

FINANCIAL SECURITY

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S. CHEMEZOV:

"We carried out extensive structural, administrative and technological reforms... These measures allowed us to prevent entire industries from collapsing and to make them financially viable".



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DEAR READERS,

The Federal Financial Monitoring Service considers the fight against corruption as a key element of its anti-money laundering strategy, which it pursues in compliance with the principles and standards of the Financial Action Task Force on Money Laundering (FATF).



Russia will be subject to another assessment of its compliance with international standards, during which it will have to, once again, prove the effectiveness of its AML/CFT framework. To a large extent, this assessment will depend on the success of the country's anti-corruption efforts.

Our work is focused on risk areas and economic sectors at risk of large-scale embezzlement of public funds, including defense spending, monitoring backbone and strategic enterprises, securing public funds and promoting the transparency of industries.

In 2017, Rosfinmonitoring launched a new system for interagency oversight of public spending. As part of a gradual transition to a system of treasury supervision over public expenditure, Rosfinmonitoring, jointly with other agencies, carries out budget monitoring in respect of facilities designed to contribute to the development of transport infrastructure, healthcare, space industry, agriculture and other important sectors of the Russian economy.

Control of financial transactions posing corruption-related money laundering risks shows that the majority of the identified dubious transactions are mostly

linked to the abuse by officials of their authority in concluding public contracts with affiliated entities and the lobbying of the interests of various commercial enterprises, in particular those registered to persons with friendly and kinship ties to these officials.

By virtue of its powers and capabilities, Rosfinmonitoring has a unique tool for preventing corruption, including conflicts of interest, which leads to certain results. While relying on international anti-corruption standards, Rosfinmonitoring studies best anti-corruption practices and brings them to the attention of concerned agencies.

As the task to improve effectiveness has become more urgent for all Russian entities, in particular state companies, in recent years many of our industrial giants have not only realized that the quality of work depends on their transparency, but also successfully implemented compliance procedures, set up internal economic security systems and are exhibiting willingness to fight corruption in their ranks.

This work comes into focus of this issue of Financial Security, on the pages of which representatives of compliance units discuss how this important issue is being tackled in their companies.

The ongoing efforts to improve the country's AML/CFT regime play a key role in blocking the use of financial instruments to hide corruption proceeds.

The issues raised highlight the urgency of the anti-corruption efforts in today's world and the need for their constant improvement, taking into account the emerging challenges and threats. These are the topics we tried to touch upon on the pages of our magazine.

*Rosfinmonitoring Director
Yury Chikhanchin*

COVER STORY

SERGEY CHEMEZOV: WE MONITOR ALL TRANSACTIONS ONLINE

Rostec CEO Sergey Chemezov's interview for Financial Security magazine



Sergey Chemezov

FS: *Rostec was created in 2007 to pull domestic engineering out of a crisis. What, in your opinion, are the main outcomes of these efforts?*



Sergey Chemezov: In a relatively short time, Rostec has come a long way, from scattered industrial assets to one of Russia's leading industrial corporations. Today it comprises over 700 enterprises in various industries, from aircraft manufacturing to microelectronics. Most of them are structured into large holding companies.

Among the brands in our portfolio are KAMAZ, AVTOVAZ, Kalashnikov Group, VSMPO-Avisma, Russian Helicopters, Schwabe, Ruselectronics, High-Precision Complexes, etc. The value of our assets has increased 3-fold over the decade, with revenue rising by almost the same amount to reach 1.6 trillion rubles in 2017.

Today Rostec is one of the key suppliers of equipment for the defense industry. Still, about 30% of our revenue comes from sales of civilian products such as aviation, automotive and medical equipment, electronics, new materials, etc. The annual volume of our military exports through Rosoboronexport has more than doubled in 10 years to \$13 billion.

FS: *But it hasn't always been like that...*

Sergey Chemezov: Ten years ago, the picture was different: debts, unfulfilled defense contracts, dilapidated equipment, disrupted supply chains, underutilized manufacturing capacity, conflicts and disagreements among the management. Of the 400 enterprises initially placed under the corporation's control, almost 150 were on the verge of shutting down, with another 70 idle, subject to bankruptcy proceedings or stripped of their assets. Consolidated losses exceeded 60 billion rubles... Today, let me remind you, we are among the six largest national companies.

FS: *How tough did you have to be to put so many assets in order?*

Sergey Chemezov: At the formation stage, the entire industry's survival was at stake. We had to be quite tough, including relying on law enforcement. At AVTOVAZ, for example, we had to mount something akin to a special operation just to wrestle the plant from criminal control. In total, inspections initiated by Rostec resulted in more than 200 criminal investigations, sparing us over 6 billion rubles in damages.

At the same time, we carried out extensive structural, administrative and technological reforms; made the necessary personnel changes; implemented common work standards and monitoring procedures; developed a single strategy; overhauled and retooled manufacturing facilities; eliminated internal competition; and built strong holding companies. All these measures allowed us to prevent entire industries from collapsing and to make them financially viable.

FS: *How did that affect the corporate governance structure?*

Sergey Chemezov: During the first phase, we had to establish control over the assets and incorporate them into the structure of holding companies. It required a firm hand in the form of a single centralized control structure. Now that the formative period is left behind, many of the powers are being transferred to the holding companies. Our guiding principle here is "more trust means more responsibility." In other

words, as we expand the powers of the holding companies managers, we simultaneously increase their responsibility for the company operations and business decisions.

Meanwhile, the Rostec central apparatus retains control over the so-called high-risk functions, such as budget execution, major transactions, state procurement orders, sales of non-core assets, etc. Simultaneously, we strengthen the role of the boards of directors, where, through our representatives, we can influence all key processes at the subsidiaries.

FS: *As the saying goes "better safe than sorry". Hasn't the transfer of authority to the holding companies resulted in weaker controls?*

Sergey Chemezov: Rostec has put in place an effective management and control system throughout the power vertical, enabling it to move from responding to the existing situations to taking preventive action. This allows us to look ahead, systematically develop assets, ensure their safety and eliminate losses.

At the same time, a reasonable balance has been struck between systemic shareholder control and placing trust in the subsidiaries management, resulting in greater transparency of all the key processes and more flexibility for holding companies.

The single corporate treasury mechanism, one of the key management tools used by about 600 companies within the corporation, helps to ensure efficient and transparent management of financial flows, including control over the use of special-purpose funds. The system handles all the main treasury-related business processes such as settlements, management of external financing, and relations with banks. All processes are automated, allowing one to monitor all transactions online.

FS: *Which departments are charged with exercising control functions?*

Sergey Chemezov: In addition to a robust security team, the corporation has established a compliance unit, internal audit department, and a risk and internal control department. Each unit works in accordance with its profile to identify possible risks, conflicts of

interest, corruption, misreporting and other violations. In a word, everything is being done to safeguard the corporation assets against any erroneous or illegal actions capable of causing damage.

FS: *How effective is this work?*

Sergey Chemezov: Its effectiveness is obvious. Every year, specialized units conduct dozens of inspections and audits of our companies, identifying hundreds of shortcomings and violations. In 2017, for example, the internal audit department exposed significant irregularities in the financial and economic activities of two new holding companies, Uralvagnozavod and the Tractor Plants group, allowing us to take timely measures to mitigate the financial and other risks faced by the corporation.

In general, the measures taken tend to have a positive effect, with the number of violations, particularly corruption-related, recorded at Rostec companies falling year after year. Still, there are cases that warrant assistance from the Prosecutor General's Office, law enforcement and the FSB. For example, there were 13 criminal investigations into the activities of our subsidiaries in 2017, with the total amount of awarded compensations and prevented damages estimated at 3.5 billion and more than 5.2 billion rubles, respectively.

FS: *Does Rostec have a policy document on combating corruption?*

Sergey Chemezov: There is a large compendium of corporate standards in this area. The anti-corruption policy, the key instrument adopted in its furtherance in 2017, sets out the requirements for employees and work processes in areas at risk. We also regularly update and implement the anti-corruption action plan, which lists the actions to be taken.



FS: *Would you say that corporate regulations and standards are an effective tool?*

Sergey Chemezov: Any regulation, whether we are talking about common procurement regulations, a corporate investment policy or other instruments, delivers tangible results for the corporation. For example, the procurement regulations were used by Rostec companies in 2017 to make about 100,000 purchases, generating almost 14.5 billion rubles in savings. Meanwhile, capital investment regulations allowed to implement more than 30 investment projects designed to help the corporation to upgrade its equipment.

Hundreds of Rostec companies operate within a single legal environment and common paradigm. Anti-corruption efforts, budgeting, management accounting, financial management, liquidity control, procurement, etc. are all subject to the same corporate standards applicable to all Rostec companies and implemented through directives. Although such regulatory practices may not always appeal to everyone, the dynamic of the corporation's development proves that Rostec is on the right path.

DEVELOPMENT OF STATE FINANCIAL CONTROL OVER THE EFFICIENT USE OF BUDGET FUNDS

Mikhail Sedov,

Head of the Public Sector Directorate, Federal Financial Monitoring Service



Mikhail Sedov

“Russia should become the best country to live in”. This objective set by Vladimir Putin, President of the Russian Federation, as the principal outcome of reforms aimed at developing the country, is very ambitious. To achieve this goal, it is necessary to have an efficient systemic government. However the domestic economy suffers significant losses because of a low level of financial, budget and tax disciplines which poses a threat to the long-term social and economic development of the country and therefore requires continuous control by the authorised bodies.

It should be noted that the globalization trend is strengthening, which has affected the introduction of new financial regulation instruments into economic and

market processes. Following the implementation of the principle of “liberal economy”, which is characterised by minimal government intervention into the economy, the transparency of financial flows is reduced which results in a situation when shady financial turnover actively develops. The withdrawal of funds from the legal circulation into the illicit one destabilises the market mechanism that has a considerable impact upon the distribution of funds on a nationwide scale. In addition, the competitive ability of the domestic economy is decreased, and the investment attractiveness for capital inflows is compromised.

The relevance of this subject lies in the fact that no sustainable social and economic development is possible without the implementation of a variety of methods designed to protect economic legal relations and without the improvement of the efficient use of budget funds. One of the integral factors of increasing the transparency of the financial sector is the prevention of predicate crimes in the financial and public sector that constitutes the basis for the domestic economy and a pillar for economic reforms.

The consolidation of the statehood that has been happening in the Russian Federation over the last years is demonstrably linked to the necessity of enhancing the role of control, in particular state financial control, to ensure the stable development of the country's financial system. Given the historical background of the development of the institution of statehood, many researchers and practitioners contend that an efficient and viable financial control is the primary factor of an economically stable and developing state.

If we compare the process of creating a state system with the construction of a house, then control over expenditures and the efficient use of funds allocated

for this complex “structure” serves as a pre-requisite for the timely commissioning of the facility, its structural durability and quality. As in any project, any inappropriate use of funds may lead to many delays in construction and ultimately to bankruptcy, which the public authorities cannot allow and which runs contrary to the central objective of President Putin to make Russia a powerful and progressive country.

By defining the efficiency and economy of the use of budget funds as one of the principles of the budget system, the Budget Code of the Russian Federation obligates the recipients of budget funds to use them in accordance with their intended purpose and in an efficient manner. Although the existing budget process structure basically has neither mechanisms for the implementation of this principle, nor the above-mentioned obligation.

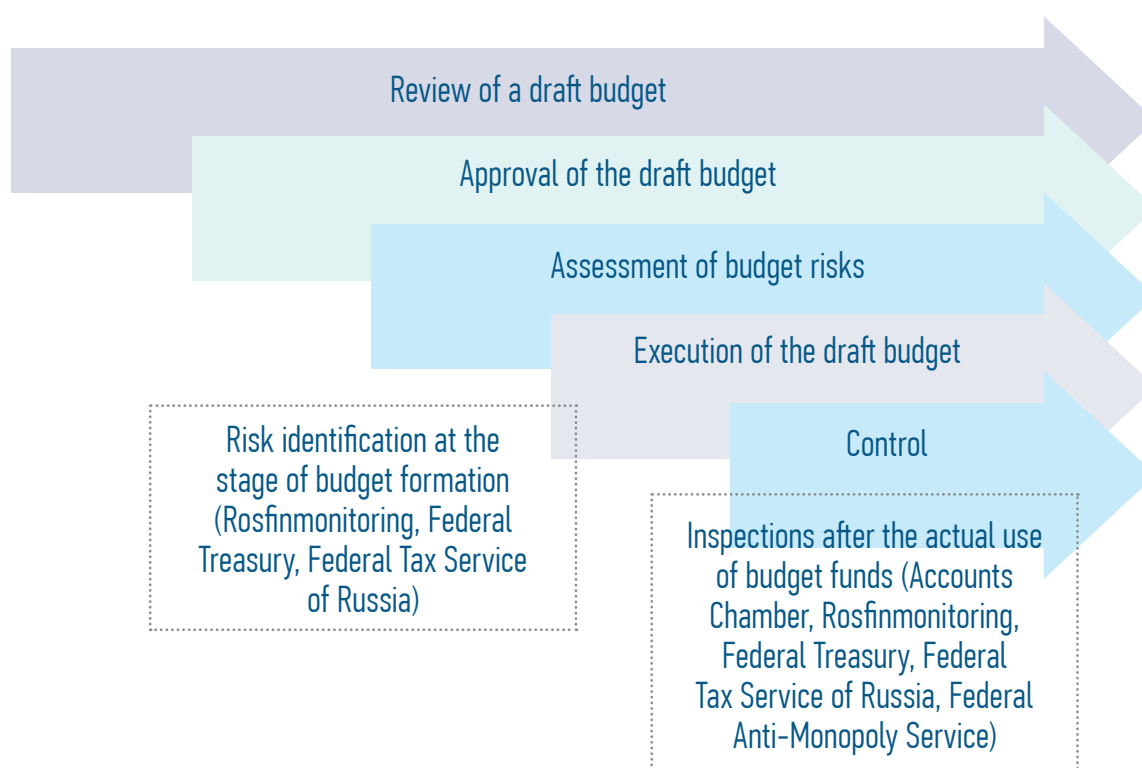
The reason is that the current system of federal budget formation and utilization, accounting and reporting is not focused on increasing the efficiency of public expenditures. It is cost-intensive and has no quantifiable and socially important set results of the use of funds to the achievement of which the recipients should aspire. According to the existing system, the main objective of the budget funds administrators is to spend all the allocated budget funds within the current period; otherwise the amount of financing will be reduced in the subsequent budgetary period.

To solve this problem, it is required to separate control into a standalone stage of the budget process alongside with budget utilisation. Furthermore, the sequence of control measures should not be restricted to budget utilisation, it is also necessary to analyse the feasibility of the allocation of budget funds at the stage of budget approval as part of the risk-based approach.

Figure 1. Stages of the Budget Process in the Russian Federation



Figure 2. Main Stages of the Budget Process under Budget Monitoring



When the budget funds administrators use the risk assessment in procurement procedures, it will allow identifying mala fide suppliers, affiliated persons of public officials whose participation may be indicative of embezzlement or the ineffective performance of contracts. Now Rosfinmonitoring actively uses this mechanism of identifying budget risks and reporting them to the law enforcement authorities.

In view of the progressive capabilities of information support enjoyed by the Federal Tax Service of Russia and the Federal Financial Monitoring Service, and the supervisory authorities of the Federal Treasury which it received after the reorganisation of the Federal Financial and Budgetary Supervisory Service, the country's leadership has arrived at a decision related to the interdepartmental cooperation of the above-mentioned institutions as part of the project "Budget Monitoring" which constitutes a starting point for the creation of a uniform financial control system.

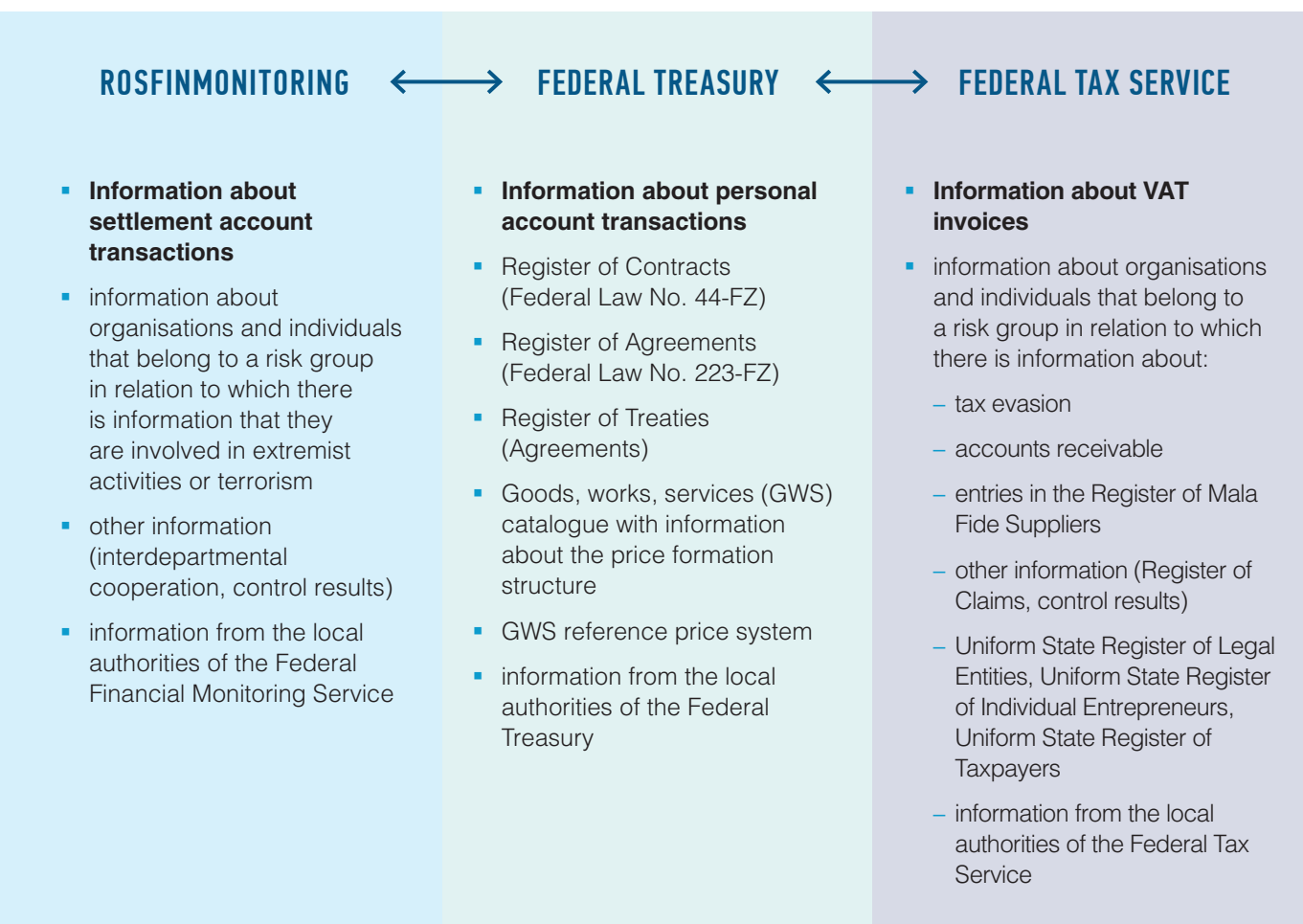
For instance, according to Russian Government's Directive No. 1502-p dated July 14, 2017, the Federal

Treasury, jointly with Rosfinmonitoring and the Federal Tax Service are charged with organising interdepartmental cooperation to exchange information as part of the treasury tracking of funds allocated from the federal budget for the implementation of a number of strategic projects in different regions of the country. This project will allow adjusting the mechanism of interdepartmental cooperation for further control of the intended use and prompt response to any threatening embezzlement of budget funds.

