2004) became the standard for both anti-money laundering and countering financing of terrorism measures, and were revised a second time in 2003.

In the latest version of the Standards revised in 2012 the FATF fully integrated the CFT Recommendations into the new 40 Recommendations, thus emphasizing the close link between AML and CFT measures.

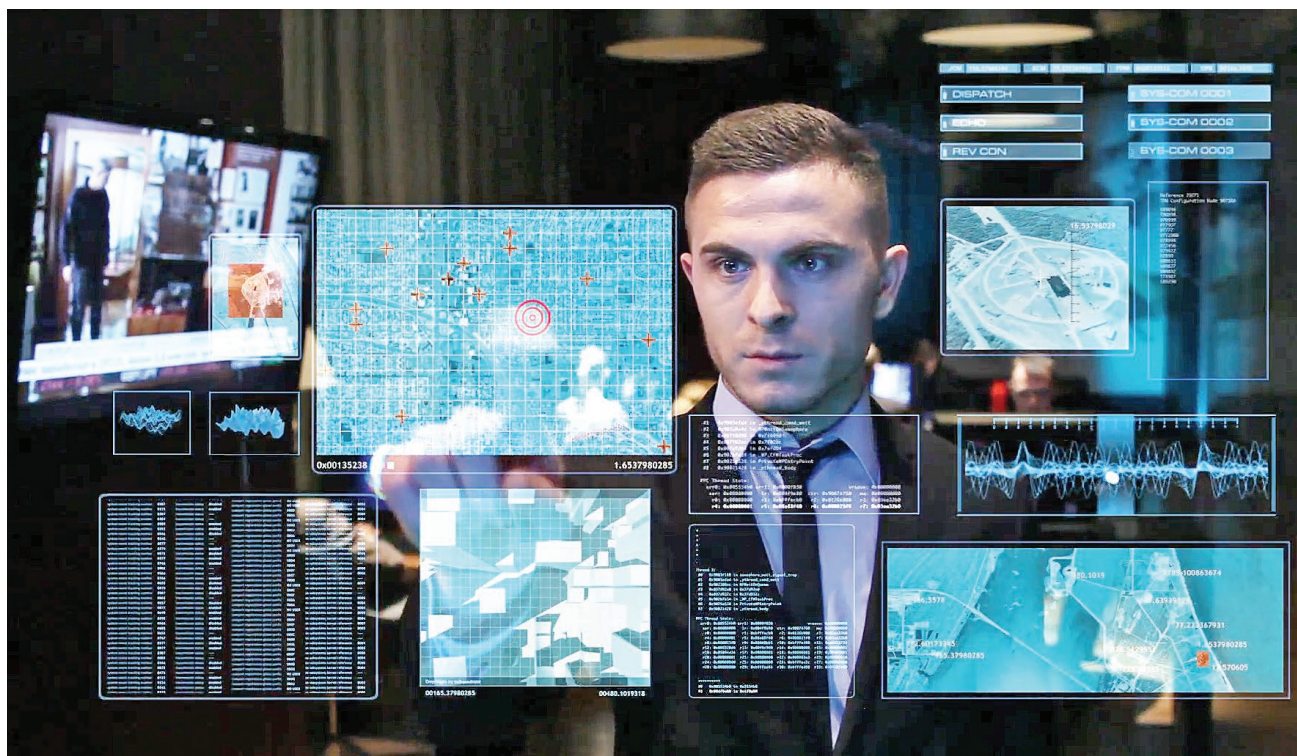
Among the important new aspects the following are worth mentioning

- Mandatory risk assessment and application of risk-based approach requirements are added as an independent recommendation. This approach should be an essential foundation to efficient allocation of resources within national AML/CFT regimes.
- The Customer Due Diligence measures are strengthened for politically exposed persons. Now, these requirements apply not only to foreign politically exposed persons, but also to domestic politically exposed persons entrusted with a prominent function by an international organization.
- Serious tax crimes are added to the designated categories of predicate offenses. That will allow the state authorities to investigate the laundering of the proceeds of such crimes.

- An independent recommendation on sanctions related to proliferation of weapons of mass destruction is included. This recommendation is aimed at the consistent and effective application of targeted financial sanctions set by the relevant resolutions of the UN Security Council.
- Roles and responsibilities of the law enforcement authorities and financial intelligence units in information analysis and investigation of money laundering and terrorism financing cases are better outlined.

An important tool that helped the FATF Recommendations to become universally recognized mandatory international standards was not only their recognition by the UN Security Council, but such a mechanism as mutual evaluations of member states on the basis of the FATF's common methodology. In February 2013 the FATF adopted a new Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems which will form the basis for the next round of mutual evaluations. This Methodology will be used by all members of the FATF global network.

The FATF Presidency is carried out on a rotational basis with the President being appointed for one year. Starting from July 2013, the FATF Presidency goes to the Russian Federation for a period of one year. Throughout this year the FATF will complete all preparations and commence a new round of mutual evaluations. During its FATF Presidency the Russian Federation intends



to focus on strengthening mutually beneficial cooperation with all FATF-style regional bodies, the World Bank and the IMF, the Egmont Group and other stakeholders, and on continuing productive consultations with the private sector. Attention will also be paid to cooperation with the G20 Anti-

Corruption Working Group. The year of the Russian Federation Presidency of the FATF happens to be the 25th anniversary of the organization which marks its transition to the next level of its work towards ensuring the integrity of the international financial system.

FATF Recommendations

Media Narrative

The FATF standards have been revised to strengthen global safeguards and further protect the integrity of the financial system by providing governments with stronger tools to take action against serious crime.

The revision of the Recommendations aims at achieving a balance:

- On the one hand, the requirements have been specifically strengthened in areas which are higher risk or where implementation could be enhanced. They have been expanded to deal with new threats such as the financing of proliferation of weapons of mass destruction, and to be clearer on transparency and tougher on corruption.
- On the other, they are also better targeted. The risk-based approach will allow financial institutions and other designated sectors to apply their resources more efficiently by focusing on higher risk areas while there is more flexibility for simplified measures to be applied in low risk areas

Key Changes to the Standards (the FATF Recommendations):

- The Risk-based approach: Countries need to clearly understand the money laundering and terrorist financing risks which affect them, and adapt their AML/CFT system to the nature of these risks – by applying enhanced measures where the risks are higher with the option of simplified measures where the risks are lower. The FATF has established the risk-based approach which will enable countries

The FATF Recommendations are the basis on which all countries should meet the shared objective of tackling money laundering, terrorist financing and the financing of proliferation. The FATF calls upon all countries to effectively implement these measures in their national systems.

and financial intermediaries to target their resources more effectively. A well-implemented risk-based approach means that the AML/CFT system will be more effective, and will help countries implement measures to encourage financial inclusion, as called for by the G20.

- Transparency: Lack of transparency about the ownership and control of legal persons and legal arrangements, or about the parties to wire transfers, makes those instruments vulnerable to misuse by criminals and terrorists. The FATF has strengthened transparency requirements in these areas. This means requiring that there is reliable information available about the beneficial ownership and control of companies, trusts, and other legal persons or legal arrangements. It also means more rigorous requirements on the information which must accompany wire transfers. Measures to improve transparency, implemented on a global basis, will make it harder for criminals and terrorists to conceal their activities.

- **International Cooperation:** With the increasing globalisation of money laundering and terrorist financing threats, the FATF has also enhanced the scope and application of international cooperation between authorities. The revised Recommendations will mean more effective exchanges of information for investigative, supervisory and prosecutorial purposes. This will also assist countries in tracing, freezing, and confiscating illegal assets.
- **Operational Standards:** The FATF Recommendations concerned with law enforcement and Financial Intelligence Units have been expanded significantly. The revisions clarify the role and functions of the operational agencies responsible for combating money laundering and terrorist financing and set out the range of investigative techniques and powers which should be available to them, e.g., to obtain and analyse financial information about a suspected criminal's accounts and transactions
- **New Threats & New Priorities:** The FATF is addressing new and aggravated threats and responding to the priorities set out by the international community, e.g. through the G20. The key issues addressed are
 - **Financing of Proliferation** - The proliferation of weapons of mass destruction is a significant security concern, and financial measures can be an effective way to combat this threat. The FATF has adopted a new Recommendation aimed at ensuring consistent and effective implementation of targeted financial sanctions when these are called for by the UN Security Council.
 - **Corruption & Politically Exposed Persons** - The FATF Recommendations strengthen the requirements on financial institutions to identify politically exposed persons (PEPs) – who may represent a higher risk of corruption by virtue of the positions they hold. The existing requirement to apply enhanced due diligence to PEPs has been extended from foreign PEPs, with new risk-based requirements applied to domestic PEPs and PEPs from international organisations, and to the family and close associates of all PEPs –reflecting the methods used by corrupt officials and kleptocrats to launder the proceeds of corruption.
 - **Tax Crimes** - The list of predicate offences for money laundering has been expanded to include serious tax crimes. This will bring the proceeds of tax crimes within the scope of the powers and authorities used to investigate money laundering. The smuggling offence has also been clarified to include offences relating to customs and excise duties and taxes. This will contribute to better coordination between law enforcement, border and tax authorities, and remove potential obstacles to international cooperation regarding tax crimes.
- **Terrorist Financing** – The financing of terrorism remains a serious concern for the international community, and remains a major focus of the FATF Standards. The FATF's nine Special Recommendations on terrorist financing have been integrated fully within the Forty Recommendations, reflecting both the fact that terrorist financing is a long-standing concern, and the close connections between anti-money laundering measures and measures to counter the financing of terrorism.

- Clarifying obligations: The FATF has updated its Recommendations to reflect practices in the financial sector (e.g., to set out clearer requirements for financial groups) and to apply the experience gained from the implementation of the FATF Recommendations by countries (e.g., by clarifying customer due-diligence requirements where countries have had practical difficulties with implementation).

The FATF has intensified its interaction with the private sector and civil society. FATF Recommendations have been updated to respond to issues raised by the private sector and civil society, and the revisions have been developed on the basis of extensive public consultation.

The FATF and the FATF-Style Regional Bodies (FSRBs)

The FATF is the global standard-setter for measures to combat money laundering, terrorist financing, and (most recently) the financing of proliferation. It is an intergovernmental body with 36 members, and with the participation of over 180 countries through a global network of FATF-style regional bodies.

The FATF Recommendations set clear requirements. These are supported by rigorous and objective assessments of how these requirements have been implemented in countries AML/CFT systems, through assessments conducted by the FATF, FSRBs, the IMF and World Bank. The FATF has stringent follow-up and enforcement mechanisms, taking actions against countries which fail to implement adequate measures. The FSRBs also have their own follow-up mechanisms similar to the FATF's procedures.

The work of the FATF and FSRBs has driven a profound change in global efforts to combat money laundering and terrorist financing:

- In almost all countries AML/CFT systems have now been set up or are in the process of being set up – and in particular in developing countries, strengthening their own defences against crime and corruption and building a global AML/CFT system.
- The FATF's global network has expanded – the FATF works with a global network of eight FATF-style regional bodies, through which countries in each region assess implementation of the FATF Standards, and conduct work on regional money laundering and terrorist financing threats.
- FATF and FSRBs' Mutual Evaluations and Follow-Up Reports show sustained improvements in many countries which have been assessed.
- The public identification of high-risk and non-cooperative jurisdictions has resulted in over 30 countries recently enacting laws and other measures to strengthen their legal frameworks for combating money laundering and terrorist financing. The FATF will continue its systematic review of high-risk and non-cooperative jurisdictions.

Implementation of the revised Recommendations

The FATF will begin a new round of evaluations on the Recommendations of its member countries in 2013 and will focus much more intensively on assessing how effectively countries have implemented the Standards.

DANIEL L. GLASER: “IDENTIFYING BENEFICIAL OWNERS IS A KEY COMPONENT OF ANY EF- FECTIVE ANTI-MONEY LAUNDERING SYSTEM”

Irina V. Ivanova,
Rosfinmonitoring Press Secretary



Daniel L. Glaser,
US Assistant Secretary for Terrorist Financing

Daniel L. Glaser, US Assistant Secretary of Treasury for Terrorist Financing, who serves under David S. Cohen, Under Secretary for Terrorism and Financial Intelligence, talked to the Financial Security magazine about the new FATF obligations stemming from the G20 course for more stringent financial regulation. Being put on the «black list» is not the only hard measure for the countries, whose legislation does not meet the international standards. Even the current members of the FATF will have to face the consequences of their faults.

