

# FINANCIAL SECURITY

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NO. 16 MARCH 2017

**S. LAVROV:**

*"An effective fight against international terrorism is impossible without cutting off financial and logistical support for terrorists".*





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## DEAR READERS,

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**T**he first issue of our magazine in 2017 is dedicated to international relations. Among Rosfinmonitoring's top priorities in this area last year were:

- identification and mitigation of external threats to the stability of Russia's financial system;
- maintaining Russia's leadership in the international anti-money laundering community.



The past year marked a milestone for the national AML/CFT system, including in terms of the international community's fight against money laundering, the financing of terrorism and proliferation of weapons of mass destruction. Since its placement on the Financial Action Task Force (FATF) blacklist in June 2000, our country has gone all the way from being labelled as an "abject failure" for its anti-money laundering efforts to having our

AML/CFT system recognized as one of the most progressive in the world. We became a full-fledged member of the key profile organizations (FATF, MONEYVAL, Egmont Group, EAG and CIS Council of FIU Heads), where we command considerable respect and exercise substantial influence.

As we approach the date of the next assessment of our anti-money laundering system, scheduled for 2018, we anticipate the challenges that lie ahead for us. While until recently it was more about technical compliance – whether the country adopted the relevant laws, built up relations with supervisors and law enforcement, etc. – this time we must prove the effectiveness of what has been built over the past 15 years. The FATF will assess Russia not only in terms of Rosfinmonitoring's performance, but also as regards the effectiveness of each and every component of the national anti-money laundering system, ranging from financial institutions reporting suspicious transactions to the judiciary convictions for confiscation of criminal proceeds.

With the country's domestic and international interests at heart, we must work towards making 2017 yet another great year for us.

*Yours sincerely,  
Yu. Chikhanchin,  
Rosfinmonitoring Director  
and EAG Chairman*

## COVER STORY

## **S. LAVROV: RUSSIA CALLS FOR STRENGTHENING ANTI-TERRORIST FINANCING EFFORTS**

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*Sergey Lavrov – Minister of Foreign Affairs of the Russian Federation*

**O**ur assessments of the on-going profound transformations and approaches to addressing key international challenges are set out in the revised Foreign Policy Concept, approved in November of the last year by President V. Putin. Besides maintaining the continuity of the key aspects of the country's foreign policy – including its multi-vectoral focus, self-reliance and independence – whose effectiveness has been proven in practice and which enjoys broad public support, the document also addresses the topical issues facing us today, with an extra emphasis on fight against terrorism and extremism.

It is obvious that in today's world global challenges and threats can only be addressed through concerted effort. This is the logic that is being followed by our country in its pursuit of a peaceful, positive, development-oriented, broad-based and equitable cooperation agenda. We support respect for the norms of international law and the UN Charter, the sovereignty of states, their desire to determine their own future, and the recognition of cultural and civilizational diversity.

Among our absolute priorities is an uncompromising fight against terrorism, which has thrown down an unprecedented challenge to the international community and poses the most serious threat to Russia's security. The all-encompassing nature of this problem is manifested by the numerous terrorist attacks across the world – including those aimed against our citizens – the growing threat of international terrorism in the Middle East and North Africa, and the persistently dangerous security situation in Afghanistan.

We call on all our foreign partners to set aside ambitions and disagreements, abandon the practice of double standards and join forces in fight against this global evil. In this context, Russian President V. Putin's initiative for building a broad anti-terrorist coalition based on the principles of international law and under the auspices of the United Nations, unveiled at the 70th session of the UN General Assembly in September 2015, is aimed specifically at addressing this challenge.

One area of particular concern is the MENA region, where attempts by certain countries to "export democracy" resulted in power vacuum that was quickly filled by extremists and radicals. Thanks in many respects to the determined and consistent action of the Russian Airspace Forces, ISIL\* troops have sustained crippling losses, triggering massive desertions among its existing fighters and a reduction in the inflow of new recruits. ISIL continues to lose access to vital resources and is forced to cut its expenditure, including on terrorist and extremist propaganda and recruitment.

We consistently proceed from the fact that an effective fight against international terrorism is impossible without cutting off financial and logistical support for terrorists. The active, and often leading, role of our country has allowed us to achieve considerable progress in this area. In early 2015, we initiated a statement by the UN Security Council Chairman on efforts to disrupt the flow of oil proceeds to terrorists and helped to adopt UNSC Resolution 2199, aimed at preventing the financing of terrorists through illegal trade in oil and oil products, precious metals and cultural goods. In December 2015, the UNSC unanimously adopted Resolution 2253, drafted jointly by Russia and the United States, on combating

the financing of ISIL, Jabhat al-Nusra and affiliated terrorist organizations. The fact that the draft of this resolution was cosponsored by 68 states further underscores the growing awareness of the terrorism danger.

We are convinced that our ability to undermine the ISIL economic and financial foundation depends on full compliance by all countries with Resolutions 2199 and 2253, aimed at tightening the stranglehold on terrorist funding channels such as illegal trade in oil and oil products, precious metals and cultural goods. Our immediate goal is to deepen international cooperation both at the political level and among relevant agencies in order to identify the specific countries, individuals and legal entities doing business with ISIL. We also need to more fully utilize the potential of the existing multilateral mechanisms and strengthen the industry-specific cooperation focused on achieving concrete results. Taking into account the threat posed by ISIL to the international community, it is essential that our response must be robust and resolute. One of the effective steps in this direction would be to impose a comprehensive trade and economic embargo against all ISIL-controlled territories in accordance with Article 41 of the UN Charter, which calls for sanctions against all violators.

Our colleagues at Rosfinmonitoring are well aware of the active involvement of the relevant department of the Russian Foreign Ministry in 2014-2015 in the FATF research to identify ISIL funding channels and new terrorist financing sources. Last June, the FATF plenary agreed to support Russia's initiative to continue work in this area. Henceforth, all interested jurisdictions voluntarily forward their analysis on this topic to the FATF Secretariat. The collected materials will then be published three times a year as updates to the Group's fundamental research conducted in 2015. Also at Russia's suggestion and with the support of the USA, the issue of combating ISIL-related funding was permanently included in the agenda of the FATF plenary sessions.

In October 2016, the coordinated work of Russian experts was instrumental in amending the FATF universal counter-terrorism financing standards to allow the blocking of funding for ISIL, Jabhat al-Nusra and affiliated terrorist organizations. Therefore, any trade with terrorists, including in oil

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\*Islamic State (ISIL) – terrorist organization banned in Russia



and other natural resources, has been completely outlawed. This development will naturally contribute to a comprehensive implementation of the UNSC Resolutions 2199 and 2253, given that any jurisdiction found in violation of these binding UN Security Council decisions will be subject to stringent FATF measures, including placement on the black and grey lists.

Russia has consistently advocated deepening practical cooperation between the UN and the FATF in combating terrorist financing. Thanks to our country's efforts, the provision on cooperation with the UN and its Security Council was included in the mandate of the Group. The FATF's leading role in global anti-terrorist efforts is outlined in a number of UNSC resolutions, including Resolution 1617, which explicitly calls on all states to comply with its universal standards.

Following the accession to the FATF of new states, including Russia, China, India, Brazil and South Africa, its activities have become truly universal. In this regard, we believe that the time has come to reflect on transformation of the Group into a full-fledged specialized international organization with its own charter and legally mandated powers. This, undoubtedly, would help to further consolidate international efforts to counter terrorism financing.

We support the FATF network's expansion and strengthening, as well as facilitation of involvement in international cooperation in this sphere of the widest possible range of states, including Iran. We note with satisfaction the positive progress achieved in this area by Iran following the adoption by this country of a law on combating the financing of terrorism and the granting of an observer status in the Eurasian Group on Combating Money Laundering and Financing of Terrorism. If this dynamics persists, we will have sufficient grounds for an extension in June of this year of the FATF moratorium on the application of financial

countermeasures against Iran due to high terrorist financing risks. In case of complete and timely implementation by Iran's FIU of the joint Iran/FATF action plan, it will be possible to consider raising the issue of the country's removal from the FATF blacklist.

Russia advocates enhancement of the FATF's cooperation not only with the UN but also with the G20, which approves its mandate and sets priorities. In particular, our country insisted on the inclusion in the final communique of the G20 summit in Hangzhou in September last year of a call for a "prompt, effective and universal" compliance with the FATF standards and UNSC Resolution 2253.

We proceed from the necessity of bona fide implementation of all UN, FATF and G20 resolutions aimed at demolition of terrorist financial pillars. At the same time, we are taking steps to promote the anti-terrorist agenda in other international organizations. In particular, at our initiative the BRICS set up an Anti-Terrorism Working Group, tasked, among others, with strengthening CFT cooperation both at the political level and among the special agencies. At Russia's suggestion, the CIS Heads of state included in the final statement of Bishkek summit on September 16, 2016 a common commitment to fight ISIL. The same message is captured in the joint statement of CSTO member states delivered during the 71st session of the UN General Assembly on October 3, 2016 in New York.

Our country's leadership in anti-terrorism efforts, including counter-terrorist financing, relies on interagency coordination. The Russian Foreign Ministry highly appreciates its close cooperation with Rosfinmonitoring, which allows us to achieve important results in ensuring Russia's security and strengthening international stability. We stand ready to expand it further to help meet ambitious targets set by the country's leadership in the most efficient and timely manner.

## IN COMMEMORATION OF VITALY CHURKIN

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*One of the most outstanding diplomats of our time, Vitaly Churkin passed away on February 20, 2017. At different times he worked as Russian ambassador to Chile, Belgium and Canada. From 2006 until his death, Mr. Churkin was Russia's Permanent Representative to the UN Security Council. Throughout his diplomatic career, he defended Russia's interests in various international organizations, helping to solve the toughest diplomatic disputes and disagreements. His death was a great loss for the whole world.*

*In memory of Vitaly Churkin, we publish the memoirs of Alexander Pankin and Dmitry Feoktistov, who worked alongside Vitaly Churkin in the UN for several years*



*Vitaly Churkin - a permanent Ambassador of the Russian Federation to the United Nations and UN Security Council, April 8, 2006 - February 20, 2017*

## Alexander Pankin



*Alexander Pankin – Director, International Organizations Department, Russian Ministry of Foreign Affairs*

Almost five years' experience as the First Deputy Permanent Representative of the Russian Federation to the United Nations alongside with Mr. Churkin taught me a lot: what should and should not be done, how to take personal responsibility and perform teamwork, how to be smiling, responsive and charismatic, but at the same time be tough on someone who becomes insolent and tries to vilify you and your country.

Work in the UN is very interesting, but at the same time hard. No matter how you quarreled with someone defending your arguments during heated debates in the Security Council and however hard undiplomatic tone and words hurt you feelings, you should always keep in touch with your colleague from other country, since we agree on some issues and disagree on other ones. Therefore, many people may find it strange to watch on TV two different scenes on the same day. In the morning, Vitaly Churkin is shown (live) on the "battlefield" in the UN Security Council - emotionally charged atmosphere, provoking allegations, sharp retorts, stinging words and expressions that do not cover emotions towards "frienemies". And in the evening on the same day at a diplomatic reception, one can see smiles, handshakes, quiet face-to-face talks, clinking of glasses, chin-chins and anecdotes. Is it some sort of a theatre and change of masks thing? What of these gestures, glances, emotions

and words are sincere, and what are artificial? The answer is – it's all true: one may and should respect a person for his comprehensive knowledge, experience and skills, but at the same time come down hard on him or give sharp rebuke when he articulates unfair position, manipulates facts and slings mud pursuant to instructions received from his bosses in the capital. And it is always necessary to seek for common denominator and compromise, since issues should be resolved and not buried.

And another important thing is trust both in relationships with foreign partners and within "your own team". When all officials and staff members of the Russian mission in New York demonstrate the unified spirit and teamwork, the opponents are unable to take advantage of any potential differences in their tempers or manners. But they have made such attempts, - after tactful clarifications provided by the experts, they ignored the advice and tried to approach Mr. Churkin, thinking that they could resolve issues directly with the Head of the Russian delegation. And Vitaly Ivanovich responded with a charming smile: "Really? Did my diplomats use these words for articulating our position? Well, well! But you should know that this is true, although I would have used different language – more definite and harsh". On the other hand, in attempt to persuade the partners to reach a compromise, which they strongly opposed and insisted that further work should be done at deputies' level, Vitaly Ivanovich told them: "You mistakenly disagree, because it will be more difficult for you to reach agreement with my deputies since they pursue more hardline approach".

And some more personal reminiscences - Vitaly Ivanovich taught me to have a mobile phone with me all the time, whether in shower, sauna or swimming pool, since you may receive calls any minute as well as on weekends both from Moscow and other diplomats or the UN staff. Typically, such phone calls bring no good news, or you receive instructions that necessitate urgent actions. Besides that, he taught me not to plan long-term personal matters, since most of them would never come true in the New York reality. For "Churkin and his team", work was the utmost priority...



## Dmitry Feoktistov



*Dmitry Feoktistov – Deputy Director of the Russian Foreign Ministry's Department of New Challenges and Threats*

I worked with Vitaly Churkin for four years, starting from April 2006. When he arrived in New York, I had already been in charge of the disarmament and non-proliferation group for a couple of years at our permanent mission to the UN, as well as of the CIS affairs.

Being an impeccable professional, he imposed very high standards on both himself and others, which made him a tough guy to work with. And it was not so much because we often had to redraft the same documents again and again, adjusting their content to fit into his vision of a specific issue, but because of his ability to see even the most complex problems right through. So, when contrasted with such level of “far-sightedness”, we, being relatively young diplomats, felt very “short-sighted”. Naturally, we responded by trying to “adjust our vision”.

And we also learned from him how to act impromptu and how to respond to Russia’s detractors politely but firmly, or, if necessary, scathingly and forcefully. It is no wonder then that after such exchanges, his opponents often found themselves knocked-out with little appetite for further verbal duels. By the way, Mr. Churkin’s best-remembered caustic –

and often sharp-witted – remarks came not from the papers we prepared for him in advance, but were self-invented on the fly right in the middle of a discussion. In this context, I recall the words he used during the consultations at the UN Security Council in 2008 on the Abkhaz-Georgian issue, when he said that if there were aliens in the room, they would surely have concluded that the Georgia defenders among west-oriented colleagues were “people of very high moral standards”.

He also knew how to skilfully, using other means, rein in an opponent who had crossed the line. Back then we were locked in heated discussions with our western opponents over the UNSC resolutions on sanctions against Iran and North Korea. To find solutions to the most intransigent problems, discussions often had to be elevated to the level of permanent representatives. During one of those discussions, S. Rice, the then US Representative to the UN, began to lecture us, completely ignoring what we were trying to tell her. When it became clear that we were getting nowhere, Mr. Churkin simply got up and went for the exit, saying that in a situation where Russia was not being listened to, it did not make any sense to continue the conversation. This prompted Rice to jump to her feet and express her sincere apologies. After that, the discussion went on much smoother, allowing us to find a common ground.

Despite his seemingly reserved manners, which was further exacerbated by the eternal fatigue of endless verbal battles at the UN, Vitaly Ivanovich was a person with a big heart. If the drafting of reports for Moscow dragged on well into midnight, he could, for example, ask our chef to prepare a tray of snacks. In the same vein, he could send his chauffeured Mercedes to pick up an expert held up late at consultations, or, while walking down the corridor in the evening, send everyone home early “to spend some quality time with their families”.

Vitaly Churkin was an extraordinary man. And it is a pity that he is no longer with us. He could have still done so much for Russia, including teaching many of us how to fight for our country.

## EAG CHAIRMAN, ROSFINMONITORING DIRECTOR YU. CHIKHANCHIN'S SPEECH AT UNCTC

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Irina Ivanova,  
Editor-in-chief

**O**n December 15, 2016, Yury Chikhanchin, EAG Chairman and Director of the Federal Financial Monitoring Service, briefed UN Counter-Terrorism Committee (New York, USA) on the activities of the Eurasian Group on Combating Money

Laundering and Financing of Terrorism (EAG). In his speech, the EAG Chairman outlined the FAFT-style regional body's priorities in combating financing of terrorism, and ISIL in particular (an organization prohibited in Russia).

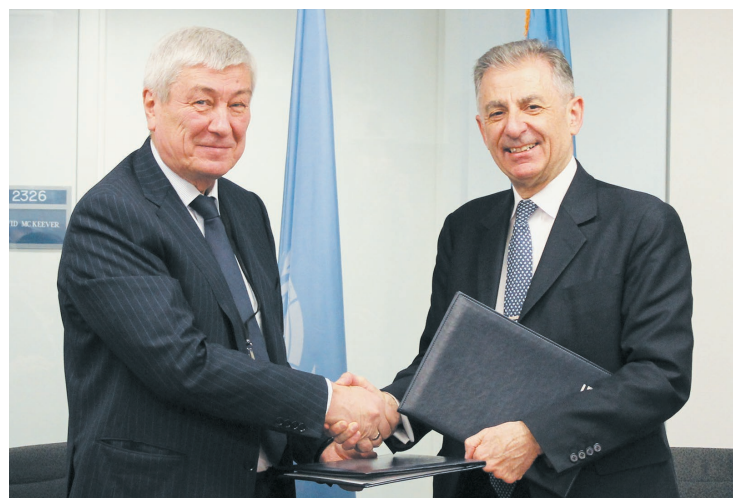


**Yu. Chikhanchin:** *The EAG carries out comprehensive assessment of AML/CTF risks, identification and block of terrorists funding, joint investigations and special operations, organizes personnel trainings, and strengthens cooperation with the relevant international bodies (CIS Anti-Terrorism Centre, Regional Anti-Terrorist Structure of the Shanghai Cooperation Organization and the Global Terrorism Database, operated under the auspices of the Meeting of Heads of Special Services, Security Agencies and Law-Enforcement Authorities).*

**Yu. Chikhanchin:** *We see attempts of the ISIL to control local terrorist organizations all over the world to recruit new foreign terrorist fighters, as well as attempts of its leaders to expand the influence of this organization in the Internet to propagate terrorist ideology and to raise funds. Given the magnitude of the current challenges, the EAG has been conducting systemic work aimed at implementing the Consolidated FATF Strategy on Combating Terrorist Financing.*

In particular, as noted by the Head of the Russian financial intelligence unit, during the work on the said Strategy the EAG expressed its support for incorporating into the FATF standards the provisions of the UN Security Council resolutions 2199 and 2253, aimed at cutting off funding and any material assistance to ISIL. As a result, a list of terrorist assets subject to freezing under the FATF standards was expanded to include oil and other natural resources, as well as any other assets which could be used by ISIL to obtain funds required to finance its activities.