A process of information exchange between the Federal Treasury, Rosfinmonitoring and the Federal Tax Service has been elaborated to ensure the efficient operation of state financial control. The process has already been implemented as part of budget monitoring.

The authorities engaged in interdepartmental cooperation require the following information about the contractor under a government contract in their work: whether it pays taxes or not, whether it is a debtor or not, whether it is involved in any dubious financial transactions or not. It is necessary to know everything

Figure 3. Information Exchange as Part of Budget Monitoring



about the flow of funds throughout the chain of contractors and subcontractors. Such information is contained in the information systems of the Federal Treasury, the Federal Tax Service of Russia and Rosfinmonitoring. The principal task is to learn how to exchange and use it.

It is budget monitoring that will allow excluding any procurement that is inconsistent with the customer's activities or has excessive consumer qualities, and ensuring the procurement from reliable suppliers at relevant market prices or at other prices which are fair and objective.

Basically, it is the primary goal of this project to track the flow of funds all the way from the state customer to the contractor and until the results have been achieved.

State financial control in the Russian Federation is continuously improved and modernised by means of new standards, methods and laws. The information support of the regulatory authorities is developed alongside with the improvement of the regulatory framework. It should be realised that in the era of digital technologies and electronic trading facilities and ever-increasing importance of information storage and transmission networks, the major challenge lies in the analysis of Big Data.

Nowadays all authorised bodies engaged in state financial control have to work with Big Data and computerise their activities in order to organise an effective and coordinated process. In the context of powers vested by law, the Federal Treasury, Federal Tax Service and Rosfinmonitoring possess the largest volumes of data.

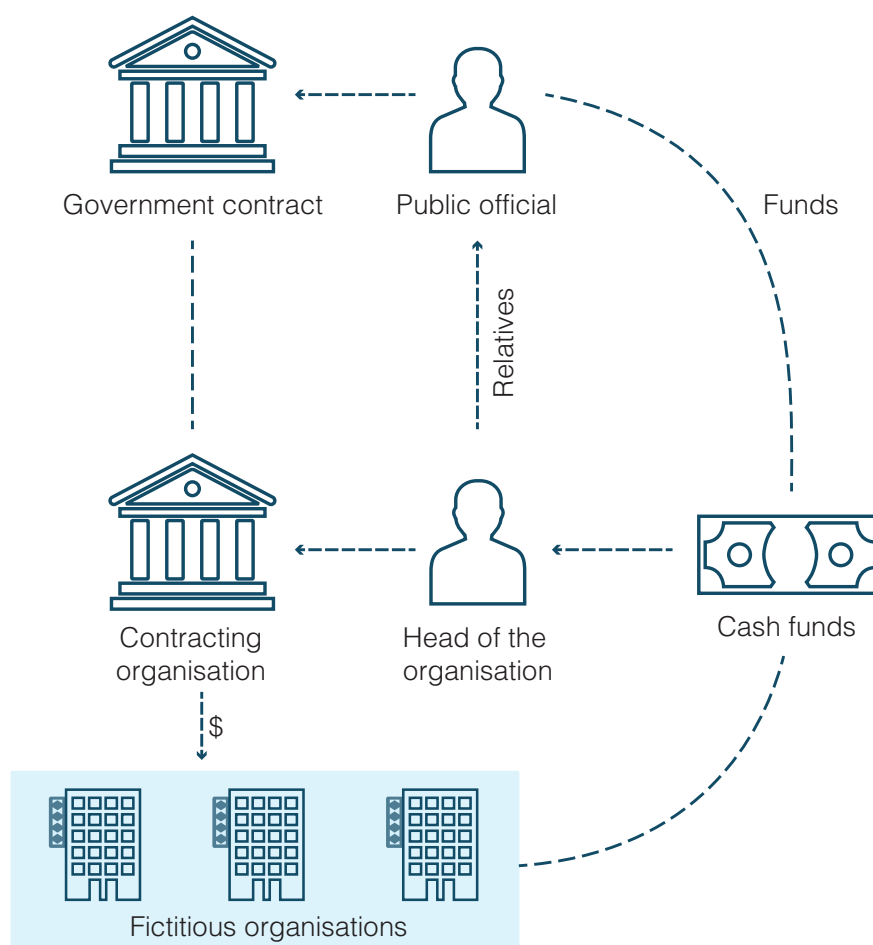
Starting from 2015 the Federal Financial Monitoring Service has been making significant efforts to form and develop an essentially new system of interdepartmental control over the use of state defense procurement funds in accordance with the new provisions of the Federal Law "On State Defence Order" which entered into force on September 1, 2015.

Rosfinmonitoring's top-priority objective for the public sector is to perform high-quality and timely financial monitoring of the backbone enterprises and contractors involved in state defense procurement regarding the risks of any inappropriate use of allocated budget funds.

For instance, as part of this system, an institution of authorised banks was commissioned, a mechanism of using separate accounts for making settlements under contracts related to state defense procurement was launched, new requirements to obligatory transaction control, additional grounds for refusing to conduct transactions and other innovations was introduced.

We may acknowledge that the control system, introduced by Federal Law No. 275-FZ, has helped to exclude the use of funds on the most risk-related grounds: moving funds offshore, issuing loans to individuals, unsubstantiated purchasing of dubious securities and so forth.

Figure 4. Typology of the Embezzlement of Budget Funds through Nepotism and Kindred Relationships



At the end of half-year period, comparing the results of monitoring of the use of funds for state defense procurement for 2016-2018, we see positive dynamics:

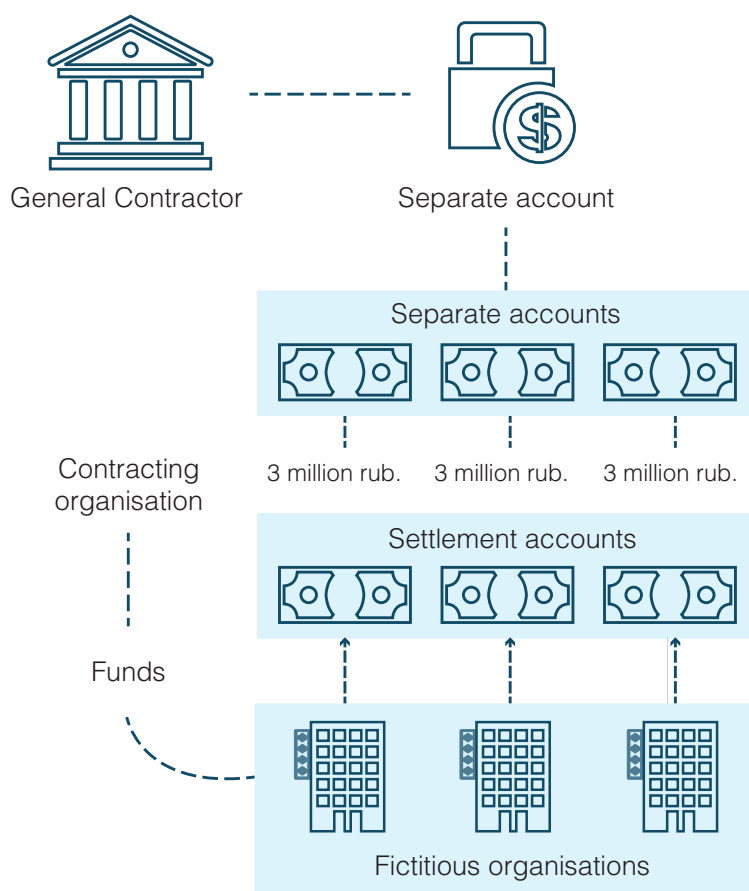
- number of cooperative participants that conduct dubious transactions (6,001) has decreased from 17 to 12%;
- amounts of dubious transactions have decreased almost 3 times;
- number of fictitious participants has decreased by 12%;
- amount of authorised banks' refusals (on informal grounds) to conduct transactions of participants

involved in state defence procurement has decreased 2.7 times.

Rosfinmonitoring's central objective for the public sector is to ensure the preservation and intended use of budget funds and to participate in decriminalising and increasing the transparency of the real economy branches with due regard for the identified risks.

Commercial organisations are the main contractors of the general contractor under state defense procurement, which potentially bears the risks of the embezzlement or inappropriate use of budget funds. In light of this, there arises a problem of the efficient control over the effective performance of state defense procurement contracts by contractors. In most cases after organisations have entered

Figure 5. Typology of the Embezzlement of Budget Funds from Separate Accounts under State Defense Procurement



into a contract and received an advance payment, they transfer a part of such funds to the accounts of “technical” (fictitious) firms affiliated with the management of the state defense procurement contractor. Afterwards the funds are credited to the accounts of individuals (cashed out) and transferred to the organiser or beneficiary party of this offence.

Summarising the accomplished efforts, we can articulate that the inclusion of Rosfinmonitoring into the state financial control system is driven by the enhancement of state control over the use of budget funds and the consolidation of powers in a number of principal authorities. The overarching objective of the participants of the state financial control system for the public sector should involve the decriminalisation and increase of the transparency of the real economy branches with the use of the risk-based approach alongside with ensuring the preservation and intended use of budget funds.

To solve this problem and to create pre-requisites for the introduction of performance audit, the budget process should be organised in a different manner. It should be based upon result-oriented budgeting. It is a method of budget formation and utilisation where the planning, allocation and use of budget funds are carried out in compliance with the tasks and objectives of state policy; they should ensure that the budget funds recipients achieve the ultimate social and economic results and perform tasks and functions vested in them.

Many experts view this tendency to tighten control over the efficient use of budget funds and the strengthening of the authorised bodies as a negative factor affecting the market economy through the exercise of pressure on business. The regulatory authorities will therefore have to find some balance between the complicated task of preserving budget funds and non-interference with the affairs of small and medium-sized businesses.

COMPLIANCE IN STATE COMPANIES

COMPLIANCE WILL NOT WORK UNTIL EXECUTIVES UNDERSTAND ITS RISK-MITIGATING POTENTIAL

An interview with Acting First Deputy Director General of Roscosmos Maxim Ovchinnikov



Maxim Ovchinnikov

FS: Compliance is a whole system of measures designed to reduce the risk of companies' non-compliance with legal requirements. In its activities, the FAS [Federal Anti-Monopoly Service] tries to focus on prevention of violations rather than dealing with their aftermath. As practice shows, this approach is much more effective.



Maxim Ovchinnikov: We can look at compliance from different perspectives. When viewed from a supervisor's perspective, it means only internal monitoring rules of compliance. From this point of view the supervisor cares that the laws are respected and organizations' behaviour corresponds to the existing regulations to the fullest extent.

There is, however, also a company's perspective (the so-called business approach), which, I believe, should prevail. In this case, compliance represents a set of systemic measures designed to improve the effectiveness of the entire company.

FS: *Is this approach relevant for state corporations?*

Maxim Ovchinnikov: For state companies especially. For example, if a corporation violates antitrust laws and is ordered to pay a fine, it pays it out of the public purse because it is majority-owned by the state. When a private company is punished, however, the fine is paid out of the owner's pocket. And here comes the question of motivation, since the shareholder will blame the management for all violations and additional expenses. If there is a fine, it is your problem, because your department, your people and you personally created it. In this situation, the executive is personally liable.

For this reason, when a private company integrates compliance into its business processes, it mostly does so not merely to please the regulator, but to minimize the cost of litigation with authorities and to reduce the size of penalties. When a private company realizes that the risk of non-compliance is too high, there is only one solution: integrate compliance procedures.

FS: *Should compliance be mandatory or voluntary?*

Maxim Ovchinnikov: I believe that for private companies it should be voluntary, since they make decisions based on their own ideas about how compliance can enable them to improve effectiveness, reduce costs, etc.

FS: *Has the FAS tried to make compliance mandatory?*

Maxim Ovchinnikov: Yes, proposals to this effect have been made. We believe there should be certain KPIs (key performance indicators) for the management of state corporations, designed to minimize the number of violations of the law (antitrust, bidding legislation) by these corporations. If a shareholder represented by the state severely punishes such managers for violations, only in this case compliance will really be implemented, as they say, to the maximum effect. Today, however, they lack motivation. Why waste money and resources?

Many of those who are involved in compliance do not really understand what it is. This means they do not do it effectively.

As a living organism, any company must respond to the external environment, and do it in the most effective and cost-efficient way.

The FAS antitrust investigations expose corruption schemes. They are linked to violations by state companies of tender procedures (Federal Anti-Trust Law No. 135-FZ of July 26, 2006, collusion between a government agency and an economic entity). Indeed, there are cases where officials of state-owned companies collude with potential suppliers to influence the bidding process and fix the contract price, (which is usually higher than the market) to the exclusion of other bidders, effectively handing the tender to the pre-agreed winner. Of course, this is corruption. For us such practices result in higher prices, unreasonable federal budget expenditures, etc.

FS: *Are there any examples of successful implementation of compliance in state corporations?*

Maxim Ovchinnikov: Rosatom uses compliance to avoid anti-trust violations. They monitor procurement transactions of both subordinate entities and the holding company. The internal dispute settlement mechanism used by the company allows it to spot and address procurement violations committed by subordinated entities at an early stage, thereby reducing the number of complains ultimately reaching the FAS. Rostec is another company that is starting to use this tool, and that is it for now, unfortunately.

There are positive examples of compliance implementation, but mostly in the private sector or companies in which the government has a minority stake.

FS: *Does the FAS work with compliance units in companies?*

Maxim Ovchinnikov: Of course. To begin with, the FAS was instrumental in the adoption of the government act on defense procurement. By the Government's decree the guidelines for implementing internal controls over compliance with anti-trust laws and defense procurement regulations were designed and adopted.

These regulations are based on the best internal control practices of major corporations, international experience and the quality management principles set out in the ISO 9001 standards.

We prepared these regulations jointly with the compliance units of state companies. The process involved consultations and amendments to the text. Each year, the FAS uses violation statistics to evaluate the effectiveness of application of these guidelines.

Military-industrial complex companies, meanwhile, are in a tougher situation, since the consequences of their violations are of a more dangerous nature and can entail not only huge financial losses, but also endanger the lives and safety of human beings.

FS: *In other words, if there are no violations, they can be considered effective? Maybe they just missed them?*

Maxim Ovchinnikov: That is where annual statistics come in. If, despite the company's reports that it has implemented compliance procedures, we see that violation numbers are growing, we understand that this is an imitation of hard work rather than actual work.

I will cite the example of Rosatom again here. 7-8 years ago, they put in place procedures designed to minimize the number of violations in procurement, along with an internal dispute settlement mechanism in the form of a committee that reviewed complaints from its procurement departments. Although everything seemed to be working, violations continued. In the end, they succeeded in sharply reducing their number.

FS: *Was it because its employees became more experienced or due to improvements in internal discipline?*

Maxim Ovchinnikov: Any organism needs time to adapt and implement changes. From the moment the committee began working at full capacity, discipline within the company improved and they



learned to use their practical experience to correct the mistakes made by their businesses without resorting to the Federal Anti-Monopoly Service.

In this case, the corporation deliberately worked to minimize the risks of potential losses. They work in a competitive global environment where one needs to avoid unnecessary expenditures of resources. Resource-rich companies can sustain losses for a long time, but, sooner or later, they will have to change their approach to performance.

FS: *Is there a way to assess the volume of prevented violations?*

Maxim Ovchinnikov: It is hard to name a figure, because we never know whether it is the mistake of the manager who prepared the documentation, for example, or malicious intent. The FAS believes in the presumption of innocence.

Compliance is a tool for preventing violations. What can we do? Identify violations. Even in procurement, we try to be as transparent as possible. To this end, we have created an electronic procurement mechanism that introduced digital trading practices even to the restricted sector. When a subordinated entity realizes that it is transparent, it plays by the rules applied in the open sectors.

My core message is that compliance should be viewed as a management tool that can be used to improve the effectiveness of a company or corporation. Initiative should come from the

director of the company, who should understand that he needs compliance as a management tool.

The principle is simple: everything comes at a price. Including by way of pressure from shareholders. There is Federal Property Management Agency, there are government representatives on the board of directors, etc. I believe we should use corporate tools to put pressure on the top management,

meaning that KPIs for top managers should include the possibility of sanctions for non-compliance.

For example, a company commits a violation that is proven in court. It costs 500 million rubles. Its top management should be held liable. Otherwise, you cannot force them to run the company in a way that avoids such losses.

ROSCOSMOS

ROSKOSMOS is a state company established in August 2015 for the purpose of carrying out a comprehensive reform of Russia's rocket and space industry.

ROSKOSMOS is responsible for the implementation of the state space policies and legal regulation of the space industry. It also places orders for the

supply and manufacture of space equipment and infrastructure facilities.

Its other functions include promotion of international cooperation in the space sector and creating conditions for the use of the results of space activities to facilitate the socio-economic development of Russia.

INDUSTRY ASSET PROTECTION AND ANTI-CORRUPTION SYSTEM ENSURES ECONOMIC SECURITY OF THE NUCLEAR INDUSTRY

Konstantin Denisov,

Deputy Director General for Security, Rosatom



Konstantin Denisov

The asset protection in the nuclear industry is a systematic activity of employees of the security unit and other structural units of the state corporation Rosatom and its organizations aimed at countering corruption and other offenses.

The state atomic energy corporation Rosatom, as an organization established to fulfill the tasks assigned to federal government agencies, has implemented an industry asset protection and anti-corruption system that ensures economic security of the nuclear industry sustainable development.

The activities in this area are carried out in accordance with the Anti-Corruption Plan of the state atomic energy corporation Rosatom for 2018–2020 issued on the basis of and pursuant to the requirements of Federal Law No. 273-FZ of December 25, 2008 “On Combating Corruption”, Presidential Decree No. 378 of June 29, 2018 “On the National Anti-Corruption Plan for 2018–2020” and other regulatory legal acts on anti-corruption and economic security issues.

Rosatom has built a system of organizational measures aimed at combating corruption, under which the Asset Protection Department (APD) is defined as a unit responsible for coordinating prevention of corruption and other offenses. It is noteworthy that the anti-corruption functions in the Corporation are assigned not only to the security unit. The key to the effectiveness of efforts in this area also includes the assignment of preventive tasks to personnel, legal and other structural units.