The FATF Plenary meeting, which was attended by Russia, was held in Paris on February 20–22, 2013. The Russian delegation was headed by Yuriy Chikhanchin, Director of Rosfinmonitoring. In addition, our country was represented by Alexey Petrenko, Head of the International Relations Department of Rosfinmonitoring, representatives of the Ministry of Finance, Central Bank, FSB (Federal Security Service of the Russian Federation), FCS (Federal Customs Service of Russia), FKS (Federal Drug Control Service of the Russian Federation), FSFR (Federal Financial Markets Service), Office of the Prosecutor General of the Russian Federation and the Presidential Administration of Russia.

The outcome of this meeting was a series of important decisions ensuring the protection of the international financial system from any threats. The work on identifying jurisdictions posing the highest risks will continue, while all countries with AML/CFT deficiencies should eliminate them as soon as possible.

The FATF meeting coincided with two other important events. In Moscow, the G20 finance ministers declared the strengthening of banking supervision and regulation, and already on February 22, the State Duma adopted the draft law on combating illegal financial transactions in the first reading.

The G20 called on the FATF to continue its work on the identification and monitoring of jurisdictions with a high level of risk and strategic AML/CFT deficiencies.

«We look forward to the completion of the 2013 revision of the FATF assessment process and support the ongoing work of the FATF, including the identification of beneficial owners of corporate vehicles,», — states the final communique.

Daniel L. Glaser, a member of the U.S. delegation, talks about the new obligations these changes impose on the FATF.

FS: What was the main outcome of this plenary meeting?

D.G.: The FATF had a very successful week that has shown very important results over the past several years. The FATF has become increasingly important in the financial world and in the world at large. It demonstrated its growing role in anti-money laundering and counter-terrorist financing, - the essential components of financial transparency and a healthy international financial system. We have seen a number of large and important countries enact legislation to bring them further into compliance with these international standards.

So, what we have seen is, countries around the world are recognizing the growing importance of their cooperation with the FATF and further regulation of their financial systems in their fight against terrorism, organized crime and other forms of illicit activity.

FS: Do you think the G20 call for identification and monitoring of high risk jurisdictions with strategic deficiencies is a proof of more stringent global financial regulation?

D.G.: The G20 finance ministers meeting in Moscow has once again underscored the importance of the work that FATF has been doing, both in terms of setting the international standards and enhancing transparency, and in terms of their implementation. At the very outset of the financial crisis in 2008, the G20 finance ministers underscored this, and they have repeatedly done that as recently as the last week in Moscow in reiterating their view that the work of the FATF is particularly important with respect to what it is doing on transparency and to ensure global compliance with international standards. I think it is a reflection of an international consensus that anti-money laundering international standards are an integral part of what countries need to do in order to

Daniel L. Glaser:

In recent years Russia has shown significant results in combating money laundering. The results are so good that Russia is preparing to take over the presidency of the FATF, it will happen in July.

protect themselves and combat any illegal activity, any potential abuses of their financial systems. And so I think the result of this is going to be FATF redoubling its efforts and we should act as quickly as possible in an aggressive way to ensure that there are appropriate customer due diligence requirements, to ensure that there are other appropriate international standards in place relating to financial transparency and of course working as hard as it can to ensure that countries around the world are in fact compliant with these standards.

FS: *Do you think financial transactions are becoming more viable for misuse?*

D.G.: No, I don't think it's an indication that there is more crime in the world today than there has been previously, I think what it is a reflection of common understanding that in order to combat crimes of all sorts, whether it is terrorism, whether it is organized crime, whether it is narcotics trafficking, that an integral component of that has to be implementing effective anti- money laundering and counter-terrorist financing laws both on the regulatory side and on the criminal prosecution side. So, what you have seen, what I think the development over the past several years has been is an increasing recognition of how essential those tools are to our collective efforts to fight organized crime, to fight narcotics trafficking, to fight terrorist organizations.

FS: *What is the key component of an anti-money laundering system?*

D.G.: Identifying beneficial owners is a key component of any anti-money laundering system and as you note the G20 finance ministers highlighted this as one of the key issues for FATF to continue working on. And FATF has just completed a revision of its international standards and part of that revision was strengthening the recommendations and the international standards with respect of the identification of the beneficial owners. What FATF will do moving forward is proceed with its new assessment process. It is not an easy task to make your national standards fully compliant with the international standards, but I believe that we all aware of this and each country will redouble its domestic efforts making sure its legislation is fully compliant. It will identify deficiencies, assesses its legislative base and makes its best to eliminate the deficiencies. The US along with other countries assures that it will do their utmost in order to eliminate its deficiencies.

FS: *What is the role of the private sector in the anti-money laundering and terrorist financing system?*

DG: Bringing their work to the maximum compliance with the standards is the price that the financial institutions have to pay for approaching the international norms. Anyway, they should work

in accordance with the provisions of domestic law and standards, which should, in their turn, meet international standards. Therefore, due to the constant growth of these standards it is essential for the business community to keep up with them. It is very important both for the FATF and the country authorities to make every attempt to bring the private sector to understanding those rules, make sure that the business community is on the right track. It is also vital for the countries to set the rules using all regulatory and legislative tools that are at their disposal. And in the event that the financial institutions are reluctant to abide by these rules, they would suffer due punishment.

FS: *How do you assess the role of Russia in AML/CFT?*

DG: In recent years Russia has shown significant results in combating money laundering. The results

are so good that Russia is preparing to take over the presidency of the FATF, it will happen in July. And it marks the progress not only at the «technical level», but also at the level of political commitment to pursue these standards. Russia, being a part of the international community, is doing everything possible to be the forefront in the adoption of anti-money laundering legislation; and that helps the Russian Federation not only to cope with the domestic threats, but also to be the world leader in that.

Anti-money laundering standards are of paramount importance as they provide the level of financial transparency which allows opposing all forms of illegal activities. And no matter what the main concern of a particular state is, drug trafficking, corruption or organized crime, anti-money laundering system must be efficient enough to help the country have an advantage in active opposition to destructive processes.

PERFORMANCE EFFICIENCY IS ON AGENDA

*The 18th Plenary Session in Minsk Outlined New Priorities:
to focus the efforts on strengthening FATF-style regional bodies*

Konstantin V. Litvinov,
Rosfinmonitoring expert



The 18th Plenary session of the Eurasian Group on Combating Money Laundering and Financing of Terrorism took place in Minsk on May 23-24, 2013. Participants of the Plenary included Yuri Chikhanchin, EAG Chairman, Director of Rosfinmonitoring, Bjorn S. Aamo, FATF President, Alexander Konyuk, Prosecutor

General of the Republic of Belarus, Alexander Yakobson, Chairman of the State Control Committee of the Republic of Belarus, representatives of all EAG member states, international organizations and observers.

The Plenary week comprised several meetings of EAG Working groups on mutual evaluations and legal

issues, on typologies, technical assistance, combating illicit proceeds of drug trafficking, crime and terrorism, as well as supervision, where leading experts discussed the most acute problems of the said areas.

Starting from July 2013 Russia will begin its FATF Presidency for the first time ever. In this connection

Yuruy Chikhanchin, EAG Chairman, Director of the Federal Financial Monitoring Service, said that this role is very distinguished and pointed out considerable results achieved under the Norwegian Presidency, related primarily to implementation of new recommendations.

Yuriy Chikhanchin , EAG Chairman, Rosfinmonitoring Director:



“We would like to focus our efforts on strengthening the FATF-style regional bodies, where our Eurasian group belongs. Not all the questions on the FATF Plenary agenda are relevant to the regions. Living in one region we are united by a single economic and political environment, and therefore can better discern the emerging risks and threats that may evade the FATF attention.

The first and most important task of the EAG is to assist all countries in establishing anti-money laundering systems. If 10–11 years ago we said that virtually none of the Eurasian countries had an anti-money laundering system, today we can positively say that the system like that is set up and all the countries were in one way or another assessed within the EAG framework, or directly by the FATF, thus confirming the foundation of their anti-money laundering systems. This is arguably the most impressive record of achievement.

More serious, but narrowly focused goals are the formation and development of financial intelligences. Financial intelligence is the link between the financial institutions complying with the FATF standards and the law enforcement units. Only the authorized body is given the right to access banking and other financial commercial information, and after appropriate analysis transfer it to the law enforcement unit. This is a specific body with a very keen tool, and at the same time, with a very large measure of responsibility because the information should not harm either the government or business, or the economies of the region. Besides, it should not allow the development of criminal groups directly in the state or in our Eurasian community”.

Bjorn Skogstad Aamo, 2012-2013 FATF President:

“The EAG is one of 8 FSRBs — FATF-style regional bodies, independent but closely connected with FATF activities, abiding by the FATF standards and monitoring FSRB member-countries’ compliance. The EAG as an FSRB certainly plays an important role in training the member-states to combat money laundering and terrorist financing. The FATF considers that the EAG and its member-states have made great progress for 10 years of its existence.”

This February we revised the methodology for national assessments and moved effectiveness to the top of our priorities. What do I mean? Countries are generally compliant with the legal and technical issues of the FATF Standards, which does not necessarily mean that the Standards are effectively enforced or the actual combat against money laundering and terrorist financing has always been up to mark. Sometimes this process faced certain problems and deficiencies. Therefore, we feel the necessity to facilitate the countries’ effective implementation and enforcement of the FATF Standards, ensure efficient cooperation of the FIUs worldwide and promote the domestic FIU activity.

Another current challenge for us is a more effective detection of beneficiaries in legal entities. This implies we should understand clearly who stands behind such companies. The new version of the Standards is more specific on that issue. It’s worth mentioning that this issue was brought up at the opening of the 17th EAG Plenary Session. In particular, it was suggested that some companies are set up to conceal the proceeds for tax avoidance or evasion, or to launder illicit proceeds. In such cases it is most important to find out who ultimately own such companies, and it should be done in a most efficient way.

The rationale of a risk-based approach is the principle that both state, official, and private sector organizations should allocate more resources for higher-risk organizations. Accordingly, the lower the risk is, the fewer resources are allocated. A special guide was issued to adjust risk-based approach locally, but it is clear that each individual country will need to undertake a comprehensive analysis of the risk profile to understand which companies can be considered high-risk and should receive more attention. Similarly to how the bank selects high-risk customers, the state authorities should do the same”.

In the opening speech, the FATF President said that he was honored to visit such an important event, and thanked representatives of the Republic of Belarus for their hospitality.

At the Plenary open session, current FATF initiatives and the FATF Methodology of mutual evaluations, approved in February, 2013 were under discussion. EAG member states reported on their participation in the FATF work, the amendments to national laws on combating money laundering and terrorism financing, implementation of action plans.

Monitoring upon the results of the 1st round of EAG mutual evaluations and preparation for the 2nd round were the key points of the agenda. Particularly, reports on the progress made by Kyrgyzstan, Tajikistan and Kazakhstan in pursuance of mutual evaluation recommendations were considered and approved. In compliance with EAG procedures reports on India and Russia's progress that had been previously submitted to the FATF, were also approved. EAG workgroup co-chairs represented follow-up reports on meetings held on 21-22 May.

The delegates also worked upon issues of improving the legal framework of regional AML/CFT – memoranda of cooperation with the SCO and CIS Anti-Terrorist Center (ATC).

The Plenary agenda also included the issues of AML/CFT staff training for the EAG member states and support of the scientific research for national AML/CFT systems. Presentations were made by Galina Bobrysheva, Director General of the ITMCFM, Vladimir Ovchinnikov, Director of the IFES MEPhI and Mikhail Karataev, Corresponding Member of the Russian Academy of Natural Sciences.

The ITMCFM reported on the scientific research projects, technical assistance and EAG inter-session seminars. The delegations expressed their gratitude to the ITMCFM for its significant contribution to the enhancement of the AML/CTF national systems. Other reports dealt with the network-based training of AML specialists as well as scientific and research support national “anti-dirty” money systems.

The 19th Plenary meeting will be hosted by Turkmenistan in November, 2013.



AGREEMENT SIGNED TO ESTABLISH THE COUNCIL OF HEADS OF THE CIS FINANCIAL INTELLIGENCE UNITS

*Agreement to establish the Council of the Heads
of the CIS FIUs is signed by the CIS Presidents in Ashgabat*

Viktor I. Kobylyakov,

executive Secretary of the Council of the Heads of the CIS FIUs

The initiative to establish a special body composed of the heads of financial intelligence units of the CIS members introduced in 2009 by the Republic of Belarus was supported by the majority of the Commonwealth countries, as well as by the Eurasian group on Combating Money Laundering and Terrorist Financing.

The decision to establish the Council of the Heads of the CIS Financial Intelligence Units was taken by the CIS Heads Summit in Ashgabat (Turkmenistan) on December 5, 2012.

The Agreement to establish the Council was signed by the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan and Ukraine.



The decision to sign the Agreement on the establishment of the Council of Heads of the CIS Financial Intelligence Units was taken by the Russian Federation on October 27, 2012 (Executive Order of the President of the Russian Federation No. 494-RP).