During a separate meeting with Jean-Paul Laborde, Executive Director of CTED, Yury Chikhanchin signed a Memorandum of Understanding between the EAG and UNCTC, confirming the EAG's unwavering commitment to strengthening cooperation with the UN, which should continue to play a central coordinating role in the fight against terrorism and its financing. This agreement establishes the legal basis for cooperation in combating terrorist financing, information sharing and conducting joint activities.



**Yu. Chikhanchin:** *The system built up in the EAG territory allows us to promptly identify and cut off funding for FTFs, thereby blocking their access to the financial systems of EAG member states. In the Russian Federation alone, it led to the freezing of assets held by over 1400 FTFs and prosecution of 350 individuals.*

*The international operation "Barrier", conducted in accordance with a methodology developed by the Russian Federation, has allowed to identify more than 800 persons at high risk of terrorism involvement, 220 of whom have been charged with participation in military conflicts on foreign soil and placed on the national terrorist list.*

*Rosfinmonitoring, jointly with the CIS Council of FIU Heads, has undertaken measures to identify terrorists and their supporters operating in Eurasia. Acting on intelligence provided by FIUs, law enforcement authorities probed the financial dealings of over 1200 individuals and exposed financial operations of 140 members of terrorist cells. The gathered financial intelligence was used to disrupt the activities of some of these persons and initiate investigative proceedings against the rest.*

During the term of its EAG presidency, the Russian Federation intends to continue the consolidation processes within the Group and its fight against terrorist financing, with a focus on ISIL.



## ***FATF PRESIDENT: INFORMATION SHARING AND COOPERATION AMONG KEY NATIONAL AUTHORITIES IS AN IMPORTANT CHARACTERISTIC OF AN EFFECTIVE AML/CFT SYSTEM***

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*Since June 1, 2016, a representative of Spain Juan Manuel Vega-Serrano heads the Financial Action Task Force (FATF). During the FATF Plenary week in February 2017 the FATF President answered the questions of the “Financial Security”*

*Irina Ivanova,  
Editor-in-chief*



**FS:** *One of the priorities of your presidency has been enhancing the role of FIUs within FATF. I am interested in your motivations for creating FIU-specific venues within FATF such as the FATF FIU Forum.*

**J. M. V.:** Financial Intelligence Units (FIUs) play a key role in tackling money laundering and terrorist financing and identifying cases of abuse of the financial system.

Many of our member's financial intelligence units were already actively taking part in FATF work, as major contributors to FATF's studies on new and developing money laundering and terrorist financing trends. However, there was scope for a closer collaboration between FIUs and to ensure a better understanding of the FATF's standards, but also to give FATF insight into the operational aspect of anti-money laundering and counter-terrorist financing (AML/CFT) efforts. Through FIU-specific events, views are exchanged on key operational issues such as the obstacles FIUs face in their investigations and the powers and tools they would require. This collaboration will result in more refined and targeted standards, best practices or guidance, and a more effective use of financial intelligence.

**FS:** *What are your views on the practical side of improving information sharing and cooperating among key national authorities?*

**J. M. V.:** Information sharing and cooperation among key national authorities is an important characteristic of an effective AML/CFT system. During its current cycle of mutual evaluations, the FATF is looking more closely at whether a country's framework to combat money laundering and the financing of terrorism and proliferation is actually delivering the expected results. Determining whether its key national authorities collaborate and share information as and when needed, is part of a mutual evaluation.

Currently, the FATF is working on facilitating inter-agency sharing of financial and other relevant counter-terrorism (CT) and counter-terrorist financing (CFT) information. The FATF seeks to identify challenges, as well as good practices and case examples of information sharing mechanisms that FATF members use. The FATF expects to complete this project in June 2017.

On the practical side of information sharing in this context, there are a number of ways in which key operational authorities can improve information sharing and cooperation, notably by first identifying the challenges, both legal and operational, and then implementing good practices, such as establishing a uniformed system for classifying, safeguarding and declassifying national security information; standardising data formats; simplifying secrecy and access provisions; and engaging with other authorities. A number of practical tools also exist, such as the use of coordinating committees; inter-agency centres of intelligence; multi-agency task forces; suspicious transaction reporting review teams; financial intelligence centres; etc.

**FS:** *Do you think there might be some duplication in your initiatives at the Heads of FIUs Forum with what Egmont is doing at the same time in this direction?*

**J. M. V.:** The Egmont Group is an active supporter of and participant in this initiative which is complementary to their work as well as the work of the FATF. The objectives of the FATF Heads of FIU Forum are to identify key issues regarding financial intelligence, to increase the FATF's operational focus and to provide a venue for the exchange of professional experiences. In this context, I do see an important role for the FATF Heads of FIU to clearly point out where there is room to strengthen the Global AML/CFT system, particularly where it relates to the effectiveness of FIUs.

**FS:** *What is your view on the future of the FATF FIU Forum after your Presidency?*

**J. M. V.:** The Heads of FATF FIUs have already noted the real value that has been added through this Forum, which allows them to meet in a smaller group and focus on the challenges and the issues that FIUs are facing today. I have already had discussions with my Argentinean colleagues, and with my successor as FATF President Mr. Santiago Otamendi, and my expectation is that the FATF will continue to hold meetings of the Forum under the Argentinean Presidency of the FATF.

**FS:** *What is the current state of relationship between FATF and Russia? Between Spanish and Russian FIUs?*

**J. M. V.:** Russia is an important member of the FATF, and contributes significantly to its work. Russia holds a position as co-chair of the Risks, Trends and Methods Group within the FATF, and in recent years has put forward a number of useful initiatives. In April, Russia is hosting the Joint Experts Meeting of FATF operational experts who will be discussing a range of AML/CFT issues such as how to enhance domestic information sharing, overcoming the challenges faced in identifying the beneficial owners of companies and trusts, and issues associated with the recruitment of terrorists. Russia participates actively in all areas of the FATF's work, and the FATF warmly welcomes this.

As active members of both Egmont and FATF, Spain and Russia recognise the importance of international cooperation, particularly between FIUs. During Spain's mutual evaluation, assessors highlighted the country's excellent level of international cooperation, information-sharing and use of its financial intelligence; this was confirmed by a number of countries, including Russia. While Russia has not yet been assessed against the current standards, I would expect their level of international cooperation to be equally high.

**FS:** *As for your Presidency's priorities after half of your term, do you see some new possible areas of your focus before the next Plenary in Spain?*

**J. M. V.:** The priorities of the Spanish presidency focus on important areas of work that will take time to achieve, such as establishing a constructive dialogue with the Fintech and Regtech communities. These priorities are well under way and I expect they will inform future president's priorities and the FATF's work beyond the Spanish presidency.

## REGULATION AND SUPERVISION

## ROSFINMONITORING DIRECTOR: WE MUST DEMONSTRATE TO THE FATF OUR FINANCIAL MEASURES TO COMBAT MONEY LAUNDERING AND THEIR EFFECTIVENESS AT THE STATE LEVEL

*Rosfinmonitoring Director Yury Chikhanchin spoke at a meeting of the Federation Council during the “government hour” about progress in implementing the law on combating illicit financial transactions*

*Irina Ivanova,  
Editor-in-chief*



**T**he Head of the agency thanked the senators for their contribution to the establishment of the Russian anti-money laundering system.

*“The support provided by the upper house over the past three years has led to the adoption of 17 federal laws in this area, which have significantly improved the effectiveness of these efforts and their compliance with the international standards.”*

**Yury Chikhanchin** reminded participants that the next round of the FATF assessment of Russia, is scheduled for 2018.

*“In 2018, the international community will conduct another assessment of Russia’s anti-money laundering system. While until recent times it was more about technical compliance – whether the*



*country adopted the relevant laws or built relationships between various AML system participants – this time round we must demonstrate to the FATF our financial measures to combat money laundering and their effectiveness at the state level, ranging from financial institutions reporting suspicious transactions to the judiciary bodies convicting for confiscations of criminal proceeds,” he said.*

According to him, about 350,000 customers were denied service in 2016, which helped to prevent laundering of about 300 billion rubles of dubious origin. *“The majority of the customers who were turned away – legal entities and individuals – did not contact banks again, which allows us to conclude they were so-called ‘shell companies’.”*

On January 1, 2017, the Bank of Russia launched a mechanism for bringing the list of such persons to the attention of financial institutions. This will allow us to significantly reduce the number of suspicious transactions, stressed the Head of Rosfinmonitoring.

It is important to raise the level of regulatory compliance in the financial sector, said Yury Chikhanchin. He also briefed participants about the projects launched by the agency in 2016. *“They include, in particular, the ‘personal account’ that allows credit and non-credit institutions, currently on a voluntary basis, to look at themselves through the supervisor’s eyes.”*

The work carried out jointly with the Central Bank, Federal Security Service, Ministry of Internal Affairs and Investigative Committee resulted in shutting down 12 illegal financial centres that handled illegal funds totalling over 63 billion rubles. *“It took the joint effort of law enforcement agencies from four different countries to close down just one such financial centre, whose services were used by 9 banks. The investigation into the activities of this centre helped to identify and freeze a number of foreign assets, including yachts and hotels.”*

According to **Mr. Chikhanchin**, the defence procurement sector has become a testing ground for a fundamentally new system of state control over public procurement *“In 2016, we expanded our experience in preventing the embezzlement of public funds through early notification of the relevant departments and authorized banks, resulting in the preservation of public funds totalling 5 billion rubles and recovery of about 400 million rubles in damages.”*

Suspicious transaction reports were used in 2016 to initiate approx. 40,000 investigations; more than 800 criminal cases featuring materials provided by Rosfinmonitoring were referred to courts, resulting in more than 500 convictions, 2,5 times more than in the previous period.

The agency’s joint work with law enforcement and supervisory authorities helped to preserve a total of 130 billion rubles, including 96 billion rubles of public funds, and to recover 47 billion rubles, including 17 billion rubles in confiscated property and reimbursed damage, said the Rosfinmonitoring Director.

In his report, **Yury Chikhanchin** paid attention to the issue of personnel training and qualification level of the AML system participants.

*“The International Training and Methodology Centre for Financial Monitoring, founded by Rosfinmonitoring at the request of the Russian Government, has been transformed today into a nucleus training hub for Eurasian countries. Since its establishment, the its training courses have been attended by over 10,000 students, including 2,500 from abroad. The centre is also home to the network AML/CFT Institute, which comprises over 20 higher education institutions from Russia, EAG and BRICS countries. Last year, it celebrated its third anniversary.*

*Today, together with the five institutes of the Russian Academy of Sciences, the International Training and Methodology Centre and the network AML/CFT Institute are working on the concept of an integrated research plan. Our experience in developing personnel training and upgrade programmes has attracted the FATF’s attention. We will hold in April a joint meeting of FATF experts and a risk assessment workshop, expected to be attended by the FATF President.”*

After his speech, Yury Chikhanchin answered questions from senators about the prospects of combating new criminal schemes, the use of modern technologies for money laundering and the volumes of dubious financial transactions.

Following a discussion, participants adopted the draft recommendations of the Federation Council, which will be finalized taking into account the proposals made by the senators.

# ASPECTS OF CRIMINAL PROCEDURE RELATED TO RECOVERY OF CRIMINAL PROCEEDS FROM ABROAD

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*Denis Kunev,  
Division Head  
General Directorate of Procedural Controls  
Russian Investigative Committee  
Lieutenant Colonel of Justice*

In recent decades, the issues of recovery of assets moved abroad in criminal manner have topped the agenda of various international forums.

Certain impetus for addressing these issues was given by the Resolutions adopted by the UN General Assembly in early 2000, which called for the member-states to pursue policy aimed at curbing organized crime and corruption, including illegal transfer of funds and assets obtained through crime, as well as at facilitating their repatriation to the countries of origin at relevant requests and with application of appropriate procedures.<sup>1</sup>

The UN Convention against Corruption adopted in 2003,<sup>2</sup> was the first international instrument that contained legal provisions in a separate chapter pertaining to recovery of funds obtained through corruption to the countries of origin.

The Russian Federation started to pay enhanced attention to combating illicit transfer of criminal funds abroad and to recovering such funds back into Russia only in recent years, which was largely due to further integration of Russia into the global economy, rapid development of information and communication technologies, *inter alia*, in the banking sector, which, in turn, provided extended opportunities for transnational crime.

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<sup>1</sup> See, for example: Resolution 55/61 of 04.12.2000 "Effective International Legal Instrument against Corruption"; Resolution 55/188 of 20.12.2000 "Preventing and Combating Corrupt Practices and Illegal Transfer of Funds and Repatriation of such Funds to the Countries of Origin"; Resolution 56/186 of 21.12.2001 "Preventing and Combating Corrupt Practices and Transfer of Funds of Illicit Origin and Returning such Funds to the Countries of Origin"; Resolution 57/244 of 20.12.2002 Preventing and Combating Corrupt Practices and Transfer of Funds of Illicit Origin and Returning such Funds to the Countries of Origin".

<sup>2</sup> Compilation of Legislative Acts of the Russian Federation, 26.06.2006, No.26, item 2780.

At present, Chapter 53 of the Russian Criminal Procedure Code enables Russian courts, prosecutors, investigators, heads of investigation agencies and interrogators to engage in international cooperation with competent authorities of foreign countries for undertaking investigative and other procedural measures provided for under the Russian criminal procedure law in such countries, including seizure of criminal proceeds located abroad which can be potentially recovered according to the relevant court order for further confiscation and compensation of losses inflicted by crime.

However, this opportunity can be used in practice only if there is a relevant international treaty signed by the Russian Federation, international agreement or on the basis of reciprocity.

Similar provisions are set forth in a number of the universal conventions and international legal instruments pertaining to inter-government cooperation in certain areas.<sup>3</sup>

Besides that, property may be subject to seizure at the preliminary investigation stage under the general rule provided for in Articles 115 and 116 of the Russian Criminal Procedure Code, irrespective of whether such property is located in Russia or abroad.

As stipulated in the law, seizure is used as a procedural coercive measure for enforcement of court rulings pertaining to civil claims, fines, other financial penalties and possible confiscation of property listed in the first paragraph of Article 104 of the Russian Criminal Code.

Over the last decade, after the special Chapter on confiscation of property was introduced in the Russian Criminal Code in 2006, the list of property that may be subject to confiscation as well as the legal grounds for its confiscation have been consistently extended. However, despite the fact that this Article currently covers a whole range of grave and exceptionally grave social dangerous acts, such as terrorism, bribery, corrupt business practice, money laundering and other, it still does not extend to such corrupt practices as fraud, misappropriation and embezzlement, which, according to many scientists and practitioners, is a serious gap in the criminal law.



Therefore, at the preliminary investigation stage (well before potential recovery of criminal proceeds from abroad), an investigator is tasked with a complex and time consuming mission related to search of property and other articles that may be subject to confiscation and application of provisional measures by filing relevant requests with the judicial authorities. At present, property that is subject to seizure in course of criminal investigations is identified, inter alia, based on the outcomes of investigative, criminal intelligence and detective operations.

The Russian Investigative Committee issued a number of administrative instructions encouraging investigators for prompt and responsible approach to searching, identifying and restraining property owned by suspects (defendants) that may be subject to seizure for compensation of inflicted losses or to confiscation as property obtained through crime, by precisely ascertaining actual owners of such property.

For example, in course of the criminal investigation into activities of the organized crime group led by the former Deputy Chairman of the Moscow Region Government, Minister of Finance of the Moscow Region Alexey Kuznetsov, who was charged with fraud, embezzlement and money laundering, active measures were taken for compensating the inflicted losses. Besides that, the requests for seizure of the bank accounts and real estate property owned by the defendants were forwarded to Switzerland, France, Cyprus and USA in order to secure the civil claims. In particular, the investigators sent requests for

<sup>3</sup> See the UN Convention against Corruption of 31.10.2003; The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism of 16.05.2005; the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime of 08.11.1990, etc.

seizure of two residential apartments owned by the defendants in Switzerland, which value was estimated at over CHF 10.5 million, as well as 10 cars.

The Federal Financial Monitoring Service plays a special role in tracing and identifying property that is subject to seizure and criminal confiscation. Extensive international contacts of the Service enable it to utilize the unique instruments for obtaining materials from foreign FIUs in a prompt manner that can be used for proving guilt as well as for establishing legally relevant facts and circumstances.

Such cooperation allows for detecting not only money laundering cases but also other transnational criminal offences.

For example, the Investigative Committee investigated a criminal case instituted under Article 193.1 of the Russian Criminal Code that involved transfer of funds to the bank accounts of foreign (non-resident) commercial entities opened in Hong Kong. The evidence collected in course of the investigation and the information disseminated by the Rosfinmonitoring's Interregional Department in the Ural Federal District identified additional criminal activities.<sup>4</sup>

Despite the efforts undertaken by various agencies for recovering criminal funds and other assets from abroad, there are still not many examples of successful recovery of criminal funds and assets to and from the Russian Federation at the requests of foreign competent authorities. It appears that such situation is caused by certain gaps in the Russian criminal procedure law as well as by insufficiently effective international cooperation for both combating transfer of criminal assets abroad and their returning to the countries of origin.

In particular, despite the fact that the Russian Federation ratified a number of international bilateral and multilateral treaties and agreements for confiscating property at requests of foreign competent authorities, no mechanism for enforcement of foreign judgments is set forth in the Russian criminal procedure law, and the relevant provisions of the international law are not integrated in the Russian legislation.