Another organizational solution implemented at Rosatom, which had a significant beneficial effect, was the establishment of a functional management system for the industry organizations in the asset protection and anti-corruption sphere. To date, more than 200 organizations in the industry operate according to uniform anti-corruption regulations and rules adopted by Rosatom. The center of this system is the state corporation security unit, which has all the structures involved in protecting the assets of the industry organizations under its functional control. Therefore, the work is built in a uniform manner.

The efforts targeted at the asset protection and anti-corruption are supported by a complex of anti-corruption regulatory documents operating in the nuclear industry, including the Code of Ethics and the Unified Industry Anti-Corruption Policy of Rosatom and its organizations.

In 2017 - 2018, the improvement of the regulatory framework of anti-corruption efforts in the Corporation continued. In particular, the uniform industry guidelines for assessing corruption risks in the organizations of the Rosatom state atomic energy corporation have been developed and implemented. Pursuant to Rosatom Order "On approval of unified industry guidelines for concluding transactions and determining the terms and conditions of contracts concluded in the process of mergers and acquisitions and establishing strategic partnerships", an anti-corruption clause was included in the standard contract documentation on mergers and acquisitions.

In 2017, the composition of the Rosatom Commission on compliance with the requirements for professional conduct and conflict of interest management was updated. The Rosatom Order also updated the List of positions, which require the persons appointed to them and the Rosatom



employees filling them to submit information on their income, property and property obligations, as well as information on income and property and property obligations of their spouses and minor children. The form of a certificate of income, expenses, property and property obligations in the wording of current Presidential Decrees was approved.

Rosatom issued Order "On imposing a prohibition on joint labor activity with relatives", which prohibited employees filling the positions of Director General, First Deputy Director General, Deputy Director General, Chief Accountant of the Corporation and persons applying for such work to be employed in the case of a close relationship (parents, spouses, children, siblings, as well as siblings, parents, children of spouses and spouses of children) with the Corporation employee if the labor activity is connected with direct subordination.

Moreover, a named notification on the specifics of labor regulation for employees of state corporations (provided for by Article 3491 of the Russian Labor Code) was introduced into practice – a letter "On the implementation of restrictions and prohibitions" was prepared, which informs employees and candidates considered for filling positions in the Corporation about the need to observe the restrictions and prohibitions provided by the anti-corruption legislation.

Besides this, local regulations of the Corporation:

- changed the form of the employment contract with corporate employees, which now includes a special “Anti-corruption clause” section, as well as provisions containing recommendations for employees to provide the employer with information on the changes in the registration details of their relatives;
- prescribed structural units of the nuclear industry organizations responsible for combating corruption to summarize and submit to Rosatom in accordance with the established procedure information on officials who do not comply with the requirements for the prevention or settlement of conflicts of interest and (or) requirements for professional conduct, as well as on measures applied to them or failure of heads of organizations to respond adequately;
- updated the Unified Industry Procurement Standard (UIPS) and its amended provisions ensured an increase in the anti-corruption effectiveness in the procurement of goods, works and services for public needs – the amendments made to the UIPS were subjected to the anti-corruption expertise;
- approved and updated a number of sectoral regulatory documents on the application of responsibility measures stipulated by law, including “Unified industry guidelines for establishing and applying the enforcement measures against employees of the Corporation organizations for violating the performance discipline” and “Procedure for establishing and applying the enforcement measures against the Corporation employees for violating the performance discipline.”

The Corporation ensures full disclosure of information and public control over the activities on the asset protection and combating corruption in organizations.

The “Anti-Corruption policy” section is regularly updated on the official Rosatom website, where relevant materials are published in the following main subsections:

“Regulations and other acts in the anti-corruption sphere”;

“Anti-corruption expertise”;

“Methodological recommendations”;

“Information materials”;

“Forms of documents to fill in”;

“The Rosatom Commission on compliance with the requirements for professional conduct and conflict of interest management”;

“Submit the results of an independent anti-corruption expertise”;

“Information on income, expenses, property and property obligations of the Rosatom employees and their relatives”;

“Report corruption”;

“Advanced anti-corruption training.”

For the purpose of protecting assets and combating corruption, Rosatom is constantly improving the conditions, procedures and mechanisms of procurement activities.

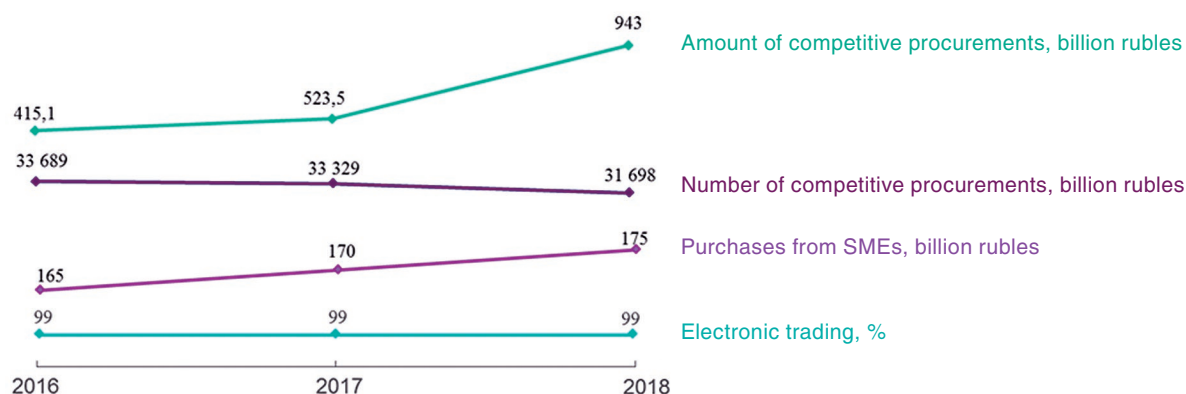
The Unified Industry Procurement Standard (UIPS) is regularly updated by decisions of the Rosatom Supervisory Board.

The annual procurement programme, the procurement plan and the procurement schedule are placed in a single information system and are publicly available. The purchases are carried out electronically using the functionality of electronic trading platforms.

The reduction of the cost of products and services and lead times was provided by the following core anti-corruption measures:

- consistently conducting an assessment of corruption risks in the business processes of nuclear industry organizations and monitoring compliance of their anti-corruption efforts with the anti-corruption legislation requirements;
- including anti-corruption reservations in contracts related to economic activities;

Results of procurements in the nuclear industry



- introducing organizational and control measures aimed at informing Rosatom about the implementation of required anti-corruption measures by heads of industry organizations.

The disclosing of chains of counterparties' owners to final beneficiaries is under way. The amendments made to the UISP are aimed at fulfilling this task. In particular, the procedure for disclosing information on beneficiaries was determined, the instructions for filling in the form for providing information on chains of ownership, including beneficiaries (as well as final beneficiaries) were amended; the procedure for disclosing beneficiaries of certain types of counterparties and a number of other measures was also determined.

In the estimation of public associations, whose statutory task is to participate in combating corruption, and a number of civil society institutions, the Corporation holds the leading position in terms of corporate and procurement openness.

The number of corporate employees who annually provide information on income, expenses, property and property obligations exceeds 200 persons.

The information on income of persons applying for vacancies in Rosatom (candidates), as well as on income of candidates' relatives, is carefully analyzed.

Pursuant to the requirements of Article 641 of the Russian Labor Code, the personnel unit of the Corporation informs about the conclusion of

employment contracts with persons who held public (municipal) positions, the list of which is established by normative legal acts of the Russian Federation.

Legal awareness-raising campaigns aimed at explaining the need to comply with the statutory prohibition to receive gifts were conducted for corporate employees, including on the website and on boards in the Rosatom premises.

A system of anti-corruption training for employees of the Corporation and its organizations, including those responsible for the prevention of corruption and other offenses, is developed on the basis of industry-specific educational institutions.

In 2017, more than 120 employees of the Corporation were trained, including the heads of its structural units and other officials.

Moreover, as part of the "Introduction to the Company" training course, 57 corporate employees, in particular 18 employees, whose functions include participation in combating corruption, were trained in anti-corruption issues.

In pursuance of the National Anti-Corruption Plan for 2016-2017, five programmes for various categories of trainees were developed and agreed with the Administration of the President of the Russian Federation. In 2016-2017, 638 employees of 12 state corporations (companies with state participation) and 96 of their subsidiaries were trained according to these programmes. All of them received advanced training certificates in the established standard form.

Currently, a set of measures aimed at preparing for the anti-corruption training is being implemented in pursuance of Clause 28 of the National Anti-Corruption Plan for 2018-2020.

The effectiveness of the asset protection and anti-corruption activities in the Corporation organizations is monitored, including using the hotline, the channel through which employees and other persons report alleged corruption-related offences and other violations on a confidential and/or anonymous basis.

The consideration of hotline calls is regulated by the "Unified industry procedure for processing hotline reports in the state atomic energy corporation Rosatom and its organizations".

Any nuclear industry employee, as well as any citizen of Russia or a foreign country, can report about the known corruption episodes or embezzlement. Violations may be reported not only by phone, but also by e-mail or by filling out a special form on the State Corporation website. In short, all convenient ways to communicate this kind of information are provided.

Rosatom

Rosatom was established on December 18, 2007. Its status, goals and objectives, functions and powers are outlined in Federal Law No. 317-FZ of December 01, 2007 "On the state atomic energy corporation Rosatom".

Rosatom is a Russian State Corporation, one of the global technological leaders. It is among the leading diversified industrial holdings of the Russian Federation and the largest taxpayers

in the country. It combines assets in the field of nuclear energy, design and construction of nuclear power plants, power engineering. The scope of Rosatom's activities also includes the manufacture of equipment for isotope products for the nuclear medicine needs, research, materials science, supercomputers and software, and the manufacture of various nuclear and non-nuclear innovative products.

ANTI-CORRUPTION COMPLIANCE BY ROSSETI GROUP OF COMPANIES

Alexander Batalov,

Director of the Economic Security and Anti-Corruption Department, PJSC Rosseti



Alexander Batalov

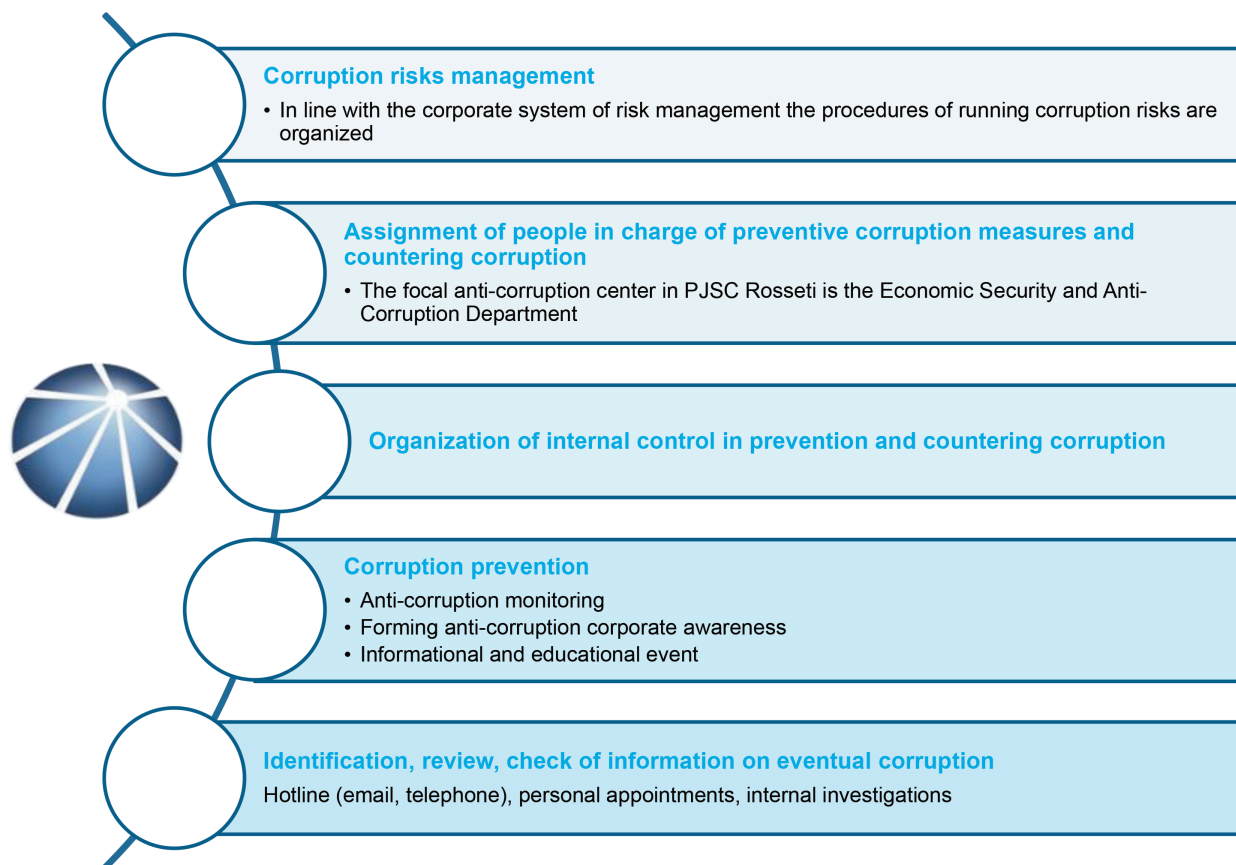
The 21st century is the age of high technology and information communications. Energy companies believe that a reliable and sustainable power supply to industrial and retail consumers based on advanced and sophisticated technologies is a prerequisite for Russia's transfer to the digital economy.

Rosseti relies on the ethical business behavior of its employees and the integrity of business as lasting values to make this journey.

Rosseti Group of Companies, a state-owned strategic enterprise, must make efforts to fight corruption according to Article 13.3 of Federal Law No. 273-FZ "On Countering Corruption" dated 25.12.2008, develop and integrate standards and processes aimed at ensuring sound business practice. The report "Transparency in Corporate Reporting: Assessing the Russia's Largest Companies"¹ rated PJSC Rosseti fourth in the list of 200 top RBC-2016 companies. The research was made in three areas: anti-corruption corporate programs, disclosures on subsidiaries and associates, and countries of the company's presence.

¹ The assessment of Russian business transparency by Transparency International Russia in 2017.

Main Elements of Anti-Corruption Standards



In 2017, Rosseti assessed the performance of its anti-corruption policy for the subsidiaries and associates of PJSC Rosseti. Based on this study, the Russian Chamber of Industry and Commerce issued compliance certificates to all subsidiaries and associates according to the Anti-Corruption Charter.

PJSC Rosseti and its subsidiaries and associates ("Rosseti Group of Companies") have in place the vertically integrated anti-corruption system for more than 5 years. It is based on a unified anti-corruption standard and implements an integrated program to prevent illegal and corrupt practices. It includes the improvement of the in-house regulatory base, internal control system, and economic security, the integration of anti-corrupt fraud practices in employee relations, and the dissemination of information related to ethical

anti-corruption standards and efforts within its company and its partners and customers.

The company is committed to the policy of countering corruption and fraud in the company and its subsidiaries and associates, including efforts to prevent and identify the abuses of power or conflicts of interest by employees. The strategic risk register of the company includes the risk of unethical or illegal actions by employees. Main Elements of Anti-Corruption Standards

The key elements of countering corruption in the group companies include:

- corporate value system and the ethics of business behavior;
- bona fide employee profile;

- efforts to counter and prevent corruption;
- conflict of interest management;
- anti-corruption compliance procedures;
- anti-corruption mindset and education.

Rosseti has in place the unified strategic document "Anticorruption Policy of PJSC Rosseti and its Subsidiaries and Associates." The priorities include the prevention, identification, and disruption of corrupt practices and mitigation of the corruption risks of Rosseti and its subsidiaries. The main goal is to implement the system of standards and procedures aimed at ensuring the commitment of every employee and the regular monitoring of anti-corruption standards and procedures in place and continuous control of their performance.

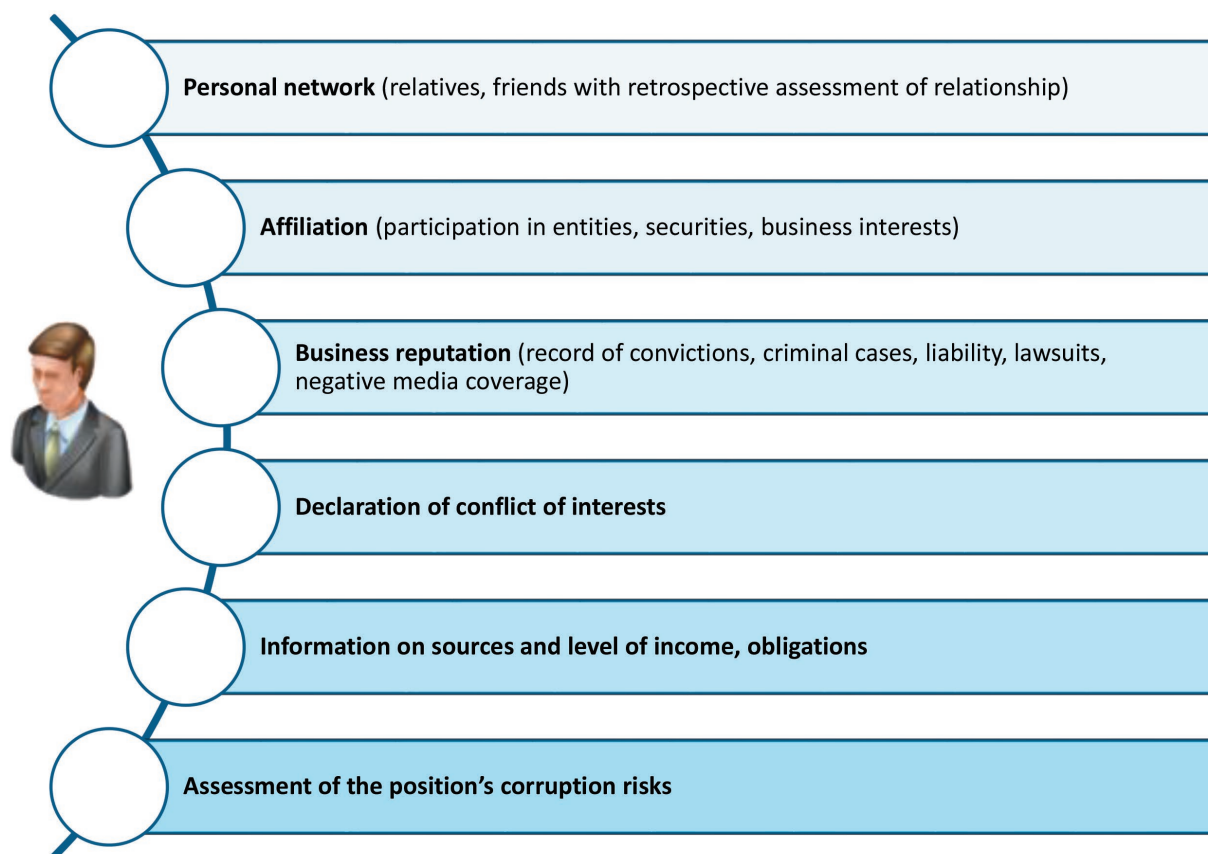
From employment through the career, the company carefully monitors compliance with corporate

values by each employee, including intolerance to corruption, and assesses possible risks related to employees' profiles.

