

# FINANCIAL SECURITY

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NO. 6 SEPTEMBER 2014



**K. P. KRISHNAN:**

*The EAG achievements  
show successful and effective  
realization of tasks to meet the  
challenges of ensuring global  
economic security.*



# FINANCIAL SECURITY

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## DEAR READERS!

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Just as we were about to send this issue to printer's, something very important for all of us happened: on September 16 our country successfully presented its third follow-up report to the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL).

Besides the Russian Financial Intelligence Service, Russia's reputation in this organization was defended by representatives of the Ministry of Interior, General Prosecutor's Office, the Ministry of Foreign Affairs, the Central Bank, the Federal Customs Service, the Ministry of Communications and Roskomnadzor.

To facilitate this process, the country adopted Federal Law No. 134-FZ and launched a mechanism for its implementation. Among the key questions put to our delegation were those related to the procedure for freezing terrorist assets, the volume of funds blocked in line with UNSCR Resolution 1267 and the measures aimed at ensuring the transparency of beneficial ownership. The subject of participants' special attention was the implementation mechanisms of FATF Recommendation 6 (politically exposed persons).

Meanwhile, the work to strengthen the country's legal mechanisms continues, with the key message being: transparency is not only about law enforcement, but also about the establishment and implementation of legal mechanisms designed to deal with the tasks at hand.

In previous issues, we often talked about the need to be aware of threats to achieve our goals. That message about external threats has taken on added relevance during the current difficult period for our country. At all international venues, we try to convince our colleagues that the adopted FATF standards should not become a sanctions tool to be used against any given country. A good example of such sanctions tool is the FATCA, which has essentially turned out financial institutions into U.S. tax agents. Similar initiatives are being considered for replication by other countries, potentially creating a serious risk to our financial system.

The fact that in such difficult circumstances our follow-up report was adopted highlights MONEYVAL's commitment to adhere to the FATF standards even in the face of external political pressure and demonstrated its objective and unbiased approach to the discussion of our report. Much has been done by us in recent years to bring Russia's anti-money laundering legislation in line with international standards. This work has earned Russia a positive assessment from the European Community.

***Rosfinmonitoring Director  
Yury Chikhanchin***

## COVER STORY

## EAG ANNIVERSARY

### *The Eurasian Group on Combating Money Laundering and Financing of Terrorism*

*Pavel V. Kukushkin*

*Editorial Coordinator*

Early in the 21<sup>st</sup> century, global community encountered new stability challenges – terrorism, drugs, corruption. These threats have no boundaries. Risks of development of transnational economic crime in the Eurasian space pushed the states of the region to cooperate in the sphere of financial flows control, prevention of ingress of criminal money into real economy. During this period, cooperation in the sphere of anti-money laundering and financing of terrorism (AML/CFT) evolved in the mode of two-way contacts, which did not allow to establish in the region an integral effective anti-money laundering system.

The tragedy of September 11, 2001 made the world take a new view of the problems of financial and economic security as well as the issues of combating terrorism. Worth noting is that FATF had been established by that time, yet its regional network was only starting to develop. Level of technical



compliance and compliance with FATF standards of national laws in the Eurasian space differed a lot from state to state. Establishment on October 6, 2004 of The Eurasian Group on Combating Money Laundering and Financing of Terrorism became the response to existing regional challenges and threats.

To the Eurasian states that had never been members to FATF-Style Regional Bodies, establishment of EAG was to become the key factor in decreasing the threat of international terrorism, securing transparency, reliability and safety of the states' financial systems and their further

### *Viktor A. Zubkov, EAG Chairman 2004-2007*



The decision of the Eurasian countries to establish a FATF-style regional body has allowed them not only to lay the regulatory, institutional and organizational framework for combating money laundering and financing of terrorism, but also to undergo mutual evaluation procedures designed to determine the level of their national systems' compliance with international standards. The success of anti-money laundering measures depends on continuous improvement and, wherever necessary, the use of unconventional methods and search for new analytical techniques and approaches to combating money laundering and terrorist financing.

Unfortunately, equally urgent is the need to fight terrorism, drug trafficking and terrorist financing. In this regard, I urge the Group not to rest on its laurels, but to continue to strengthen the barriers against the flow of dirty money.

integration in the international AML/FT structure. Simultaneously, the states in the region started creating necessary conditions for establishment and development of effective national anti-money laundering systems.