In order to fill in the aforementioned gap in the domestic legal and regulatory framework, the Russian Government drafted amendments to the Russian Criminal Procedure Code that establish rules of recognizing and enforcing foreign court orders related to confiscation of criminal proceeds located in the territory of the Russian Federation. It is planned that new Chapter 55.1 of the Russian Criminal Procedure Code will establish the procedure of enforcement of the relevant judgments and orders issued by foreign courts.<sup>5</sup>

Definetly, positive effect may also be achieved in case of implementation of Rosfinmonitoring's initiative regarding adoption of an international universal criminal asset recovery convention under the auspices of the UN,<sup>6</sup> which would undoubtedly help to drastically enhance effectiveness of international cooperation in this area and would efficiently protect victims of unlawful actions.

It is obvious that only cooperative and result-oriented efforts of the relevant ministries and agencies will make it possible to substantially improve effectiveness of measures aimed at combating transfer of criminal assets abroad and recovering them back in the Russian Federation and other countries of origin.

<sup>4</sup> The Investigative Committee takes measures for seizing property owned by the former Finance Minister of Moscow Region and his accomplices // sledcom.ru: [website]. URL: sledcom.ru/news/item/959751 (access on: 31.01.2016).

<sup>5</sup> The RF Criminal Procedure Code is to be amended by introducing a new Chapter pertaining to confiscation of criminal proceeds // legal.report [website]. <https://legal.report/article/14022017/upk-dopolnyat-novoj-glavoj-o-konfiskacii-kriminalnyh-dohodov> (accessed on: 17.02.2017).

<sup>6</sup> <http://www.fedsm.ru/releases/2270>.



EAG

## 25<sup>TH</sup> EAG PLENARY MEETING

*On November 7-11, 2016 in New Delhi (Republic of India), the 25<sup>th</sup> Plenary Meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) was held*



*Inessa Lisina,  
Deputy editor-in-chief*

**T**he meeting was chaired by Yu. Chikhanchin, representative of the Russian Federation. The Plenary elected Ch. Kenenbayev (Kyrgyzstan) Deputy Chairman until November 2017.

The Secretary of Department of Economic Affairs of Ministry of Finance of the Republic of India, Mr. Shaktikanta Das in his welcoming remarks underlined importance of the FSRB in FATF standards' implementation and emphasized efforts of all the Group's members in this process as well as in improvement of national anti-money laundering systems' effectiveness. For example, India is now taking measures aimed at fight against counterfeiting, terrorism financing and corruption. The national FIU carried out a research into the link between these phenomena. The research was approved by the Plenary participants.

The main issues on the EAG Plenary's agenda are countries' reports on progress of national AML/CFT systems. At the Plenary Republic of Belarus was removed from the EAG follow-up process. Representatives of China, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan, Turkmenistan and Uzbekistan briefed on amendments to national AML/CFT legislation.

The Plenary addressed issues of countering terrorist organizations' activities and called for all member states to enhance their efforts and implement the UN Security Council's Resolutions as soon as possible. At the same time participants highlighted the importance of close interaction between countries, exchange of best practices of investigations and their implementation in training field-specific personnel.



Attendees also approved a series of typological research projects on most relevant AML/CFT issues: "Laundering of Financial Pyramids Proceeds", "Typologies of Improper Assets Withdrawal from Financial Institutions"; findings of the research "Link of Counterfeiting and Terrorism Financing"; Methodological recommendations on mechanism of terrorist/extremist list inclusion/exclusion and freezing (blocking) assets of the indicated persons.

Contest for the interagency cooperation of governmental bodies in AML/CFT investigations was held for the fourth time. The vote resulted in Kazakh FIU's victory, while second and third places were given to FIUs of Tajikistan and People's Republic of China respectively.

The Plenary approved the Eurasian Group's Action Plan 2017. Its provisions are based on a more global paper – EAG Strategic Plan 2016-2018. The Plan defines a range of events in 2017, which will contribute to success of the EAG mission and

achievement of strategic goals. The scheduled events include participation in FATF, enhancement of relationships with other FSRBs and regional organizations, development of information environment and communications, second round of mutual evaluations and training of assessors, assistance in national risk assessments, enhancement of interaction with the private sector, research into relevant AML/CFT issues, etc.

During the Plenary week a workshop on first FATF/FSRB/IMF mutual evaluation reports: common drawbacks and best practices was held. At the workshop FATF, UNODC and EAG experts shared their experience in this field. A Protocol on EAG Cooperation with the Council of Heads of CIS Financial Intelligence Units was signed on the margins of the 25th Plenary week within cooperation development with EAG partner organizations.

The next Eurasian Group's Plenary meeting is scheduled for May 2017 in Bishkek, Kyrgyzstan..



*Shaktikanta Das,  
Secretary of Department of Economic Affairs of Ministry of Finance  
of the Republic of India*

"FSRBs play an important role in FATF standards' implementation in AML/CFT system in the world.

FATF is a relatively small organization, but the whole system with FSRBs includes about 190 countries. Due to its strategic geopolitical position the EAG has a special place among 9 FSRBs.

EAG is making a particular AML/CFT effort. Within its framework important typological research is carried out, which, in particular, is dedicated to financial pyramids, corruption,

money laundering, and illegal withdrawal of assets from financial institutions.

EAG is the only FSRB which member states are off the FATF ICRG follow-up process. I would like to congratulate all of us on this significant achievement. I would also like to thank all the participants for good results of their work and I hope that in future they will be alike.

I wish our meeting to be constructive and productive. I am sure that dedicated efforts of all member countries within our region and area of work will give the expected outcomes."



## EAG PROGRESSED A LOT IN A VERY SHORT PERIOD OF TIME

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*The Head of the Indian FIU Pankaj Kumar Mishra answered the questions of the “Financial Security”*

Inessa Lisina,  
Deputy editor-in-chief



**FS:** Mr. Mishra, now India hosts the second EAG meeting (first one was here at 2012). Please, share your impressions about the 25<sup>th</sup> EAG Plenary.

**P. K. Mishra:** First, let me say thank you for giving this opportunity. EAG has been a very important FSRB for India and we look towards EAG with lot of respect. The commitment EAG has shown is widely appreciated by India. EAG has progressed a lot in a very short period of time being the smallest of FSRBs. And a lot of credit goes to the previous President or Chairman, representative of India. And a large part of the credit I must give to Mr. Chikhanchin who has driven it not alone but bringing everybody together. Also Mr. Chikhanchin is a person with big knowledge. So one factor of EAG success is its leadership. We highly appreciate amount of research that EAG does. I don't think there are FSRBs that do so much research of such good quality on various topics related to AML/CFT. So I must say that India is very happy to be a member of EAG. And we are very proud of our contribution to EAG.



**FS:** *What are the main and most interesting EAG projects for India?*

**P. K. Mishra:** We are interested in different projects of EAG. One of them concerns pyramid schemes because there are cases of pyramid money schemes in our country. Some of them were investigated.

Also projects in counter terrorism financing (CFT) are very important for us because they give us opportunity to learn and to share our experience in this sphere. India has been a victim of terrorism for many decades. In many cases counterfeit money was used.

**FS:** *Within the framework of the 25<sup>th</sup> EAG Plenary meeting also was held a regular meeting of Council of FIUs Heads of CIS member states. India is observer in this organization. Why did you decide to participate in Council activities?*

**P. K. Mishra:** We've decided to become observers because India feels that CIS FIUs group is concentrated on operational issues. Once you start focusing on operational issues it gives you great learning experience. You have opportunity to share your views. It enhances quality and knowledge of all FIUs participating. So we wanted to catch up

this opportunity and to share our experience. So it mutually enriches FIUs.

I've attended the meeting of CIS FIUs Heads on November 9 and I was happy to see the amount of practical operational work that has been done and to see success of operation "Barrier". So there are very good practical examples we all should learn and adopt in our work.

**FS:** *In your opinion what EAG will be mainly focused on in the closest future? What points will be significant?*

**P. K. Mishra:** In the closest future EAG would remain extremely relevant and very important. Group has to play a very crucial role in guiding and educating countries drawing from experience of FATF member countries. And the role of EAG becomes important because it's necessary to educate and to be sure that all proper national risk assessments were done by all member states. That they are technically and effectively compliant with FATF recommendations. So EAG work remains extremely relevant and important for all of us.

One has to remember that the Eurasian group performs many other tasks that are significant to FATF.

# INDIA HOSTS MEETING OF CIS EXPERTS IN COMBATING TERRORIST FINANCING

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*The 8<sup>th</sup> meeting of the Council of Heads of Financial Intelligence Units of CIS Member States (CHFIU) was held on November 9, 2016 in New Delhi, India*

*Pavel Kukushkin,  
Executive secretary*

India, which holds an observer status in the CHFIU, hosted its first Council meeting. In his welcoming remarks, the head of the Indian FIU, Pankaj Kumar Mishra, highlighted the rising status of the Council, whose practical efforts, especially in organizing joint AML/CFT operations, is of particular importance.

2016 marked the 25<sup>th</sup> anniversary of the Commonwealth of Independent States. In his congratulatory message to the meeting participants, CIS Executive Secretary S. Lebedev stressed that effective anti-terrorism efforts are impossible without fight counter-terrorist financing.

Cutting off financial support for terrorist organizations was a key theme of the meeting. The Council implements a range of measures aimed at overcoming the existing threats. At its previous meeting (in June 2016 in Astana, Kazakhstan), for example, the Council set up a counter-terrorist financing working group, which, in the four months since its establishment, has identified the areas that pose the highest risk and conducted consultations with the private sector, resulting in the transfer of materials required for the

identification of persons involved in terrorist and extremist activities. The Council's immediate task now is to develop and implement a set of targeted financial sanctions against these persons.

Operation "Barrier", aimed at identifying terrorist centres and cells whose members are engaged in armed conflicts on the part of ISIL as well as entities doing business with terrorists, continues to be one of the CHFIU's key focus areas. As part of these efforts, all Council members are required to monitor transactions related to high-risk countries whose territory may potentially be used by terrorists or their affiliates. In addition, CIS authorities are implementing a package of measures designed to identify individuals who took part in the armed conflict in Syria and Iraq.

In 2016, as part of this operation, authorities established the whereabouts of more than 100 individuals wanted at home and abroad in connection with terrorism and extremism. These persons are currently subject of detention and deportation measures.



The task faced by all the Council member states is to identify transactions methods used to provide funding for terrorist organizations, with extra attention to be paid to new payment technologies (virtual payments, cloud-based technologies, etc.). This will be a priority at the next CHFIU meeting.

Another overarching goal is to develop financial profiles of foreign terrorist fighters (FTFs), allowing law enforcement agencies and representatives of financial institutions and other organizations to identify these individuals in the shortest possible time. The outcomes of this collaboration will be presented at a meeting of the UN Counter-Terrorism Committee the next month.

In the context of the rising terrorist threat, it is important to implement a package of measures aimed at preventing terrorists from gaining access to weapons of mass destruction. All Council members stressed the importance of information sharing in this field and further strengthening of cooperation in combating the existing threats.

On the side-lines of the 25<sup>th</sup> EAG Plenary week, the Eurasian Group, represented by its Chairman Yury Chikhanchin, and CHFIU, represented by the acting Head of Tajikistan's FIU, Farhod Bilolov, signed a protocol on cooperation.

The next CHFIU meeting will be held in May 2017 in Bishkek, Kyrgyzstan.

## INTERNATIONAL NEWSBLOCK

## OUTCOMES OF THE 28<sup>TH</sup> FATF PLENARY MEETING

*On February 19-24, 2017, the Plenary Session of the Financial Action Task Force (FATF) was held in Paris. The Plenary was attended by the Russian interagency delegation headed by Rosfinmonitoring Director Yury Chikhanchin and composed of the representatives of Rosfinmonitoring, Ministry of Foreign Affairs, Federal Security Service, General Prosecutor's Office, Finance Ministry, Bank of Russia and Russian Assay Chamber*

*Irina Ivanova,  
Editor-in-chief*

In a situation of further aggravation of the global terrorist risks, the issues of countering terrorism financing remain top priority of the agenda. The Russian Federation presented results of its efforts aimed at identifying and restraining the ISIL financing sources, highlighting once again the importance of concerted international efforts in this area.

D. Feoktistov, representative of the Russian Foreign Ministry, informed the delegates that more than 1400 persons were identified and included in the national list of entities and individuals known to be linked to extremist activity and terrorism over the last two years.

A total of 1,5 thousand bank accounts containing about USD 120 thousand owned by the listed persons were frozen. The individuals concerned included persons who directly financed terrorist activities, collected funds for these purpose as well

as other persons who acted under the ISIL direction. The funding channels used by 382 pro-ISIL foreign terrorist fighters (FTFs) and 82 individual members of the ISIL cells in the territory of the Russian Federation were identified and reported to the law enforcement agencies. It was highlighted that fight against financing of ISIL is a common task.

At present, faced with dwindling oil revenues, which have almost halved, the ISIL is looking for new income sources, which include kidnapping for ransom and collecting donations.

In this context, of particular concern is the growing share of remittances from various charity foundations and NPOs in ISIL's revenue, with funding being





channeled both to the conflict zone and to “on-hold” FTFs and “dormant cells”. Names of such organization may change, but there are some common aspects that remain stable, namely:

- specific originators of wire transfers;
- founders and senior managers of NPOs;
- recipients of wire transfers.

For further advance of our approaches to combating terrorist financing, Russia initiated a new typology research – Financing of Terrorist Recruitment. This initiative raised great interest and 19 delegations, including international organizations (the UN, Interpol and Europol), have already confirmed their desire to join the working group (led by Russia and Spain). The first meeting of the working group adopted the questionnaire drafted by the Russian Federation, agreed the project timelines and approved further course of action. One of such steps is the FATF workshop that will be held in April 2017 in Moscow.

Rosfinmonitoring also joined the working group established under a new cooperative project of the Egmont Group (of Financial Intelligence Units) and the FATF which involves research into lone-wolf terrorists.

As part of the technical assistance programs coordination efforts, the Russian Federation volunteered to share experience and best practices of the International Training and Methodology Centre for Financial Monitoring established at the initiative of Rosfinmonitoring. It is noteworthy that at the meeting with Yu. Chikhanchin the FATF President highly praised the ITMCFM for its work and expressed desire to personally visit the Centre during the upcoming April workshop.

It should be noted that at the meeting of the Heads of FIUs, which is traditionally held on the margins of the

FATF Plenary, Russia put forward a new initiative - a project aimed at detection and disruption of activities of cross-border “illicit financial intermediaries”. The USA, Canada, Australia, New Zealand, Germany, the Netherlands and other countries have already supported and joined this project. It was agreed to establish an ad hoc working group under this initiative.

Michel Sapin, French Minister of Finance and Public Accounts, took part in the Plenary and emphasized FATF's important role in combating terrorist financing and commended the specific successful results achieved. However, the genuine goal pursued by the French Government represented by such high ranking official was potential change of the FATF legal status that would make it independent from the OECD. The discussion concerning the FATF status has been already underway for some time as part of the midterm review of the FATF mandate, but the final decision has not been made yet. Besides that, in order to further enhance effectiveness of the FATF work, the issue of transition to the biennial presidency is being considered.

The Plenary updated the lists of jurisdictions with strategic anti-money laundering and counter-terrorism financing deficiencies. Following the review, the “black list” remained unchanged (DPRK and Iran), however, the counter-measures against Iran were suspended.

The Plenary also approved the Report on mutual evaluation of Sweden conducted under the 4<sup>th</sup> round. Following the discussion, the country was placed in the enhanced follow-up process and required to report to the FATF its progress in addressing the identified deficiencies on an annual basis.

Besides that, the meeting of the BRICS AML/CFT Council and the EAG Consultative Meeting were held on the margins of the FATF Plenary.

## ***FATF, MONEYVAL AND EGMONT GROUP REPRESENTATIVES SPEAK AT INTERNATIONAL CONFERENCE “THREATS AND RISKS TO GLOBAL ECONOMY” IN MOSCOW***

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*The international scientific and practical conference “Threats and Risks to Global Economy” was held in Moscow from 1 to 3 November 2016. The conference was organized by the network AML/CFT Institute in cooperation with the Federal Financial Monitoring Service and with participation of the Russian Academy of Sciences and the Federal Agency for Scientific Organizations*

*Pavel Kukushkin,  
Executive secretary*

**T**he opening ceremony was attended by Yury Chikhanchin, EAG Chairman; David Lewis, FATF Executive Secretary; Vladimir Nechayev, EAG Executive Secretary; Jérôme Beaumont, Egmont Group Executive Secretary; Daniel Thelesklaf, MONEYVAL Chairman; Matthias Kloth, MONEYVAL Executive Secretary; heads of CIS FIUs; and representatives of the CIS, CSTO SCO and the Association of BRICS Business Schools. The Russian delegation to the conference included representatives of the government and academic community as well as heads of the educational establishments comprising the network AML/CFT Institute.

In their speeches, roundtable participants outlined the key elements of the domestic and global financial security system – namely, a modern legislative framework, innovative analytical and forecasting methods, and highly intelligent detection systems.

Furthermore, highly qualified personnel continue to play a key role in the fight against the shadow economy.

In his speech, Yury Chikhanchin stressed the need to expand interagency cooperation, including in the area of personnel trainings. “By combining our efforts and the efforts of the network AML/CFT Institute with fundamental science, we will achieve a breakthrough in the fight against money laundering and terrorist financing. The outcomes of this integration may ultimately impact the outside world, resulting in the creation of regional international scientific groups. This is why we should support this decision,” said Chikhanchin.

The conference also included a student forum entitled “Future AML/CFT – Safety Zone (Risks, Challenges and Solutions)”.