The Corporate Code of Ethics and Business Conduct of PJSC Rosseti covers the best Russian and foreign anti-corruption practices and is the code of important behavior practices and principles of work integrated in power grid companies. Compliance with these regulations is mandatory for all staff members. PJSC Rosseti encourages compliance with the general standards by its partners, contractors, and consumers.

The electric grid companies are committed to the principle of zero tolerance for corruption and bribery. This means that all company employees must avoid any dealings with the government authorities that may be interpreted as corruptive. The companies avoid any actions that may be interpreted as bribery or corrupt business practices in dealing with their business partners.

Anti-corruption employee profile



To prevent fraud and corruption, enhance business transparency, and protect shareholders, Rosseti has operated the anti-corruption hotline for over five years. The website homepage shows a link to the hotline to report alleged corruption in PJSC Rosseti and its subsidiaries and associates. PJSC Rosseti and its subsidiaries receive about 300 reports per month on the alleged infringements of consumer rights, the Corporate Code of Ethics and Business Conduct, and corruption practices. This feedback covers a broad range of corruption practices. Informers report violations in utility connection, HR issues, procurement, and off-the-meter and undocumented power consumption. The company follows up on all reported facts and investigates alleged abuses of power by its officers.

We have conducted an anonymous survey of employees related to the identification of painful corruption points. The outcomes confirmed that the areas most exposed to corruption risks are construction and renovation of power facilities, procurement, equipment repairs, and personnel appointments.

As part of the risk-based approach to implementing the Anti-corruption Policy in 2017, the company reviewed the corporate procedures of PJSC Rosseti and its subsidiaries and associates related to the identification and analysis of corruption risks inherent in the business of PJSC Rosseti and its subsidiaries and associates (DZO Rosseti). All subsidiaries and affiliates were engaged in this project and three of them were selected as sites for practical risk assessment.

Following the results, the company designed the Methodology for Corruption Risk Analysis and Assessment. The company developed the Register of Corruption Risks of PJSC Rosseti and DZO PJSC Rosseti in the key business processes: Procurement, Capital Construction, Investment, and Utility Connection, including (for each risk) the lists of the relevant indicators and information sources for their assessment. This methodology has driven the development of the automated system to identify corruption risks and is aimed at mitigating any potential material and reputational losses of the company and its subsidiaries and associates to develop the unified system of compliance control.

PJSC Rosseti and its subsidiaries and associates ensure that their counterparties disclose full

information related to the chain of their owners (beneficiaries) to ensure its business transparency, prevent affiliation, conflicts of interest, and any other abuses of powers. In 2017, Rosseti investigated its counterparties under more than 442.5 thousand agreements and identified more than 174 thousand beneficiaries by disclosing ownership chains. The ownership chains of all potential counterparties are verified for connections between counterparties' owners and the executives/employees of PJSC Rosseti. The company identified 66 cases of the conflict of interest and other abuses by executives/employees related to their corporate powers.

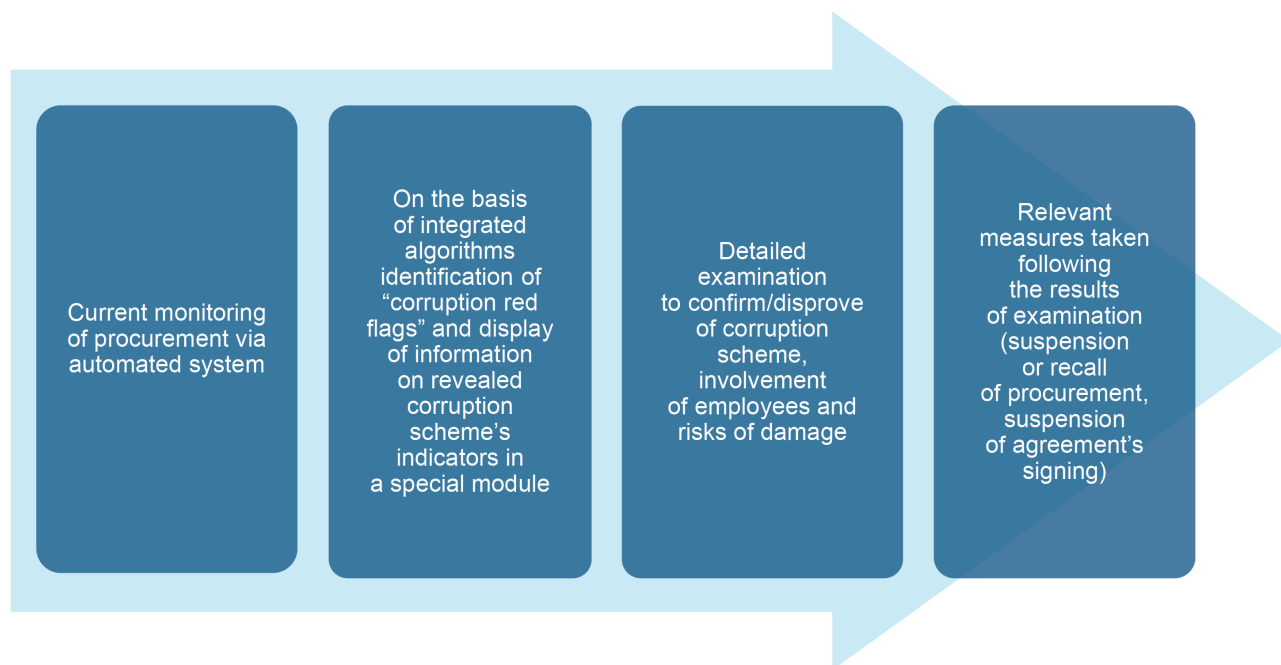
The automated system "Analysis and Collection of Beneficiary Information" was established to systemize this information. It allows us to obtain and accumulate information related to business reputation, verify counterparties against the blacklist of suppliers, assess business and reputation risks, and identify the signs of affiliation, conflicts of interest, pre-conflict situation, and any other abuses. To deal with these matters, we cooperate with the Ministry of Energy, Federal Financial Monitoring Service, and the Federal Tax Service of Russia.

Rosseti's investigation of 54,000 procurement players identified 3,500 abuses (including the conflict of interest, affiliation, price collusion, counterfeiting, lobbying members' interests by employees). The followup on such violations included the cancelation of 74 procurement contracts totaling RUB 71 million by the security departments of subsidiaries and associates.

In 2017, PJSC Rosseti piloted and successfully launched the system to document the feasibility of the initial maximum contract price ("IMCP"). As a result, the company decreased the initial (maximum) contract price with contract winners by RUB 2.3 billion.

The identification of affiliation and the conflict of interest is a special matter. We are focused on identifying the critical points and positions for each business process and creating the corruption risk map for PJSC Rosseti and its subsidiaries. The company has made a list of positions exposed to high corruption risk. They are subject to special anti-corruption procedures and requirements, including preparing regular declarations of the conflict of interest. Such

Identifying the signs of corrupt practices



Basis: typical methodology of identification and assessment of corruption risk in PJSC Rosseti and its subsidiaries and affiliates for examination of procurement participants and preparation of relevant reports.

officers must commit to full transparency, including reporting all family expenses and large purchases. In 2017, PJSC Rosseti and its 20 subsidiaries and associates installed the system of the electronic declaration of the conflict of interest integrated with the Professional Market and Company Analysis System (SPARK) and in-house systems: Automated System for the Analysis and Collection of Beneficiary Information (AS ASIB) and the Automated Receivables Reporting System (ASU DZ).

In 2017, the declaration campaign covered 45,524 Rosseti employees or 32% up from 2016 (10,944 employees) by the total number of employees involved. The number of declarations completed and filed electronically increased 5 times from 2016 (7,303 declarations in 2016 and 39,384 declarations in 2017).

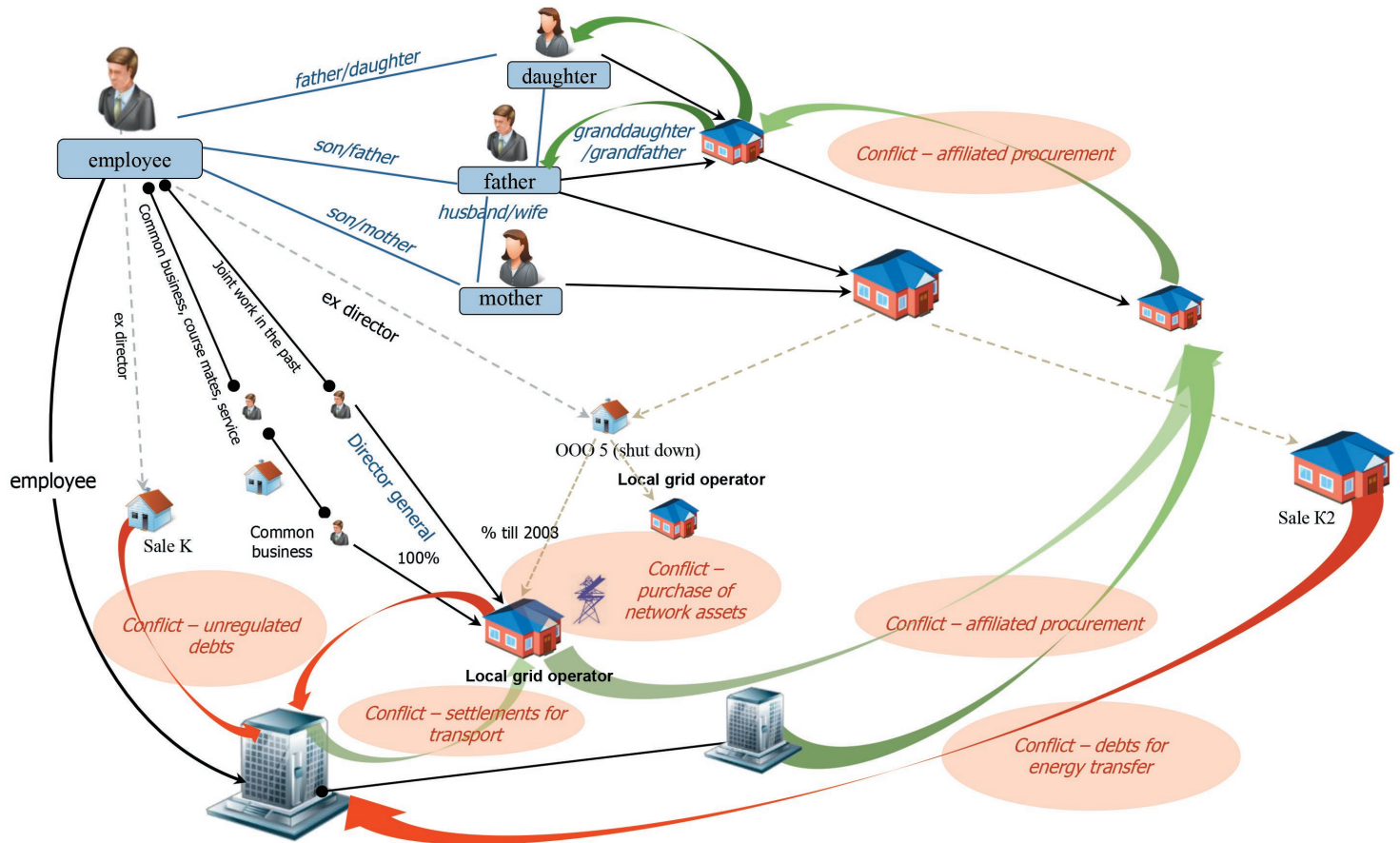
In 2017, Rosseti identified and settled 914 pre-conflict situations, of which 10 instances were

recognized as the conflict of interest and 6 are followed up with disciplinary measures.

I would like to stress that these anti-corruption policy measures seek to minimize corruption risks by identifying situations that can cause the conflict of interest. When corrupt practices are identified, we immediately disrupt such abuses, in particular, by reporting them to law enforcement, and make efforts to protect the company. We seek to create such an employment environment that would prevent the very risk of corruption in Rosseti, where the government is the major shareholder.

The Anti-Corruption Policy of PJSC Rosseti is focused on training and educating employees in the prevention and fighting of corruption and shaping their anti-corruption mindset. Our goal is to minimize the risk of involving the electric grid companies in corruption practices. These tasks are assigned to the departments responsible for the implementation of the Anti-Corruption Policy.

Anti-corruption efforts (CONFLICT OF INTERESTS)



The company prepared anti-corruption guidelines and made them available to all employees of PJSC Rosseti and its subsidiaries and associates. Such guidelines are posted on the company's corporate websites. The company holds regular training days and releases publications related to anti-corruption efforts to mass media. In 2017, more than 26,000 Rosseti employees were trained in the prevention and fighting of corruption, including 46 staff members of anti-corruption compliance.

To upgrade their professional skills, anti-corruption compliance officers complete advanced

professional courses provided by the company, the Russian Presidential Academy of National Economy and Public Administration, and St. Petersburg Security Academy.

PJSC Rosseti and its subsidiaries and associates comply with the anti-corruption standard aimed at open and fair business, minimizing corrupt practices in the electric grid sector to enhance the company's reputation and its relations with counterparties and partners, and the performance of tasks assigned by the government.

Rosseti

The President of Russia signed Decree No. 1567 "On Open Joint Stock Company Rossiyskie Seti" on November 22, 2012, to establish a unified approach to implementing the technical policy and management of the electric grid complex of the Russian Federation.

Public Joint Stock Company Rossiyskie Seti (PJSC Rosseti) is an operator of energy grids in Russia, is one of the largest electric companies in the world. The asset portfolio of PJSC Rosseti includes 36 subsidiaries and affiliates, including 15 interregional and the

main network company. The major shareholder of the company is the state represented by the Federal Agency for State Property Management of the Russian Federation.

PJSC Rosseti is a leading company in the Russian market in introducing innovative technologies to the main and distribution grid complex. The company pays great attention to such matters as energy conservation, energy efficiency, international cooperation, environmental protection, and occupational safety.

INTERACTION OF PROSECUTORS WITH CONTROL BODIES IN PERFORMANCE OF THE STATE DEFENSE ORDER

Dmitry Sedukhin,

Head of Department for coordination and methodological support of the prosecution activity at the closed administrative territorial units (CATO) and for supervision over the laws execution at particularly highly secure regime objects in the field of the defense-industrial complex (DIC), Prosecutor General's Office of the Russian Federation



Dmitry Sedukhin

In many ways, the effectiveness of discouraging inappropriate and inefficient use of the state defense order (SDO) funds, the prevention of theft in this area depends on the coordinated work of the financial control authorities.

In recent years, the state has allocated not only large, but, as President V.Putin put it, unprecedented funds for the development of the defense-industrial complex (DIC), the implementation of programs for the re-equipment of the army and navy.

With increasing funds, the number of applicants for their embezzlement is growing. The proper use of budget funds allocated as part of the implementation of the SDO is one of the prerequisites for achieving not only financial but also military security of our country.

For effective implementation of the State Armaments Program of 2011–2020 approved by the President of the Russian Federation and achievement of the objectives established by this program, it is necessary to create conditions and factors that can minimize potential threats to disrupt the implementation of SDOs, including in connection with the inappropriate use by DIC enterprises of state-allocated cash funds, the supply of products that do not meet the quality requirements and tactical and technical characteristics set by the customer.

The tool to achieve this result was, among other things, an effectively functioning system of state control, including state financial control in the field of SDO, which was reformed after Vladimir Putin's speech to the Federal Assembly of the Russian Federation in 2014.

The main task in reforming the control system was the construction of an integrated systemic interdepartmental interaction authorized to exercise financial control of the state bodies. A system of interdepartmental state financial control was created, covering all stages of procurement within the stages of the budget process: from the formation of SDO tasks, the legality of its conclusion, current implementation and control over the result of obligations fulfilled by the parties.

Within their powers, each government body (the Accounts Chamber of the Russian Federation, Federal Treasury, Federal Financial Monitoring Service, Federal Tax Service, Federal Antimonopoly Service, Central Bank of the Russian Federation) plays an important role in implementing a set of measures aimed at identifying and suppressing public procurement offenses in the SDO framework.

At meetings of the Military Industrial Commission, the President of the Russian Federation positively assesses the coordinated work of the authorities in this area. Nevertheless, there will be still risks of financial irregularities in relation to allocated state funds, which must be jointly minimized and ultimately eliminated.

To this end, the prosecution authorities are focused on identifying and stopping gray schemes for withdrawal budget funds, on facts of unjustified overpricing of defense products.

In the course of joint work in 2017, more than 3 thousand of one-day firms and intermediaries were identified; the damage of their activities amounted to almost 19 billion rubles.

The prosecutor's response measures ensure that DIC enterprises and their cooperation comply with the established procedure for managing targeted budget funds. Supervisory measures are implemented by prosecutors from the stage of placing orders for the supply of goods, works and services.

The interaction of the prosecutor's office with law enforcement agencies and control bodies is carried out by exchanging information on the state of legality, organizing joint supervisory and control activities, coordinating work plans, and conducting joint reconciliations of the submitted materials. At the same time, in order to increase the integrated control over the participants of the SDO and minimize the excessive administrative burden on the supervised enterprises, the prosecutors are focused on taking measures to optimize the number of inspections, synchronize verification activities with law enforcement and regulatory agencies, and conduct planned and unplanned inspection activities.

Only in 2017, the Prosecutor's Office revealed more than 23 thousand violations of the law during the implementation of the SDO, for the first half of 2018 their number exceeded 12 thousand. In total, over a thousand criminal cases were initiated in the DIC over the last two years. The work on the identification of violations and crimes is carried out in close cooperation with the supervision authorities.

Key functions of state SDO control and supervision since 01/01/2015, are executed by the Federal Anti-Monopoly Service. The FAS Service conducts activities for monitoring and oversight of SDO, covering all stages, from planning to placing orders and executing contracts.

The FAS performance effectiveness increases every year. The amount of fines imposed increased more than 10 times compared with Rosoboronzakaz. 19 cartel collusions were revealed in the defense sector at the auctions in the amount of more than 4.1 billion rubles, prices on state contracts were reduced during registration in the amount of 13.9 billion rubles.

At the same time, an analysis conducted by the Prosecutor General's Office of the Russian Federation showed that with the occurrence of cases of failure to meet terms of government contracts, facts of inappropriate use of budget funds and overpricing of military products of the FAS of Russia, timely prevention and suppression of violations during the formation, deployment and execution of the SDO are not always ensured.

For example, at one large defense enterprise, the duties of the head executor of the SDO for payment for the delivered products were systematically violated. Established more than a hundred of such facts, and the total amount of overdue payables of the company was estimated at billions. At the same time, over the course of almost three years, these circumstances did not receive a proper assessment from the FAS of Russia.