The Council of Heads of the CIS Financial Intelligence Units shall identify priority areas for cooperation; promote the development of common approaches to the harmonization of national legislations; develop proposals for improving the legal base for cooperation; and coordinate the

collaboration between the financial intelligence units as well as other competent authorities.

The Council of Heads of the CIS Financial Intelligence Units shall also facilitate joint FIU activities, timely information exchange and personnel training and development.

INAUGURAL MEETING OF THE COUNCIL OF HEADS OF THE CIS FINANCIAL INTELLIGENCE UNITS

*The functions of the Council Secretariat entrusted to the
Federal Financial Monitoring Service of the Russian Federation*

Viktor I. Kobyljakov,
Executive Secretary of the Council of the Heads of the CIS FIUs

The inaugural meeting of the Council of Heads of the CIS Financial Intelligence Units (hereinafter referred to as the Council) established on December 5, 2012 by the CIS Heads Summit in Ashgabat was held at the CIS Headquarters in Minsk on May 22, 2013.

Currently five states (the Republic of Belarus, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan, and the Republic of Ukraine) have already ratified the Agreement to establish the Council.

The first, inaugural meeting of the Council was attended by the delegations of Financial Intelligence Units from the CIS members, parties to the Agreement establishing the Council of Heads of the CIS Financial Intelligence Units: the Financial

Monitoring Center of the Central Bank of the Republic of Armenia, the Financial Monitoring Department of the State Control Committee of the Republic of Belarus, the Financial Monitoring Committee of the Ministry of Finance of the Republic of Kazakhstan, the State Financial Intelligence Service under the Government of the Kyrgyz Republic, the Federal Financial Monitoring Service of the Russian Federation, the Financial Monitoring Department of the National Bank of the Republic of Tajikistan and the State Financial Monitoring Service of Ukraine.

Members of the CIS Executive Committee and Yury Andreev, the Representative of the Secretariat of the Inter-Parliamentary Assembly of the Commonwealth of Independent States under the CIS Executive Committee, also participated in the meeting.

Alexander V. Maksimenko, the Director of the Financial Monitoring Department of the State Control Committee of the Republic of Belarus, was elected



Chairman and **Malice T. Mambetzhonov**, the Chairman of the State Financial Intelligence Service under the Government of the Kyrgyz Republic, was elected co-Chairman by the Council members.

The functions of the Council Secretariat were unanimously entrusted to the Federal Financial Monitoring Service of the Russian Federation. Viktor

I. Kobyljakov, Advisor to the Federal Financial Monitoring Service of the Russian Federation, was appointed the Head of the Council Secretariat and Georgi L. Samsonov, Advisor to the Department for Cooperation in Security, New Challenges and threats Areas of the CIS Executive Committee, was appointed his Deputy.

The meeting approved the Council Rules of Procedure and scheduled the date and venue for the next meeting of the Council of Heads of the CIS Financial Intelligence Units.

INFORMATION TECHNOLOGIES FOR FINANCIAL INTELLIGENCE

Konstantin V. Litvinov,
Rosfinmonitoring Expert

The joint workshop of the Egmont Group and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) organized by the International Training and Methodology Center for Financial Monitoring ITMCFM (Russia) took place in Minsk. The workshop was titled Contemporary Approaches to the Development and Management of Analytical Information Systems for FIUs.

The effectiveness in responding to black money laundering greatly depends on IT solutions. Obviously, humans cannot be completely replaced by computers. The ultimate decision is still with the analyst responsible for financial crime investigations. But the knowledge that can be programmed shall provide an efficient tool for automated monitoring and analysis.

The decision to hold the workshop was made at the EAG 17th Plenary meeting in New Delhi

with support of the Egmont Group. Mr. Boudewijn Verhelst, Egmont Group Chairman (Belgium), Mrs. Hennie Verbeek-Kusters, Head of the Egmont Working Group on IT (Holland), and FIU experts from various countries took part in the event.

The Eurasian region is a significant and active part of the Egmont information exchange network. Mr. Boudewijn Verhelst particularly emphasized the role of FIUs of the Russian Federation due to the country's vast territory and sizeable financial sector. Rosfinmonitoring is one of the most important members of the Egmont Group. The main goal of the international FIUs organization is to create a worldwide information exchange network.

Deputy Director of the Federal Financial Monitoring Service, Mr. Valery Shubin, confirmed that Russia is closely cooperating with FIUs from other countries on IT and technologies.

Mr. Vitaly Prosvirov, Head of Coordination and International Cooperation Service of the Financial Monitoring Department of the State Control Committee of Belarus, noted that it is a great privilege for Belarus to host such an important event in Minsk.



Vitaly Prosvirov, Head of Coordination and International Cooperation Service of the Financial Monitoring Department of the State Control Committee of Belarus:

"Information technology is a cornerstone of financial intelligence. As a saying goes, "master of information – master of situation". Today FIUs have to manage large amounts of data and need comprehensive solutions for data processing. Cooperation with Russia, our close neighbor and ally, is constantly developing – we exchange information and experience."

Combating criminal money laundering and terrorism financing requires joint efforts – this was proved within the framework of FIUs collaboration. Information exchange was an important part of the workshop. The participants exchanged experiences to learn something new from each other and improve national AML/CFT systems. Therefore, unification and development of common

IT standards are among high priority tasks of the Egmont Group.

Issues common to all Egmont Group member states became talking points at the workshop: first of all, pursuance of the latest revision of FATF recommendations. Mrs. Hennie Verbeek-Kusters said that sometimes analysts assess received data relying either on their intuition or experience. Such knowledge helps them make the right decisions but often remains only in their minds. We need this knowledge to flow into IT and become available to all FIUs.

At the opening event the address of Yury A. Chikhanchin, EAG Chairman, and Director of Rosfinmonitoring, was read to the audience. In the course of the workshop, representatives of EAG member states (Belarus, China, India, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, Uzbekistan) and EAG observer states discussed issues of common interest with the Egmont Group delegation. Leading IT experts from FIUs of various countries presented their reports that sparked a lively discussion followed by a Q&A session.

The workshop was not "a private club" of IT specialists. All reports drew great attention from not only IT specialists but also financial analysts, heads of departments, and other participants. They debated, for example, on an IT-specific report of Mr. Josef Margalit, Senior Consultant of the Israel FIU, "Creating a Protected Information Security System for Data Processing in the FIU". A lot of related issues were touched upon during the discussion.

A great deal of interest was generated by three reports, presented by the members of the delegation from the People's Republic of China, who exchanged experiences on combining efforts of three financial intelligence departments from different state agencies.

Mrs. Renu Amitabh from India, introduced an FIU information system that leverages comprehensive functionality and cutting-edge technologies. The report of Mrs. Alice Amirbekyan from Armenia featured a turn-key solution that drew attention of representatives from low-budget FIU IT departments.

The report of Mrs. Hennie Verbeek-Kusters aroused great interest, as it set forth the decision-support

concept of Egmont IT solutions and approaches put forward by the Working Group on IT. It is a very essential and relevant document that stipulates the framework and architecture of all information systems, regardless of employed technologies and solutions. Rosfinmonitoring expressed readiness to take part in the development and implementation of the document. Some workshop participants were also committed to take part in the development of the FIU Information System Maturity Model (FISMM) of the Egmont Working Group on IT.

FIU representatives from Serbia and Israel shared their impressions on the workshop with our correspondent.

Vladimir Rakotceovich, FIU Expert, Serbia:



The seminar agenda is very current because the challenges we face have very much in common and our solutions to the problems will also be mutual. Each of us will have to cope with these problems sooner or later. But at this workshop we can talk to our colleagues and get swift solutions. I think that efficiency improvement of existing systems will be on the agenda at the next workshops. In fact, we have already defined respective methods and just need to update, adjust, enhance and customize our solutions.



Josef Margalit, FIU Senior Consultant, Israel:



"This is yet another EAG and ITMCFM workshop that I attended. What I really appreciate is the opportunity to openly exchange experiences and ideas and participate in live discussions. In this view, I deem the seminar one of the best I have ever attended. We discussed a lot of challenging issues. New entrants can also take advantage of the discussions because they can understand the nature of the problems they face, become familiar with expected problems and FIU routine. In fact, such events allow existing FIUs to share their experiences. It's worth mentioning that the workshops of this kind make FIUs believe that the unified information exchange network will be well-funded and that information can and must be shared. The information exchange has already been put in place and will spread out regardless of borders, cultural differences and what is even more important – regardless of financial crime typologies we are facing".

Boudewijn Verhelst, the Egmont Group Chairman:



"The Eurasian region is an important and active participant of the Egmont Group information exchange network. I would like to specifically highlight the role of the Russian FIU due to the size of the country and the size of its economy and consequently its financial sector. Rosfinmonitoring is one of the leading members of the Egmont Group. The key objective of the Egmont Group is to build a global information exchange network for the FIUs. The role of the Egmont Group vis-à-vis FIUs should become similar to the one played by Interpol for police.

Information exchange is a very important part of its activity. FIUs, which cannot speak to their foreign neighbors, actually are working blind, since money laundering and terrorist financing are transnational crimes. So, basically, the main and the most important advantage for the FIUs participating in the Egmont Group, is that they can use the Egmont Group secure communication channels. We are dealing with quite sensitive information and the Egmont Group secure communication allows real time exchange of information for analytic purposes. The second advantage for the Egmont Group members is an opportunity to exchange their knowledge and expertise like it is happening during this event".

Hennie Verbeek-Kusters, Head of the Egmont Working Group on IT

“Combating money laundering and terrorist financing should be a joint effort. That is why it is important to share our experience and learn something new from each other during the workshop. It will help us to take informed decisions at the national level. One of the Egmont Group top priorities is further standardization and unification followed by the development of a common standard for our IT systems.

But all Egmont Group members have a number of common issues. First of all, they should pursue the latest revision of the FATF Recommendations. Sometimes analysts assess received data relying either on their intuition or experience. Such knowledge helps them make the right decisions but often remains only in their minds. We need this knowledge to flow into IT systems and become available to all financial intelligence units”.

One of the most pressing issues facing FIUs is the creation of data marts that can be visualized in a graphical form. Object links define its properties and allow for preliminary automated analysis. With innovative IT capabilities, the system creates relevant schemes to improve FIU operational efficiency. Easy-to-use interfaces, system operability, accessibility, security and feedback are key factors.

In the closing speech, Mrs. Hennie Verbeek-Kusters suggested that the interested participants join the Working Group on IT.

Hennie Verbeek-Kusters:

“We focus our efforts not just on information technologies, but first of all on our assistance to financial intelligence units. Without IT solutions, FIUs cannot work efficiently. The Egmont Group encompasses FIUs that differ in number of specialists, type of activity and structure. We try to support them all”.



At the closing session, all participants were unanimous in their support of holding future workshops and in promoting further cooperation in the area of automation of FIU activity.

ITMCFM, as the workshop organizer, prepared recommendations of the joint EAG and Egmont Group workshop that were approved by the participants. FIU representatives explained the concept of the next workshop to be held by the

Egmont Working Group on Training on 3 July 2013 in Sun City (RSA). The topic of the workshop is “Financial Flows Related to Illicit Drug Production and Trafficking”. The workshop’s purpose is to exchange experiences related to drug trafficking, and discuss problems in detecting financial flows related to drug trafficking and to provide recommendations for financial intelligence units to work more efficiently in this context

Recommendations of EAG and Egmont Group joint workshop

- Continue experience exchange in IT for financial monitoring in Eurasian region.
- For the Egmont Working Group on IT: consider the possibility to hold such workshops in other regions.
- Apply to the EAG Secretariat to inform other FATF-style regional groups on the results of the workshop.
- Consider the possibility of creating a special information resource for new IT products and their implementation.

MAIN MONEY LAUNDERING AND TERRORIST FINANCING RISKS ARE EXPLAINED IN THE FATF STANDARDS

Pavel V. Livadny,
head of the Legal Department of Rosfinmonitoring



Pavel V. Livadny

Adopted in February, 2012 the new FATF standards adjusted the vector of development of the international anti-money laundering system while maintaining continuity with previous Forty and Nine Recommendations.

After 25 years of the FATF existence almost every country in the world has implemented the Know Your Customer principle in its legislation and legal practice, criminalized money laundering and terrorism financing, established interaction between the state and the private sector to combat criminalization of the financial system, and created a Financial Intelligence Unit. The institutional and legal framework of the global AML/CFT system is now in place.

However efficiency and effectiveness are a different issue.

Therefore today the FATF makes the effectiveness of AML/CFT work the cornerstone which becomes

crucial in its traditional country compliance assessments, and the rating of a country in this highly reputable organization will depend on the solution of this problem.

The effectiveness is connected with the rational allocation of AML/CFT resources and therefore a risk-oriented approach is used. The national risk assessment and the development of mitigation strategy are described in the first and second 2012 FATF standards, making up their core.