## Vladimir Vasilyev

*Deputy Chairman of the State Duma of the Federal Assembly of the Russian Federation, Head of the "United Russia" fraction in the State Duma of the Federal Assembly of the Russian Federation*



Any fight against money laundering must be based on a comprehensive approach. Russia has adopted a number of regulations in recent years designed to address the problems accumulated in this area. Among them first of all there are measures aimed at deoffshorization of the Russian economy and tackling of shell companies, criminalization of smuggling and capital syphoning. Russia also joined the international agreement on automatic information exchange. At the same time the capital amnesty continues.

In general, the success in fight against money laundering depends on reduction of the shadow economy. For this reason, many of the efforts undertaken by the parliament to improve business environment in the country, especially for small-size companies, are aimed at helping entrepreneurs to come out of the shadow. For example, development of the patent taxation system.

The strengthening of international economic ties is occurring against the backdrop of increasing threats to economic and financial security. It is impossible to effectively combat terrorist financing, money laundering, corruption and underground economy within the legal system of a single country. For this reason, we, the parliamentarians of different countries, must facilitate international efforts in the fight against economic crime.

Rosfinmonitoring's close cooperation with such international organizations as FATF, MONEYVAL and EAG has created preconditions for the establishment of a full-fledged international anti-money laundering system capable of combating money laundering on a global scale. We must realize this opportunity in the interests of our peoples.

Back in the early 1990s, the situation in some Russian regions was very similar to today's Iraq and Syria in terms of instability and war against terrorism. We struggled to understand our European and American partners. But as soon as the common language was found, we put things right. Just look how much has been achieved in the past 15 years, since the time when we were facing a massive black cash turnover and a possible destruction of the financial system. All this experience is extremely useful as with the efforts of the international community will restore order, including in those areas where it lacks.

## Mikhail Kotyukov

Head of the Federal Agency for Scientific Organizations (FASO)



Financial security is one of the key challenges facing the modern world. The rapid development of information technology brings about a qualitative change to the format of our relations, rendering the legal administrative boundaries more and more symbolic. Today, in our opinion, we need to develop an integrated approach to establishment of Russia's financial security. It implies bringing together public authorities from financial and non-financial sectors as well as institutions of fundamental sciences of the higher education system. The academic sector has substantial scientific potential in this field. The RAS institutes are home to research facilities that work in all key areas, including the humanities, allows us to better understand the nature of the illicit financial market.

The knowledge accumulated by academia can be used to develop modern methods for monitoring financial transactions and identifying illegal transfers. Meanwhile, the powerful computing information centres created at the RAS institutes are well suited for processing large volumes of data.

In fact, cooperation with the RAS has already yielded some tangible results. For example, we have completed work on the programme "The Financial and Legal Framework for Maintaining Transparency of Business Practices", whose purpose is to conduct a comprehensive study of the conditions and prerequisites that may

contribute to addressing key federal task: creating a business-friendly environment in the country.

One of the key goals to be reached within an effective financial security framework is a mechanism for detecting illegal transactions, a task, according to experts, that is impossible to solve using the old methods. Therefore, we need effective tools capable of prompt identification of suspicious activity and response.

The development of such a software and hardware complex calls for the use of an interdisciplinary approach. Building the foundation for successful interaction of scientists from various fields (mathematicians, physicists, sociologists, linguists, economists and international experts) is one of our top priorities. We have created a platform for the development of horizontal links between various scientific institutions. We have encouraged the staff of these institutions to take a lead role in setting directions of future research and establishing the principles of mutual coordination. We called this format "an integrated plan for scientific research".

Despite important roles played by an up-to-date regulatory framework, innovative methods of analysis and forecasting, and highly intelligent detection systems, qualified human capital remains key to the effective fight against the shadow economy. We, together with Rosfinmonitoring and members of the network AML/CFT Institute, pay close attention to personnel training, making sure that our graduates have all the necessary knowledge and skills, including in the field of innovative research. In addition, we began to develop training programs for postgraduate students.

Human capital lies at the heart of a successful financial security system. I am confident that the best-in-class personnel training methods used by the network AML/CFT Institute participants will ensure continuity of the AML/CFT efforts and foster professionalism, which is key to the successful development of this important sector for our country.



## Pavel Kuznetsov

*Director of the General Secretariat (Department) of the Russian Ministry of Foreign Affairs*



Rosfinmonitoring carries out its work against the backdrop of the unprecedented spike in international terrorist activity, recognized by the UN Security Council as one of the main threats to international peace and security.

The challenge of combating terrorist financing has taken the central stage in our joint efforts. The time-tested relationship between Rosfinmonitoring and the

Russian Ministry of Foreign Affairs, which is based on trust and comradeship, allows us to quickly and efficiently tackle these challenges.

As part of the Russian government delegation, our experts defend Russia's interests in the FATF and other FATF-style regional bodies – for example, we jointly helped to adopt the new FATF mandate in 2012 and successfully held the first Russian FATF presidency in 2013-2014.

Collective efforts of Rosfinmonitoring and the Ministry of Foreign Affairs were behind the FATF plenary's historic decision in October 2016 to amend the FATF standards to enable the blocking of financial and economic support for terrorists, primarily ISIL.

Cooperation with the BRICS countries in combating terrorism has been strengthened. Besides we are taking steps to deepen partnership between the UN and the FATF. Russia's current status as one of the leaders of the international AML/CFT framework is beyond doubt.

## Dmitry Feoktistov

*Deputy Director, Department for New Challenges and Threats, Russian Ministry of Foreign Affairs*



Combating the financing of terrorism is the most challenging task that we face today. Rosfinmonitoring operates in the unprecedented times of the sharp increase in the international terrorist activities. It is symbolic that both Rosfinmonitoring and the relevant Foreign Ministry branch, Department for New Challenges and Threats, were established almost simultaneously in 2001 after the unprecedented terrorist attacks committed in the USA. It was 15 years ago when the UN Security Council qualified terrorism

as one of the main threats to the international peace and security.

Today, we know and see the incremental rise in the terrorism-related risks. The statistics speaks for itself. While the world witnessed about 3 500 terrorist attacks in 2000, around 35 000 terrorist attacks were committed all over the globe in 2015. It is clear that such increase was triggered by the attempts of certain countries to implement their geopolitical projects in Afghanistan, Iraq, Libya, Syria and other countries.

It was in the same 2001, when during adoption of the fundamental anti-terrorist UN Security Council Resolution 1373, the Russian Federation insisted on inclusion of the provisions on close links between terrorism and other criminal challenges and threats, such as illicit trafficking in narcotic drugs, weapons, WMD materials, transnational organized crime and money laundering. Today, these links between terrorism and shadow economy become stronger, and new terrorism funding sources emerge.

According to some estimates, including those made by the IMF which closely cooperates with the FATF, the estimated amount of money laundered globally in one year is 2-5% of the global GDP or 2-5 trillion US dollars. We know that a significant portion of these funds is used for financing of terrorism.

The Russian approach to combating terrorism remains consistent and unchanged – effectiveness of countering terrorism and its financing may be enhanced only through strengthening the central coordinating role of the UN and its Security Council. To this end, Russia consistently stands for scaling up cooperation between the UN and the FATF. Besides that, Russia advocates for strengthening the FATF cooperation not just with the UN but also with G20 which approves the FATF Mandate and set the overriding priorities for it.

## Ilya Lazutov

*Deputy Chairman of the Investigative Committee of the Russian Federation, Lieutenant-General of Justice*



Over the years, Rosfinmonitoring, in our opinion, has gained reputation as one of the best anti-money laundering and terrorist financing units in the world. Equally important is Rosfinmonitoring's role in facilitating cooperation with foreign FIUs, first of all the Egmont Group.

Rosfinmonitoring actively defends Russia's interests in various high-profile international organizations and groupings, and shows high class professionalism at G20, FATF, MONEYVAL, EAG, etc. meetings.

It's gratifying to note that in recent years cooperation between the Investigative Committee and Rosfinmonitoring has reached a qualitatively new level, especially after our joint meeting in 2014. The intensification of mutual cooperation also contributed to the implementation of the assessors' recommendations

The Russian Foreign Ministry, along with Rosfinmonitoring and other competent authorities, will consistently strive to implement all resolutions and decisions passed by the UN, FATF and G20 for destroying the financial pillars of the ISIL.

In conclusion, I would like to reassure international partners, in particular, that Russia will still be in the forefront of the international fight against terrorism and terrorist financing. We call for our partners to proceed with these efforts such as to prevent any politicization and double standards and create the broad anti-terrorist coalition. We expect that the conference participants will actively contribute to achievement of this common goal, since security of our countries and people directly depends on success of our joint efforts.

for compliance with international anti-corruption conventions.

At present, the Investigative Committee has become fully engaged in implementation of the plan for preparation of the Russian Federation for the FATF 4th round of mutual evaluations, where our key role lies in timely and robust investigation of the relevant criminal offences, including high profile cases based on materials of financial investigations conducted by Rosfinmonitoring.

Against the backdrop of intensified asset recovery efforts and compensation for the damage caused as a result of economic and corruption violations, Rosfinmonitoring's role in tackling these challenges becomes ever more obvious, especially given its extensive international contacts. We wholeheartedly supported Rosfinmonitoring's initiative to draft an international convention on asset recovery, discussed by us at the last meeting of the BRICS Anti-Corruption Group in Paris. We are ready to be part of these efforts, including in other formats that call for an expert participation of the Investigative Committee staff.

I'm sure that long and fruitful cooperation between Rosfinmonitoring and the Investigative Committee in combating crime will continue and contribute to the effective fight against both economic crime and terrorist financing.

## Jérôme Beaumont

*Egmont Group Executive Secretary*



It's a great honour for me to participate in the events dedicated to Rosfinmonitoring's 15<sup>th</sup> anniversary. In one of my previous jobs as an employee of

the French FIU's department responsible for international cooperation, I had worked with Rosfinmonitoring for 5 years – that is, a third of its existence. This experience allows me to state that Rosfinmonitoring is a very special FIU.

Over the past few years, in the framework of the Egmont Group/FATF meetings, we regularly organized bilateral meetings between the Russian and French FIUs.

Speaking about present period, in my current role as the Egmont Group Executive Secretary, I would like to emphasize that Rosfinmonitoring plays a very important role in our Group's activities.

## David Lewis

*FATF Executive Secretary*



I would like to start with saying that Russia is a strong and important member of the Financial Action Task Force (FATF). I would like to thank Rosfinmonitoring for the invitation to its 15<sup>th</sup> anniversary.

As I already mentioned, Russia is an important member of the FATF, which was recognized by the country's presidency of this organization in 2013-2014, which, I believe, was directly supported by the President of the Russian Federation.

Russia plays a leading role in the FATF's counter-terrorism financing efforts. Alongside Australia, your country is leading efforts to identify risks, trends and best practices.

The FATF fully relies on its experience, knowledge and skills to identify ISIL funding channels and to inform other countries about the measures that need to be taken to prevent and disrupt these schemes.

Russia's leading role in the Eurasian Group, a FATF-style regional body, has facilitated the accession of many new countries to the global anti-money laundering network. The International Training and Methodology Centre for Financial Monitoring, meanwhile, has the capacity to greatly assist the newly established FATF Training and Research Institute (TREIN).

I would like to congratulate Rosfinmonitoring on its 15<sup>th</sup> anniversary and wish it success in its efforts to protect the international financial system and our common security.

## Daniel Thelesklaf

MONEYVAL Executive Secretary



I first came to Russia after the Egmont Group's decision in 2000 to significantly expand its

membership. As part of this initiative, MONEYVAL existing members were asked to assist new applicants in joining the Group. Back then, I occupied the post of FIU head in the Swiss Government. It was our joint with India and Germany decision to provide support to Rosfinmonitoring.

And although my first visit to Russia took place at a difficult time. However, challenges, dear colleagues, should not be seen as an excuse for turning away from each other. On the contrary, we must seek and build a dialogue required to find solutions. That's why I'm grateful for the invitation and the opportunity to speak here – I know we can do this.



**ARTICLES OF "THREATS AND RISKS TO GLOBAL ECONOMY"  
CONFERENCE PARTICIPANTS**

# **ASSET RECOVERY AS A COMPONENT OF ECONOMIC SECURITY AND PUBLIC ADMINISTRATION SYSTEM**

*Vladimir Glotov,  
PhD in Economics,  
Deputy Director of the Federal Financial Monitoring Service*

*Yury Nemtsov,  
post-graduate student of Moscow University of Finance and Law (MUFL),  
Head of the Legal Aid Department,  
Office of International Legal Cooperation,  
Investigative Committee of the Russian Federation*

**T**he fight against corruption, one of the threats to international economic security, has been the focus of the international community's attention for many decades.

The consequences of corruption, viewed as one of the manifestations of a criminalized economy, are extremely harmful for both individual countries and the global system as a whole. According to the International Monetary Fund, the world economy loses annually about 2% of GDP, or 1.5-2 trillion dollars, to corruption<sup>1</sup>. Corruption impedes economic growth, causes a decline in tax revenues, creates poverty

and further widens the gap between developed and developing countries. Proceeds of corruption, meanwhile, tend to be channelled overseas and poured into the global shadow economy.

A lack of capital serves as one of the key constraints to economic growth, improvements in the quality of social welfare and realization of the rights and freedoms of citizens. Capital flight deprives countries of the opportunity to carry out social and economic reforms, while its return in the form of criminal proceeds tends to feed into the shadow economy, undermining economic security and breeding crime and corruption.

<sup>1</sup> Global Economy Loses \$2 tln. to Corruption / Vedomosti. [Electronic resource]. URL: <http://www.vestifinance.ru/articles/70732> (accessed date: Oct. 10, 2016)

According to the Bank of Russia official statistics, US \$731.5 billion was taken out of the Russian economy in 1994-2015<sup>2</sup>. US experts from Global Financial Integrity (GFI) estimated that 149 developing and emerging economies lost US\$7.847 trillion in illicit financial flows from 2004 through 2013, with illicit outflows increasing at an average rate of 6.5 percent per year – nearly twice as fast as global GDP. According to GFI, the list of top source countries for illicit funds is headed by China and Russia, at US\$1.392 (US\$139.2 billion a year on average) and US\$1.049 trillion (approx. US\$104.9 billion per year), respectively, with India losing US\$510 billion (US\$50.1 per year).<sup>3</sup>

The disparity in valuations of illicit financial flows is caused by the diversity of approaches used to identify the cause and individual components of the capital flight phenomenon, as well as the methodologies used to prepare these estimates.

One part of the capital leaves the national economy under the influence of market mechanisms that encourage the owners of such funds to take them out of state control; the other constitutes the proceeds from criminal, including corrupt activities, as well as the legitimately obtained, but illegally moved out of the country, funds.

A large share of these assets end up in offshore havens. According to conservative estimates of the international research organization Tax Justice Networks (TJN), up to US\$32 trillion was stashed in offshore bank accounts as of 2014, of which US\$1.3 trillion was of Russian and US\$1.2 trillion of Chinese origin<sup>4</sup>.

Cutting off funding to criminals is key to the successful fight against corruption and organized crime, a task that requires individual countries and the entire international community to carry out the on-going work aimed at returning the funds taken out of national economies illegally.

Besides its negative direct and indirect impact on the country's economy and its welfare sector, the



uncontrolled illicit outflow of funds tends to undermine public trust in the government, which is viewed as incapable of protecting the national interests, making the issue of asset recovery increasingly urgent year after year.

Capital flight is not only an indicator of the unfavourable economic climate in the country, but also the cause and effect of poor public administration incapable of stopping the theft of national assets. (Importantly, if capital is channelled abroad by private companies, its forced return can only be effected by the government).

Criminal proceeds along with the capital taken out of legitimate businesses feed into the shadow economy, which, after absorbing illicit financial flows, not only replaces the state's administration system by creating alternative control and administrative mechanisms, but also sets goals that run counter to the needs of society and the state. According to the World Bank estimates, the size of the Russian shadow economy averaged 43.8% of GDP in 1999-2007<sup>5</sup>.

By reversing illicit financial outflows, the government should be able to address a number of diverse tasks:

- recover the losses sustained by the state and corporate sector;
- combat organized crime by cutting off funding; and
- restore public trust in the government.

<sup>2</sup> The Bank of Russia website 2016. [Electronic resource]. URL: <http://www.cbr.ru/statistics/> (accessed date: Oct. 10, 2016)

<sup>3</sup> D. Kar and J. Spanjers. Illicit Financial Flows from Developing Countries: 2004-2013 / Global Financial Integrity, December 2015. P.8. 2016. [Electronic resource]. URL: <https://www.gfintegrity.org> (accessed date: Oct. 10, 2016)

<sup>4</sup> Offshore finance: more than \$12tn siphoned out of emerging countries, The Guardian, May, 8 2016. URL: <https://www.theguardian.com/business/2016/may/08/offshore-finance-emerging-countries-russia-david-cameron-summit> (accessed date: Oct. 10, 2016)

<sup>5</sup> In the US, the shadow economy is estimated at 8.6%, 27% in Italy, 16% in Germany, 15% in France and 11% in Japan. See F. See F. Schieder, A. Buehn, C. Montenegro. Shadow Economies All Over the World, World Bank Policy Research Working Paper, 2010.

Other effects of these efforts include: development of the legal and practical framework for combating organized crime and corruption; identifying new siphoning schemes and the subsequent updating of the mechanisms for monitoring illicit financial flows; strengthening and improving the system of public administration (primarily through better cooperation between various authorities); and modifying the forms and methods of international cooperation.

In general, the existence of an effective asset recovery system contributes to the creation of economic and legal prerequisites for a corruption-free society.

As an example of a sustainable asset recovery system, one should study the institutional and legal frameworks in place in some developed countries, where the fight against corruption and asset recovery efforts form parts of the same strategy that unites various areas of activity of the state and society.

A sound asset recovery system can be divided into several interlocked blocks:

- the aggregate of government agencies involved in asset recovery;
- a regulatory and legal framework that grants the state the right and the opportunity to seize and dispose of individuals' property (obtained by criminal means);
- information and communication technologies and resources (vertical and horizontal links between all elements of the asset recovery system, as well as databases);
- international cooperation in the field of search, seizure, confiscation and asset recovery.