In general, the FAS of Russia and its territorial divisions check about 200 leading executors and SDO executors during the year, which is not even 5% of their total number.

One of the significant reasons contributing to this situation is the limited staff number of the FAS of Russia involved in exercising control powers in the field of SDO, because due to clause 5 of the Statute on the Territorial Body of the Federal Anti-Monopoly Service, approved by order of the FAS Russia dated 23.07. 2015 No. 649/15, the powers in the designated area are still allocated only to separate territorial administrations in federal districts.

Last year, guidelines for the interaction of the Prosecutor General's Office, the prosecutor's offices of the subjects with the central office and territorial bodies of the FAS in the implementation of the supervisory (control) activities in the SDO field were developed and sent to the subjects of the Russian Federation in the field of the DIC together with the FAS.

The number of persons brought to administrative responsibility under the orders of prosecutors in the field of SDO in the first half of 2018 increased by 19.3% over the same period of the last year. This practice certainly helps to improve discipline in the performance of SDO contracts.

Since 01/01/2018 new rules of supervision, detailed in the updated chapter 5.1 of FZ-275, began to

operate in SDO. They establish the control measures practice; administrative liability for violations committed in the state defense order; introduction of criminal liability for offenses in the field of state defense order (FZ-469 of December 29, 2017); use of the Register of mala fide suppliers (RUS): for Contractors (performers) who refused to conclude a contract (Russian Government Decree No. 1585 of December 19, 2017); designation of the controlling bodies approaches to the verification of the targeted use of funds; strengthening of the banking and treasury control (Government Decree No. 1680 of December 28, 2017); description of grounds for inspections; increase in FAS authority to check unjustified overpricing of SDO products.

Decree of the Government of the Russian Federation No. 1680 approves new rules for treasury support, which fully controls the mutual settlement of payments for state contracts for SDO products. Now treasury will support payments for contracts of 100 thousand rubles and above, including contracts concluded as part of the execution of such government contracts.

It seems necessary for prosecutors from the treasury bodies performing budget control functions to receive information on the refusal to confirm payment under SDO contracts, since these facts may indicate violations in the execution of contracts, in particular payment for works without sufficient grounds.

When conducting audits of the legality and efficiency of budget spending, collaboration with the financial control authorities is of great importance. In order to fulfill the assigned tasks and functions of monitoring and supervision over the federal budget funds, interacting on the appointment and conduct of inspections (audits), and their implementation, on November 11, 2016 the General Prosecutor's Office of the Russian Federation concluded an agreement on the procedure for interaction with the Federal Treasury. In a number of prosecutors' offices of territorial entities, relevant agreements have already been concluded with the territorial treasury bodies, the information obtained is used in planning and conducting verification activities.

The joint work of the prosecution bodies with the external financial control bodies - the Accounts Chamber of the Russian Federation and control and accounting bodies created at the level of the constituent entities of the Russian Federation is positively evaluated.

The practice of prosecutor's supervision shows that the withdrawal of funds, as a rule, is carried out through one-day firms that are included in cooperation under government contracts. According to statistical data and information databases in the territory of the Russian Federation, there is a significant number of registered legal entities that are potentially one-day firms. Such organizations not only do not make a real contribution to the economy, but are often part of criminal schemes for withdrawal of funds and tax evasion.

The Federal Security Service of Russia, Federal Tax Service and Rosfinmonitoring pay special attention to countering the illegal activities of one-day firms, intermediaries.

LEAs' efforts to identify such actus reus as the illegal formation of a legal entity and the illegal use of documents without a legal entity formation (Article 173.1 and 173.2 of the Criminal Code of the Russian Federation) have been intensified. If in 2016 only 814 such cases were initiated in the country, then in 2017 - more than 3.5 thousand.

In order to counteract the legalization (laundering) of money and other property obtained by criminal means, the General Prosecutor's Office of the Russian Federation provided informational exchange with the Federal Financial Monitoring Service. In accordance with the cooperation agreement of December 11, 2015, prosecutors of the constituent entities of the Russian Federation, specialized prosecutors equated to them (except military ones), if it is necessary to receive information from the territorial bodies of the Federal Financial Monitoring Service to prepare inquiries, they contact the offices of the General Prosecutor's Office of the Russian Federation in federal districts, if they need to obtain information from the central office of Rosfinmonitoring - the relevant units of the Prosecutor General's Office of the Russian Federation.

For example, in the past one and a half years alone, the General Prosecutor's Office of the Russian Federation received more than 400 information items

from Rosfinmonitoring about suspicious financial transactions executed by almost 4.2 thousand legal entities during performance of SDOs.

According to the results of inspections, the prosecutors submitted more than 800 remedial action orders, 150 administrative cases were filed against almost 1,400 business entities, which, among other things, in violation of legal requirements, were not located at the place of registration of the legal entity, and more than 400 procedural inspections were organized. According to the results of checks of Rosfinmonitoring information, the prosecutors sent 73 resolutions to the preliminary investigation bodies for criminal prosecution in line with cl. 2, p. 2, art. 37 of the Criminal Procedure Code of the Russian Federation; As a result of prosecution, 31 criminal cases were initiated.

Taking into account the positively proven practice of the above interaction, it seems appropriate to increase the effectiveness of control over the expenditure of budgetary funds and, as a result of ensuring the execution of the SDO bring interaction with the Federal Tax Service to a new level. The information exchange between the Federal Tax Service, the prosecutor's office and other bodies must be carried out on a systematic basis. The use of data from the FTS on the financial flows of business entities with a comparison of Rosfinmonitoring information about the cash flows of these organizations will allow to act most effectively. More complete information will allow the prosecution and control authorities to implement the so-called risk-based approach, according to which the organizations presumed to commit violations will be subject to monitoring.

This issue was discussed at a meeting of the Interagency working group on counteraction to DIC and SDO offenses chaired by Deputy Prosecutor General of the Russian Federation L.Korzhinek. The meeting noted the necessity of strengthening the interaction with other government bodies, including with the Federal Tax Service, in electronic and digital formats.

ECONOMIC SECURITY AND COMPLIANCE CONTROL

Yulia Krokhhina,

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Yulia Krokhhina, Yury Berestnev

National economic security in relation to the activities of state companies (this expression is used hereinafter to refer to state participation companies and state-owned corporations) includes not only the protection of the funds (assets), but also their fair and effective use in the interests of the owner (in this case – the state). To achieve this goal in the realities of modern economic activity, the state tries to prevent or find and eliminate the emerging problems by establishing more and more legal standards. Whereas, financial relations become more complex, and new ones emerge.

At the same time, state-owned corporations, which a priori have a unique legal status, are simultaneously aimed at fulfilling two sometimes mutually exclusive goals – the performance of public functions and the receipt of profit. The same approach the state actually extends to state-owned companies.

The activities of state-owned corporations are financed both from budgetary funds and from their own extra-budgetary sources. State-owned corporations are developing, adapting to the conditions of a state-market economy, acquiring the features of complex systems, with “the best international practices” often introduced into them. As a result of these processes, the set of tools, forms and methods of control and supervision over the activities of business entities applied by the state is becoming less and less effective.

The assets of state participation companies are not directly state-owned in most cases. Accordingly, the issue of control over their protection and effective use in the interests of shareholders (and, therefore, in the interests of the state) lies largely (except for direct budget investments (for example, under federal programs) and funds under the state order) in the sphere of non-state financial control mechanisms and corporate control mechanisms (internal control

and audit, external independent audit, JSC audit commissions and, finally, compliance).

Therefore, the most important area is building a system of interaction and mutual support between the state control tools and corporate control mechanisms.

Alongside the government regulation, various models of self-regulation are being increasingly introduced by business entities as the most effective way where large associations independently determine for themselves a model of standards and conduct. The scope of state participation enterprises and organizations is no exception.

One of the notable trends in the modern interaction of the state with its business entities is the change of a paradigm of response to violations and deficiencies in the activities of regulated entities by regulatory agencies: the main emphasis has been shifted to encouraging the law-abiding conduct. For example, the above principle is enshrined in the rules of the WTO Trade Facilitation Agreement 2013 (Article 5). In this regard, one of the most promising areas of development of internal control systems in state participation business entities today is the introduction of elements of compliance control and assessment of compliance risks into their activities¹.

According to the International Compliance Association, the term compliance refers to ensuring compliance of activities with established requirements and standards².

The Basel Committee on Banking Supervision defines compliance risk as "the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct

applicable to its banking activities"³. The analysis of the document allows to define compliance as an activity for the effective control and management of compliance risks, namely the risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of non-compliance with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to business activities of the specified entity.

As we can see, compliance came from the banking practice, where it was initially identified with the function of minimizing the risk in the sphere of countering money laundering and terrorist financing. Further, this term was extended to business practice, where it began to be understood as part of the internal control system aimed at protecting the interests of shareholders, managers and employees of the company from possible violations of social norms of various origins (both legislative and corporate).

However, with regard to the understanding of compliance, its essence and place in the management system of an economic organization, there is currently no single point of view. Both researchers and practitioners interpret it differently, assigning it a different role and highlighting its different functions. At the same time, most authors are unanimous in the understanding that compliance can be considered as "an internal control tool", "an independent area in the internal control system" and as "a method of combating offenses"⁴. Some authors single out government relations as an independent element of compliance, equating it with "a communication management strategy". Compliance in this case is "the frontier of protecting the company from the adverse effects of ... the state", and this entails highlighting its two areas: monitoring the regulatory framework and coordinating the organization's actions in accordance with it, as well as monitoring the authorities' policies⁵.

¹ After the English term "compliance" - obedience, conformity; derives from the verb to comply - to conform, submit, or adapt as required or requested.

² International compliance association // <https://www.int-comp.org/careers/a-career-in-compliance/what-is-compliance/> - Official website of the International Compliance Association.

³ Letter of the Bank of Russia No. 173-T of November 02, 2007 "On recommendations of the Basel Committee on Banking Supervision. Compliance and compliance function in banks" [Electronic resource]. Access is provided by the "ConsultantPlus" legal reference system.

⁴ See, for example: Bykova S.E. Improving the organization of internal control in the management system of a commercial bank: Dissertation by Candidate of Economic Sciences. M., 2003. 255 pp.; Maslovskikh P.S. Improving the methodology of internal control audit in a commercial bank: Dissertation by Candidate of Economic Sciences. Yekaterinburg, 2012. 245 pp.; Chalov Yu.P. Internal control in the risk management of commercial banks: Dissertation by Candidate of Economic Sciences. M., 2006. 165 pp.; Timoshkin A.V. Corporate compliance control as an economic security tool: Dissertation by Candidate of Economic Sciences. M., 2010. 203 pp.; Bobylev D.V. Formation of the internal control system in insurance organizations: Dissertation by Candidate of Economic Sciences. M., 2013. 153 pp.; Sharamko M. M., Garipov I. R. Institutional compliance control: Monograph. M.: RUSAINS, 2016. P. 4.

⁵ Tuzovsky A.S. Compliance control in the structure of the company's GR management: towards strategic thinking // Transbaikal state University Bulletin. 2015. No. 8 (123). Pp. 82–84.

Compliance is primarily a measure aimed at preventing offenses in the field of financial (fiscal, tax) and corporate law. Such preventive methods may include, for example, creating effective control mechanisms, conducting due diligence, issue-related training of employees, establishing special local rules, and building a system of response tools (conducting an immediate investigation, handling complaints, eliminating violations of corporate standards, refusing interaction with unfair counterparties, etc.).

In the context of financial security of state participation organizations, it is also necessary to pay attention to the interrelation between compliance and corporate fraud. The damage, primarily the property damage, resulting from a violation by a business entity of legal norms (legislation, regulations, technical production rules, etc.), can be caused not only to the state as the founder or customer of products. Financial and reputational losses may be incurred by the organization itself and/or its owners, shareholders and even counterparties. According to opinion polls, most of the embezzlement is carried out or initiated by top management, corporate fraud is not something exclusive or exotic, abuses by white-collar workers are not so rare⁶.

In this regard, it is legitimate to supplement the understanding of compliance not only as a way to control the organization for compliance with the law in order to avoid sanctions from regulatory agencies, but also as a way to minimize damage to the business entity and its associated entities. Therefore, the goal of the compliance control is to minimize the risks of financial (property) loss and loss of reputation and trust.

The analysis of foreign and Russian compliance control practices allows identifying three types of risks as its object: operational (control over production and technological processes), legal (control over regulatory and local acts of an organization, mechanism of their observance) and reputational (prudent selection of counterparties, monitoring of media reports about the organization, its management, employees, etc.). In this regard, it is legitimate to talk about a certain degree of expanding the understanding of compliance functions, since here we are talking not only about minimizing the

risk of offense and liability for non-compliance with the law, but also about the need to optimize the operation of organizations, individual production cycles, top managers and employees. Based on this understanding of compliance, it is advisable to assume that it should be carried out by all units of a business entity, and it does not rule out the possibility of establishing a specialized unit responsible for developing a policy of preventing law violations, its implementation and coordination.

Today, there are a number of federal regulatory acts, which inherently require business entities to carry out compliance control procedures.

The first example of the integration of compliance rules for public joint-stock companies is the Code of Corporate Conduct, approved by Order No. 421/r of the Federal Commission for the Securities Market of Russia of April 4, 2002 "On Recommending the Use of the Code of Corporate Conduct". Currently, a new version of the Code approved by the Letter of the Bank of Russia No. 06-52/2463 of April 10, 2014 "On the Corporate Governance Code" is in force. Despite the wording of a recommendatory procedure for its application by joint-stock companies (state participation companies), primarily by joint-stock companies which are the largest and public ones, the Government of the Russian Federation strongly recommended (by a relevant instruction through directives to state representatives in Boards of Directors) to implement its provisions. In particular, joint stock companies were recommended to:

- abide the provisions of the Code of Corporate Conduct;
- disclose in the annual report whether a joint-stock company abides the provisions of the Code of Corporate Conduct;
- include in the annual report of the joint-stock company that abides the provisions of the Code of Corporate Conduct, the "Corporate Conduct" section containing information on principles and recommendations of the Code of Corporate Conduct the joint-stock company abides, as well as on the presence of independent directors in the Board of Directors (Supervisory Board) of the joint-

⁶ Belyaev Yu. K. Use of compliance control tools for optimizing the corporate management of pharmaceutical companies // News of USUE. 2013. No. 1 (45). S. 47.

stock company, on the committees of the Board of Directors (Supervisory Board), and on the system of control over the financial and economic activities of the joint stock company;

- disclose information on abiding specific provisions of the Code of Corporate Conduct as part of additional substantial general information about the issuer disclosed in the issuer's quarterly report for the fourth quarter.

Significant requirements for the prevention of corruption are established by Federal Law No. 273-FZ of December 25, 2008 (as amended on August 03, 2018) "On Combating Corruption". According to the document, the measures aimed at preventing corruption taken in an organization may include:

1. assigning units or officials responsible for the prevention of corruption and other offenses;
2. cooperation of the organization with law enforcement agencies;
3. development and implementation of standards and procedures aimed at ensuring the good business practice of the organization;
4. adoption of a code of ethics and professional conduct of employees;
5. prevention and management of conflicts of interest;
6. prevention of unofficial reporting and using fake documents.

The Federal Tax Service of Russia issued Order No. MMV-7-15/509@ of June 16, 2017 "On Approval of Requirements for Organizing the Internal Control System" (registered with the Ministry of Justice of the Russian Federation on October 04, 2017, under No. 48424). The document is developed in accordance with the provisions of Clause 7 of Article 105.26 of the Russian Tax Code (tax monitoring) and in its essence establishes the benchmarks of the organization's compliance control in tax relationships. The objectives of organizing the internal control system include (Clause 3.2 of the Requirements):

- compliance with the legislation of the Russian Federation in relation to completed or planned

transactions (operations) or a number of interrelated transactions (operations), as well as other accomplished facts of the organization's economic life;

- ensuring reasonable expectation that the results of financial economic activity are fully and timely disclosed when calculating (withholding) taxes, fees, insurance premiums subject to completeness and timeliness of their payment (transfer), as well as when preparing accounting (financial) and tax statements, and other reports;
- implementation of a risk management strategy;
- organization of effective control;
- identifying and preventing errors or inconsistencies;
- continuous improvement and increase of effectiveness of the control tools used.

The requirements for organizing the internal control system (tax monitoring) largely coincide with the anti-corruption legislation requirements. Thus, the requirements for the control environment imply the presence in the organization of an ethical conduct culture, which is formed and maintained by the organization's management under the control of the owner's representatives. The organization must have a code of ethics (ethical and conduct standards) that must be communicated to each employee. An organization should have a formalized system for identifying and registering facts of breaches, abuses and embezzlement, as well as for reporting on the revealed facts and measures taken. In the formation of the control environment, the special knowledge and skills of the organization's employees, which are necessary for the fulfillment of the tasks set in the course of business, are of great importance. The internal documents of organizations must approve the standards (rules) of hiring, motivation, evaluation, promotion, and dismissal of employees.

On the basis of federal regulatory legal acts, business entities develop and adopt standards the compliance control is guided by. The analysis of internal corporate compliance practices allows to conclude that the following list of standards is the most indicative:

- code of corporate ethics (corporate conduct standards);

- policy of anti-money laundering and combating the financing of terrorism⁷;
- policy of accepting and giving gifts, invitations to events;
- policy of reporting violations of ethical standards;
- conflict of interest management policy;
- policy of control over purchases of securities by the company employees;
- policy of cooperation with regulatory agencies;
- non-disclosure policy;
- policy of checking the integrity of counterparties and customers;
- complaints handling control policy;
- employee advanced training control policy, etc.

It is reasonable to assume that such a system of internal corporate acts can directly and indirectly have a significant impact on reducing the level of breaches of legislation and improving the quality and effectiveness of management in an organization. Of course, such opportunities must be used. In this regard, business entities may have a natural question: do they need compliance if many aspects of the prevention of corruption and financial offenses are already regulated by federal legislation, as well as by a large number of local documents? In our opinion, the main difference between the compliance system and legislative and local acts lies in the purpose of their functioning. The task of normative documents is to publicly reflect the principles and approaches of the state and business entities to the organization of financial and business activities. As a rule, the standards stipulated by internal corporate documents establish what the result of work of units and employees involved in various types of corporate activities should be; how to organize timely planning and establishing reasonable requirements of financial and legal documentation and objective criteria for considering applications, as well as taking measures aimed at ensuring the fulfillment of obligations of participants in business processes, suppliers, etc.

The objective of the compliance system is to organize and streamline the corporation's internal business processes in accordance with the legislation requirements, from training employees in a controlled area, planning a business decision, its adoption and implementation to monitoring the effectiveness of risk prevention mechanisms used by the company.