### **History of EAG Creation**

The initiative to establish EAG was for the first time voiced by the Russian Federation during the FATF Plenary Meeting in October 2003. In February 2004, this question was discussed on the international meeting "Cooperation of CIS member states in combating money laundering and terrorist financing" attended by representatives of CIS states and China, and a number of international organizations. The initiative was supported by the Council of Ministers of Foreign Affairs of CIS member states that recommended to the states concerned holding the Foundation Conference regarding establishment of a FATF-Style Regional Body.

The Foundation Conference was held in Moscow on October 6, 2004. It was attended by six founding states – Belarus, Kazakhstan, China, Kyrgyzstan, Russia and Tajikistan. The representative of Russia – Viktor Zubkov – was elected as the First Chairman of the Group. In 2005 and 2010, Uzbekistan, Turkmenistan and India who used to be in an observer status became members of EAG.



*Participants of the signing of the EAG inter-government agreement, June 16, 2011, Moscow*



### *Oleg A. Markov, EAG Chairman 2007-2011*



The signing of the Agreement helped establish the Group's status as an intergovernmental organization and created equal opportunities for all member states to play an active role in the EAG's work.

During its formative stage, the Group successfully coped with the organizational issues and the challenges of finding the right personnel to work at the Secretariat. The intergovernmental status of the organization helped the EAG strengthen its image as the region's main anti-money laundering and terrorist financing body, an image that should be protected by all Group members through their actions and initiatives. This means doing all that is necessary to bring their national regimes in line with the FATF standards, which, in turn, will help boost the reputation of the EAG on the international AML/CFT stage.

The main conclusion of the joint work in the framework of the EAG: it is impossible to achieve positive results without the combined efforts of all EAG member states and support of international partners. I'm confident that the Group will continue to set itself lofty goals and use innovative tools to improve cooperation in the region and beyond.

A new milestone in EAG development was signing on June 16, 2011 of inter-governmental Agreement Concerning the Eurasian Group on Combating Money Laundering and Financing of Terrorism. The Agreement approved the status of the Group as an inter-governmental organization with its own budget, functioning on the principles of equal participation of member states in its activities. Signing procedure took place during 14<sup>th</sup> EAG Plenary meeting in June 2011. The procedure was headed by the Chairman of the Eurasian Group Oleg Markov.

Changes concerned the EAG Secretariat, too. The Secretariat was established by resolution of the Foundation Conference of October 6, 2004 and was designed to perform coordination functions associated with implementation of main activity. At the early stage of Group development, all technical assistance to the organization was provided by the Russian Federation, and until 2012 representatives of Rosfinmonitoring acted as Secretariat officers.

On February 14, 2012, the agreement concerning conditions of presence of the Secretariat in the territory of the Russian Federation was signed in Paris. In the same year, renewed Secretariat of citizens of EAG member states started its operations in Moscow.

### **International and Regional Cooperation**

Today the EAG brings together states of the region. The observer status has been granted to 14 states and 18 international and regional organizations. The group actively cooperates with many international and regional organizations and structures involved in handling of AML/CFT issues.

From February 2005, EAG has been in the status of FATF observer, and in June 2010 the Eurasian Group became an Associated Member of the FATF. As far back as in 2011, it gave the Group members an opportunity to participate in the work on a mutual basis – EAG member states without FATF membership are involved in its work as part of the delegation of the Eurasian Group. In their turn, FATF member states received an opportunity to participate in EAG activities including Working Group meetings, plenary meetings and other events.

Since 2011, EAG has been permanently involved in the Group's work pertaining to review of FATF international cooperation aimed at evaluation of the Eurasian states for the purposes of detection and elimination of any failures in the national AML/CFT systems.

Cooperation with FATF-Style Regional Bodies has been developing actively. In 2010 the Group was granted the status of observer in the Asia/Pacific Group on Money Laundering (APG). EAG representatives take part in annual (plenary) meetings of APG and typology workshops. As part of cooperation between the two regional groups have been implemented and developed joint projects and initiatives including joint workshop on typologies, assessor training and many others.

In 2011 the EAG was granted the status of the observer in the Middle East and North Africa Financial

Action Task Force (MENAFATF). Considering the development of financial and economic ties between the two regions, cohesion of EAG and MENAFATF promoted coordination of efforts in combating common threats and risks. Joint EAG/MENAFATF typology workshop is scheduled for December 2014.



Cooperation with the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) develops. Joint workshops on combating the Internet-crime and implementation of updated FATF Recommendations were held, cooperation concerning assessor training for the national AML systems evolves.