The expanding globalization of markets and development of digital technologies have enabled capital to become dissolved in the global economic space, take on the appearance of legitimacy and feed into the global shadow economy. Individual states and their conglomerates (e.g., the European Union) seek to counter the laundering of criminal proceeds and their infiltration into their economies. Global financial

institutions (IMF, World Bank), international political and law enforcement institutions (United Nations, International Criminal Police Organization Interpol), regional organizations (Organization for Security and Cooperation in Europe, Council of Europe, European Commission, Europol European Police Organization), academic community and non-state actors (Basel Institute of Public Administration) provide methodological support, facilitate the development of mechanisms for monitoring illegal financial flows, and prepare recommendations for the adoption of various legislative and practical measures.

For example, the Financial Action Task Force on Money Laundering – established within the framework of the Organization for Economic Cooperation and Development (OECD) in 1989 – which sets the international standards for anti-money laundering and terrorist financing, has developed 40 recommendations on combating money laundering, some of which cover confiscation and recovery of proceeds from crime<sup>6</sup>.

The core element of the asset recovery system is the confiscation of property as a legitimate form of alienation from individuals of their property acquired by criminal means. Underscoring the on-going efforts to improve and strengthen their confiscation mechanisms, some Western countries, in addition to expanded confiscation, now permit non-conviction-based confiscations. In addition, the gradual integration into the conceptual and legal frameworks of many foreign countries of the new criminal offence of “unjustified assets”<sup>7</sup>, where their owner is unable to justify the gap between his income and expenses, severely undermines the ability of criminals and corrupt officials to enrich themselves.

In its pursuit of asset recovery efforts, which primarily involve the use of such punitive measures as the alienation of individuals' property, it is imperative for the government to secure public support by, amount others, cultivating negative attitudes in society towards criminality and corruption. Consequently, a viable asset recovery system should also contain a moral and ideological block, i.e., the ideology of public condemnation of corruption and illegal enrichment.

<sup>6</sup> International standards on combating money laundering and the financing of terrorism & proliferation. M.: Veche, 2012. p.48.

<sup>7</sup> Communication from the Commission to the European Parliament and the Council, Proceeds of organized crime, Brussels, 20.11.2008, COM (2008) 766 final;

To date, advanced Western countries have built multi-level asset recovery mechanisms held together by an array of international treaties. How effective are they?

While the annual value of criminal proceeds in the European Union is estimated at 109 billion euros, only 2.4 billion, or 2.2%, is seized and 1.2 billion, or 1.1%, is confiscated<sup>8</sup>. Equally ineffective remains international cooperation. According to Interpol (StAR initiative), the total value of frozen and returned assets in 2006-2012 stood at US\$524.2 million and US\$179.7 million, respectively (680.6 million/69.7 million in the UK; 852.7 million/166.5 million in Switzerland; and 535.4 million/0 in Luxembourg)<sup>9</sup>.

The above data show that any talk about the existence of a highly effective Western asset recovery model and strong ties between all elements of the global asset recovery system is premature. A review of Western information sources makes it possible to identify a number of reasons for the low effectiveness of foreign asset recovery systems. They include:

- the conflict between the need to seize an individual's property and uphold his fundamental rights and freedoms;
- sluggishness and excessive bureaucratization of state bodies;
- resistance of the banking and financial sectors to the government's efforts to disclose ownership data<sup>10</sup>;
- under-qualified personnel responsible for financial investigations and detection of highly sophisticated capital siphoning schemes;
- differences existing in national legal systems in definitions of the term "offence", the amount of penalty and the scope of confiscation;
- contradictions between individual states caused by historical, political or business reasons;

- disparity in levels of development of asset recovery systems in different countries.

In this respect, Western experience, particularly some exciting developments in the fields of property confiscation, its management, ideological support for asset recovery and international cooperation, represent a useful and highly valuable source of knowledge. However, despite the presence of all the key components, legal and practical tools and algorithms for the search, seizure, confiscation and repatriation of stolen capital, the identified shortcomings in foreign asset recovery mechanisms render the task of their wholesale replication in Russia impractical.

At the same time, the systems based on alternative asset search and recovery principles deserve close attention. One of these alternative systems is China's FoxHunt and SkyNet operations, whose effectiveness has been consistent for many years now. According to the People's Bank of China, between 16,000 and 18,000 civil servants and managers of state-owned companies siphoned off up to US\$130 billion and fled abroad in 2011 (to US, Canada, Australia, Britain, France, and New Zealand, Vietnam, Laos, Uganda, Thailand, Angola, Egypt, Mexico, Fiji, Mongolia and Russia).

In 2013, China secured the return of 762 individuals facing charges of public office abuse and seized 10 billion yuan. In 2015, these figures stood at 1,023 individuals and 3 billion yuan, respectively<sup>11</sup>.

By studying international experience in the recovery of stolen assets, we can identify the strengths and weaknesses of the existing models in order to utilize the best approaches in the development of a national asset recovery system.

The creation of a sustainable system for the recovery of illegally obtained assets is a key condition for the successful fight against corruption and organized crime. The goals of asset recovery as a component of

<sup>8</sup> Interpol findings presented at the annual conference of the Camden Assets Recovery Inter-Agency Network (CARIN) in Rotterdam (Holland) in May 2016.

<sup>9</sup> L. Grey, K. Hansen et al. Hard Facts on Stolen Assets Recovery. World Bank, UNDOC P. 22.

<sup>10</sup> One of the most problematic aspects of the asset search process is the identification of individuals' bank accounts and obtaining information about the beneficiaries of companies. According to TJN's Financial Secrecy Index, the list of countries with the most ardent banking secrecy systems includes Switzerland, top of the list, Hong Kong, second place, and the United States, third place. URL: <http://www.financialsecrecyindex.com/>

<sup>11</sup> As Panama Papers scandal deepens, China targets offshore accounts in renewed crackdown on fugitive corrupt officials South China Morning Post. [Electronic resource]. URL: <http://www.scmp.com/news/china/policies-politics/article/1937634/panama-papers-scandal-deepens-china-targets-offshore>



the public administration system and an integral part of the state's economic security is not only to facilitate the flow of capital into the economy, streamline financial flows and reduce the shadow sector, but also to fulfil one of the state's most important objectives: achievement of social justice, a task that is contingent on the creation in all countries of effective asset recovery systems connected by strong international ties.

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# THE ANALYSIS OF THE USE OF OFFSHORE COMPANIES FOR MONEY LAUNDERING AND RELOCATION

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*Konstantin Gobrussenko,  
Deputy Head of Anti-Money Laundering Department,  
Federal Financial Monitoring Service*

*Grigory Krylov,  
Doctor of Physics and Mathematics, Ph.D. in Law, Ph.D. in Technical Sciences,  
Professor, Honorary Figure of Russian Higher Education*

*Anastasya Vorobyeva,  
PhD student, Department 75 NRNU MEPhI*

**A**t the present stage of the world economy development the use of financial institutions registered in offshore jurisdictions is a widespread phenomenon. It is based not only on the use of tax optimization mechanisms, but also on low information transparency, the possibility of making anonymous transactions and weak regulation of financial transactions.

It should be noted that today general consensus in the interpretation of the “offshore” concept has not been achieved. Besides this, the total number of zones

in the world can be determined only provisionally, because some of them disappear every year, while others appear. In the Russian Federation, there are two legislated lists of offshore zones. Pursuant to the Order by the Russian Ministry of Finance, the list, which includes 40 offshore jurisdictions, has been approved<sup>1</sup>. Another list featuring the differentiation by categories was established by the Central Bank of Russia (hereinafter referred to as the Bank of Russia)<sup>2</sup>. This list includes 45 offshore jurisdictions divided into three risk level groups according to a relative decrease of trust.

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<sup>1</sup> Russian Ministry of Finance Order No. 108n as of 13.11.2007 “On approving the list of countries and territories that provide a beneficial tax regime and/or do not require the disclosure and submission of information when conducting financial transactions (offshore zones)” (Registered in the Ministry of Justice under register No. 10598 on 03.12.2007 10598).

<sup>2</sup> Bank of Russia Instruction No. 1317-U as of 07.08.2003 “On the procedure for establishing correspondent relations between authorized banks and nonresident banks registered in countries and territories that provide a beneficial tax regime and/or do not require the disclosure and submission of information when conducting financial transactions (offshore zones)” (Registered in the Ministry of Justice under register No. 5058 on 10.09.2003).

The study revealed a discrepancy between these lists in the criteria used for classifying areas as offshore zones. The Republic of Nauru and the Republic of Panama are included only in the list by the Russian Ministry of Finance, while cities in Ireland (Dublin, Shannon), as well as Switzerland, Singapore, and Montenegro are included only in the list by the Bank of Russia. The United Arab Emirates is enlisted as an offshore zone by the Russian Ministry of Finance, while the list by the Bank of Russia includes only Dubai (UAE). Moreover, the Republic of Cyprus is excluded from both lists: in February 2010 it was excluded from the list of offshore zones by the Bank of Russia, and in January 2013 - from the list of offshore zones by the Russian Ministry of Finance, despite the fact that the Republic of Cyprus continues to occupy a leading position in the total capital outflow from the Russian Federation.

To date, the scheme of withdrawing funds to the "shadow" turnover using offshore jurisdictions has

become a world-scale phenomena, therefore they are one of the main reasons of national tax bases erosion, money laundering in the offshore zones and destabilizing the global financial system as a whole. That is why the task of ensuring economic security through the implementation of control over the capital financial flows is so pressing.

In the course of the research, we developed an approach to the identification of suspicious objects, which are allegedly associated with money laundering and redistribution through the accounts of offshore companies (refer to Fig. 1).

In the first stage of the developed approach, it is proposed to unload from the FIU's database all data on transactions associated with the withdrawal of funds to the offshore zones over a certain period. Next, it is necessary to sort transactions by year, offshore zone, and the total capital outflow. In the third stage, the most significant for the research offshore

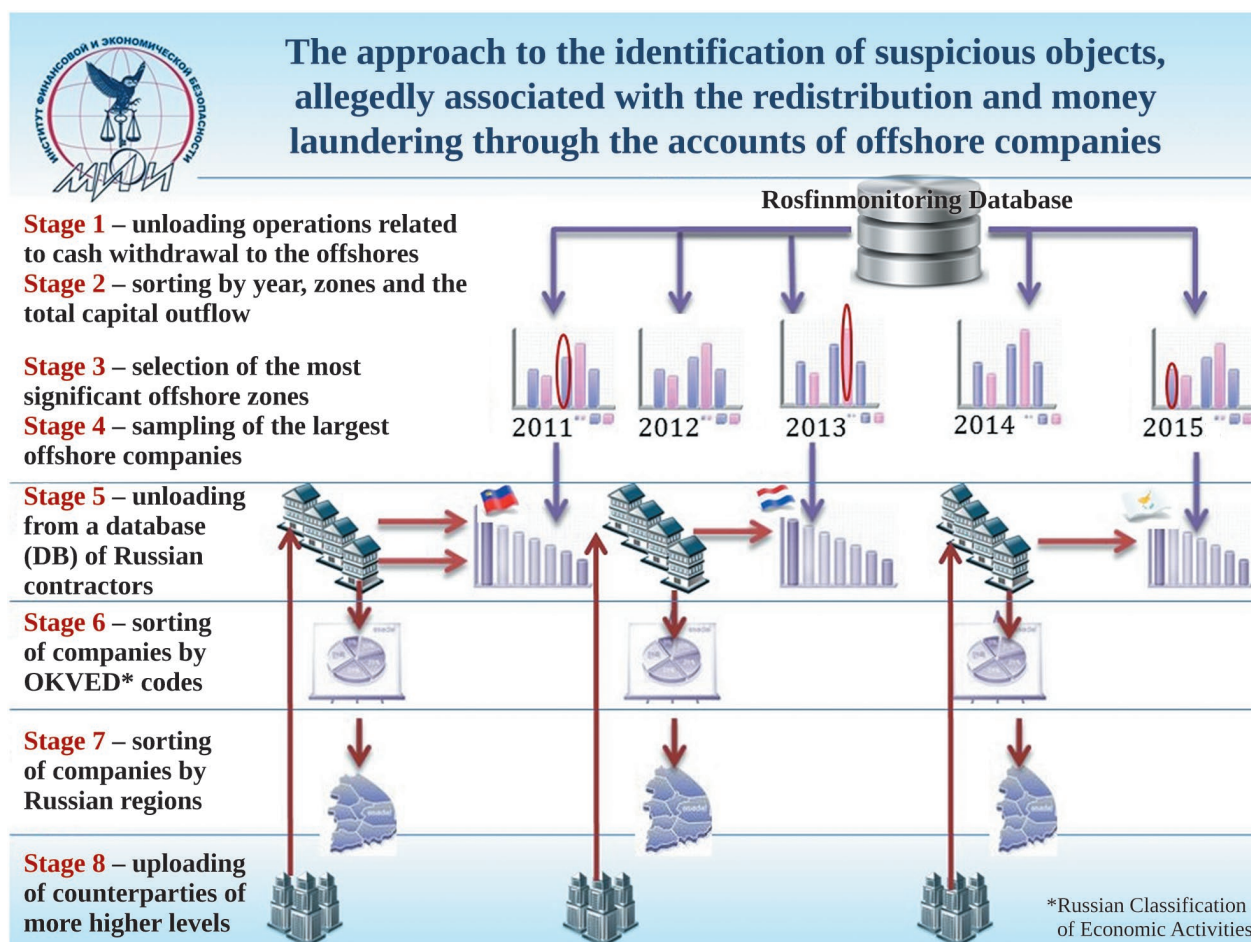


Figure 1 – Scheme of the developed approach to the identification of suspicious objects

zone are selected by expertise followed by sorting and sampling of the largest offshore companies in the jurisdictions under review. In the next stage, we should unload all contractors that accumulate monetary funds of the selected offshore companies presumably for the purpose of money laundering or redistribution. To identify the source of monetary funds origin and the most vulnerable branch of economy, we should sort the selected companies by OKVED codes and by region. If at this stage it is impossible to identify the monetary funds source, the next step is to unload the contractors of higher levels until the source of funds is known.

In applying this approach to the Swiss Confederation, we revealed a scheme of spending public funds allocated for large-scale contracts. These funds were transferred to the accounts of controlled organizations followed by their transfer to the accounts of fictitious companies, where the funds were mixed and transferred to the accounts of Switzerland companies.

This approach also allowed to reveal a scheme of receiving by the top manager of the state company of nearly 2 mln. euros from the Hong Kong resident "Alliance Limited". The transfer of funds was carried out under the contract of purchase and sale of paintings by contemporary artists. Later it was found that the authors of paintings were not members of the Union of Artists and other creative associations, and there was no mention of them in information resources. Thus, it was suggested that the sales of these works of art could be one of the schemes of the legalization of illicit earnings. Later we revealed financial transactions related to the crediting of funds in the total amount equivalent to 2 mln. euros to the account of "Alliance Limited" from the account of the Russian company "Centurion". Moreover, it was found that "Centurion" was a member of the budget funds embezzlement scheme through the illegal VAT recovery in a number of Russian Federal Tax Service Inspections. the identified information allowed to suggest that the top manager of the state-owned company was one of the beneficiaries of the illegal VAT recovery scheme (refer to Fig. 2).

In the course of the research we analyzed financial flows and found out that OOO "Premiere" had received large sums of public funds for the construction of sports facilities. During the analysis of spending of these funds, we revealed a single scheme of withdrawing nearly 150 mln. rubles to the "shadow" turnover by transferring the funds

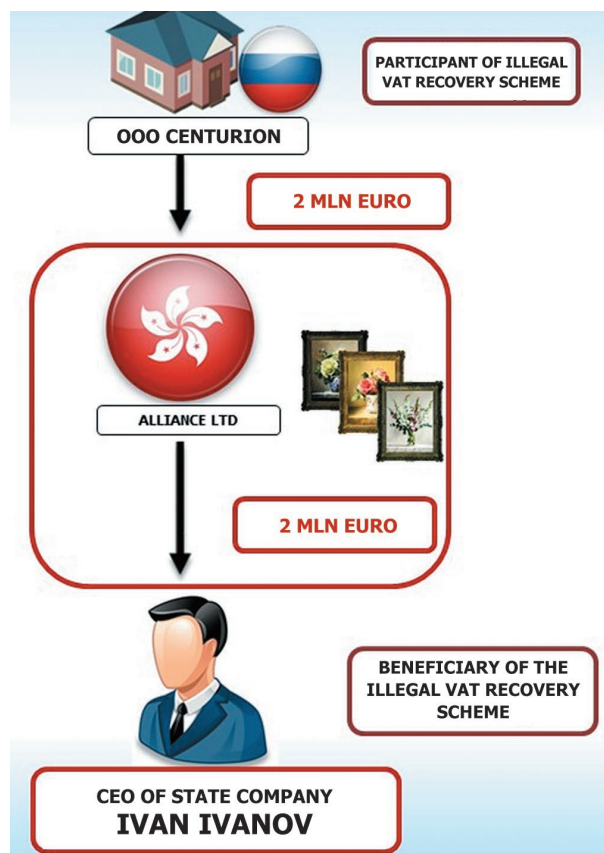


Figure 2 – An example of the developed approach implementation

via the chain of affiliated and fictitious companies presumably for the purpose of their further withdrawing in cash. It should be noted that the accounts of all counterparties of OOO "Premiere" had been opened in the bank, the former chairman of the board of which was the former head of the budget organization that was the customer of sports facilities (refer to Fig. 3).

Besides this, the study revealed the scheme of withdrawing nearly 300 mln. rubles abroad to accounts of offshore companies. The scheme operated through the transfer of funds via the chain of affiliates to the accounts of organizations that have concluded with offshore companies an investment contract for the plant construction in the UAE.

Thus, this research allowed to identify the differences that exist in the Russian offshore legislation; assess the extent of the Russian capital outflow to offshore zones; develop approaches to the identification of objects allegedly associated with money laundering and redistribution via the accounts of offshore companies.