It is important to keep in mind the fact that the compliance control is predetermined by the requirements and recommendations of federal legislation; therefore it cannot be considered solely as a process of self-regulation of business entities. The creation and functioning of the compliance control system in business entities, in particular with the participation of the state, should be viewed as a search for an optimal model of a compromise between private and public interests. The audit of possible risks of offenses reduces the likelihood of their non-detection, and it allows avoiding the prosecution by state regulatory agencies and adverse consequences arising in connection with it. But such "self-stimulation" alone is not enough for the introduction of compliance. A certain impulse is needed from the state as an owner and regulator at the same time. One of such incentives, in our opinion, could be a softening of legal liability for certain administrative offenses related to financial, business relations, property relations, etc. For example, it is possible to include an additional mitigating factor in the Administrative Offenses Code: the availability of an effective compliance control system in a business entity. As the compliance system develops, its certification procedures improve, and the results of its preventive measures are recognized by state regulatory agencies, it is advisable to include a provision in the Administrative Offences Code that the availability of an effective compliance control system is a circumstance that frees a business entity from administrative responsibility, since it made every effort to comply with the legislation requirements and, therefore, there is an absence of its fault.

The possibility of mitigating sanctions in the availability of compliance is provided for in a number of foreign countries. The Spanish Criminal Code recognizes the advantages of self-regulation for enterprises, but at the same time indicates that this degree of the activity

⁷ The term "policy" in this case is used to designate the type of a company's local legal act that has a broad, framework character.

freedom should be regulated⁸. In other words, the cooperation is viewed as a mitigating circumstance being a manifestation of a mixed regulatory model. In this case, self-regulation is controlled by state authorities that monitor the balance of interests of the state and society.

The German model of self-regulation is aimed at preventing corruption crimes through the use of an institute for auditing the standard compliance management systems, including the development of special rules for carrying out professional activities in order to prevent the risks of legal liability⁹.

The Chilean criminal law establishes the criminal liability of legal entities, while it provides for the possibility to consider a legal entity as not violating its management and control duties if this legal entity has approved the organization, management and supervision models for preventing the crime committed¹⁰.

The rules similar to the above are included in the legislation of the UK and Italy. As we can see, in foreign countries, compliance, in contrast to the classical forms of self-regulation, is based on the state regulation of public relations, addresses the issues of private prevention of offenses, and in some cases – the issues of mitigating legal liability.

Based on the above, it can be concluded that in the Russian Federation there are appropriate prerequisites for the formation of the compliance control. First of all, such preventive measures should be implemented in state participation business entities, since they use and manage public assets – monetary funds and property.

In relation to state participation business entities, compliance should be defined as ensuring that the activities of such an organization (enterprise) comply with the requirements that are established by the law and local acts of this entity in order to ensure economic security of state property and competitiveness of the business entity.

The introduction of the compliance system means the imposition of substantial self-restraints on a company, and in all countries it was difficult and

painful, so it seems advisable to analyze the tried and tested foreign practical experience, legislation, judicial practice and develop mechanisms for their adaptation and possible reception in the Russian Federation.

The issues considered do not make away with all the problems of establishing and implementing the compliance control in state participation companies. Among the “problem areas” one should note the lack of independence (the absence of a real or potential conflict of interests) of regulatory agencies’ employees. This is particularly evident in the work of major holding companies, where the regulatory agencies are incorporated or strictly controlled by the top management of the parent company. In the latter case, there is a potential conflict of interest, because the functionality of the parent company’s employees, providing the need for them to act in the interests of the parent company, may objectively conflict with the objective interests of a subsidiary as an independent legal entity and business entity. The “normalizing factor” in this situation is not the involvement of civil servants in corporate governance institutions (their inefficiency has been repeatedly manifested in practice), but independent directors, members of committees under the boards of directors and members of audit commissions, as envisaged by the Corporate Governance Code. Independent employees are only part of the control mechanism, but their independence ensures the effective implementation of the existing control tools’ capabilities, including compliance, transparency and publicity of the company’s operations (which, in turn, are based on programmes for combating corruption and other abuses, including the embezzlement).

In addition, the core message is that the effectiveness of the internal control system in general, including compliance, depends critically on the commitment of the company’s management to high management standards, ethical business principles based on unacceptability of any illegal conduct, establishing straightforward rules of conduct for employees, taking into consideration their job responsibilities, as well as the active support and promotion by the management of the mission of a state participation company as a public service mechanism aimed at the development of the whole society.

⁸ Armendáriz León, Carmen (10 de junio de 2015). “Líneas generales de la reforma del Código Penal”. expansion.com. Consultado el 21 de septiembre de 2018.

⁹ Criminal Code of the Federal Republic of Germany. - SPb. : Publishing house “Legal Center Press”, 2003.

¹⁰ Hernandez “La introducción de la responsabilidad penal de las personas jurídicas en Chile”, Polit. crim. (5). P. 207 y ss. (216 y ss.); Van Weezel. Contra la responsabilidad penal de las personas jurídicas, Polit crim. (5), 2010. P. 114 y ss. (115 y ss.).

NATIONAL AML/CFT SYSTEM

MEETING OF ROSFINMONITORING DIRECTOR WITH THE PRESIDENT OF THE RUSSIAN FEDERATION

The Director of Rosfinmonitoring informed the President about the current activity of the agency and AML/CFT specialists training.

July 12, 2018

V. Putin: Mr. Chikhanchin, the deadline for Russia to submit the National report on so-called anti-money laundering activity ends up in October, your agency is preparing this report. Let's start with this.

Yu. Chikhanchin: Indeed, we must hand over the Russian report to the FATF Secretariat (Financial Action Task Force) for evaluation in October.

Two clusters that will be presented in the report are about the technical compliance of our entire regulatory framework with international standards and the effectiveness of the anti-money laundering system, actually how these laws work. This is a very serious issue.

Until February, experts assess this report, in February, the mission arrives (about 12 people), and, approximately in March, they will finish this mission, in October of the following year we will report to the Plenary. This is how the mechanism works.

What has been done for today. Above all, we have prepared a Concept for the development of a National System of Counteraction to the legalization (laundering) of criminal proceeds and the terrorist financing]. You signed it, thank you very much, it is a very important document.

Second. Together with the concerned agencies, we have made national risks evaluation in the field of combating money laundering and the financing of terrorism and have already submitted them to the Secretariat.

According to these national risks evaluations, five areas of increased attention have been identified for today: credit and financial field, area of increased attention linked to corruption, illegal drug trade, illegal use of budgetary funds and financing of terrorism. Agencies looked it up and approved. There is a large list of the agencies that work with us. And at the same time we passed these documents through various interdepartmental commissions: NAC, SAC and so on.



The Commission, which was created by your order just to prepare for the report, and the second interagency working group on combating illegal financial transactions worked most actively. We need to continue its work; indeed, the working group has done a great deal.

We can say again that the amendments appeared in the legislative framework concerning the activities of banks. These are, in particular, mechanisms where banks have the right to refuse to conduct a transaction due to the suspicious operation. Quite serious amendments were made in the Tax Code, and what the Mishustin team is doing today (we are working together), in particular the control of cash registers, – all this is in the Commission, adding those who are directly related to the budgetary sector.

The most serious topic that we are also considering within the Commission is the use of the judicial authorities in an attempt to withdraw money abroad. We were able to suspend [the withdrawal of] about 50 billion rubles, thanks to the interaction with the Lebedev team, actually, we came and confirmed through the court that the money was fake.

What we need to do today to complete the evaluation is to improve a number of regulatory acts, make adjustments on the interagency level

of statistics, prepare examples that were reviewed by the experts, and strengthen this work, continue international efforts.

I need to say that we are working very actively with all the ministries and agencies, with the members of delegations that are visiting these forums. And it's important to say that there is a variety of areas that are supported by the international community, in particular, our projects related to the fight against financing of terrorism and identification of terrorist fighters. More than a hundred countries are currently working with us on this project. The anti-drug sector also includes more than a hundred countries and an international organization such as the UNODC. And we have launched a very large project to identify professional international "launderers".

V. Putin: "Milky way"?

Yu. Chikhanchin: Yes.

We are working very closely now – the quadripartite group: Iran, Iraq, Syria and Russia – just to exchange information in view of all these areas.

We must admit that we have launched a so-called technical assistance project. This is our International Training Center and the International

Network Institute [in the field of combating money laundering and financing of terrorism]: it was presented at the FATF as one of the educational institutions that assists in the training of specialists. Here is a map, just showing which countries.

This year alone we have trained about two thousand experts of the Russian state bodies, 14 thousand of specialists from the private sector, including banking, leasing and so on, and foreign specialists from 32 countries; the last visit was from Japan, Latin America, Central European countries.

Eventually, we trained about three thousand students through the direct contact system and video conference.

We do the same with the International Network Institute. Here I would like to say that we established the International Network Institute five years ago, after your order, together with the Ministry of Education and Science and then the Federal Agency for Scientific Organizations. Today it virtually unites 36 universities over the world: Russia, Central Asian countries, China and BRICS countries. For today, 2600 people, more than 300 foreigners, are studying at this Institute.

This approach is very interesting, I told you, just repeat. For foreign students, we do the thesis presentation in our building, and the employer (representative of the Central Bank, the Prosecutor General's office of another country) by video conference directly

hears and sees how his graduate student makes a presentation. And this year we have made the all-Russian event, when the graduation projects of one Institute were seen by all the institutes of the Network Institute: they saw how the presentation went, what method was used, what information resources, how students were prepared. It is very interesting, and we are developing it.

Now we want to create a structural unit, something like a Secretariat, together with our industrial partners, banks and our large corporations that hire employees – graduates of this University, because in fact it all worked due to us. And if there is a “yes-nod”, then we will create a small ANO and begin to function.

We have now connected science: more than five academic universities are our partners.

This is how the work in this area and the preparation of reports is organized.

V. Putin: When you said about the problems related to the courts, it seemed like the Supreme Court supported the work and helped you.

Yu. Chikhanchin: Yes, very actively. We held several workshops and meetings with them. And due to this fact, we were able to prevent an attempt to withdraw money abroad through court decisions.

V. Putin: Thank you.

FATF EVALUATION SHOULD REVEAL TO WHAT EXTENT OUR ACTIONS MATCH OUR WORDS

A coordination meeting with the region's law enforcement and supervisory authorities to prepare for the FATF 4th round of mutual evaluations was held in Yekaterinburg on July 25, 2018.

The meeting was chaired by the Plenipotentiary Representative of the Russian President in the Ural Federal District, N. Tsukanov

As part of the present round of the FATF evaluations, assessors are expected to visit the constituent territories of the Russian Federation. In this regard, on the instructions of the Head of the President's Executive Office, A. Vaino, Rosfinmonitoring has been organizing a series of meetings across Russia designed to prepare the regional LEAs and supervisory authorities for the upcoming assessment.

In his opening remarks, N. Tsukanov stated that the assessment outcomes would impact not only Russia's international profile, but also its AML/CFT system.

"Assessors will focus on the outcomes of ML risks elimination. They will examine such areas as demand by law enforcement and supervisory agencies for financial investigation findings, conduction of ML/TF investigations, confiscation of criminal

proceeds and instrumentalities," said the Presidential Plenipotentiary.

P. Livadnyy, State Secretary and Deputy Director of Rosfinmonitoring, informed the meeting participants that Russian President V. Putin had approved on May 30 the National AML/CFT System Development Concept, which focuses on five risk areas.

"First of all, we are talking about risks in the financial sector, budget-spending risks, corruption risks linked to the previous two, terrorist financing risks and drug trafficking risks," explained P. Livadnyy, stressing the importance of doing everything to mitigate these risks, on the one hand, and on the other, proving the effectiveness of the existing AML/CFT regime to the FATF.



"The FATF assessment should reveal to the international community to what extent our actions match our words. We cannot afford to fail," stressed Mr. Livadnyy.

He reminded the participants that the main purpose of the AML/CFT system was to deprive the offender of income derived from illegal activities and its incorporation into the legal financial system. According to P. Livadnyy, the system in place in Russia is both preventive and defensive in its nature, although the former, as is evident from the criminal situation in the country, does not always work.

P. Livadnyy urged the participants to enhance supervision: "From the FATF's point of view, it is particularly important for financial institutions, as well as other reporting entities, to identify among their customers beneficial owners of businesses, which means physical persons. It is important to improve quality of suspicious transaction reports submitted to Rosfinmonitoring".

According to P. Livadnyy, while the international community is generally impressed with the Russian AML/CFT system, particularly as regards the level of coordination, cooperation and unity of the comprising agencies, "the practical component can and should be better".

"The AML/CFT system is one of the most effective tools for cleansing the economy of crime and dirty money," said P. Livadnyy, urging participants to work together to help our country.

Deputy Director G. Bobrysheva summed up the outcomes of the meeting with regional supervisors and representatives of the private sector, held at the Central Bank's Ural office the day before, reiterating the special role of financial institutions in the fight against ML/TF.

A. Kardapoltsev, Head of Rosfinmonitoring's UFD office, identified the work to detect ML/TF risks and threats, including at the regional level, as one of the key focus areas for the UFD AML/CFT system participants in the run-up to the FATF 4th round of mutual evaluations.

"The joint work in this area has allowed us to put up reliable barriers to criminal proceeds entering the financial sector. The effectiveness is proven by declining volumes of dubious transactions, including those related to reverse money laundering and withdrawal of funds overseas," said A. Kardapoltsev.

According to the 2017 statistics, there was more than a two-fold decline both in the volume of reverse money laundering transactions and capital flight from the region compared to 2016, and an eight-fold decrease compared to 2015.

Separately, the Head of Rosfinmonitoring's regional office noted the increased use by reporting entities for cooperation purposes of the personal profile on Rosfinmonitoring website.



Reference

Rosfinmonitoring acts as a National Assessment Centre of risks to national security posed by money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction, as well as for the development of measures to counter these threats.

In 2018, Russia is due to undergo an assessment by the Financial Action Task Force (FATF) on-site evaluation team. Following its findings the FATF will make a conclusion on the extent of the country's compliance with international anti-money laundering and combating the financing of terrorism (AML/CFT) standards.

During the previous assessment in 2008, the FATF assessors identified a number of shortcomings (including the lack of transparency with regard to beneficial ownership information and control over legal persons), resulting in Russia's placement in a regular follow-up process.

In September 2014, following the presentation at the MONEYVAL Plenary meeting of its 3rd follow-up report, Russia was removed from a regular follow-up process till the next mutual evaluation. Should Russia's rating for compliance with the

FATF standards be low in 2018, the country will be placed on an enhanced follow-up process.

Given the importance of the upcoming FATF assessment, the Russian President established an ad hoc committee, chaired by Rosfinmonitoring Director, comprising representatives of the country's Prosecutor General's Office, Interior Ministry, Federal Security Service, Federal Customs Service, Investigation Committee, Federal Tax Service, Assay Chamber, Roskomnadzor, Justice Ministry and the Central Bank. The Committee is tasked with promoting cooperation and coordination among all government agencies and organizations involved in the preparations for the FATF assessment.

The FATF methodology for assessing the AML/CFT system, adopted in 2013, focuses on two complementary components: technical compliance and effectiveness.

Technical compliance is meeting the FATF 40 Recommendations while effectiveness is the ability of the AML/CFT system participants to achieve immediate outcomes (IOs) in eliminating ML/TF risks.

**INTERAGENCY GROUP ON COMBATING ILLEGAL
FINANCIAL TRANSACTIONS**

NEW COMPOSITION OF THE INTERAGENCY WORKING GROUP ON COMBATING ILLEGAL FINANCIAL TRANSACTIONS APPROVED

Russian President Vladimir Putin approved the new composition of the Interagency Working Group on Combating Illegal Financial Transactions

A. Vaino, Chief of Staff of the Russian President's Executive Office (Head of the Interagency Working Group)

A. Seryshev, Aide to the President of the Russian Federation (Deputy Head of the Interagency Working Group)

O. Krylov, Deputy Director of Rosfinmonitoring (Executive Secretary of the Interagency Working Group)

R. Artyukhin, Head of the Russian Treasury

A. Belousov, Aide to the President of the Russian Federation

A. Buksman, First Deputy Prosecutor General of the Russian Federation (on ad-hoc basis)

S. Glazyev, Advisor to the President of the Russian Federation

A. Grebenkin, Deputy Secretary of the Security Council of the Russian Federation

D. Yegorov, Deputy Head of the Russian Federal Tax Service

Yu. Isaev, Director General of State Corporation "Deposit Insurance Agency"

S. Korolev, Head of the Economic Security Department of the Russian Federal Security Service

- I. Krasnov**, Vice-Chairman of the Investigative Committee of the Russian Federation
- A. Kulba**, Deputy Head of the Russian Presidential Control Directorate
- A. Lavrenko**, Assistant of the Russian Presidential Civil Service and Personnel Directorate
- T. Maksimov**, Deputy Head of the Russian Federal Customs Service
- F. Malyshev**, Assistant of the Russian Presidential Experts' Directorate
- A. Moiseev**, Deputy Minister of Finance of the Russian Federation
- E. Nabiullina**, Governor of the Bank of Russia (on ad-hoc basis)
- A. Romanov**, Deputy Minister of Internal Affairs – Chief of the Investigation Department of the Russian Ministry of Internal Affairs
- V. Sidorenko**, Deputy Head of the Executive Office of the Government of the Russian Federation
- D. Skobelkin**, Deputy Governor of the Bank of Russia (on ad-hoc basis)
- I. Torosov**, Deputy Minister of Economic Development of the Russian Federation
- V. Chistova**, Deputy Chair of the Accounts Chamber of the Russian Federation (on ad-hoc basis)
- Yu. Chikhanchin**, Director of Rosfinmonitoring

The Executive Order of the Russian President on "Certain Issues Pertaining to the Interagency Working Group on Combating Illegal Financial Transactions" (as amended on July 30, 2018, No.205-rp).

INTERAGENCY COOPERATION

COMBATING DRUG TRAFFICKING

Drug trafficking is, first and foremost, a criminal business worth hundreds of billions of dollars – with its own goods flows, logistics and financial infrastructure – that represents a growing threat to stability and security



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At present drug production in Afghanistan and Colombia grows as never before. The cultivation of poppy and coca increased in 2017 by 63% and 52%, respectively. New psychoactive substances enter the market and sales of synthetic drugs increase year over year. Drug lords, similarly to other criminals, try to keep up with the times by taking advantage of new payment methods to sell drugs to their customers and share revenue with other gang members. In this regard, drug traffickers are particularly keen on wire transfers, cryptocurrencies, e-wallet management systems and coin mixers.

These technologies allow drug traffickers to sell drugs without face-to-face contact with their customers. Today such form of trade is applied by criminals in all Russian regions.

Drug producing, transit and consuming countries are all parts of the same chain, a fact that explains the coordinating role played by international criminal gangs and networks.

The process is often coordinated from countries not involved in drug production.

The development of web technologies and new payment methods has contributed to the emergence of a global online marketplace for illegal substances. The emergence of anonymous trading platforms, such as Silk Road (Silk Road 2.0), Black Market Reloaded, etc., marked a turning point in the way narcotic drugs and psychotropic substances are distributed: sales of drugs are advertised openly on these websites. Modern technologies are actively used; trading platforms are hidden in the Darknet. Criminals use modern technologies and the TOR browser which encrypts traffic, allowing anonymous web surfing to access these platforms.