The Russian Federation responded promptly, making the Rosfinmonitoring the national center for assessing and combating ML/FT, and proliferation-related threats to the national security pursuant to Decree of Russian President № 808 dated June 13, 2012.

This decision started a massive reform of the AML/CFT legislation to adjust it to the FATF standards and needs of the legal practice. The decisions of Russian President stated in Decree № 596 dated May 7, 2012 On the Long-Term Economic Strategy played an important role in this work.

Created by a presidential executive order in July, 2012 and supervised by Evgeny M. Shkolov, Aide of Russian President, an interagency working group which comprises the Rosfinmonitoring representatives, alongside heads of law enforcement and economic agencies, developed well-known draft law № 196666-6 on countering illegal financial transactions.

This project encompasses all important initiatives taking into account international standards, experience, and legal practice of the Rosfinmonitoring and other agencies.

It should be underlined, that the main ML and FT risks and the ways to mitigate them are explained in the FATF Standards.

First of all, it is lack of transparency which is related to situations when significant companies have so-called beneficial owners, natural persons

that actually control a company's actions and decisions though formally they are not connected with it. The FATF strongly recommends financial institutions to take all available measures to identify beneficiaries.

The level of economic crimes is still high. The FATF recommends more rigorous criminal penalties for economic crimes, notably for money laundering.



Evgeny M. Shkolov

Therefore, tax crimes should be considered as predicate crimes for money laundering and it is important to develop assets seizing mechanisms.

Then, it is, unfortunately, the terrorist threat which is still present.

Finally, there are global corruption risks — to combat these the FATF recommends paying particular attention to transactions and assets of high-ranking officials equally domestic, foreign and international.

The analysis of the Russian economy as it was formed in the post-crisis period under the influence of the global recession and in the context of regulation liberalization trends, shows that main interconnected and interdependent risks for Russia are non-transparency of businesses'

activity and structure caused, first and foremost, by the difficulty in identifying their ultimate beneficial owners, use of off-shores and so-called “special purpose vehicles” (shell companies) for these purposes. Unfortunately, this situation is aggravated by the fact that ill-gotten funds received from financial transactions undertaken in the totally non-transparent environment are often used for terrorism financing.

In this way, we see that Russian risks are not unique but on the contrary intrinsic to the current world order, both for developing and developed countries.

Therefore the implementation of the FATF Standards is even more essential.

These factors determine the content of draft law № 196666-6 which was prepared by the Rosfinmonitoring, completed by the Working Group under Evgeny Shkolov supervision, introduced by the Government and adopted by the State Duma at the second reading on May 25, 2013.

The draft law eliminates the threshold for the criminal liability for laundering crime-related funds, introduces the seizure of property obtained through laundering illicit proceeds, and considers tax crimes as predicate for money laundering.

The adoption of this draft law will not only fully comply with international obligations of the Russian Federation as an active FATF member, but also satisfy the needs of legal practice.

ROSFINMONITORING ACCOUNTED FOR 2012

Irina V. Ivanova,
Rosfinmonitoring Press Secretary

On February 15, 2013 the Board of Federal Financial Monitoring Service had a session On results of the Federal Financial Monitoring Service work in 2012 and tasks for 2013.

Alexander Buksman, the first deputy of the Russian Prosecutor-General, Valentin Letunovski,

the Deputy Head of the Presidential Control Directorate, Mikhail Vanichkin, the Deputy Minister of Interior, Vladimir Kalanda, acting Director of the Federal Drug Control Service of Russia, Viktor Melnikov, the Deputy Chairman of the Central Bank of Russia, as well as representatives of relevant ministries and bodies joined the Board session.

In opening remarks Yury Chikhanchin, the Rosfinmonitoring Director, noted:

"...Now we have new tasks and objectives: we should meet the requirements of international standards; in financial institutions we should create such conditions that will not allow proceeds connected with money laundering and terrorism financing to enter our financial system; we need closer interaction with law enforcement authorities. And President gave us one more task — to create the National Center of Risk Assessment in this area".



During the session the Board listened to the report of Yury Korotki, the first Deputy Director of Rosfinmonitoring.

"...It is important to understand that the measures to strengthen Rosfinmonitoring, outlined in the Russian Federation Presidential Decrees are the reaction to changes in the AML/CFT area both in the country and worldwide, —highlighted Y. Korotki in his speech. — The need of our intelligence analysis product has grown as well as requirements to our work, while international standards became more rigid..."

Excerpts from the Annual Progress Report of the Federal Financial Monitoring Service

Powers and strategic tasks

In June 2012, pursuant to Decree №808 of Russian President, Rosfinmonitoring passed to the direct control of President of the Russian Federation. During this process the Russian financial intelligence obtained the most important **function of the national center of assessing risks and threats to the national security** that arise during laundering of ill-gotten proceeds, financing of terrorism and proliferation of weapons of mass destruction.

Our Strategic Goals:

- To make the Russian system of combating laundering of illegal proceeds and countering financing of terrorism more efficient.

The implementation of the strategic goal of the Federal Financial Monitoring Service activity will facilitate transparency, integrity and reliability of the financial system and financial institutions.

- Comprehensive international counteraction.

As criminal constantly create new, more sophisticated methods and technologies, we also should regularly improve measures to combat laundering of illegal proceeds and counter financing of terrorism.

One of crucial areas in this international cooperation is to organize comprehensive cm. counteraction of laundering of illegal proceeds and financing of terrorism based on unified international standards.

Regulation

The Russian Federation, as a FATF member, is guided primarily by international standards when developing the domestic AML/CFT legislation.

In February 2012 the revised **FATF 40 Recommendations** were approved. (the detailed new FATF requirements can be found in V. Nechayev's article, page 18). Thus, 2012 became a year of working on legislative proposals for implementing new requirements and their coordination with all relevant agencies.

The introduction of the draft of **the federal law №196666-6 On modification of certain legislative acts of the Russian Federation regarding countering illegal financial transaction** to the State Duma of the Federal Assembly of the Russian Federation became an intermediate result of this work. (The progress of the Federal Financial Monitoring Service on the bill can be found in P.V. Livadny's article, page 45)

Financial flows analysis

Banks are still used for laundering "dirty" proceeds. In 2012 particular attention was paid to detecting organizers and operators of shadow banking schemes and stable criminal groups. It is established that the transfer of funds, ill-gotten funds including, was performed through deferred payments for goods already imported in the Russian Federation. As a rule, third countries

financial institutions are used as money laundries in these schemes.

Professional participants of securities markets and managing companies had a stable trend to create and use shell companies or whole licensed groups as the core of shadow schemes including for the purposes of illicit transfer of assets from banks. Certain groups had characteristics of a "financial pyramid".

Supervision

The Rosfinmonitoring supervises the compliance of reporting entities with the AML/CFT legislation. Reporting entities are the following:

- leasing companies;
- factoring companies;
- gambling organizations;
- MVTs providers;

- pawnshops;
- real estate agents.

In 2012 the financial intelligence conducted **about 1000 inspections** as part of its supervising activity. The use of risk-based approach boosted the efficiency of these actions. While the number of planned inspections was reduced (**by 12% in comparison with 2011**), their efficiency increased.

Coordination and interaction

One of the factors of efficient functioning of the AML/CFT system is the scale of involved organizations as well as quality and quantity of reports they submit. Main information suppliers to the Rosfinmonitoring federal data base are credit organizations. In comparison with the previous year the number of reports submitted by credit organizations has increased by **13%**, mostly due to more efficient and effective detection of “suspicious” financial transactions by the banking sector.

The number of reports filed by non-credit organizations to the Rosfinmonitoring has increased by **20%** including through the growing number of non-credit

organizations cooperating with Rosfinmonitoring (14% annual growth).

One of key tasks in 2012 stayed to increase efficiency of interagency interaction, coordination and measures undertaken by all participants of the national system of anti-money laundering and countering terrorism financing. The Interagency commission under Rosfinmonitoring, the Interagency group to combat illicit financial transactions and other similar interagency groups were among most significant contributors.

In 2012 the Rosfinmonitoring continued its work on areas of priority which encompass the majority of spheres of the State social and economic activity.

The smuggling supply chain of narcotic drugs and psychotropic substances from Denmark and the Netherlands through the territory of Norway in the Murmansk Oblast was cut out by the Financial Monitoring Service jointly with the law-enforcement.

Rosfinmonitoring detected a fraudulent scheme enabling an organized criminal group to steal and misappropriate funds allocated from the budget under “Maternity Capital” program. Materials of investigations were passed on to the law enforcement authorities.

As a result of the joint work of the Rosfinmonitoring and prosecution and law enforcement authorities, criminal cases were initiated upon unlawful use of monetary funds followed by embezzlement and legalization by senior management of public utilities organizations, public officials of the local self-government bodies and managing organizations in various regions of the country.

Financial investigations

The efforts of the Rosfinmonitoring in financial investigations in 2012 were focused on the participation in the investigation of serious economic crimes, including corruption related offences, detection and suppression of suspicious financial schemes.

The total number of the Rosfinmonitoring financial investigations in 2012 continued to grow and reached more than **30 thousand** mostly due to streamlined information resources, automated financial investigations and improved interagency cooperation mechanisms.

Large inspections were conducted upon primary requests of law enforcement and prosecuting authorities. In 2012 the Rosfinmonitoring headquarters and its regional branches received more than **25 thousand** requests. Financial investigations were also conducted according to complaints of citizens and organizations, governmental authorities and in the course of interaction with foreign Financial Intelligence Units (FIU).

In 2012 the Rosfinmonitoring together with the Federal Drug Control Service of Russia analyzed facts of drug-related transactions and laundering drug proceeds using bank cards, "digital wallets", etc. As a result, a group of individuals linked with illegal drug trafficking and settling payments through clearing centers was detected. Materials were sent to the Federal Drug Control Service of Russia, then, a criminal case was initiated and persons involved in the drug trafficking were arrested.



In February 2012 the revised International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation were adopted.

(FATF 40 Recommendations)

International investigations

As for international investigations, the number of inspections conducted at the request of foreign states FIUs has increased due to improved

cooperation mechanisms both via the Egmont Group and bilateral meetings

One of the most successful international investigations is the detection and investigation of the scheme of transfer of funds received from Afghan drug sale. It was for the first time that financial managers were uncovered through banking operations. Within a working group of the U.S. —Russia Bilateral Presidential Commission, the Rosfinmonitoring and FinCEN (U.S. FIU) developed the criteria for selection of financial transactions connected with illegal drug trafficking. Joint work with the FIUs of the UAE, the U.S., Germany, the Republic of Tajikistan, the Kyrgyz Republic, the People's Republic of China, the Republic of Uzbekistan, the Islam Republic of Afghanistan was conducted. The data received by Rosfinmonitoring served as the foundation for the documentation of illicit proceeds obtained by the organizers of drug trafficking channels and led to the subsequent apprehension of one of them in the UAE. The group participants are facing the charges.

The Rosfinmonitoring and FinCEN prepared a joint report concerning persons of mutual interest. This report was forwarded to the Federal Drug Control Service of Russia and respective divisions of the

U.S. Drug Enforcement Administration (DEA) within the joint project Illegal Drug Trafficking Financial Transactions

In 2012 the material of the Rosfinmonitoring financial investigation of the case of an international criminal group that misappropriated money from the Russian budget, won the contest for the best financial investigation among financial intelligence units of the Egmont Group member-states (more than 130 countries). The investigation brought together the efforts of 15 FIUs: the British Virgin Islands, Italy, Ireland, Cyprus, Luxemburg, the U.S., France, Switzerland, Lithuania and other.

International activity

The main tasks of the international activity of the Rosfinmonitoring in 2012 was to detect and suppress the activities of transnational criminal groups, to comply with the FATF standards, as well as keep leading positions in international sites of anti-money laundering and countering financing of terrorism (FATF, MONEYVAL, Egmont, EAG) and to extend both bilateral and multilateral cooperation.

The events of 2012 contributed to the approval of the Russian application for the FATF presidency in 2013-2014. For the first time Russia became part of the FATF Managing Group that serves as the efficient

protection of both Russia and its strategic partners' interests.

In 2012 the Rosfinmonitoring performed substantial joint work with the Egmont Group. The 20th anniversary Plenary Meeting of the Egmont Group took place in Saint-Petersburg. This meeting adopted crucial initiatives, one of them is the development of the cooperation between the Egmont Group and regional associations of FIUs, including the informal Council of the FIUs heads of EAG countries. The Egmont Group and the FATF rapprochement was set as one of priorities of the Russian presidency in the FATF in 2013-2014.