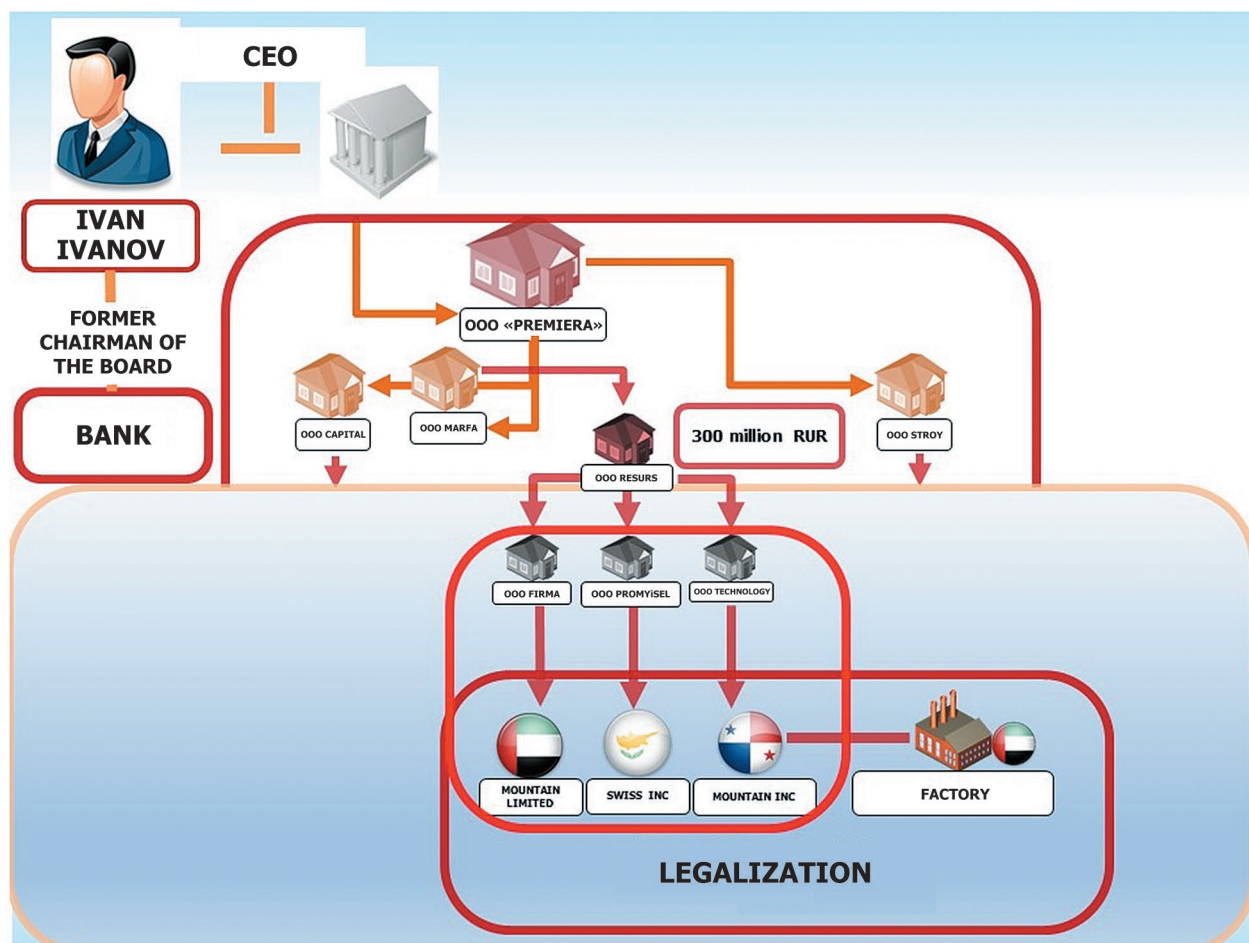


Figure 3 – Implementation of the developed approach

Along with the system of measures taken by the Government of the Russian Federation on the deoffshorization of Russian economy, in order to minimize the risk of influence of foreign entities registered in offshore jurisdictions on the functioning of Russian

enterprises, including enterprises providing the primary disaster relief in the regions, we consider it useful to develop a list of them and restrict direct or indirect ownership of such enterprises by offshore companies or control of more than 20% of the their charter capital.

# RUSSIAN AND CHINESE INSTITUTIONAL AML/CFT STRUCTURE: COMPARATIVE ANALYSIS

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*Kirill Scheglyayev,  
PhD student, Department of Financial Markets and Banks,  
Financial University under the Government of the Russian Federation*

*Natalya Amosova,  
Research supervisor, Doctor of Economics, Associate Professor,  
Department of Financial Markets and Banks,  
Financial University under the Government  
of the Russian Federation*

The past decade has seen the strengthening of Sino-Russian cooperation in many areas, ranging from economic and defence to science and innovation, with several major joint energy projects having entered the phase of active implementation. Trade, meanwhile, continues to hold a special place in cooperation between the two countries. According to the Chinese General Administration of Customs, the 2015 total volume of trade between Russian and China stood at more than \$68 billion, with Russian exports to China and Chinese exports to Russia each accounting for approximately half of that amount<sup>1</sup>. Among other areas of cooperation, the fight against money laundering is seen as particularly important. Due to the

accelerating pace of globalization and integration of national financial systems into the global financial framework, international cooperation in combating money laundering becomes key to further progress in the fight against this malice.

People's Republic of China boasts one of the largest and fastest-growing economies in the world. Over the past 30 years, the country's GDP – which is five times the size of Russia's – grew at an average annual rate of more than 10%. China – with its population of nearly 1.5 billion people and the world's third largest territory – is a major international player. In October 2016, the China's yuan was added to the International Monetary Fund's basket of reserve currencies.

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<sup>1</sup> Analytical Review of the Russian-Chinese trade cooperation in 2015. Ministry of Economic Development of the Russian Federation. Foreign trade info portal. - UPL: [http://www.ved.gov.ru/exportcountries/cn/cn\\_ru\\_relations/cn\\_ru\\_trade/](http://www.ved.gov.ru/exportcountries/cn/cn_ru_relations/cn_ru_trade/)

*Chart 1. The main indicators of socio-economic development of Russia and China that have an impact on the establishment and functioning of the anti-money laundering system (key statistics)*

Indicator	Russia	China
Key country statistics		
Population	146.3 mln. (estimate)	1,375.1 mln. (estimate)
Size of territory	17.1 mln. km <sup>2</sup> (world's 1 <sup>st</sup> largest)	9.6 mln. km (world's 3 <sup>rd</sup> largest)
GDP (PPP)	\$3,725 bln. (world's 9 <sup>th</sup> largest)	\$19,696 bln. (1 <sup>st</sup> biggest)
Form of government	Semi-presidential republic	One-party parliamentary republic

Special attention in the context of the fight against money laundering must be given to the unprecedented scale of the country's investment activities. According to Bloomberg news agency, Chinese companies announced more than \$200 billion of foreign purchases in 2016, overtaking the US for the first time. Alongside the size, China has also expanded the diversity of its investment portfolio, by switching from predominantly raw materials and energy assets of the past to investments in the media, information technology, health care, recreation and finance.

Experience shows that almost any development of trade relations, expansion of investment or economic development in general attracts criminal capital.

China's expanding trading ties with Russia, its rapidly growing economy as well as the sheer diversity of Chinese companies' investments all pose major money laundering risks, which can be mitigated through joint action and other measures.

According to the Ministry of Economic Development's statistics, the share of imported into Russia from China consumer goods that are sold in Russia mostly by retailers reached 40% and its value \$12 billion. At the same time, according to the Bank of Russia, about 80% of retail transactions in Russia involve cash payments, which, as is well known, have a higher risk of money laundering. This is due to two factors: first, cash payments are notoriously difficult to track, and,

second, the majority of criminal proceeds from the sale of drugs, corruption and other highly profitable crimes tend to be in the form of cash.

Despite the fact that the volume of trade between Russia and China declined in 2015 – caused by geopolitical uncertainties, the slower pace of economic growth in both countries and, least but not least, a drop in global energy prices, which account for about 70% of Russia's exports to China – there is a good chance, according to experts, that the value of goods flowing between the two countries could reach \$90 billion in 2016<sup>3</sup>.

Using foreign investment as a tool for laundering money is currently very popular among criminals. Cross-border transactions, meanwhile, allow criminals to change jurisdiction, making their monitoring very difficult.

According to experts, fake reinvestment in the country of the funds previously channeled out of it is a very popular money laundering scheme in Russia. The National Bureau of Economic Research published on its website findings of a research into connection between corruption and foreign investment in Russia. Researchers used the state statistics agency's data to analyze questionable investments made into Russia from such offshore jurisdictions as Cyprus and the British Virgin Islands. It was revealed that the most questionable offshore investments went into the most corruption-prone Russian regions.

<sup>2</sup> Analytical Review of the Russian-Chinese trade cooperation in 2015. Ministry of Economic Development of the Russian Federation. Foreign trade info portal. - UPL: [http://www.ved.gov.ru/exportcountries/cn/cn\\_ru\\_relations/cn\\_ru\\_trade/](http://www.ved.gov.ru/exportcountries/cn/cn_ru_relations/cn_ru_trade/)

<sup>3</sup> "Russian-Chinese trade volume may reach \$ 90 billion in 2016" // TKS.RU - all about the customs. - 2016 - URL: <http://www.tks.ru/news/nearby/2016/08/15/0006>

Speaking of China's investment activities, it is also important to note the existence of China's two special administrative regions: Macau and Hong Kong, with their extensive autonomy in legal matters and economic policies.

In addition, Macau is the gambling capital of the world, where gambling, which carries a high risk of money laundering, generates up to 70% of its budget revenues.

Furthermore, an analysis of Chinese imports shows that, contrary to the overall declining trend in imports from this country, imports from Hong Kong are actually still rising.

According to China Customs, the total value of imports from Hong Kong increased from January to November 2016 by more 242% compared with the same period of 2015<sup>4</sup>. The reason for the increase may be the use of various illegal financial schemes concealed behind commercial transactions. Similar problems of capital flight are also faced by Russia, as its supervisory authorities continue to deal with numerous attempts to illegally channel funds in and out of Russia by overstating the value of the goods crossing the Kaliningrad customs area<sup>5</sup>.

Commercial banks, in their role as the main distributors of financial resources within the country, are a key element of the anti-money laundering system.

The financial and, in particular, banking systems of Russia and China are, for objective reasons, very different. These reasons undoubtedly affect not only the countries' financial relations, but also their state, social and economic systems. They are caused by a variety of geographical, historical and cultural factors. However, the fact that Russia and China belong to different civilizations lies at the heart of the Chinese and Russian differences.

Despite this, we share many common features, in particular when it comes to our past history: both Russia and China, as major powers, exercised a huge influence on the outside world and the international

community in general during different periods of history<sup>6</sup>.

The past decade has seen major changes in the banking systems of the two countries.

Changes in the Chinese banking system were caused by threats and challenges associated with the rapid expansion of the Chinese economy and the integration of Chinese banks in the international financial system. The unprecedented in its scale growth of China's economy required its banking system to distribute increasing volumes of financial resources.

According to Western experts, it took on average \$4.9 dollars of investment in the mid-2000s to create \$1 of China's GDP growth, 40% more than in Japan and South Korea during their period of rapid economic growth.

At the same time, the predominance of "political" investments, i.e., investments primarily in China's public sector enterprises, creates a risk of shadow banking.

In 2010, investments in the country's private enterprises accounted for less than 1% of all loans issued by major Chinese state-owned banks. The problems experienced by private companies in obtaining funding means that they often have to seek alternative sources of funding. The same is true for the country's small - and medium-sized enterprises, which are responsible for about 60% of the country's GDP and providing jobs to 75% of the economically active population – hence the increased demand for illicit financial services<sup>7</sup>. Such a policy may create conditions for the infusion into the economy of illicit capital, both from inside the country and overseas, via shadow banking, not to mention the systemic risks to the economy posed by the massive speculative operations, unsecured assets, etc.

Shadow banking in China has a long history dating back to the days when legal banking services were not available. We are talking about an informal

<sup>4</sup> Capital flight: how Chinese companies pull money out of the country // Southern China: Special Focus. - 2016 - URL: <https://www.south-insight.com/node/218275>

<sup>5</sup> Audit Chamber Spotted a New Capital Syphoning Scheme // Russian Newspaper. - 2015 - URL: <https://rg.ru/2015/10/16/kapital-site-anons.html>

<sup>6</sup> China and Russia: similarities and differences // Russia forever. 2015 URL: <http://rossiyanavsegda.ru/read/2754/>

<sup>7</sup> A. Vdovin. China's Banking System // Webeconomy. - : URL: <http://www.webeconomy.ru/index.php?page=cat&newsid=2791&type=news?>



clearing system that in China is called *fie chien* ("flying money"). Similarly to the better-known informal value transfer system *hawala*, it is based on trust and personal connections. This system is based on the principle payment offset, whereby funds are deposited to the broker's "account" in one country and paid out to the client by the broker's business partners in another with the help of encrypted messages sent by phone, fax or email.

The popularity of this value transfer method among criminals is mainly due to its anonymity, ensured by the absence of a paper trail and the virtual impossibility to track movement of funds.

The existence of such institutional problem as shadow banking is also acknowledged by China's leadership.

In particular, the lineage of shadow banking to illegal movement of funds abroad and money laundering was highlighted at the 3<sup>rd</sup> meeting of the Chinese State Council in September 2015 devoted to this issue<sup>8</sup>.

However, this problem, despite some of its features that are unique to China, is also typical for Russia, whose financial system may encounter similar problems following the revocation of a large number of licences held by credit institutions serving the interests of the country's shadow and criminal communities. As a result, financial resources flow into shadow banking: various types of mutual funds, including closed-end, microfinance institutions, hedge funds and others. These entities are subject to monitoring and supervision to a much lower degree, meaning that there is a high risk of capital merger with proceeds from such crimes as arms, drugs and people trafficking, and, of course, corruption.

In view of the above, drawing a comparison between the Chinese and Russian banking systems, which, despite their seemingly obvious deterrences, have much in common, can be particularly useful.

To begin with, the Russian and the Chinese banking systems share a similar two-tier structure: the first tier

is the central bank, the second, everyone else. The difference lies in varied requirements for the size of the authorized capital applicable to rural, urban and national commercial banks.

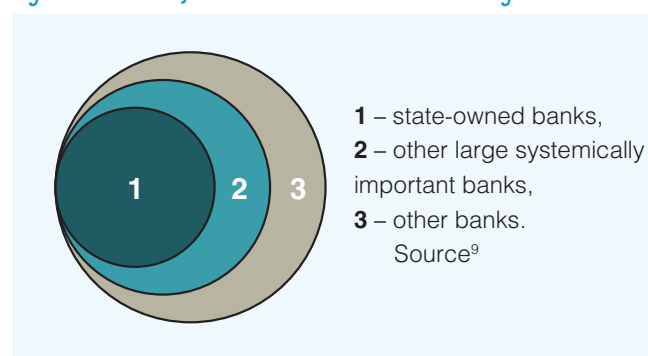
In both countries, the structure of the banking system is complex. The figure below shows a schematic representation of the structure of the banking systems of Russia and China.

Area 1 represents major state-owned banks; area 2, other large systemically important banks; and area 3, smaller regional banks. Therefore, Russia's banking system, just as its Chinese analogue, is characterized by the presence of major state-owned banks the value of whose total assets greatly exceeds that of other large banks from the top 100. This structure of the banking system is typical for both countries.

About 43% of the assets of China's banking system owned by the four major state-owned banks<sup>10</sup>. The said banks, both in Russia and China, have changed their ownership structure to become joint stock companies, with some even holding an IPO. As a result, shares in these institutions are held, beside the state, also by private investors, including foreign ones.

The role of the Russian banking system regulator is played by the Central Bank of the Russian Federation (Bank of Russia), a legal entity which, although vested with property and financial autonomy, in reality performs state functions.

*Fig. 1. Structure of the Russian and Chinese banking sector*



<sup>8</sup> Tsa Song. Shadow Banking in China // China Center for Economic and Social Research, Institute of Far Eastern Studies of the Russian Academy of Sciences. - 2016 -URL: [http://ecsn.ru/files/pdf/201603/201603\\_101.pdf](http://ecsn.ru/files/pdf/201603/201603_101.pdf)

<sup>9</sup> A. Vernikov. Comparative Analysis of the Russian and Chinese Banking Systems Models: Five Years Later // Scientific Electronic Library CyberLeninka. - 2015 - URL: <http://cyberleninka.ru/article/n/sravnitelnyy-analiz-rossiyskoy-i-kitayskoy-modeley-bankovskih-sistem-pyat-let-spustya>

<sup>10</sup> M. Leonov. Banking Regulation in China // Scientific Electronic Library CyberLeninka. - 2015 - URL: <http://cyberleninka.ru/article/n/regulirovanie-bankovskoy-deyatelnosti-v-kitae>

*Chart 2. Key indicators of socio-economic development of Russia and China that have an impact on the establishment and functioning of the anti-money laundering system (fiscal and economic metrics)*

Indicator	Russia	China
Fiscal and economic parameters		
National currency	Ruble	<i>Yuan* IMF reserve currency since October 1, 2016 (currency statistics as of 2016)</i>
Money supply (M2)	\$570.92 billion.	\$20,025.63 billion.
Cash in circulation (M0)	\$127.52 billion.	\$1,015.86 billion.
Share of cash in circulation	22.3%	5%
Country's central bank	Central Bank of the Russian Federation (Bank of Russia)	People's Bank of China

In China, however, the traditional central bank functions are performed by two institutions: the People's Bank of China is responsible for money supply and lending; and the China Banking Regulatory Commission, established in 2003, is concerned with regulation and supervision in the country's banking sector.

Moreover, while the activities of financial market participants and insurance companies fall in Russia under the purview of the Bank of Russia, in China they are also overseen by other authorities.