Online stores run special marketing campaigns to attract new and retain loyal customers (freebies, discounts, etc.). The majority of these websites use foreign domains, meaning that it is much more difficult to shut them down completely or prosecute drug traffickers.

As the market for financial services and payment methods continues to grow rapidly, the challenges posed by shadow economy also increase.

Rosfinmonitoring and law enforcement agencies come across schemes designed to allow a group of criminal financiers to mix proceeds from heroin and cocaine trafficking, embezzlement of public funds, illegal banking and other crimes in the accounts of companies controlled by them. The same companies are used to transfer funds that are used to pay for shipments of weapons and to finance militants.

The world's "shadow" market of professional intermediary services allows customers to conceal the source of funds and identities of the ultimate beneficiaries, obtain financial instruments issued to nominees, convert funds into cash and carry out other illicit transactions.

Providers of such professional services make use of various mechanisms for moving funds, such as bank channels with thousands of company accounts registered to nominees, electronic payment systems, bankcards, etc.

The expanding scope of the illicit drug trade gives rise to significant negative consequences affecting the socio-economic, demographic, spiritual, moral, legal and other spheres of social life. That is why illicit traffic in narcotic drugs and psychotropic substances is ranked among the biggest threats to state and public security.

To mitigate these risks, Rosfinmonitoring, in collaboration with the Russian MIA, Federal Security Service and other government agencies, has prepared draft laws that enable the use of extrajudicial mechanisms to block bank accounts and electronic payment instruments related to the sale of drugs, as well as regulating the market of digital currencies.

These legislative initiatives, in our opinion, will help to increase the flow of information from credit institutions on drug-related transactions.

As part of preparations for the FATF 4th round of mutual evaluations, Rosfinmonitoring used the indicators of financial behaviour to prepare the profile of a drug dealer, which enables it to facilitate the submission by credit institutions of drug-related suspicious transaction reports.

Rosfinmonitoring, jointly with the Interior Ministry's Chief Drug Control Directorate (CDCD), has launched a project to identify drug-related crimes which utilizes a new documentation model: from "money to drugs". This approach is one of the measures designed to prevent the spread of drug trafficking by undermining its economic foundations.

At the CDCD initiative workshops on "Topical Issues Related to Activities of Regional Drug Control Offices to Undermine Economic Foundations of Drug Trade" were held in the federal districts. The workshops were attended by the management and employees of the CDRD, Drug Control Departments and the Main Investigative Department of the Russian Interior Ministry, Rosfinmonitoring, Prosecutor General's Office and judicial authorities. The focus was on preparing coordinated interdepartmental measures aimed at improving the detection of criminal offences falling under articles 174 and 174.1 of the Criminal Code and calculating the amounts of laundered drug proceeds; developing common approaches to the initiation and conduct of money laundering investigations; and drafting proposals for mitigating the abuse of electronic payment instruments and cryptocurrencies for criminal purposes.

Rosfinmonitoring employees also took part in the national workshop/meeting of heads of MIA regional drug control offices entitled "Problematic Issues Related to the Work to Undermine the Economic Foundations of Drug Trade in the Light of Russia's Preparations for the FATF Evaluations in 2018-2019", initiated by the CDCD and held on March 26-28, 2018. Among the issues discussed were the fight against drug-related money laundering, cooperation with Rosfinmonitoring in detecting the financial component of drug trade, amendments to the AML/CFT law and promoting interagency cooperation with account for new challenges and threats.

Rosfinmonitoring, jointly with law enforcement authorities, works to undermine the economic foundations of organized criminal groups and criminal networks involved in the trafficking and sale of synthetic, semisynthetic and plant-derived drugs.

For example, Rosfinmonitoring, jointly with the CDCD, is currently investigating a drug cartel specializing in shipments of large quantities of heroin along the "Northern Route". The operations of this criminal group spanned across Russia, Tajikistan, Afghanistan, the UAE and other countries.

Transactions carried out by criminals transcended a wide range of Central Asian countries, Europe, the Arab world and the United States.

The identification of the cartel's drug money flows contributed to the disruption of its activities. The cartel organizers became the subject of criminal proceedings. The total amount of laundered proceeds is estimated at 1 billion rubles. The defendants' assets are being identified.

In addition, Rosfinmonitoring, jointly with the CDCD, is conducting a joint investigation into the activities of a criminal group involved in the trafficking of cocaine from Latin America to Russia and other countries. The financial scheme was successfully unravelled. Investigators collaborate with the financial intelligence units of 20 countries.

Rosfinmonitoring continues to work with the CDCD to track financial assets and other property of an international drug cartel (led by a Spanish national) involved in the trafficking of hashish from one of the countries in Africa. Cooperation is conducted with the

FIUs of Belarus, Germany, Morocco, the Netherlands, Spain, Italy, France and other countries. We managed to identify over 10 real estate properties in the EU countries.

The work carried out by the CDCD has resulted in disrupting activities of one of the drug syndicates. Three laboratories with a total weekly output capacity of 150 to 500 kg of synthetic drugs were closed; 67 gang members were detained, 47 of whom were Ukrainian nationals. More than 4 tons of synthetic drugs, 3.5 tons of precursors, 250 units of laboratory equipment, 9 vehicles, more than 2 million rubles in cash and 18 fake Russian passports were seized.

Rosfinmonitoring identified drug-related money laundering transactions totalling 15 million rubles, as well as obtaining the details of vehicles registered to the suspects.

The financial investigation materials were submitted to the CDCD for a follow-up action.

The work to combat drug trafficking continues.

INTERNATIONAL NETWORK AML/CFT INSTITUTE

INTEGRATION PROCESSES OF THE INTERNATIONAL NETWORK AML/CFT INSTITUTE HAVE REACHED A NEW LEVEL

The relevance urgency of the fight against money laundering and terrorist financing doesn't wane. This problem begins to afflict not only regional but also global financial systems. Criminal proceeds hinder the development of countries and their economies, undermine national peace and stability and spread their pernicious influence to other sectors, expanding the shadow capital and services market



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Today the financial sector is inseparably associated with new technologies: cryptocurrencies, crowdfunding, blockchain, biometrics, artificial intelligence. The new “digital reality” demands qualified personnel.

In this context, the tasks tackled by the International Network AML/CFT Institute (INI) with the help of science and education become increasingly important for the global and national AML/CFT system.

Every state seeks financial intelligence professionals while scientific discoveries and highly technological products with AI elements become key to finding effective, practical solutions to prevent and combat ML/TF.

The INI's goal lies in combining the energy, knowledge, resources and positive experience of all its participants to create a unified, multifunctional international scientific and educational AML/CFT environment for the training of highly qualified AML/CFT personnel in Eurasia.

The INI's experience in organizing events in different countries at new venues underscores the multinational nature of the association, wide outreach of its activities, supranational scope of the tasks facing it and, at the same time, the commonality and unity of the union of Eurasian educational and scientific centres.



The Council of the International Network AML/CFT Institute in Moscow on November 22, 2017, voted to grant INI membership to Fudan University's China Centre for Anti-Money Laundering Studies, which became another conduit for AML/CFT knowledge and scientific achievements of the EAG network community of research and training centres in China. The Council also picked China as the venue for its next meeting and a major scientific and practical forum.

Held during the Plenary week of the Eurasian Group for Combating Money Laundering and Financing of Terrorism (EAG), on May 23-24, 2018, these events took place in Nanjing, the former capital of China and a city with rich history and culture.

The Council meeting was chaired by Federal Financial Monitoring Service Director Yuri Chikhanchin. The event was attended by Rosfinmonitoring Deputy Directors G. Bobrysheva and V. Glotov, INI Director V. Ovchinnikov, Director of China Centre for Anti-Money Laundering Studies, Fudan University, Yan Lixin, as well as representatives of 18 EAG government agencies, scientific and educational centres.

Participants discussed the development of a common qualification standard for AML/CFT personnel and the creation of an international system for its assessment, promotion of AML/CFT science and education across the EAG, and the upgrading of AML/CFT skills of the INI universities' academic staff. The meeting also featured presentations by the universities of their key results and performance reports, as well as the exchange of experience in implementing AML/CFT programmes and teaching specialized disciplines.

Among the events held in a bilateral format was a meeting between the directors of Russian and Chinese research centres: N. Kolachevsky of Levedev Physical Institute and Yan Lixin of China Centre for Anti-Money Laundering Studies, Fudan University, who discussed opportunities for future cooperation and joint scientific projects.

Peoples' Friendship University of Russia (RUDN), an internationally acclaimed educational and research centre, became a new member of the International Network AML/CFT Institute.

The accession of a university with such a high scientific and educational level and extensive experience in personnel training will undoubtedly boost the INI's potential, expand its international outreach and ensure qualitative fulfilment of its goals.

As noted by the Director of the Federal Financial Monitoring Service and Chairman of the International Network AML/CFT Institute's Council, Yuri Chikhanchin: "We have a long period of collaboration ahead, both with the working specialists and future graduates, which will require the development in the very near future of a common qualification standard for such specialists along with a system of their assessment, continuous training and development. In the context of the rapidly developing digital economy, constant modernization and the emergence of new financial technologies and instruments, it is essential for AML/CFT education to be ahead of time, reflect our future rather present".

A new corporate identity and logo are essential attributes of any modern organization and association, affecting its recognition and standing in the global

media space. To this end, the final part of the Council meeting was devoted to the contest to create a new logo of the International Network AML/CFT Institute. The panel of judges reviewed more than 50 designs of the INI's new brand before choosing the winner.

The next day the INI research and educational centres continued their work within the framework of the 1st Eurasian AML/CFT Forum "One Belt, One Road: ML/TF Risks and Threats". Participants discussed issues related to financial security of the Eurasian countries as well as the identification and anticipation of AML/CFT risks and threats. Participants called for the consolidation of efforts and expansion of cooperation in science and AML/CFT personnel training.

The Forum was attended by scientists and professors from the International Network AML/CFT Institute, as well as representatives of EAG financial intelligence units, law enforcement and supervisory agencies, and the private sector, including the Shanghai Banking Association's Compliance Council, Tenpay Co. Ltd, BNS Future Big Data Co. Ltd, Ping An Insurance (Group) Company of China, Ltd, Kingstar Co. Ltd, BBD Co. Ltd, etc., a total of more than 100 participants.

The research community was represented by the Institute of Legislation and Comparative Law under the Government of the Russian Federation, Russian Academy of Sciences' Primakov Institute of World Economy and International Relations (RAS IWEIR), RAS Lebedev Physical Institute (FIAN), and other EAG universities and research centres.

In their welcoming remarks to the participants, V. Nechaev, EAG Executive Secretary, V. Glotov, Rosfinmonitoring Deputy Director, V. Ovchinnikov, INI Director, and Zhuchang Tang, First Director of Fudan University's CCAMLS, emphasized the importance of this event for the combined efforts to ensure the financial and economic security of the Belt and Road Initiative.

Among other issues of the Forum was the launch of joint educational programmes to provide large investment projects with skilled personnel capable of combating the embezzlement of funds and other assets, corruption and fraud. The event featured interesting reports and presentations on AML/CFT, with speakers offering insight into the issues related to economic security of Russia and China, the use of digital technologies to prevent ML/TF and the need to harmonize AML/CFT legislation (Russia-China, EAG, BRICS and SCO).



Participants highlighted the potential of large-scale economic, logistics and investment projects planned under the Belt and Road Initiative to attract the attention of the criminal community. It is important to organize forums for sharing experiences between financial, investment and banking institutions of Eurasia. Representatives of state authorities, business and academic communities exchanged experiences and discussed further cooperation, highlighting the importance of information, results and best practices sharing, as well as expanded cooperation in AML/CFT personnel training, for better effectiveness.

The outcomes of the event were endorsed by signing the Nanjing AML Declaration. According to the text of the declaration: "... the fight against money laundering is not only the responsibility of the government, but also the mission of the whole society, requiring comprehensive communication and cooperation between civil societies of Eurasia".

During the Forum, the RAS Lebedev Physical Institute (FIAN) signed an agreement on joint IT research and development in the AML/CFT area with BNS Future Big Data Group, a major Chinese company, as well as declarations on joint research with the China Centre for Anti-Money Laundering Studies, Fudan University.



The signed strategic agreements imply a great deal of joint work, given that the implementation of the “One Belt, One Road” initiative is to take several decades.

The evolution of the Eurasian economic partnership depends on creation and constant improvement of a common techno-economic framework, relying on the latest developments in IT, information exchange and other areas of AML/CFT efforts as a multi-faceted, interdisciplinary field.

In this regard, the International Network AML/CFT Institute creates opportunities for a promising dialogue between scientific and educational centres, government agencies and the business community of different countries, joint initiatives, solutions, projects and new forms of cooperation in Eurasia. The experience in organizing on-site activities, meanwhile, expands the boundaries of cooperation, integration processes and communication between the INI members, providing opportunities for the discussion and execution of bilateral agreements between participants from different countries.

INTERNATIONAL BLOCK

YU. CHIKHANCHIN: “THE COUNCIL OPENS GREAT OPPORTUNITIES FOR FURTHER IMPROVEMENTS AND COOPERATION AMONG OUR COUNTRIES”

On May 23, 2018, the meeting of the Heads of financial intelligence units of the CIS member countries (CHFUI) chaired by Rosfinmoniotring Director Yu. Chikhanchin was held in Nanjing (China)

The agenda focused on discussion of supranational risks and threats, interagency coordination, international cooperation and engagement with the private sector.

In his welcome address, Yu. Chikhanchin emphasized that, during its five-years history, the Council has

proved itself a valuable forum for high-level professional discussion of a range of issues linked to combating money laundering, terrorist financing and proliferation financing. “I am convinced that the Council opens great opportunities for further improvements and cooperation among our countries”, pointed out the Head of the Russian FIU.





In 2018, the CHFIU extended its membership: Uzbekistan, represented by Mr. Mavlonov, Head of the Department for Combating Tax, Foreign Exchange Offences and Money Laundering of the General Prosecutor's Office of the Republic of Uzbekistan, was admitted to the Council as a new member.

The critically important area of the CHFIU work is combating the financing of terrorism under the Plan of the ongoing operation (code-named "Barrier") for identifying persons linked to international terrorist organizations.

Besides that, the incoming cross-border financial flows from the CIS member countries are subject to screening for identification of financial transactions involving transfer of funds to the so-called versatile money laundering structures that redistribute and launder proceeds of various types of crime. The analysis shows that accounts of the same foreign

companies controlled by professional money launderers may be used for redistribution of funds originating from several countries located in the CIS region.

To implement the provisions of the Concept of Information Sharing among CIS FIUs and the Concept of AML/CTF/CPF Cooperation among CIS Member Countries and pursuant to the resolution of the Council of Heads of FIUs adopted on November 13, 2017 Russia announced the establishment of the system of information sharing among the financial intelligence units of the CIS member countries.

Besides that, the participants discussed issues pertaining to regulation of electronic payment systems for preventing their misuse for ML/TF and cooperation between the Council of Heads of FIUs and the Secretariat of the Collective Security Treaty Organization (CSTO).

KYRGYZSTAN MUTUAL EVALUATION REPORT APPROVED

On May 22-25, 2018, the delegation of the Russian Federation took part in the 28th Plenary Meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) held in Nanjing (People's Republic of China).

The Plenary was led by the EAG Chairperson Mrs. HAO Jinghua. The Russian delegation was headed by the EAG Deputy Chairperson, Rosfinmonitoring Director, Yuri Chikhanchin



HAO Jinghua:

The EAG is a regional AML/CFT organization that covers the largest territory and the largest population compared to other FATF-Style Regional Bodies. Over the period of its existence, our Group has carried out extensive work and achieved substantial results, in particular, under the leadership of Mr. Chikhanchin. China, being one of the EAG founders, has always assigned high priority to the work performed by this body.

The event was attended by delegations of the EAG member states: Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan, and representatives of the EAG observer states and organizations: Armenia, Afghanistan, Iran, Italy, Mongolia, Poland, USA, Turkey, Montenegro, France, Financial Action Task Force (FATF), Asia/Pacific Group on Money Laundering (APG), Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), Egmont

Group, Asian Development Bank (ADB), Anti-Terrorist Centre of the Commonwealth of Independent States (ATC CIS), World Bank (WB), Eurasian Economic Commission (EEC), Interpol, Executive Committee of Commonwealth Independent States (EC CIS), International Monetary Fund (IMF), UN Office on Drugs and Crime (UNODC), Central Asian Regional Information and Coordination Centre for Combating Illicit Trafficking of Narcotic Drugs, Psychotropic Substances and Their Precursors (CARICC), as well as the UNOCT and UNSC 1267 Committee Monitoring Team which were invited by the Chairperson.



Mr. LIU Guoqiang, Assistant Governor of the People's Bank of China, and Mr. LIU Yang, Vice Governor of Jiangsu Province, addressed the EAG Plenary.

The key topic of the Plenary week agenda was the assessment of Kyrgyzstan under the second round of the EAG mutual evaluations. The Plenary adopted the Mutual Evaluation Report of the Kyrgyz Republic and its Executive Summary. The delegates noted the progress of Kyrgyzstan in improvement of its AML/CFT system since the previous evaluation. In course of discussions held in the margins of the Plenary, enhanced attention was paid to the international cooperation pursued by the country and to the use of financial intelligence by the competent authorities in ML/TF investigations.

Pursuant to the procedures of the second round of the EAG Mutual Evaluations, Kyrgyzstan will present its follow-up report to the 30th EAG Plenary in May – June 2019.

The Plenary approved admission of a new observer organization. The EAG observer status was granted to the UNSC Committee's Analytical Support and Sanctions Monitoring Team.

The Plenary reviewed practical CTF efforts of the member states and reaffirmed the relevance and high-priority of efforts aimed at combating terrorism and terrorist financing in Eurasia. The Russian Federation presented the typology report "Identification of Individuals Assisting Terrorist Organizations in Purchasing Tickets for Terrorist Fighters", which was approved by the Plenary.

The Plenary noted the importance of strengthening cooperation with the Asia/Pacific Group (APG) in studying ML/TF typologies. The participants marked the relevance of the upcoming joint EAG/APG typology workshop (to be held in Novosibirsk, Russia, in December 2018) and approved the proposal to conduct together with the APG a study "Financing of Terrorism with Illegal Proceeds, including the Proceeds of Organized Crime".

The Plenary heard the presented information on amendments to the national AML/CFT legislation of the EAG member countries and on ML/TF risk assessments.

ENHANCEMENT OF COOPERATION IN THE GLOBAL ANTI-MONEY LAUNDERING NETWORK

Joint FATF/MENAFATF Working Groups and Plenary Meetings took place in Paris on June, 24-29. Almost 500 participants from 204 jurisdictions, FATF-Style Regional Bodies (FSRBs) and relevant organizations discussed key agenda items related to AML/CFT



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It was the second joint meeting with FSRBs under the FATF Argentinian Presidency (the first one, with GAFILAT, took place in November 2017 in Buenos Aires). In his welcoming speech at the Plenary opening (June 27) the MENAFATF President, Abdul Mansour, highlighted that joint meetings of the FATF and FSRBs gave an excellent opportunity to enhance cooperation in the field of international anti-money laundering network.