THE INTERNATIONAL TRAINING AND METHODOLOGY CENTER FOR FINANCIAL MONITORING AS AN ELEMENT OF THE RUSSIAN ANTI-MONEY LAUNDERING SYSTEM

Galina V. Bobrysheva,
*General Director of the International Training
and Methodology Centre for Financial Monitoring*



Galina V. Bobrysheva

The International Training and Methodology Centre for Financial Monitoring (ITMCFM) was established in accordance with the Decree adopted by the Government of the Russian Federation in November 2005 as an element of the Russian anti-money laundering system. Set up by Rosfinmonitoring the ITMCFM contributed to the establishment of the Eurasian Group designed to unite the states of the Eurasian region for combating money laundering and the financing of terrorism.

The idea to establish the EAG dates back to 2003 and belongs to its first chairman – Viktor Zubkov, who was then the Head of the Russian Financial Monitoring Committee. At the time Russia had already been a

member of MONEYVAL (Committee of the Council-of-Europe Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism). The EAG was actually established in 2004. Financial, material, and technical resources were provided by RosFinMonitoring with ITMCFM support.

The EAG's primary objective was to support its member countries in creating their national anti-money laundering systems. Today, we can definitely say that the EAG establishment stage is complete, thanks to the ITMCFM as well.

In 2011, the EAG acquired a new status and became a full-fledged intergovernmental organization with an international secretariat and its own budget. As a result, the Government of the Russian Federation determined new ITMCFM objectives, including Russia's rigorous participation in the activities of international bodies combating money laundering and the financing of terrorism. These include, first of all, FATF as a global authority and its regional groups with Russian participation, such as MONEYVAL, the EAG, the Asia/Pacific Group (APG), and the Egmont Group. Furthermore, new relevant regional authorities may be established in the future such as the Council of Heads of the CIS Financial Intelligence Units. Thus, the ITMCFM strives to ensure that the Russian Federation collaborates with all the relevant international AML/CFT organizations.

The current guidelines of the Center activities are:

- Developing training and methodology base for AML/CFT;
- Research and evaluation aimed at improving the national anti-money laundering system; ►

- Implementing advanced information technology to promote international cooperation;
- Technical assistance to EAG member states in developing their national anti-money laundering systems, including staff education and advanced training;
- Publishing and awareness-raising activities.

The ITMCFM operates in close collaboration with Rosfinmonitoring who not only founded the ITMCFM but continues to provide expert support for major ITMCFM projects.

A key role in determining the development strategy of the Center belongs to the Supervisory Board, which comprises the department heads of the RF Presidential Administration, the Government of the Russian Federation and the Auditor of the RF Accounts Chamber. Director of the Federal Financial Monitoring Y.A. Chikhanchin not only chairs the Supervisory Board as a senior collegial body of the Centre management, but also directs the Expert ITMCFM Methodology Council, consisting of leading experts of Rosfinmonitoring and other agencies, as well as representatives of the largest financial sector associations.

The ITMCFM roadmap till 2020 is determined by anti-money laundering system development and Russia's intensive cooperation with relevant international organizations. Its strategic goals include:

- Strengthening Russia's role and position in the international AML/CFT system;
- Coordinating research and development projects;

- Improving staff competence and developing a community of experts;
- Raising AML/CFT awareness.

The ITMCFM is specifically focused on training and methodology matters.

As early as in July 2008, the ITMCFM obtained a license for education and training activities. Various training projects are offered to the target audience consisting of both public and private sector employees. The ITMCFM participants include: law enforcement officers from police departments, state security and drug enforcement agencies; officers from regulatory authorities such as the Federal Financial Markets Service, the Federal Service for Supervision in the Sphere of Telecom, Information Technologies and Mass Communications (Roskomnadzor), the Bank of Russia, the Assay Office, and other authorities concerned. Rosfinmonitoring officers also study at this facility.

In addition the ITMCFM provides training for compliance experts from the private sector: professional securities market participants, insurance and leasing compa-

nies, pawn-shops, post offices, and other members of the anti-money laundering system. The FATF Standards set forth qualification requirements for the officers responsible for detecting suspicious transactions and notifying financial intelligence units thereof. Every country should maintain high professional standards and ensure the compliance of both competent authorities officers and private sector employees.

Training and methodology projects are also offered to self-regulatory organizations. The Center collaborates with the Association of Russian Banks, the Federal Notary Chamber of notaries, auditors and some other professional associations.

The ITMCFM has special relations with experts from other states — Russia's partners in the Eurasian region: Azerbaijan, Armenia, Belarus, India, Kazakhstan, China, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine. Experts from these countries actively participate in ITMCFM international seminars and conferences. For example, a recent seminar in New Delhi (India) covered preparation issues for national risk-assessments.





Open day at the ITMCFM

Such assessment is the current objective of all FATF member states, and the seminar attendees managed to share their views and exchange relevant experience. Another instructive seminar took place in Beijing (China) and was devoted to interagency collaboration and international cooperation in detecting drug dealers' cash flows.

For five years, the ITMCFM has contributed to the student training program of the Institute of Financial and Economic Security of the National Research Nuclear University MEPhI, primarily with respect to the students studying information technology employed by financial analysts. The first specialists graduated last year, and Financial Intelligence Units directors strongly believe in continuous demand for them in the national anti-money laundering systems. Our task is not only to provide good academic education but also from the very start to encourage our students to communicate with experienced practitioners.

It has already become a good tradition to arrange ITMCFM open days, round tables, and seminars with students as well as to engage them in organizing international events. The ITMCFM pays particular attention to training methodology and transferred its e-courses trainings to study financial investigation methods and typological research techniques as well as guidelines on training compliance officers for organizations responsible for taking AML/CFT measures.

The ITMCFM develops training programs to meet the needs of its target audience. There is a multilevel professional development system that provides specialists for public authorities and private organizations and complies with requirements set by Rosfinmonitoring, law enforcement and regulatory bodies. The basic level is designed for employees with little experience. The advanced level serves the needs of those who have worked in the anti-money laundering system for over three years. The professional level contains special programs

for experts with many years of service. In addition, there is an educational program for trainers and coaches working with both financial and non-financial organizations in many Russian constituent entities and abroad.

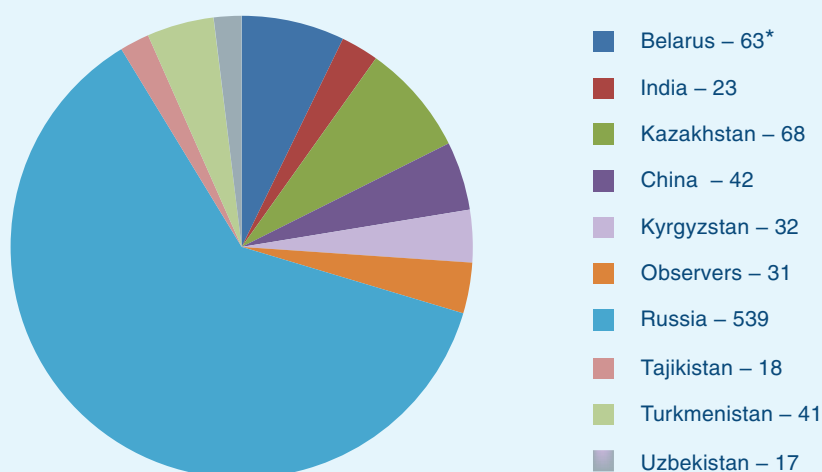
Certainly, the ITMCFM cannot meet the demand of all the regions. Therefore, there is also a two-stage training system for private sector specialists described below.

The ITMCFM engages training partners in order to raise awareness of anti-money laundering procedures among those specialists who work in banks, insurance and leasing companies and detect transactions to be reported to Rosfinmonitoring. The private sector plays a key role in the financial monitoring system. The anti-money laundering system cannot operate until a private sector whistleblower informs it of suspicious transactions. Therefore, financial and non-financial institutes should maintain high professional standards for their employees, be aware of new money laundering trends and schemes, and know how to detect suspicious transactions.

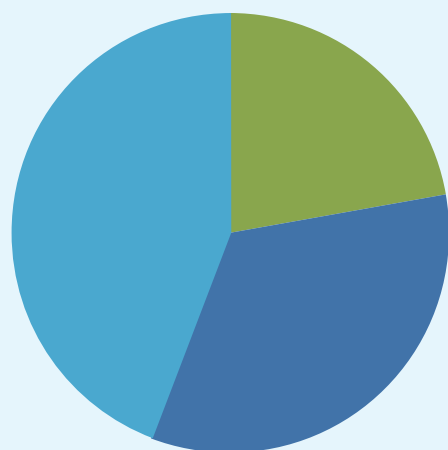
The ITMCFM collaborates with an increasing number of educational centers that conduct trainings for the above organizations; in 2012, the ITMCFM partnered with 72 such institutions. These training partners operate throughout Russia from the Far East to the Western Borders on the basis of special agreements they are to conclude with the ITMCFM. Rosfinmonitoring determines AML/CFT education terms and approves the basic training program. The ITMCFM contributes to the development of this program and provides methodological support to its partners in order to ensure compliance with high standards of advanced training.

How can educational centers benefit from cooperation with the ITMCFM? First of all, partners may freely use any remote e-training courses and methodology guidelines created during ITMCFM scientific studies. They may access money laundering typologies collection, including materials prepared by international organizations such as the FATF, its regional groups, and the Egmont Group. The ITMCFM maintains its typologies collection in Russian on the EAG web-portal.

Training of EAG member countries on the ITMCFM curriculum



* The number of people trained in 2012.

Training of the RF government sector on the ITMCFM curriculum

- Rosfinmonitoring – 237*
- Supervisors – 119
- Law enforcement units – 183

* Number of experts
trained in 2012.

Currently, major higher educational establishments, including federal universities, as well as non-governmental educational institutions focused on finance, IT and law conduct AML/CFT trainings under a partnership with the ITMCFM.

Regional organizations submit more requests every year, which reflects the expanding demand for training services. Based on the ITMCFM centralized registration data, the number of specialists attending these courses is growing. In the previous year over 13,500 specialists received training.

New international standards inter alia focus on risk-oriented approach implementation for financial and non-financial organizations. It means more intensive monitoring of transactions for customers recognized as exposed to high AML/CFT risks. The standards also contain other important innovations for organizations to consider. Therefore our mutual objective is to amend training programs in compliance with new international requirements and raise specialists' awareness in order to improve internal compliance.

For the last several years Rosfinmonitoring has been receiving an enormous number of reports on

the transactions identified by banks, other financial institutions and non-financial organizations. About 70% of them are money laundering suspicious transaction reports. However, it's hardly a secret that sometimes banks and other organizations provide reports without appropriate evidence, i.e. fulfill their duties only formally. As a result, an organization wastes its resources and precludes detection of illegal financial schemes. Therefore, training programs should emphasize that it is necessary to exclude formalism and review customers and their transactions in greater detail.

Video conferencing is another efficient training tool developed and employed by the ITMCFM. Today, video conferencing sessions are available in Russia, Belarus, Kazakhstan, and Tajikistan, to be joined by Uzbekistan in the near term. Sessions focus on the most urgent matters, including risk-oriented approach implementation, national risk assessment, and sharing experience in detecting typological schemes. International cooperation and interagency collaboration, alongside the use of new IT products in financial investigations, supervision and control over AML/CFT compliance — are all on agenda as well.



The seminar in Beijing

Video conference can be arranged in any format - as a seminar, round table, conference, etc., and the greatest benefit is the wide scope of its audience. It was not long ago that representatives of EAG member countries used to attend trainings at the ITMCFM, which lead to travel and accommodation expenses as well as distracted them from duties. Today, they just join video conferencing sessions each Friday. Over two hundred people used video conferencing this year.

Furthermore, video conferencing is an efficient tool for bilateral negotiations, which is especially convenient when leaders of EAG state delegations directly contact Yu. A. Chikhanchin, EAG Chairman and Director of Rosfinmonitoring. Video conferencing is recognized as an important tool for financial intelligence cooperation via the Council of Heads of the CIS Financial Intelligence Units.

There are many ideas and projects, new contacts and formats which enable Russian specialists and our partners from EAG member countries to get acquainted with best practices and foreign experience. Recently, during the EAG Plenary Week in Minsk the ITMCFM organized an information technology seminar joined by the EAG and the Egmont Group. The agenda created an animated discussion, and the participants expressed their unanimous interest in further seminars on this vital topic.

Minsk seminar was not a private club of IT experts. Mr. Verhelst, Chair of the Egmont Group, emphasized the contribution made by the Russian financial intelligence unit and, in particular, by the ITMCFM as the initiator and organizer of such events. He said that Rosfinmonitoring was one of the key members of the Egmont Group and that a global information exchange network for the FIUs is the key goal of this international group of financial intelligence units.