A similar situation occurred in China with respect to the monitoring of financial institutions' compliance with money laundering legislation. China's system for monitoring compliance with anti-money laundering legislation is shown in Figure 1.

As seen from above, China has fewer AML supervisors than Russia, with the key supervisory functions exercised by the People's Bank of China, which oversee the activities of all organizations, except banks, insurance companies and securities market participants. In Russia, however, similar supervisory powers are shared between the Bank of Russia, Federal Financial Monitoring Service, Assay Chamber and Roskomnadzor as follows (see Fig. 3).

In Russia, the role of the country's financial intelligence unit is played by federal executive body Federal

Financial Monitoring Service (Rosfinmonitoring); in China, these functions are split by the People's Bank of China between its two units: the Anti-Money Laundering Bureau (AMLB) and the China Anti-Money Laundering Monitoring and Analysis Center (CAMLMAC).

Besides supervising the activities of various entities (except banks, insurance companies and securities market participants), the Anti-Money Laundering Bureau Office also conducts financial investigations and cooperates with other state bodies in the fight against money laundering. The AMLB reports transaction suspected of being linked to money laundering to the Ministry of Public Security and other law enforcement agencies.

The AMLB carries out its work both directly and through the People's Bank of China's regional offices, which are vested with the appropriate powers in their respective geographic region. There are about 36 such offices<sup>11</sup>.

The China Anti-Money Laundering Monitoring and Analysis Center (CAMLMAC) specializes in gathering and processing data. This also includes receiving reports on suspicious transactions involving large amounts of money, processing them and then forwarding to the AMLB. The CAMLMAC plays a key role in cooperation with foreign financial intelligence units<sup>12</sup>.

<sup>11, 12</sup> China's AML CFT system of China // Eurasian Group on Combating Money Laundering and Financing of Terrorism. - URL: <http://www.eurasiangroup.org/ru/China.php>

*Chart 3. China's AML supervisors and reporting entities<sup>13</sup>*

Supervisors	Reporting entities
People's Bank of China	All financial institutions and payment system operators
China Banking Regulatory Commission	Banks
China Securities Regulatory Commission	Securities market participants, companies specializing in futures and forward contracts
China Insurance Regulatory Commission	Insurance companies

*Chart 4. Russian AML supervisor and reporting entities*

Supervisor	Reporting entity
Central Bank of the Russian Federation (Bank of Russia)	Credit institutions, professional securities market participants, management companies of investment funds, clearing agencies, etc.
Federal Financial Monitoring Service (Rosfinmonitoring).	Leasing companies, factoring companies, gambling businesses, real estate agents and payment processors
Assay Chamber of Russia	Jewelry sector participants
Ministry of Communications and Mass Communications	Postal services and communications providers

By contrast, all traditional functions of a financial intelligence unit, which are divided in China between two Central Bank units, are exercised by a single designated authority, Rosfinmonitoring.

The ongoing processes of glottalization integration of national financial systems into the global

structure and rapidly developing Sino-Russian relations require our countries to pay more and more attention to cooperation in combating money laundering, sharing of the relevant experience and, last but not least, understanding the differences in AML systems.

<sup>13</sup> Building AML/CFT Supervisory Framework // Eurasian Group on Combating Money Laundering and Financing of Terrorism. - URL: [http://www.eurasiangroup.org/files/MERs%20%20RUS/Belarus/Shema\\_nadzornoj\\_deyatelnosti\\_-\\_Kitaj\\_rus.pdf](http://www.eurasiangroup.org/files/MERs%20%20RUS/Belarus/Shema_nadzornoj_deyatelnosti_-_Kitaj_rus.pdf)

# INTERNATIONAL WORKSHOP FOR EXPERTS OF CONTROL AND SUPERVISORY AML/CFT STRUCTURES

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*Maria Bortnikova,  
reporter*

**O**n December 12-13, 2016 in Minsk (Republic of Belarus) an international workshop on “Effective Supervision as Mechanism for Better Transparency and Stability of Financial System” was held and attended by experts of control and supervisory AML/CFT structures from EAG member and observer countries. The event was organized by ITMCFM, EAG Secretariat, Financial Monitoring Department of State Control Committee of the Republic of Belarus and Belarus National Bank. Representatives of EAG and MONEYVAL Secretariats were invited as international experts.

The main goal of the workshop was exchange in best practices of supervisory AML/CFT activities within the framework of preparation for the new round of mutual evaluation of the EAG countries.

Participants also discussed money laundering and terrorist financing risks assessment, effectiveness of measures taken and of interaction with private sector institutions as well as issues of personnel training for further work in this field.

A particular attention was paid to the experience of countries that had already undergone mutual evaluation, to recommendations of assessors and shortcomings in national AML/CFT systems.

The good reports were showcased by Armenia, France, Singapore, Canada, Italy and, in particular, Spain that carried out a sectoral risk assessment.

Particularly important are the issues of interagency cooperation of all the subjects of national anti-money laundering systems, including the consolidated supervision and operational and technical element that provides interaction and permanent professional “dialogue” between a financial intelligence unit and law enforcement, supervisory and other authorities and agencies that implement AML/CFT measures. It is also essential to continue cooperation development and information sharing between public and private sectors, using modern technologies.

During the event participants exchanged best practices in anti-money laundering terrorist financing





control. For instance, Republic of Belarus presented its system for Search of individuals and terrorist organizations elaborated for provision to banks of list of individuals and entities, carrying out financial transactions which are reported to participate in terrorism activities or to be under control of individuals involved in terrorism activities. The Republic of Armenia that had already undergone evaluation, in its turn, shared methodology of ML/TF risk assessment in financial institutions (banks). The Russian Federation in its presentation mentioned a new mechanism of identification of transactions and

individuals potentially linked to terrorism financing. Other attendees also shared their experience in the field of transparency and stability of national financial systems.

The workshop resulted in drawing of recommendations on improving effectiveness of supervision mechanisms. In particular, countries are expected to follow FATF and FSRB's reports, pay more attention to STR quality and DNFBP control, and to inform the private sector on national risk assessment's outcomes.



**Svetlana Lysenok**

*Chief expert*

*Main Department of Currency and Finance Monitoring of Belarus*

The subject of the workshop is relevant for the Republic of Belarus as in 2018 we have to undergo evaluation and everything that was said in these days will be taken in consideration. It was very important to hear assessor Michael Stellini's opinion. He gave practical advice which we will need to be prepared for national risk assessment and we will also take it into account during the process.

Experience exchange with other experts, representatives of national banks, was very interesting as now the number of entities that report to the National bank of Belarus in the field of AML/CFT has increased up to 240. They include both leasing and microfinance organizations. In this regard the experience of other countries was very useful.

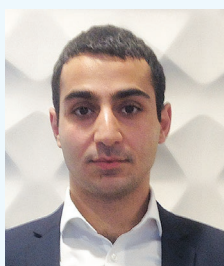
**Gleb Yelizarov**

*Department of Countering Tax and Currency Crime and Anti-Money Laundering under the Prosecutor General's Office of Uzbekistan*

I would like to thank the organizers of the workshop and the experts for opportunities of experience sharing and coordination of joint efforts in implementation of effective AML/CFT supervision in EAG countries. The workshop was very useful for better understanding of experiences of countries

that had undergone FATF/FSRB/IMF mutual evaluations, and of international standards regarding supervisory AML/CFT authorities.

The information will be used during national assessment and in the run up to the mutual AML/CFT risk assessment of Uzbekistan.

**Vaghe Avetisyan**

*Analyst, Centre for Financial Monitoring under the Central Bank of Armenia*

It is well known that effective law enforcement and high quality supervision is an important element of anti-money laundering and counter-terrorism financing system of each country. The international workshop "Effective Supervision as Mechanism for Better Transparency and Stability of Financial System" touched upon important aspects of supervision and risk-based approach application in IAML/CFT.

During the workshop attendees discussed

common drawbacks as well as best practices of risk-based approach application in supervisory activities by states that had undergone evaluation under the revised FATF Recommendations. In particular, it is to be highlighted that relevant issues such as FATF Methodology Intermediate Outcomes 3 and 4 implementation were discussed with participation of EAG and MONEYVAL Secretariats.

I would like to thank Belorussian colleagues for warm welcome and ITMCFM for perfect organization.

## TREND

## TRENDS IN DEVELOPMENT OF INFORMATION AND ANALYTICAL TECHNOLOGIES FOR COMBATING TERRORIST FINANCING



*Svetlana Bortalevich,  
PhD, Associate Professor,  
Head of the Centre for Research  
of Development of Energy Markets  
and Energy Infrastructure, RAS Market  
Economy Institute*



*Yevgeny Loginov,  
Doctor of Economics, RAS Professor,  
Deputy Director for Research at RAS Market  
Economy Institute, Deputy Head of the  
Department of World Economy and World  
Finance of the Finance University under  
the Government of the Russian Federation*



*Andrey Mikhailov,  
post-graduate student at RAS Market  
Economy Institute*

Recent years have seen a spate of scientific and practical research in Russia and overseas into the use of new information technologies to combat terrorist financing that relies on civil, military and special information systems.

Despite the active research conducted in this area, there is a certain lag of AML/CFT ideas with respect to the qualitatively new objects of the organizational environment inherent in the market economy (e.g., informal explicitly or latently destructive

network communities evolved in terrorist fundraising, localization-resistant “wandering” money laundering or illicit business clusters, etc.). We are witnessing the emergence of a specific type of initiated reduction in the stability of some public administration processes due to the actions of latent organized terrorist or simply criminal, but acting in the interests of terrorist groups, networks as classic mono-agent objects which have not yet become the subject of either scientific or practical research undertaken by the relevant state bodies and agencies.

Traditional models of combating illicit transactions may not in this case be useful, given that the currency or methods used in carrying out these transactions can be fundamentally new – as a result of the use of fundamentally new technologies for the provision of terrorist financing services (cryptocurrencies, uncontrollable illicit trade in oil products in the war zone: Syria, Iraq, Libya, etc.) – with a large number of prediction-resistant administrative trajectories of their own behavior as well as behavioral models of terrorists and their affiliates in the financial sector, who in some cases may be located outside (for civilized countries) the scope of their possible preemptive detection and identification, necessitating the use of fuzzy logic methods for financial monitoring and modeling of these processes.

Besides political dimension, the fight against terrorist financing requires substantial organizational efforts, inter alia, the development of a group of basic technologies and systems capable of monitoring, data collection, analysis, modelling, forecasting, identification of terrorist threats, supporting decision-making, planning of countermeasures and their implementation and support, maintaining feedback, taking steps to improve processes and procedures, as well as the development of the systems for combating terrorist financing as a highly dynamic set of nonlinear operational processes [1].

Among the on-going international projects in this area that combine a much broader list of analyzed indicators (events, phenomena, facts, situations, etc.) than simply financial transactions or terrorist acts themselves are as follows.

The key objective pursued by the Defense Advanced Research Projects Agency (DARPA) in its Terrorism Information Awareness (TIA) project is to create a system, based on large volumes of random data contained in different databases, capable of identifying a group of persons preparing to execute a terrorist act in the US: translation from foreign languages into English and vice versa, detection of hidden data and pattern recognition, corporate information analysis for decision taking.

Statistical analysis of data from databases will be used to identify correlations between such seemingly random and unrelated things as: ticket booking, visa applications, driver's licenses release, hotel rooms booking, chemicals and explosives substances purchase, firearms acquisition and other suspicious

acts, including already known terrorist attacks. To improve the processing of the acquired knowledge about the suspects' behavioral patterns (statistical patterns), cooperation will be established with experts representing all agencies involved in the fight against terrorism. Using mathematical methods (operations research, decision making, game theory, probabilistic and statistical, neural networks, etc.), corporate analytical group participants, based on hypotheses about the patterns and target criteria of the objective function, will obtain a set of alternatives for use in the final decision-making on carrying out a special operation to neutralize the suspects and stop them from perpetrating the planned criminal acts.

Analysis of US internal security threats conducted by the US intelligence agencies analytics in the wake of the 9/11 events revealed the future new challenges to be unprecedented both in scale and asymmetry, in terms of the high probability of a small criminal group carrying out a series of terrorist attacks using weapons of mass destruction (nuclear, chemical, biological) against critical infrastructure facilities. The catastrophic consequences of such acts of terrorism helped put back on the agenda the task of timely detection of such groups and forecasting their possible actions with use of new information technologies. For this reason, one important area of research in the field of information technology for the US internal security is related to the development of specialized software for situational analysis.

To this end, DARPA carries out a number of projects aimed at development of information technologies that can: automatically recognize and distinguish people from a distance, discover an enemy (agent) monitoring targets (critical infrastructure objects) in the USA; automatically find, extract and put together fragmentary representations about intentions and activities of groups of people contained in large volumes of data from classified and unclassified sources; quite accurately model subjective representations and social behavior of small groups for subsequent asymmetric enemy actions simulation and playback; provide more effective corporate tools for analysis and decision-making in order to increase the efficiency and effectiveness of distributed groups of analysts in a dynamic environment. To enable a scientifically based forecasting of possible scenarios of terrorists' behavior in situations of committing a crime, DARPA develops a special project entitled "Wargaming the Asymmetric Environment" (WAE), which will allow intelligence analysts to better understand the motives and discern



the intent behind terrorist acts. To this end, DARPA, based on the methods of applied mathematics, is developing a set of mathematical models that simulate the behavior of individuals and small groups, taking into account their psychology, culture, political views, level of education and life experience (Scalable Social Network Analysis - SSNA).

In addition, DARPA works out simulation models for the behavior of individual countries, their key political leaders and terrorist groups, as well as analytical models for decision-making and real-time situation monitoring technology (Rapid Analytical War Gaming - RAW). For this purpose, special methods are being developed to analyze political stability in regions, to predict the impact of the strategic technologies market on the national security, and to evaluate the possible outcomes of future programs or future events (Future Markets Applied to Prediction - FutureMAP) [2].

DARPA's new projects aimed at creating a framework for countering terrorist activities launched in 2015:

- Graph-theoretical Research in Algorithm Performance & Hardware for Social Networks (GRAPHS). While the US government agencies have made significant progress in analytical and forecasting methods for processing continuous signals, discrete data analysis methods such as graphs and networks have failed to keep pace with these developments. The latest world events underscore the crucial role played by social networks analysis. In this paradigm, the nodes are people of interest, while their relationships or interactions form the edges of the graph. The result is depicted as a network or graph. At present, social network analysis is still in its infancy, meaning that the actual networks are represented in crude and primitive elements (diameter, distribution of nodes by the number of links). A better understanding of the subtle mathematical structure of social networks is required.
- Probabilistic Programming for Advancing Machine Learning (PPAML). The PPAML program aims to build machines that will learn to use probabilistic programming algorithms, search huge databases and choose the best solutions to the problem. In the course of this work, artificial intelligence will improve to the point where, after some time, it becomes capable of solving simple problems. PPAML technology will help to better solve many analytical tasks that today require huge human resources, such as reconnaissance, surveillance, speech recognition, driving, sifting through data in search of valuable information, etc. In

this case, the utilized hardware can be highly diverse, ranging from supercomputers based on multi-core processors and clusters of conventional PCs to cloud networks.

- As part of the Transparent Computing program, experts are developing technologies that allow for more effective security policies within distributed systems. The scale and complexity of modern information systems conceal links between security events, placing the responsibility for detecting attacks and anomalies on specialized contextual information, rather than thorough knowledge of the origin of the event. This drawback makes possible such attacks as substitution (at the user level) and mimicry (at the machine code level).

The program aims at developing several promising approaches to these problems. The results generated by the program are particularly important for large integrated systems with heterogeneous components, such as distributed video surveillance systems, autonomous systems and corporate information systems (Transparent Computing).

- The Anomaly Detection at Multiple Scales program (ADAMS) works out applications designed to detect abnormal processes occurring in society and monitor patterns of inadequate behavior in individuals and groups of people.
- The ADAMS program develops applications designed to identify abnormal processes occurring in the society and to monitor inappropriate behavior of individuals and groups of people (Anomaly Detection at Multiple Scales).



- Deep Exploration and Filtering of Text (DEFT). The program is designed to help military personnel involved in making decisions based on findings from information hidden in texts; it filters redundant documents and groups similar ones. Much of current-awareness information can be expressed implicitly rather than explicitly and, in most cases, information is intentionally obscured and important actions and objects are represented only indirectly. The technologies of automated, deep understanding of a natural language created as part of the DEFT program will be able to provide the development of an improved solution for more efficient processing of textual information, excluding the possibility of an ambiguous understanding by human operators.

- Foreign Language Rapid Response (FLRR). The FLRR program provides for the development of methods for rapid construction of translation technologies for arbitrary foreign languages. Historically, the use of foreign language materials requires a long effort, and as a result, there are automated translation systems only for the most common languages. The armed forces act globally and often face rare languages for which there are no automated translation technologies. The FLRR technologies identify similarities between a newly discovered rare language and common languages and identify language universals for rapid reorientation of existing translation technologies to a rare language. This will allow for rapid creation of automated translation systems for cross-language intelligence and strategic communications.

- The XDATA program develops computational methods and software tools for analysis of large data volumes, both “semi-structured” and unstructured. It is planned to solve the following main tasks: to create scalable algorithms for processing raw data in distributed storages; to create effective means of human-computer interaction, aiding in drawing logical conclusions from the data obtained during various missions through the use of customizable visualizations. The program will support creation of open source tools for flexible development of software for processing large data amounts within the time frame specified by the defense projects requirements (XDATA).

- The system of automated image and multimedia content analysis. Nowadays, the volume of visual data is growing unusually fast and is already ahead of manual analysis capabilities, not to mention analyzing each image separately. As part of the VMR program, a software that allows to visually inspect millions of

digital photographs and catalog them according to one characteristic or another will be developed (Visual Media Reasoning (VMR)).