Combating the financing of terrorism is still the key item of the FATF's agenda. In February the FATF approved the second counter-terrorist financing operational plan. During the meeting, delegates discussed the completed actions and the projects that are still underway. The key point is to enhance understanding of the risks of terrorist financing, vulnerabilities related to the use of cryptoassets, and update of information

on the methods of financing of ISIL, Al-Qaeda, and their affiliated persons and organizations.

The FATF contribution to fight against the financing of terrorism was also supported by the initiative of the FATF President, Santiago Otamendi of Argentina, on enhancement of cooperation with prosecution and criminal justice authorities.

A number of workshops was held for employees of such authorities and FIUs with participation of representatives of all FSRBs. The key subject was sharing experience in crime investigation of cases related of ML/TF. The FATF President presented a document on the outcomes of this work.

The FATF continues to focus significant efforts on combating such serious offense as human trafficking.

Unfortunately, this type of offenses remains very profitable and attracts a great number of criminals. The Plenary approved the collaborative FATF-APG report on financial flows from human trafficking related both to money laundering and their possible use for financing of terrorism. The document contains review of best practices to detect such offenses for the specialists in this field.

The Plenary participants also approved the joint research of the FATF and the Egmont Group aimed at identifying the techniques and methods used to conceal ownership and control of criminal proceeds. The research included about 100 real cases including those from the employees of FIUs and LEAs.

The Plenary also reviewed the report on the findings of the study on intermediaries that offer money laundering services to organized criminal groups. The document was aimed at helping experts in identification of such professionals as well as the structures they create to hide proceeds from crime.

The FATF continues to pay much attention to development of FinTech/RegTech sectors. Delegations supported the decision to create an online platform for public-private partnership in this field. The delegates were suggested providing information for release on this platform by the next meeting.

Tunis and UAE (MENAFATF members) presented national projects linked to the use of blockchain technology, mobile money transfers and other initiatives. The EAG Executive Secretary invited all the jurisdictions and organizations participants of the Plenary to join the FATF/EAG forum on FinTech-RegTech scheduled for the beginning of September, 2018 in Hangzhou, China.

Delegates discussed the FATF's program on the use of virtual currencies and assets for the purpose of ML/TF. The Task Force wouldn't stop tracking and detecting the methods of their use by criminals and terrorists for criminal purposes. The Plenary made a decision to initiate a project for gathering best practices of cryptocurrency-related investigations. The necessity to update the corresponding FATF documents was discussed – an intersession meeting on this subject is to take place in September.

Issues of combating the financing of terrorism and proliferation, use of crypto-assets for ML/TF, identification of beneficial owners and access to this

information, FinTech/RegTech and progress of the FATF in these fields are included into the FATF report for the G20 Finance Ministers and CEOs of the Central Banks (July 2018, Buenos Aires, Argentina).

Joint FATF and MENAFATF Plenary listened to the mutual evaluation of Bahrain and Saudi Arabia. The Plenary also reviewed follow-up reports of Australia, Switzerland and Belgium for the period since the adoption of their mutual evaluation reports. The Plenary decided to rerate some of recommendations for each of these countries. Reports on the measures taken will be published by the FATF on its official website.

The Plenary noted significant progress of Iraq and Vanuatu in elimination of deficiencies in their national AML/CFT systems. Neither of these countries is subject to the FATF monitoring anymore. Iraq will continue to participate in MENAFATF and Vanuatu - in APG in order to improve their respective AML systems. However, Pakistan was added to the list of countries subject to the FATF monitoring.

The FATF distinguished initiatives of the Islamic Republic of Iran on elimination of strategic deficiencies in the national AML system including its observer status in the EAG. However a number of the Action Plan items for enhancement of its AML/CFT system has not been implemented. Suspension of counter-measures against Iran was continued. A decision on further steps to be taken in relation to the country will be taken at the FATF meeting in October.

The FATF global network is expanding: Indonesia and Camden Asset Recovery Interagency Network (CARIN) were granted an FATF observer status. The Federal Republic of Somalia demonstrated significant progress of its AML/CFT national system and became a MENAFATF member.

The Plenary concluded the period of Argentinian Presidency. Since July 1, 2018 till June, 2019 the FATF will be headed by Marshall Billingslea from the USA. The key priorities for the US Presidency are combating the financing of proliferation, combating the financing of terrorism and research into virtual currencies. The FATF will continue its work in the field of FinTech/RegTech and further enhancement of cooperation with the private sector.

The new FATF Vice-President is Xiangmin Liu, Director General of the Legal Department at the People's Bank of China.

MONEYVAL: UNDERSTANDING OF RISKS IN FOCUS OF EVALUATION

Rosfinmonitoring Deputy Director V. Glotov headed an interagency delegation of representatives of the Russian Ministry of Foreign Affairs, Russian Federal Security Service, Russian Ministry of Internal Affairs, Russian Ministry of Finance, Prosecutor's General Office and the Bank of Russia to participate in the Plenary meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)

In his welcoming remarks the Director of Directorate of Information Society and Action against Crime, Jan Kleijssen, emphasized the measures taken to save funds in the context of the financial crisis in the organization in order to continue holding events scheduled by MONEYVAL and other committees in the current and coming years. Special focus was on importance of meeting the obligations and holding the evaluations of AML/CFT systems of the member-states, including Russia, in accorded timelines.



One of the agenda's items was discussion of the Committee's accumulated experience in carrying out risk assessment. The importance of effective cooperation between the competent authorities, in particular, financial intelligence and LEAs, was underlined.

The starting point of the discussion of the mutual evaluation reports of Albania and Latvia was their

understanding of proper ML/TF risks and the measures taken to minimize them.

Among the major deficiencies of Latvia's report, pointed out by the experts, the following ones should be highlighted:

- differences in understanding sectoral risks by regulatory agencies;
- low level of cooperation between national authorities in ML investigation and prosecution;
- lack of proper implementation of targeted financial sanctions in the field of countering the financing of WMD proliferation (PWMD).

With regard to the Albanian report, Tirana was criticized for the failure to implement a risk-based approach in the public and private sectors, as well as the regime for the confiscation of criminal assets (the disproportionate amount of assets under arrest and confiscation of the country's ML risks due to the high level of organized crime).

As a result both countries were put on the enhanced MONEYVAL monitoring which means annual reporting on correction of the identified weaknesses. Moreover they enter the pool of countries under consideration of the special FATF monitoring group–ICRG. The group is in charge of “grey” and “black” lists, which are reference points for the compliance services of the financial institutions all over the world.

In addition to the above, reports on the progress in improving the national AML systems of Armenia, Bulgaria, the Isle of Man, Poland, Slovakia, Croatia and Montenegro were discussed, as well as applications for removal from regular monitoring of Liechtenstein, Macedonia and Romania. The delegations of Warsaw, Sofia, Bratislava managed to quit this procedure. The Armenian partners demonstrated high results in improving the ratings received during the evaluation three years ago.

The presentation by the EU Commission expert David Schwander on the 5th AML/CFT Directive by the European Union revealed the new mechanism of compilation of high-risk non-EU jurisdictions lists. For the first time, Brussels has updated the previous version of this document proactively, without FATF reference. Previously, it had been updated only after significant changes in the international AML/CFT standards.

Now, in accordance with the approved provisions of the Directive, the EU will use additional criteria that go beyond the generally accepted requirements when forming a pool of high-risk states, in addition

to the FATF “grey” and “black” FATF lists. In particular, it means taking into account the unilateral restrictive measures taken by Brussels against third countries, the expanded interpretation of the FATF recommendations on the BO transparency, the powers of national competent authorities, the application of targeted financial sanctions and measures of customer due diligence (CDD) in the banking and non-financial sphere, as well as the level of international cooperation.

Within preparation for the upcoming FATF/MONEYVAL/EAG mission to Russia in March 2019, Rosfinmonitoring and the Russian Foreign Ministry provided detailed information on field-specific legislative innovations, the national program of capital amnesty, CFT projects at international platforms, as well as one of the latest successful ML cases with the participation of foreign partners.

The final part of the Plenary meeting was chaired by the Rosfinmonitoring representative Alexey Petrenko (MONEYVAL Deputy Chairman).

On the sidelines of the session, bilateral negotiations were held on topical issues of operational cooperation with representatives of financial intelligence of Armenia, Bulgaria, Jersey, Guernsey, Italy, Cyprus, Latvia, Lithuania, Liechtenstein, Moldova, Poland, Serbia, France, Montenegro and the Czech Republic.

The next MONEYVAL plenary meeting will take place in Strasbourg in December 2018.

ASSESSMENT PREPERATIONS ARE KEY TO AN EFFECTIVE AML/CFT SYSTEM

The EAG/ITMCFM 4th international workshop “Effective Supervision as a Mechanism for Ensuring Participation of the Non-Financial Businesses and Professions (DNFBP) Sector in the AML/CFT System” was held in St. Petersburg on September 13-14, 2018



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The workshop was organized by the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) and the International Training and Methodology Centre for Financial Monitoring.

A list of the workshop participants included delegations from the EAG member and observer countries (Armenia, Belarus, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan), as well as representatives of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL).

The workshop was opened with welcoming remarks from the EAG Chairperson and Deputy Director General of the AML Bureau of People's Bank of China Ms. HAO Jinghua (China) and EAG Deputy Chairman and Rosfinmonitoring Director Yuri Chikhanchin.

HAO Jinghua:

“The effectiveness of any supervisory and anti-money laundering framework depends on the timely and effective dissemination by both the private and public sectors, including non-financial businesses and professions, of information on transactions and financial behaviour allegedly linked to crime and terrorism.

Traditionally, technical and capacity-building assistance was primarily provided to financial institutions, with vulnerabilities of the DNFBP sector being until recent time largely outside the focus area, which explains the higher risk of its abuse for money laundering, terrorist financing and financing of other illegal activities.

According to the mutual evaluation statistics, the FATF Recommendations and Immediate Outcomes related to the DNFBP sector and its supervision tend to pose challenges for the assessed country.



The stability of any system depends on the stability of its weakest link, a fact whose importance increases further as we embark on the 4th round of mutual evaluations”.

Yury Chikhanchin:

“I would particularly like to thank international experts who, through their visit, underscored the relevance for the entire international community of the issues to be discussed at this workshop. Ms HAO’s participation in today’s event highlights the Eurasian Group’s continuous focus on these issues, while its holding shows that we are actively preparing for the evaluation procedures.

As Ms. HAO quite rightly pointed out, this meeting provides participants with the opportunity to exchange opinions, express their views, discuss with international experts our approaches and, possibly, correct those reporting materials that we have already prepared for submission to the international community”.

The first day’s keynote speaker, MONEYVAL Deputy Executive Secretary Michael Stellini, briefed participants in detail on the general trends in the countries’ preparations for mutual evaluations.

Michael Stellini:

“We have already reviewed 50 reports adopted so far around the world. And we tried to conduct a comparative analysis aimed at distinguishing some common points that may depend on the region, the status of the supervisory authority, the type of DNFBP or something else. However, we are not

dealing with exact science here. Therefore, what I’m going to talk about cannot be taken as a kind of prediction of what will happen in your country with a certain regulatory framework in place”.

According to Mr Stellini, getting a high score in the assessment should not be the sole aspiration for countries. Instead, the focus should remain on building an effective AML/CFT system.

On the first day of the workshop, participants at the section on the key challenges to effective supervision of the non-financial businesses and professions sector discussed ways to increase the preventive role of non-financial businesses and professions. Another section was devoted to the interactive business game “ML/TF Risks in the Non-Financial Businesses and Professions Sector. Risk Management Mechanisms: Supervision and Preventive Measures.”

The second day was devoted to consultations with the private sector on risk management in the non-financial businesses and professions sector, with participants in the first section focusing on the risks facing the sector, their identification and management; in the second discussing the experience of using information and analytical technologies for AML/CFT purposes; and in the third turning their attention to the issues of training in the context of new technologies, accessibility and revision of knowledge.

After consultations with the private sector, which took place during the workshop, participants issued the following recommendations for the EAG member states.



Recommendations

Participants in consultations with the private sector highlighted the role of experience exchange in boosting the performance of supervisors and the non-financial businesses and professions in Eurasia, the importance of further developing the risk-based approach methodology and tools, and the importance of working together to introduce new technologies in feedback provision and communication between the state and the private sector.

The EAG member states, in the context of preparations for mutual evaluations, should focus on the following aspects in their efforts to improve the effectiveness of national AML/CFT systems:

1. FIUs and supervisors should promote ongoing coordination and cooperation with DNFBPs as the source and recipient of intelligence;
2. Contribute to the expansion of opportunities for constructive, timely and continuous information sharing, in particular the identification and elimination of barriers to the exchange of information with DNFBPs in the context of ML/TF risks management;
3. Contribute to the development of innovative – including remote (contact-free) – tools for monitoring supervisory response measures based on the target's risk profile;
4. Promote compliance and awareness of the non-financial businesses and professions sector of the ML/TF risks through the use of various information sharing formats and channels;
5. Use different platforms and formats to involve the private sector in conducting domestic and sectoral risk assessments;
6. Improve the availability of new technologies-based information and training resources (remotely, using personal profiles, web portals, mobile applications, etc.);
7. Promote best practices in the identification of beneficiaries and PEPs, and risk mitigation;
8. Continue to provide FATF standards trainings and outreach in Eurasia by utilizing the resources available to the EAG and ITMCFM;
9. Consolidate the efforts of the state and the private sector to develop common approaches to understanding risks and formulating measures to mitigate them.

IT TAKES LONG-LASTING SYSTEMATIC EFFORTS TO PREPARE FOR THE EVALUATION

On September 24-28, 2018, in Moscow (Russian Federation) a joint FATF/MONEYVAL/EAG workshop for assessors was held. The event was supported by the International Training and Methodology Centre for Financial Monitoring

Konstantin Litvinov,
Editor-observer

The seminar was attended by representatives of financial intelligence units, regulators and supervisory bodies of the EAG and MONEYVAL countries, and the FATF experts.

With welcoming remarks the participants were addressed by the EAG Executive Secretary Vladimir Nechaev, MONEYVAL Executive Secretary Matthias Kloth, FATF Secretariat administrator Sergey Teterukov and Rosfinmonitoring Deputy Director Vladimir Glotov.

Vladimir Glotov:

"The new evaluation methodology has been used for five years now. Considerable experience has been gained. I am very pleased that the training, prepared jointly by the FATF, EAG and MONEYVAL, will be held with the use of the most modern techniques and technologies, so that you will acquire the most

necessary and important knowledge, skills and abilities.

I would like to extend my gratitude to the International Training and Methodology Centre for Financial Monitoring that as usual has contributed a lot to the event. I also want to thank the coaches and trainers who found time and through complicated itineraries have reached Moscow to make your training as effective as possible".

During the seminar the participants exchanged experience and best practices in preparation for the mutual evaluation, using a variety of training formats, in particular team work and business games.

At the end of the event the "Financial Security" magazine received comments from the international assessor Yehuda Shaffer (Israel).

Yehuda Shaffer:

"The first thing to be paid attention to during the evaluation is collecting appropriate statistics. Typically countries are not regularly, routinely collecting the relevant statistics that are needed for this methodology."

Second, as many relevant authorities as possible should be either formally or informally trained to understand what the methodology means. In every competent authority there should be at least 2-3 people that know what the methodology is about."

And third, in the areas where statistics are not collected but a country has a good story to tell a special effort should be made in collecting good



Yehuda Shaffer and Sergey Teterukov

examples and good stories and write them up in a way which could assist the country to represent them to future evaluators".



SPECIFICS OF ITALIAN FINANCIAL GUARDIA PERFORMANCE

Claudio Ramponi, a representative of Italian Financial Guardia who currently serves as an attaché at the Italian Embassy, visited Rosfinmonitoring

Natalia Morenko,
Observer



Claudio Ramponi

Rosfinmonitoring employees were given the opportunity to ask questions to the colonel of the Italian Financial Guardia. The interviewers were particularly keen to find out about the country's anti-corruption methods, cooperation between financial intelligence units, engagement with the private sector, and HR issues.

"As for our cooperation with Russia, Guardia di Finanza Commanding General Saverio Capolupo recently paid an official visit to Moscow, with another visit by his successor planned for the nearest future. I am confident that personal contacts between our leaders help to smooth working relations and boost cooperation," said Mr. Ramponi.



FS: Is it possible, using FIUs' communication channels, to obtain information from Italy's real estate registry and verify the sources of funds used to purchase real estate?

Claudio Ramponi: My dream is to sign a Memorandum of Cooperation on the basis of which Rosfinmonitoring and the Financial Guardia will share information.

FS: Does the Financial Guardia work with the private sector? Do you organize conferences and workshops for representatives of the private sector?

Claudio Ramponi: We are open to the public and to cooperation with the private sector, but we are a police organization and this imposes a number of restrictions on us. Yes, we organize conferences, but not workshops.

Reference

In line with the law, Rosfinmonitoring may share information only with its direct partner, i.e., the FIU within the Bank of Italy, which has access to the EGMONT communication channel.

FS: Which Italian regions are considered terrorism hotspots?

Claudio Ramponi: In the 70s, terrorism flourished at the regional level in Italy, in Sardinia and Valle d'Aosta. Italy managed to secure these territories. The late 90s and early 2000s were known for political terrorism and terror groups with communist leanings, the so-called "red brigades," which were also successfully dealt with. Our biggest problem now is ISIL. But because this is a global problem, and since Italy is a small country, it is difficult to limit ISIL activities to any particular region.

Reference

Italian Financial Guardia (FG) is a special militarized unit tasked with protecting the financial, economic, military and political interests of the state.

It reports directly to the Minister of Finance. Established in 1774, it is the oldest police organization in Italy.

The Financial Guardia is responsible for the following:

- prevention and investigation of tax and financial violations;
- assisting law enforcement and security agencies in combating the financing of terrorism;
- stabilization of illegal proceeds;
- control over the expenditure of funds by military units stationed overseas;
- exercising customs and border controls.

In addition, the Financial Guardia enforces trademark rights, monitors the activities of companies that manufacture tax-exempt products, and works to detect clandestine producers.

Pursuant to Art. 57 of Italy's Penal Code, the Financial Guardia, within its competence, also performs the functions of criminal police while being subordinated to judicial authorities. The FG's powers allow it to gather intelligence, pursue criminal investigations, execute searches, seize property and detain suspects.

The Financial Guardia, being one of the agencies charged with protecting the financial interests of not only Italy, but the entire European Union, works closely with the EU financial institutions. In addition to dealing with fiscal and customs crimes, the FG monitors budgetary and national expenditure, and the performance of European funds.

The Financial Guardia has little interest in what happens "in the streets," focusing instead on white-collar crime.

The FG has its representatives in international organizations, with its experts stationed in all major financial centers.

The main task of the Financial Guardia employees around the world is to facilitate and develop cooperation with local authorities and obtain information on the current situation in each region.

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