Looking back we see that we have done a sizeable amount of work. The AML/CFT training system on the whole is already in place. However its growing number of participants and the target audience consisting of numerous people with different basic skills and needs require further improvement of the institutional basis of AML/CFT education and training processes. We look forward to the creation of a network institute proposed by Rosfinmonitoring. Today, we thoroughly understand what specialists are required for successful development of the AML/CFT system in Russia. These are financial analysts who can benefit from cutting edge technology for big data processing and have insight into criminal, administrative, civil, financial law, etc. Furthermore, these specialists must be able to advance our national interests in the global fora



The seminar in New-Delhi

and organizations as regards compliance with international requirements and standards. Such specialist training requires collaboration of various educational establishments.

Currently, Rosfinmonitoring, the ITMCFM, NRNU MEPhi, the Financial University under the Government of the Russian Federation, the Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation, and the Russian Academy of Natural Sciences generate ideas for the future network institute. The ITMCFM is intended to be responsible for training and methodology in the

network institute, which includes training programs, profiles, and AML/CFT subjects. In their turn, higher educational institutions will establish departments, institutes, and other structural subdivisions where specialists will be trained under programs and techniques developed by the ITMCFM.

We hope that these new ideas once implemented will form a comprehensive multilevel training system for young specialists and advanced training for current employees, as well as establish a research community for solving the application tasks of financial security.

ONLY HIGHLY QUALIFIED STAFF IS CAPABLE TO EFFECTIVELY COMBAT MONEY LAUNDERING

The first IFES graduates are already employed by their national FIUs

Elena Pisarchik,

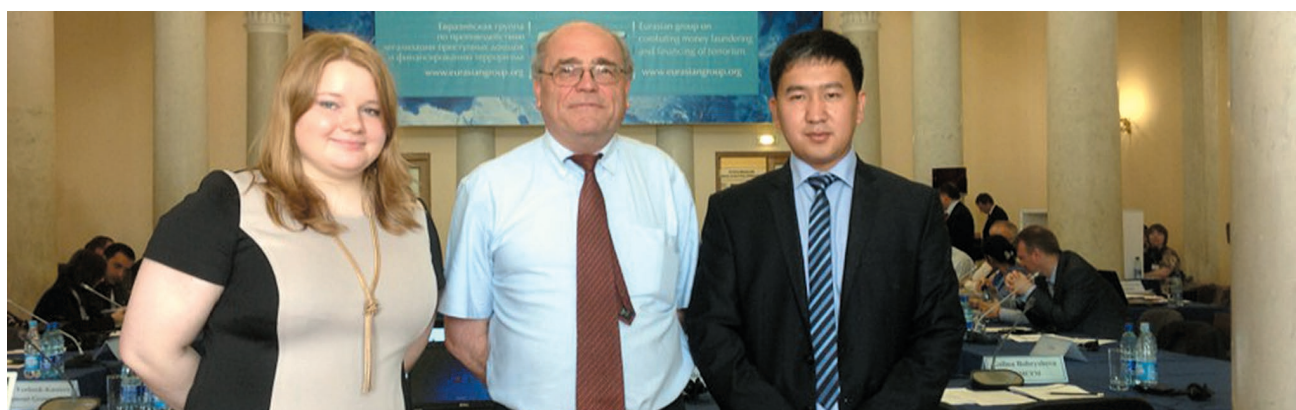
*Deputy Director of IFES NRNU MEPhI,
senior teacher of the Financial Monitoring Department*

Victor Ryabkov,

*Deputy Dean of Cybernetics and Information Security Faculty,
associate professor of the Financial Monitoring Department*

The Institute of Financial and Economic Security (IFES) was created in February, 2006 upon initiative of Mr. V. A. Zubkov, the first Head of the financial intelligence service of the Russian Federation. It is

based at the Russian National Research Nuclear University MEPhI. The IFES became the first and so far a unique institute for training financial monitoring specialists, covering the full cycle of the



The head of the «Egmont» Group Budevin Verhelst with the graduates of the Institute of Financial and Economic Security

education process: basic higher education, graduate and post-graduate education, professional development.

The Federal Financial Monitoring Service (Rosfinmonitoring) along with the International Training and Methodology Center for Financial Monitoring (ITMCFM) and the Russian National Research Nuclear University MEPhI became the founder of the IFES, where training of highly qualified personnel capable of efficient countering money laundering, terrorism financing, proliferation of weapons of mass destruction, prompt response to new global challenges and financial security threats is considered a top priority task.

It is notable that the National Research Nuclear University MEPhI is uniquely positioned in the higher education system of the Russian Federation in terms of fundamental theoretical skills and hands-on experience of trainees, scientific and research environment, training of information security experts and, therefore, obviously became a number one candidate for the partner university.

The IFES comprises two NRNU MEPhI departments: Financial Monitoring Department headed by Yury Chikhanchin, the Director of the Federal Service for Financial Monitoring, and System Analysis Department, the Head of the Department is Mr. Valery Shibin, Deputy Director of the Federal Service for Financial Monitoring. Since 2012, Mr. Vladimir Ovchinnikov has been the Director of the IFES.

In 2009 the MEPhI introduced an international AML/CFT training program for EAG member states.

Over the first years the IFES prepared specialists exclusively for Rosfinmonitoring to meet the increasing demand of the state finance monitoring agencies in human resources (Information Analysis Systems in Security Area). Since 2011, the IFES has implemented training programs

for the primary financial monitoring (major: Economic Security), and since 2012 - for the law enforcement block (major: IT Security in Law Enforcement Area).

Today 298 students are trained in the IFES, including 34 from the EAG member states - Armenia, Belarus, China, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Ukraine.

The first foreign IFES graduates are now employed by national FIUs.

To ensure the highest level of theoretical and practical preparation of staff, the IFES:

- enhances the training program to provide skills in all major areas of financial monitoring, such as natural science, finance and economy, AML/CFT-related issues, legal education, IT, special linguistic aspects;
- attracts a significant number of teachers with work experience in the Federal Financial Monitoring Service;
- organizes internship in the Federal Financial Monitoring Service, leading banks, state corporations, IT-companies.
- enables students to conduct research on topical problems of Rosfinmonitoring and AML/CFT system in general.

More sophisticated and intricate methods used at laundering criminally obtained money and financing terrorism and extremism, new and ever-changing threats and challenges that require prompt and efficient FIUs response, huge amount of intelligence information that needs fast processing, analysis and assessment against possible risks – all this gives us every reason to prove the necessity of preparing highly skilled professionals who will be able to cope

with practical tasks of financial monitoring by means of innovative scientific approaches.

In this context, the IFES is creating the scientific framework to address FIU tasks based on complex mathematical models. Mr G. O. Krylov, Honored master of sciences and engineering of the Russian

Federation, Doctor of Physics and Mathematics, Cand. Sc. Law, professor, and Mr. Y. A. Fomin, Honored master of Sciences and engineering of the Russian Federation, Doctor of Engineering Science, professor, are scientific supervisors of this direction.

Abstracts of IFES 2012 graduation papers

Research supervisor: Konstantin Gobrusenko, Cand. Sc. Law, associate professor, Deputy Head of Anti-Money Laundering Department of the Federal Financial Monitoring Service

Alexandra Bobylkova,
a chief expert of the Spontaneous Financial Investigations Division, the Anti-Money Laundering Department of the Federal Financial Monitoring Service

This graduate paper is intended to develop approaches to the analysis of trade and finance components of the Afghan drug business, with regard to information resources of the Federal Financial Monitoring Service, create a tool for independent detection of natural persons/legal entities and their financial transactions related to drug trafficking.

The problem-oriented model of the trade and finance analysis in drug-dealing allows creating a clear picture of the so-called “drug cycle” that involves transportation, when drugs are hidden in fruit and vegetable consignments, formation of criminally

derived cash proceeds, placement of black money into financial institutions and its legalization.

The pre-defined criteria for the selection of suspicious financial transactions provide the basis for the Illegal Drug Trafficking problem-oriented summary. Currently, the summary is compiled automatically to produce objects for proactive financial investigations. Following the summary results, the Federal Financial Monitoring Service regularly prepares and forwards respective reports to the drug control agencies, including those complying with Article 8 of Federal Law # 115-FZ dd. August 7, 2001

Tatyana Nikitina,
a leading expert of the Informational and Methodological Support Division, the Information System Development Department of the Federal Financial Monitoring Service

The graduate paper of Tatyana Nikitina was intended to develop and implement the data mart, calculate analytical indicators and aggregates

in compliance with requirements of analytical departments of the Federal Financial Monitoring Service.

The main task of the Federal Financial Monitoring Service analysts is to detect money laundering and terrorism financing events within the framework of financial crime investigations. Timely collection of data is a key to successful detection of money laundering and terrorism financing activities. Information on persons, objects, events, associated operations is subject to analysis, arrangement, and structuring. In some cases, source data lack integrity and consistency. Correlation with relevant data and pre-defined values facilitates the decision making process. The data mart helps optimize data collection, processing and analysis, providing a data slice focused on a single subject and customized for users' specific needs.

The paper reviews informational requirements of analytical departments, analyzes the structure of the database and information resources that can be used as source data, details calculation of additional analytical indicators, data mart structure and population process.

With problem-oriented object analysis of data and analytical reporting tools, the data mart boosts effectiveness and quality of financial crime investigation. The software solution allows FFMS analytical departments to generate real-time reports on persons involved in illicit activities and track suspicious transactions in key areas. The results were used to prepare investigation materials for the RF Government submitted to the law enforcement agencies.

THE AML/CFT NETWORK INSTITUTE: A NEW APPROACH TO AML/CFT STAFF TRAINING

Vladimir V. Ovchinnikov,

***Director of the Institute of Financial and Economic Security
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The economic concerns of the 21st century lead global powers to revise their positions concerning the transparency of the world financial system and provided a new impetus to the efforts of countering the unlawful use of international and domestic financial systems. On April 20, 2012, at the Financial Action Task Force meeting in Washington, the member-states ministers and authorized representatives extended the FATF mandate in its revised version till 2020, and confirmed their commitment to the goals of the FATF in developing policies for and facilitating the efficient implementation of legal, regulatory and operative measures to combat money laundering and terrorist financing.

With the purpose of addressing global challenges and threats, the G8 has consistently extended the FATF mandate to a wide range of issues to deal with funds raising and generation by the organized crime and terrorism. The new version of the FATF recommendations approved in February 2012, considerably widens the scope of competence and issues subject to regulation, as well as expands the international AML/CFT system via new parameters and standards related inter alia to the issues of countering the proliferation financing and laundering of corruption proceeds.

The CIS members and the countries of the Eurasian Group consistently enhance their role in international AML/CFT structures, which enables them both to participate in the implementation of the international agenda and to take an active part in developing AML/CFT international standards. The commitment to an effective AML/CFT partnership is further exemplified by the Agreement on the Creation of the Council of Heads of the CIS FIU signed by V. V. Putin, President of the Russian Federation, at the meeting of Heads of Financial Intelligence Units of the CIS members on December 05, 2012 in Ashkhabad.

When combined, the above circumstances give rise to fundamentally new goals for national AML/CFT systems, and reaching these calls for professionals of the highest order, specialists capable of not just implementing the full requirements of the current AML/CFT legislation but also managing emerging risks in addressing in a timely manner new global challenges and threats.

In experts' opinion AML/CFT staff training will remain an important task for many years. The rapid evolution of financial transactions, the emergence of numerous payment systems, and entities engaged in financial activity will require a new level

of sophistication from financial monitoring. The new procedures of financial monitoring will create the need for new competences that can be achieved via the existing professional education formats once they are unified within a network organization. The implementation of the educational programs on the network basis is defined by Federal Law dated December 29, 2012 № 273-FZ "On the education in the Russian Federation" which will come into effect on September 01, 2013.

A network-based format facilitates the sharing of functions and resources, intensifies the dialogue between partner institutions and promotes exchange of expertise.. Once joined by a network entity, tertiary institutions, research and educational centers (such as the the International Training and Methodology Centre for Financial Monitoring) will find it easier to exchange their educational resources for the sake of increasing training quality and performance. Joining the network organization is voluntarily; its constituents – tertiary institutions, research and educational centers – will retain a high degree of freedom, set their own priorities, and bear individual responsibility for the end result.

The participants of the network organization will jointly pursue the common **main strategic goal – to create a modern research and education center – an AML/CFT Network Institute – which will become an important factor of stable development and national security by providing training of advanced AML/CFT specialists via the integration of theory and practice with the academic mobility of students and teachers.**

The AML/CFT Network Institute is built as a community of tertiary education institutions, research and educational centers capable of becoming the leader in AML/CFT-related training and research in the Russian Federation, the CIS and EAG member-states.

Mission of the AML/CFT Network Institute:

to generate knowledge of world-wide relevance, create advanced hi-tech solutions, and train personnel fit for successful combat against money laundering and financing of terrorism and proliferation of weapons of mass destruction.