- The Memex program develops information technologies that can quickly and carefully organize a subset of Internet information according to one's interests. During performance the inherent disadvantages of a centralized search for subject-oriented indexing of web content will be addressed, and a new search algorithm will provide fast, flexible and effective access to subject-oriented content. As a result of the program implementation, a super-powerful search engine based on advanced spider bots will be able to search in the most remote corners of the Internet that are unattainable for modern Internet search engines, providing its users with technological superiority in the field of the content indexing and web search (Memex).

- The Worldwide Intelligence Surveillance and Reconnaissance (WISR) system will ensure the operation of ISR systems in restricted areas. The US forces are limited in the use of the intelligence, surveillance and reconnaissance (ISR) systems in many critically important problematic areas. At the same time, millions of videos that are being sent across the world, the number of which is increasing, reflect world events that are interesting for national security. As part of the WISR program, video and images will be integrated into 3D and 4D event reconstructions, allowing to monitor dynamic changes. The WISR methods can also be used to monitor cultural and social changes in preparation for introduction of expeditionary force (Worldwide Intelligence Surveillance and Reconnaissance (WISR)).

- Evidence of aggression. To date, the bulk of forensic activities falls within the intensive work of analysts and investigators associated with the painstaking search of all available information followed by presenting the data as a logical chain of events. The program provides for the development of technologies for searching and comparing various types of unstructured information, including media assets, to obtain the required evidence of intruders' actions. It is planned to develop, combine and advance search technologies in text, speech and video information for presentation in the form of appropriate space-time information. The program will also develop and apply methods that allow analysts to look for suspicious actions, unobvious relationships and other clues for subsequent operative actions effectively and intuitively (Battlefield Evidence) [3].

Scientists at the Network Science Centre of the Military Academy at West Point (USA) worked out

an algorithm that allows to calculate key nodes in a terrorist network and destroy it.

The GREEDY\_FRAGILE algorithm does not just perform a trivial task of detecting “media” terrorists, familiar to everybody, but often have an indirect relationship to the actual armed struggle. The product of the US military scientists is aimed at destroying a terrorist network. For example, the algorithm can identify mid-ranking terrorist commanders who command combat groups. If these commanders are eliminated, the command of the terrorist network must be concentrated in the hands of one or two people, so after arresting them, it is possible to destroy or paralyze the activities of the entire terrorist underground. Thus, it is believed that instead of leader’s liquidation, it is necessary to make the terrorist network more centralized. Such a network, due to concentration of power, will become more fragile and after the elimination of its head it will fall into separate, less dangerous groups and single terrorists.

With the introduction of the GREEDY\_FRAGILE algorithm, it became possible to identify key terrorists, even if the exact structure of the terrorist network is unknown and the use of planted agents or other intelligence assets is impossible.

The new algorithm testing used well-studied data on five terrorist networks, in particular the Al-Qaeda unit, which participated in the 1998 US Embassy bombing in Dar es Salaam.

The GREEDY\_FRAGILE algorithm demonstrated that removal of only 12% of nodes in each of the five real terrorist networks could increase the centralization of the entire network by 17-45%. Thus, by gradually removing key figures, it is possible to make the terrorist organization more fragile and helpless [4].

There are other similar projects in the US, as well as in the EU, Asian countries, etc.

Through the abovementioned approaches, the law enforcement community will have the following opportunities:

- to reveal hidden relationships, i.e. to identify links between criminal organizations and their members;
- to unveil the organizational structure of criminal communities, i.e. to identify and document hierarchical relations between members of criminal organizations;
- to identify an underground infrastructure of criminal communities, i.e. to reveal the communication with other organizations and individuals, as well as the location, equipment and communication networks;
- to identify financial operations of criminal communities, i.e. to unveil the sources and channels of financing for the commission of crimes;
- to identify typical indicators of suspicious behavior, i.e. to find out and analyze the indicators of suspicious behavior of “risk groups” members in order to timely detect the emerging threats;
- to reveal vulnerabilities, i.e. to identify sources of financing and material support of criminal activity, warehouses and other resources of criminal groups and communities, methods of contact between individual criminals and organized groups, as well as methods for recruiting their participants in order to find out features that can be used for the prevention, suppression and investigation of crimes [5].

Overall, taking into consideration foreign practices, the development of organizational and information mechanisms of combating terrorist financing operations in Russia and in EAEU requires the following measures to be taken:

- to validate the scientific and practical approach to a qualitatively new model for monitoring, identifying and forecasting terrorist financing operations, taking into consideration the problems of interagency cooperation, along with maximum extension of the shared information available for AML/CFT;
- to define theoretical and practical basics for increasing effectiveness of Russian mechanisms used to counteract terrorist financing operations in the face of a critical shortage of a priori information about the behavior of terrorist structures by integrating organizational structures and information systems of various governmental agencies into one united complex for interdepartmental cooperation in the field of AML/CFT as a multi-purpose agent system on the basis of clearer terms than it has been set out in the framework of current activities, with a view of operational locking the financial basis of the acute intensification of terrorist attacks in connection with the actions of militants associated within the organizational structures, such as the so-called Islamic State and its allies;

- to clarify the possibilities of data-computing platform integration at the interregional, national and Eurasian-Union levels to expand the possibilities of identifying a wide range of economic events that may be related to financing of terrorist activities specified as a highly dynamic set of non-linear operational processes using the multidimensional semantical systematics of the analyzed connections of various entities in the field of financial monitoring in the territory of the Russian Federation and, as far as possible, on the territory of other EAEU member states;
- to characterize the existing conditions for transition to creation of a network-centric information grid (a set of information systems of various departments) to counteract terrorist financing operations on the principles of convergence of information, telecommunications and computing services available to various state bodies as management objects with a significant number of deviating operational variables;
- to characterize and justify the necessary measures aimed at improving the planning optimized for increasing the sustainability and adequacy of the management model with regard to the organization of interdepartmental actions of various AML/CFT governmental agencies with the transition from fuzzy conclusions to the exact value of the regulated parameter in the key areas of the target concentration of counteraction measures to operations for financing of terrorist activities with identification of key operational nodes of terrorism financing with regard to the most dangerous forms of terrorist activity;
- to identify areas for expanding the control of aggregate data sets in analytically accessible databases and global information networks [in the context of political and economic sanctions] in order to form a dynamically configurable structure of AML/CFT measures aimed at proactively suppressing the terrorist activity, including suppressing the financing of terrorist groups from any possible sources, first of all, on the territory of the EAEU member states;
- to outline ways of improving the system of union coordination of AML/CFT measures with the identification of key operational nodes for financing terrorist activities in relation to the most

dangerous forms of terrorist activity in the territory of the Russian Federation, and, if possible, in the territory of other EAEU member states as a combinatively expandable area of AML/CFT.

As a result, a comprehensive concept for implementation of qualitatively new mechanisms for monitoring, identifying and forecasting of terrorist financing operations in the territory of the Russian Federation, as well as in the territory of other EAEU member states as a combinatively expandable area of AML/CFT, with development of cooperative interaction of governmental institutions in order to identify by financial monitoring the structures that carry out monetary and currency operations for the benefit of terrorists or their beneficiaries.

At the same time, the resulting interdepartmental coordination and departmental planning of countermeasures to be taken against terrorist financing operations with identification of key operational nodes for the financing of terrorist activities within the proposed AML/CFT mechanism will be realized taking into account the need to overcome uncertainty when factors, objects and entities of terrorist activities, required resources and level of complexity of the required antiterrorist actions are not known.

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## SPORT

## MAKING SPORT POPULAR

*On January 26, 2017, the Federal Financial Monitoring Service hosted a meeting of the Board of Trustees of the central sports club of financial authorities, Dynamo No. 33, chaired by Rosfinmonitoring Director Yury Chikhanchin*

Eugenia Kalikhova,  
Editor-columnist

The meeting was attended by Chairman of the Dynamo Society Vladimir Strzhalkovsky; State Duma deputy and 3 times Olympic champion Alexander Karelin; State Secretary and Deputy Minister of Sports Natalya Parshikova; State Secretary and Deputy Finance Minister Yury Zubarev; Rosfinmonitoring Deputy Directors Yury Korotky and Vladimir Glotov; Deputy Chairman of the Dynamo Society and Chairman of Dynamo Moscow Nikolay Rogozhkin; Chairman of Dinamo No. 33 Oleg Shabunovich; Head of the Federal Treasury Department for Moscow Alexander Gurovich; Vice-President of Transneft Boris Korol; Head of the Economic Control Department of the Presidential

Executive Office's Control Directorate Igor Golikov; President of the Association of Russian Banks, Doctor of Law, Corresponding Member of the Russian Academy of Sciences Garegin Tosunyan; Honoured Economist of Russia Islam Vazarkhanov; representatives of the Federal Tax Service, Bank of Russia and Deposit Insurance Agency; and President of the Association of Non-state Security System Organizations of the city of Moscow Nikolai Reznichenko.

In his welcoming speech, Rosfinmonitoring Director Yury Chikhanchin thanked the attendees for the opportunity to participate in the meeting of the Board of Trustees of





the Russian Financial Authorities. He recalled Russian President Vladimir Putin's instruction to facilitate the revival of mass sports in state financial agencies and the country as a whole. The country's leadership also undertakes targeted and consistent efforts to facilitate moral, patriotic and physical upbringing of the country's youth; organize competitions for children and families; support the mass fitness and health movement among the leadership; popularize GTO tests; and strengthen inter-agency cooperation in the field of physical culture and sports.

Summarizing the outcomes of the events held in the past year, the Rosfinmonitoring Director thanked the central sports club of financial authorities, Dynamo No. 33, for its work and praised the quality of some of the events organized by it, including the Sports Festival of Financial Authorities, held as part of the 12<sup>th</sup> physical culture and sports forum "Ready for Labour and Defence"; the Meeting of Young Talents from the Russian Financial Authorities in Anapa; and the 2<sup>nd</sup> Spartakiad of Russian Financial Authorities, dedicated to Rosfinmonitoring's 15<sup>th</sup> anniversary.

*"We appreciate the quality of the organized events. Such competitions, we believe, allow us to address not only operational but also more down-to-earth issues, thereby reinforcing intra-departmental and interagency cooperation,"* said Mr. Chikhanchin.

A report on the Organization's performance in 2016 was delivered by the Chairman of the central sports club of Russian financial authorities, Dynamo No. 33, O. Shabunevich. He thanked all participants for their dedicated work to promote healthy lifestyle among employees of Russian financial authorities, described in detail the outcomes of the organization's activities undertaken in the period under review, separately highlighting the success achieved by the Central Bank, State Deposit Insurance Agency and Ministry of Finance staff in the 2<sup>nd</sup> Spartakiad, and gave an overall assessment of the activities held in 2016.

Among the officials taking part in the discussion of the report were Alexander Karelin, Yuri Zubarev and Natalia Parshikova. In their speeches, they expressed support for the activities aimed at popularization of sports in the ministries and departments representing the country's financial authorities, praised the efforts to promote a healthy lifestyle among youth and called for further action in this area.

*A. Karelin: "The central sports club of financial authorities Dynamo No. 33 staff's participation in sporting events enable this organization to fulfil the sports propaganda and missionary objectives Dynamo has been setting itself throughout its history. For this, Dynamo has all the necessary resources at its disposal, including Oleg Shabunevich's proactive and systemic approach to work. And with such support from the Board of Trustees, it seems like the sky's the limit for us."*

The meeting ended with a presentation of special awards, cups and certificates of honour.

## NEWSBLOCK

## Outcomes of the 52<sup>nd</sup> MONEYVAL Plenary

**T**he 52<sup>nd</sup> Plenary meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism (MONEYVAL) was held on December, 5-9, 2016 in Strasbourg.

The Plenary was opened by the FATF President Juan Manuel Vega-Serrano, who praised MONEYVAL for its constitution to the maintenance of financial and economic stability in the world, including in the context of the consolidation of international efforts in combating the financing of terrorism (CFT). Besides the CFT-related challenges, the distinguished guest outlined the FATF's current priorities, including the work to improve transparency of beneficial ownership, to raise FIUs' status and to address the problems posed by emerging financial technologies and their regulation.

MONEYVAL Chair Daniel Thelesklaf briefed participants on the priorities of the 5<sup>th</sup> round of

mutual evaluations, which began in 2015, namely improving effectiveness of FATF Recommendations implementation, noting the countries' steady progress in achieving compliance with the international AML/CFT standards. D. Thelesklaf also emphasized the strategic importance of close cooperation between the FATF and MONEYVAL and coordination of joint activities.

During the meeting, participants listened to the reports on progress in improving the national AML/CFT system from former Yugoslav Republic of Macedonia, Israel, Poland, Croatia, Montenegro and the Czech Republic, as well as considered and approved requests for removal from the regular follow-up process from Lithuania, Moldova and Slovakia.

The next MONEYVAL Plenary meeting will be held in Strasbourg in May 2017.





## Egmont Plenary Meeting Held in Doha

**T**he Plenary Meeting and meetings of the Working Groups of the Egmont Group of Financial Intelligence Units took place on January 29-February 3, 2017 in Doha, Qatar and were unprecedented in terms of the number of events held.

In his welcome speech, Head of the Qatar FIU His Excellency Sheikh Ahmed bin Eid Al-Thani noticed the continuously increasing role of the Egmont Group as the key player in fight against money laundering and financing of terrorist over the recent years. The high importance of the work conducted by the Group is emphasized by the fact that it develops typologies and instruments that support the efforts undertaken by FIUs for combating ML and TF-related criminal offences. Today, the common goal of all FIUs is to eradicate these phenomena.

About 26 various events were held on the margins of the Plenary, including the meetings of the Working and Regional Groups, training sessions on the key AML/CFT subjects, etc. The topical issues included further improvement of information exchange, foreign terrorist fighters returnees, virtual currencies, new financial technologies, anti-corruption efforts of the countries, etc. In particular,

the delegation of Rosfinmonitoring held a training session on cooperation between FIU with national lawenforcement agencies in investigation into TF-related cases. This training session arouse great interest of the representatives of foreign FIUs – it was attended by more than 100 delegates during two days.

Growth in membership is one of the priorities of the Egmont Group. The FIUs of Kuwait and Sudan were recommended for admission at the next Plenary Meeting.

The Plenary also summarized the results of the Best Egmont Case Award contest. Of more than ten FIUs that took part in the competition, two finalists – Israel and Columbia were selected by the panel of judges. Israel won this competition. The delegations were invited to submit their cases for the 2017 BECA, the results of which will be announced at the next Plenary Meeting.

Wrapping up the outcomes of the Plenary Meeting, the Egmont Group Chair for 2015-2017 Mr. Sergio Espinosa expressed gratitude to the Qatar FIU for excellent hosting of the event. The next Egmont Meeting will be held in July 2017 in Macau.





## Graduate Students of Institute of Financial and Economic Security (IFES) Defended Theses at Rosfinmonitoring

**O**n February 2, 2017, the graduate students of the Institute of Financial and Economic Security (IFES) of MEPhI National Research Nuclear University defended their graduate theses at the Federal Financial Monitoring Service. This year, the first students – specialists in information and analytical security systems – graduated from this Faculty.

The graduate theses were presented by 14 students from Russia, Kyrgyzstan and China. The officers of the State Financial Intelligence Service under the Government of Kyrgyz Republic, who attended the theses defense process via videoconferencing, indicated the in-depth analysis and relevance of the subjects selected by the students.

In his opening statement to the students, Yury Chikhanchin, Director of Rosfinmonitoring, Head of

IFES Financial Monitoring Faculty and Member of the State Examination Committee, urged them not to stop, but to move ahead for implementing and applying AML/CFT practical solutions.

The members of the State Examination Committee also included Deputy Director of the Federal Financial Monitoring Service V. Glotov, Head of Rosfinmonitoring Anti-Money Laundering Department K. Gobrusenko, Deputy Head of MEPhI NRNU Financial Monitoring Faculty P. Leonov, and academic staff of IFES MEPhI.

The Examination Committee highly assessed the contents of the presented topics and their analysis. All graduate theses were successfully defended.

The IFES MEPhI graduates received their diplomas on March 9, 2017.

*Eugenia Kalikhova,  
Editor-columnist*



## ARB President Garegin Tosunyan is Rewarded with Rosfinmonitoring's "For Personal Contribution" Medal



At the ceremony held on February 17, 2017, Rosfinmonitoring Director Yury Chikhanchin presented the silver medal "For Personal Contribution" to the President of the Association of Russian Banks, Garegin Tosunyan.

The "For Personal Contribution" medal is Rosfinmonitoring's departmental award. It is given to individuals for their contribution to solutions of the tasks assigned to Rosfinmonitoring.

## "Along the Spiral" exhibition

For four years now, Rosfinmonitoring, an active promoter and supporter of modern art, has been hosting numerous exhibitions of Russian artists, enabling its employees and visitors alike to enrich their inner world and raise the level of their spiritual and moral development.

**Dmitry Lavrov** – a pastelist, graduate of the Institute of Contemporary Art, President of the non-profit partnership for the promotion of culture among youth "MAXFELIS" and co-founder of the IRIS Gallery based on the non-profit partnership. His works can be found in private collections and galleries of Russia, USA, Croatia, France and Germany.

One of the areas of his professional activity is the creation and implementation of innovative programmes designed to promote creativity, boost individual potential and train young professionals in the implementation of innovative projects in the field of culture and art.

Dmitry Lavrov's personal exhibition was opened on February 17, 2017 at Rosfinmonitoring. The exhibition, supervised by **Rosfinmonitoring Deputy Director Vladimir Glotov**, consists of over 40 chalk pastel drawings.

The "Along the Spiral" exhibition, headlined by the "seven transformations" series, was presented



to Rosfinmonitoring staff by the artist himself (Transcendence is a transition through the border separating the ordinary world and a world beyond rational thinking, as well as a clash with the mystical and unknowable).

"The space spiral – just like the time spiral or the DNA spiral – is full of images..." said D. Lavrov at the opening of the exhibition.

The exhibition ended with the awarding to the artist of an honorary diploma and words of gratitude for fruitful cooperation from the Rosfinmonitoring Deputy Director.

*Eugenia Kalikhova,  
Editor-columnist*

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