Strategic tasks of the AML/CFT Network Institute:

- on the basis of tertiary education institutions, research and educational centers forming up the Network Institute, to create centers accumulating advanced IT solutions and staff possessing modern key competences focused on research, development and personnel training for AML/CFT;
- to concentrate intellectual and other resources in the AML/CFT area, to recruit the most qualified teachers, and appeal to the most mobile and gifted young people;
- to follow global research and development trends, and the recommendations of the FATF, the EAG and other international AML/CFT organizations.

The AML/CFT Network Institute is envisaged as an association of structural units of tertiary education institutions, research, educational, and methodological centers (chairs, departments, institutions, research laboratories, resource sharing centers, etc.). The stages of creation and expansion of the Institute shall be defined in the respective development program.

The mid-term goal (5 years) for the AML/CFT Network Institute is to achieve leadership in the training of high quality personnel for national AML/CFT systems of Russia, the CIS and EAG member-states. The development and implementation of AML/CFT-related courses on the tertiary level in Russia, the CIS members, and the EAG countries will boost the qualification of employees working in AML/CFT as well as public awareness level. The AML/CFT Network Institute alongside the specialists of national Financial Intelligence Units of the CIS and EAG member-states shall define the AML/CFT occupational skill structure, and specify the qualification levels for respective positions. It shall join the efforts of the professional community to develop AML/CFT occupational and educational standards. On the basis of the educational standards it shall develop educational programs and profiles for specialists to be involved in the AML/AFT system having primary degrees in economics, law, IT, international relations received from tertiary establishments comprising the Network Institute, to be employed in the AML/CFT area. It shall develop the common system for AML/CFT personnel testing and certification, and the staff training quality control system (regular standards reviewing and updating). It shall provide retraining and extended education in the AML/CFT area.

The AML/CFT Network Institute shall prepare modern and competitive AML/CFT specialists in the following areas: economy and finance, national and international law, IT and computer security, and international relations. The educational framework of the AML/CFT Network Institute shall provide the

new educational quality and competitiveness on a global level by the following means: *multilevel staff training; attracting leading establishments to the Network Institute; students' academic mobility; highly professional academic staff and productive educational technologies.*

The first two years will provide basic training in fundamental humanities and science. The received knowledge will serve to form personal competences (ability to establish communication, define goals, uncover resources, contextualize) that underpin students' outlook, and the will to use knowledge and its practical application for personal growth. Specialist professional training involves instilling skills and habits and teaching professional AML/CFT competences, which would help students to define their further professional path and choose their future careers.

Staff training structure will be defined on the basis of mid- and long-term assessments of recruiting needs for the national AML/CFT system, the required qualifications and expected employment of graduates. The optimization and detailing of the structure (at specialty level) and content of educational programs will be supervised by the designated Academic Council of the AML/CFT Network Institute.

The future AML/CFT Network Institute shall be designed around the core combination of the ITMCFM and leading tertiary institutions of the Russian Federation offering degrees in IT, economics and finance, international and national law, and international relations.

The educational establishments featuring both fundamental and applied aspects in research:

- The National Nuclear Research University MEPhI, as the host for the Institute of Financial and Economic Security that was created as part of the University. The Institute prepares

high professionals for subdivisions of the Rosfinmonitoring and the financial supervision. The curriculum first and foremost emphasizes computer and information technologies based on sound training in natural sciences, senior students receive AML/CFT-specific instruction. The Institute has the experience in training staff for FIUs of the EAG member-states;

- The Financial University under the Government of the Russian Federation. The University has the department of Economic Security of the State and Entrepreneurship, which includes the following chairs: Risk Analysis, Forecast and Regulation and Financial Investigations. Students of the Financial University undergo practical training in the Rosfinmonitoring subdivisions;
- The Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation. The Academy's departments of International Relations, Global Economy, and International Law offer lectures on international security, currency regulation and financial supervision, international banking, foreign policy of Russia and other countries. Students study a variety of European and Oriental languages;
- The International Training and Methodology Center of the Rosfinmonitoring. The ITMCFM has an efficient system for retraining of employees of the Rosfinmonitoring, supervisory and law enforcement bodies, reporting parties in the AML/CFT area. The specialists of the Center have experience in personnel training for FIUs of Russia's partner states in the international AML/CFT system. The Center has accumulated a sizeable amount of research, training and educational material related to AML/CFT. It has broad international connections (the EAG, the FATF, FIUs of the CIS members, the World Bank, etc.).



The establishment of the AML/CFT Network Institute is one of the topical present day tasks. Specialists of the tertiary institutions mentioned above, the Russian Academy of Natural Sciences and the ITMCFM elaborate the program for the development of the AML/CFT Network Institute for 2014-2016. Pacific State Institute, Novosibirsk State University of Economics and Management, Ural Federal University named after the first president of Russia B. N. Yeltsin, Russian State University of Economics, Nizhny Novgorod State University named after N. I. Lobachevsky, Saint-Petersburg State Polytechnic University have decided to join the AML/CFT Network Institute. Armenia, Belarus, the Kyrgyz Republic, Uzbekistan showed interest in establishment of the AML/CFT Network Institute.

The development program of the AML/CFT Network Institute made it possible to clearly define the roles and responsibilities for each partner involved. The ITMCFM shall become a key player in developing educational programs, profiles and course materials for the AML/CFT purposes to be transferred to the tertiary institutions for implementation. The ITMCFM

shall ensure course materials spreading and staff retraining in the AML/CFT area. The tertiary institutions shall determine the number of chairs, departments, educational programs, teachers and students as well as put into practice educational programs and profiles received from the ITMCFM and provide retraining, extended education in the AML/CFT area for organizations and institutions. The institutions of tertiary level alongside the ITMCFM shall provide academic mobility of students and teachers, exchange of course materials, as well as take part in the AML/CFT Network Institute management, work and programs. In opinion of the development program writers the implementation of the proposed plan for the establishment of the AML/CFT Network Institute is expected to ensure the following outcome:

- the optimization of the current AML/CFT educational programs and profiles within the unified standard;
- the implementation of students and teachers' academic mobility mechanisms;

- the provision of support for AML/CFT scientific schools;
- the implementation of cutting-edge efficient educational methods and techniques in the educational process via the integration of education and science in the AML/CFT area;
- increased productivity of educational institutions material, technical and human resources;
- the creation of a common educational, intellectual and cultural space in the CIS and EAG member-states through the advanced training of national AML/CFT personnel;
- the creation of prerequisites for AML/CFT risk mitigation in the context of economic development in key sectors of the CIS and EAG member-states;

- increased efficiency of the national AML/CFT measures.

Taking into account that the increasingly important role of human resources as a key factor of economic development is becoming one of the challenges for Russia's social economic development for the period till 2020, providing the AML/CFT system with highly professional specialists should be recognized as a key factor in ensuring sustainable development and national security of the Russian Federation. Money laundering, financing of terrorism and proliferation of weapons of mass destruction are often cross-border and supranational crimes, training high quality personnel at the AML/CFT Network Institute for the national AML/CFT systems of Russia, the CIS and EAG member-states would ensure the success of the combat against international terrorism and transnational organized crime.



The students and lecturers of the Institute of Financial and Economic Security

RESEARCH SUPPORT FOR THE NATIONAL AML/CFT SYSTEM: TASKS, IMPERATIVES AND TRENDS

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According to the experts of the Financial Action Task Force on Money Laundering the annual money laundering market is 2% to 5% of the global GDP, exceeding now \$1.6 trillion; and every year more than 800 terrorist acts are committed in the world. The geography of such crimes covers both Western (U.S., UK, Spain) and Eastern countries (Saudi Arabia, the Philippines, Egypt, Afghanistan, Pakistan, Iraq), clearly suggesting that international terrorism and transnational organized crime threaten most of the world, regardless the level of economic development, military potential and state structure. In its turn, without

solving these problems no state is able to provide security for its citizens and guarantee abidance by human rights and freedoms.

The concept of the national strategy for countering the legalization (laundering) of proceeds from crime and terrorist financing, states that money laundering and financing of terrorism pose a serious threat to the national and global security, violate functioning of the state and its key economic institutions, prevent market reforms and governmental control over the financial system of the country, cause distrust for public institutions in the community and create a negative image of Russia on the international arena. Thus, anti-money laundering and countering terrorist financing are initially seen not as an ultimate goal but as one of the most effective ways to deal

with such serious crimes as terrorism, corruption, drug trafficking and organized crime. At the state level, the goal of the AML/CFT is not only in putting an end to these crimes, it is significantly wider — to undermine the financial foundations of organized crime and terrorism. The globality of the goal requires adequate means to achieve it, so the study on improving the efficiency of the Russian national AML/CFT system is currently very topical.

One of the basic postulates of management theory states that in order to achieve a sustainable and balanced growth the effectiveness of the managing system has to grow faster than the complexity of the object of management. In the context of AML/CFT measures this thesis was developed within a risk-based approach, which has become a central element of the revised FATF Recommendations, adopted in February 2012. The economic crisis at the end of the last decade has also contributed to the development of the AML/CFT methodology as it does not only leads to significant changes in the structure and scale of the shadow economy (object of management), but also poses new requirements for the national AML/CFT (management system) in terms of effectiveness of its operation.

Currently, the model of extensive development of national AML/CFT system, providing the possibility of increasing the efficiency of the AML/CFT measures due to consistently increasing number of government agencies and private sector organizations involved in the implementation of anti-money laundering legislation, is almost exhausted. At the same time countries face the task of developing a new concept of the AML/CFT framework which should make an intensive development model. However, as Oleg A. Markov, the Assistant to the President of the Russian Federation, the Chairman of the EAG, pointed out back in 2011 at the 15th Plenary meeting of the Eurasian Group on Combating Money

Laundering and Financing of Terrorism (EAG): «The priorities of anti-money laundering sphere should be determined on the basis of careful analysis of the theoretical developments and practices.»

These factors together determine new demands for the research component of the national AML/CFT systems, the degree of development of which in many ways is the key to the growth of the efficiency of AML/CFT measures. Thus, to achieve sustained improvement of the efficiency of AML/CFT measures in the long term, countries need to ensure outrunning development of the research component of the national AML/CFT system in relation to the risks and threats associated with the evolution of money laundering and terrorist financing.

The purpose of this paper is to support scientific and methodological activities of financial intelligence units and other government agencies - members of the national AML/CFT system and private sector organizations, as well as to conduct basic and applied research on anti-money laundering, financing of terrorism and proliferation of weapons



*Oleg A. Markov,
Head of Rosfinmonitoring in 2007–2008*

of mass destruction issues. According to this goal, objectives of the research support of the national AML/CFT are the following:

- Organizing and conducting research on the topical AML/CFT issues;
- Conducting external AML/CFT expert review;
- Design and rationale of possible ways of reforming the current national AML/CFT system/.

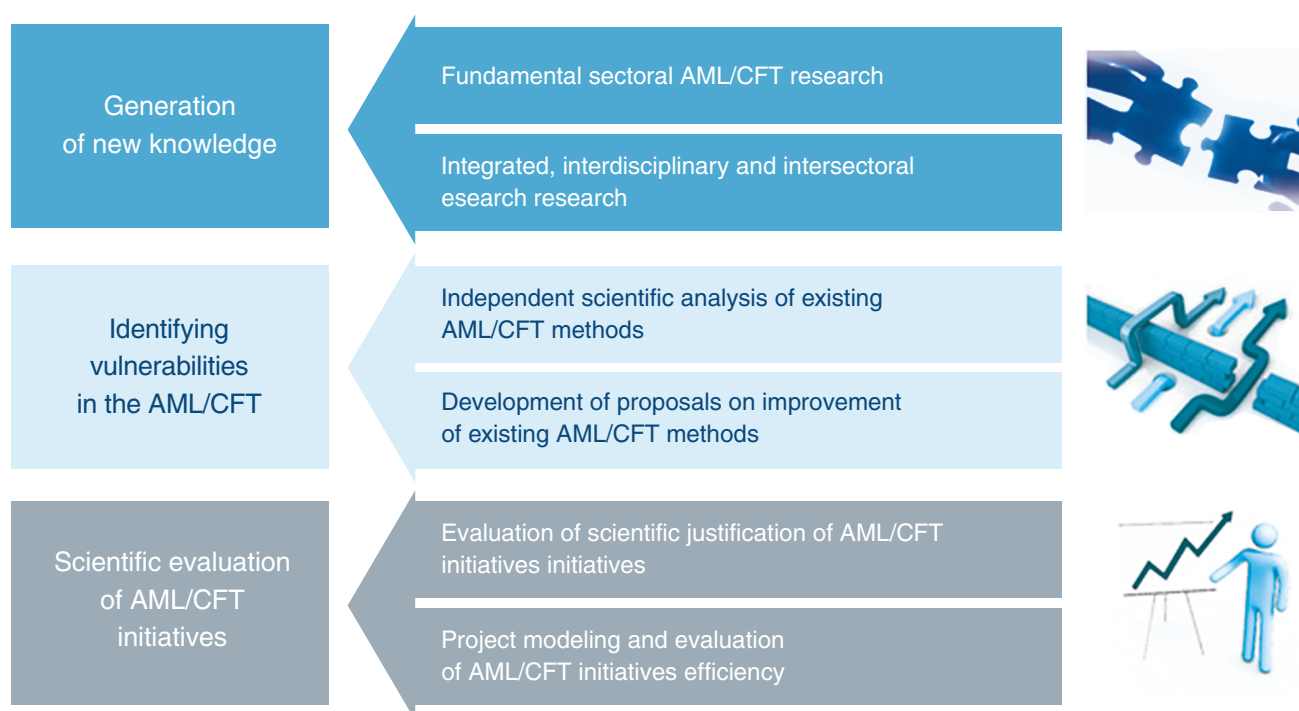
Application functions of AML/CFT research work are implemented in three main areas (see picture below). Let us consider the practice of their implementation in greater detail.

The generation of new knowledge — the first and foremost function of research — allows the national AML/CFT system to anticipate looming threats and risks. This function is achieved through the development of AML/CFT methodology and new

preventive methods to address factors facilitating money laundering and terrorist financing, the supply of new mechanisms for interagency cooperation and cooperation between state bodies and the private sector, the development of information technology in AML/CFT, etc. The government sector, banking system, non-profit institutions, insurance and securities markets — each of these segments of the national AML/CFT system has its own distinctive features and therefore requires the development of a specific AML/CFT methodology.

The analysis conducted by the Russian Academy of Natural Sciences showed that the current scientific approach to the AML/CFT methodology in different industries is rather uneven. Legal disciplines continue to dominate in the number of approved dissertations and open publications, within these publications the AML/CFT issues are considered from the standpoint of civil, criminal,

Application functions of AML/CFT research work



administrative or international law. However, larger studies of economic substance of money laundering and financing of terrorism are still not sufficient. It is important to develop scientific approaches to the methodology of governmental administration and information technology for the purposes of the AML/CFT system.

The results of the analysis conducted by the Russian Academy of Natural Sciences also show that despite the presence of a significant amount of work on specific aspects of AML/CFT, currently comprehensive fundamental AML/CFT research still lack. This is due to the fact that research is often initiated by large companies that seek to increase the effectiveness of their internal control systems, or by regulators and supervisors in their jurisdictions. At the same time, AML/CFT issues are difficult to solve because of their complexity. For example, a comprehensive analysis of the new version of FATF 40 Recommendations cannot be restricted by only economic tools or legal issues of their implementation. Integrated, interdisciplinary and intersectorial measures are

essential; they should be initiated by the financial intelligence.

Vulnerabilities of the AML/CFT system are identified through an independent critical analysis of current AML/CFT methods and development of recommendations for improving the existing AML/CFT mechanisms. It is important to ensure timely access for relevant government bodies to the findings of such research and to achieve optimal efficiency and proportionality of the response to the identified risks.

Scientific evaluation of the AML/CFT initiatives is realized through the evaluation of scientific validity of the AML/CFT initiatives. This can also be done through modeling of the AML/CFT initiatives and evaluating their efficiency. International AML/CFT standards in many respects are universal, but their practical implementation cannot be achieved by direct copying. The implementation of the new FATF requirements into the national law requires non-trivial adaptations of both the national AML/CFT system and the standards to the domestic legislation.

Basic forms of stimulation of research in the AML/CFT area can be grouped as follows:

- Concerted efforts and creativity of leading scientists and leading experts in AML/CFT can be achieved by creating the conditions for collaboration within the creative teams of leading AML/CFT experts of various areas of expertise and universities. However, the forms of such cooperation could range from conducting comprehensive scientific research

to collaborative editorial projects. In addition, as a part of this trend it is worth continuing discussion of current AML/CFT issues in the EAG forum, expanding the representation of the EAG expert community through representatives of the Group leading universities and developing the scientific component. ►

- Creating the conditions of communication and cooperation between leading domestic research and educational institutions and the AML/CFT authorities and the private sector. The optimal form of this cooperation is the organization of the network structure, in which a synergistic effect of the interaction will be achieved by combining the material-technical base and research potential of leading universities with practical knowledge and skills of AML/CFT state authorities; which will promote qualitative progress in all major aspects of the AML/CFT methodology in the short term.
- The scientific management of research activities of graduates and doctoral students by the financial intelligence unit. To date, government sector entities

of the national AML/CFT system have considerable experience of providing students of the leading universities of the country with pre-diploma practice. A logical extension of this interaction is the scientific management of state agencies in the preparation of final qualifying works for graduates as well as supervision of their future scientific work.

- In order to develop forms of government-private partnership we suggest developing the practice of holding public debates and discussions at AML/CFT-related conferences and seminars and encourage self-regulatory organizations of the private-sector to do research in AML/CFT.
- Participation in international research projects and exchange programs.

Therefore, in order to develop the optimal parameters of the implementation of new FATF requirements, it is important to provide them with a deep theoretical analysis and preliminary design modeling.

In conclusion, we should note that the state of the national AML/CFT system and the ability to achieve the goals and objectives of its development directly depend on the adequacy of providing all the elements of the system with high professionals.

To summarize, it should be noted that the results of the study clearly indicate that currently there is

an objective necessity of accelerated development of the research component of the national AML/CFT system in relation to the risks and threats associated with the evolution of money laundering and terrorist financing. The results of this study should assist achieving this objective, and the implementation of the suggested approach will contribute to the formation of a absolutely new image of the Russian economy by the end of the decade, and largely eliminate threats posed by organized crime and international terrorism to the national security.

THE SECOND EURASIAN FORUM TAKES PLACE IN MOSCOW FINANCIAL ANTI-CORRUPTION MECHANISMS: "INTERNATIONAL STANDARDS AND NATIONAL SOLUTIONS"

Alina V. Paskal,
Project Manager of the ITMCFM

Immanuel Kant argues that: “Experience without theory is blind, but the theory without experience is just an intellectual game.” When combating such evil as corruption, symbiosis of experience and theory is an essential factor of success.

The Second Eurasian Forum Financial Anti-Corruption Mechanisms: “International Standards and National Solutions” took place in Moscow on June 4, 2013. This event was organized by the Institute of Legislation and Comparative Jurisprudence under the Government of the Russian Federation with the support of the Russian State Duma and the Audit Chamber.

The opening speeches of the forum were delivered by Sergey Naryshkin, the Russian State Duma

Chairman, Sergey Stepashin, the Russian Audit Chamber Chairman, Talia Khabrieva, the Director of the Institute of Legislation and Comparative Jurisprudence under the Government of the Russian Federation, Yury Chikhanchin, the Director of the Federal Financial Monitoring Service, Aleksander Torshin, the First Vice-Chairman of the Federation Council, Alexander Bastrykin, the Head of the Investigative Committee of Russia, and Svetlana Andruschenko, the Deputy Commissioner of the Federal Tax Service.

International expert community was represented by the following countries: Austria, Belarus, France, Germany, Kazakhstan, Moldova, Poland, Switzerland, Tajikistan, Turkmenistan, Ukraine and the USA.

In their discussions the participants paid particular attention to the following themes:



Yury Chikhanchin:

"When assessing corruption risks and vulnerabilities, we should not forget about its serious consequences which in the long run undermine the authorities' credibility leading to political and economic instability."

international and financial aspects of combating corruption, cooperation with the FATF, the Council of Europe, the Eurasian Economic Community and other international organizations, and especially the implementation of requirements of international legal anti-corruption acts in the domestic legislation.

One of means of fighting corruption is to use tools of the anti-money laundering system. The Director of Rosfinmonitoring noted in his speech that when considering corruption as a phenomenon, we should speak about the social and moral, cul-

tural and historical conditions, legal, financial and regional aspects, traditions of education and upbringing which determine its manifestation level.

Yury Chikhanchin pointed out several key areas of fighting corruption: "It is necessary to determine mechanisms of obtaining information on beneficial owners of legal entities registered both domestically and abroad which shall be available not only to state authorities but also to the private sector. We need to investigate into possible ways of solving the problem of offshores and shell companies. The topical issue is to develop methods for the private

sector to identify national and foreign politically exposed persons and their entourage.”

This July Russia presides in the Financial Action Task Force. The report of Vladimir Nechaev, its future president and actual vice-president, was dedicated to the role of international AML/CFT standards as an anti-corruption tool. “Corruption often stays unpunished in non-transparent conditions when proceeds from such crimes cannot be linked to the corruption activity itself. The efficient implementation of the FATF Recommendations increases the transparency of the financial system through creating a paper trail of business relations, transactions and disclosing the actual ownership and assets movement”, he noted. Vladimir Nechaev also dwelled on the FATF practical anti-corruption

work — the interaction with the G20 working group on combating corruption and collaboration with the OECD’s Anti-Corruption Division.

The topic of anti-corruption tools was also touched upon in the presentation of Galina Bobrysheva, the General Director of the International Training and Methodology Centre for Financial Monitoring. She presented to the forum’s participants the methods of anti-corruption expert examination of the AML/CFT regulatory acts developed within the Eurasian Group (a FATF-style regional body). This project will help to detect areas of high corruption risk within the legal framework of the national anti-money laundering system, and boost the efficiency of financial anticorruption mechanisms.

AML/CFT SCIENTIFIC RESEARCH FRAMEWORK

*The Results of the Working Meeting of Yu. A. Chikhanchin,
the Director of Rosfinmonitoring, and O. L. Kuznetsov,
the President of the Russian Academy of Natural Sciences*

Irina V. Ivanova,
Press Secretary of Rosfinmonitoring

The development of interaction mechanisms between the government, public, business and civil society, institutions and mechanisms of public-private partnership is recognized as one of the state policy priorities by the concept of the Russian Federation long-term socio-economic development until 2020.

Recognizing the importance of public participation in improving the efficiency of measures of counteraction to legalization (laundering) of proceeds of crime and financing of terrorism (AML/CFT), Rosfinmonitoring consistently develops the practice of attracting leading AML/CFT scientists and experts to discuss topical issues of current state and development prospects of the national anti-money laundering system.



Within this work Yu. A. Chikhanchin, the Director of Rosfinmonitoring, and O. L. Kuznetsov, the President of the Russian Academy of Natural Sciences (RANS) met on June 7, 2013. At the meeting they discussed issues of expanding cooperation formats and interaction of Rosfinmonitoring with the scientific community and the leading research and educational institutions in the country for joint development of the scientific basis of the AML/CFT methodology.

The RANS President O. L. Kuznetsov shared the experience of combining efforts and creativity of leading scientists and experts in developing the scientific research components of the Concept of National Security of Russia (Project Director — V. S. Pirumov, Chairman of the Geopolitics and Security Section, the RANS Vice-President); the Concept of Economic Security of Russia (Project Director — V. K. Senchagov, Chairman of the Section of the Macroeconomic and Social Market Economy Problems, the RANS Vice-President) and the Concept of Information Security of Russia (Project Director — D. S. Chereshkin, Chairman of the Informatics and Cybernetics Section, the RANS Vice-President).

The meeting participants also discussed plans to set up the Financial Security department in the RANS structure and a Research Centre for the Financial Security Study specializing in conducting fundamental and applied research on the issues of AML/CFT requirements.

Emphasizing the importance of developing scientific bases of the AML/CFT methodology and the need for peer review of initiatives in this area, the participants expressed their mutual interest in the development of further cooperation, and agreed to collaborate in taking measures to provide expertise and methodological assistance to the formation of the science-based AML/CFT policy of member-states of the Eurasian Group on Combating Money Laundering and Financing of Terrorism.

Reference

The Russian Academy of Natural Sciences (RANS) is a Russian public creative scientific organization comprising over 4,000 scientists of all specifications. The chief principles of the Academy are democracy, self-governing and independence. The Academy is accredited in the United Nations on January 17, 1995, and in July 2002 the RANS was awarded a special consultative status of a non-governmental organization of the United Nations.

The priority research areas of the RANS are the following:

- scientific, methodological and information support of the civil society formation in Russia, and economic and social reforms;
- development of conceptual frameworks and forecast of conditions for sustainable development, scientific rationale for the strategy of Russia's balanced development;
- study of the problems of globalization and integration of Russia into the global economy;
- research in the field of providing individual and society safety including the problem of terrorism; mitigation of the global and local conflicts threat, information security and legal protection of Russian citizens.

*Autonomous Non-Profit
Organization ITMCFM*

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