One of top-priority tasks of EAG in the Eurasian region is the development of cooperation with organizations whose competence encompasses the issues of regional integration and safety. CIS and its structures – ATC, IPA, Council of Directors of CIS FIUs, UN CTC, CSTP, EurAsEC, SCO and RATS SCO. From the day of its establishment, EAG has significantly expanded regional cooperation and held a number of joint events with these organizations.

In January 2010, the Memorandum of Understanding and Cooperation between EAG and the Coordination Council of Heads of Competent Authorities for Combating the Illegal Drug Trafficking of Members to the Collective Security Treaty Organization (CCACD CSTO) was signed, which provides for establishment of a mechanism for cooperation between FIUs of EAG member states and competent authorities of CSTO member states in combating illegal drug trafficking. This mechanism is meant to increase efficiency of combating the laundering of proceeds of drug trafficking in the Eurasian region.

### *Yury A. Chikhanchin, EAG Chairman 2011-2013*



Today, the EAG is a fully-fledged FATF-style regional body that works successfully with all its key international partners and provides its members with the necessary technical and advisory assistance in the development of their AML/CFT systems.

In an environment of increasing cross-border migration of economic crime and in the face of such global challenges of our century as drug and human trafficking, international terrorism, money laundering and cybercrime, the EAG's strategic objectives have become even more relevant, requiring all its regional and international partners to join efforts to counter these threats.

In this context, the task of boosting international cooperation between governmental, law enforcement, financial intelligence and security services, including in the search for new and more effective forms of informational and operational collaboration, is of particular importance. Above all, such co-operation should focus on the implementation of specific practical measures to combat money laundering and terrorist financing and to increase the efficiency of information exchange in this area.

On the eve of the EAG's anniversary, Russia, one of the originators of the Group, welcomes the establishment and evolution of the national anti-money laundering systems in all countries of the region and stands ready to assist its partners in bringing their AML/CFT regimes in line with international standards.

Experience of participation of EAG states in the anti-drug operation "Channel" implemented under the umbrella of the CCACD CSTO proved that FIU capabilities in timely detection and closure of channels for transfer of proceeds of drug trafficking was able to significantly exceed the effectiveness of drug control operations in the Eurasian region.

## Current Work

In the modern period, the main purpose of EAG is securing effective cooperation and collaboration on the regional level and integration of the Group member states in the global AML/CFT system. EAG promotes aggregation of efforts to decrease the threat of terrorism and securing transparency, reliability and safety of financial systems of the region states. On a regular basis, the Group performs mutual evaluations of the national AML/CFT systems of member states based on the FATF Methodology, studies typologies of money laundering and financing of terrorism and implements the program for provision of technical assistance to member states.

Assistance provided by the EAG has been instrumental in the establishment of financial intelligence units in Kyrgyzstan and Kazakhstan, as well as in the adoption of anti-money laundering legislations of Kazakhstan, Uzbekistan and Turkmenistan. Each EAG member state has by this time laid an institutional and legal foundation for a successful national AML/CFT system designed to meet the requirements of international standards in this area, which was confirmed by FATF monitoring procedures.

Effective anti-money laundering and terrorist financing regimes implemented in EAG member states contribute to the economic growth and sustainable development of the region by reducing crime, including corruption, and the size of the shadow economy, creating favorable conditions for the development of legal businesses, and increasing transparency in the financial sector and the economy as a whole. As a result, we can speak of a real increase in investment attractiveness of the Eurasian countries due to the overall strengthening of their financial systems and the countries' reputation in the eyes of the international community.

On October 6, the Eurasian Group will celebrate its 10<sup>th</sup> anniversary, marking the passing of an important milestone of its rapid, yet difficult development. Indeed, during this time the EAG has evolved from being a small organization dedicated to providing technical assistance to its members to becoming an influential regional anti-money laundering powerhouse whose authority is recognized by both regional and global players.

## Dr. K. P. Krishnan



Currently the Eurasian Group on combating money laundering and financing of terrorism is a dynamically developing structure. A plenty of foreign states and international organizations are interested in its activity. All Group member-states have formed institutional and legislative base for national AML/CFT to comply with the international standards. The effectiveness of the EAG policy is reflected by the achievement of the EAG in consistently being able to have the Group member-states removed from the FATF list of countries having significant AML/CFT deficiencies (FATF Public Statement). The EAG achievements show successful and effective realization of tasks to meet the challenges of ensuring global economic security.

We are now at a stage where the Group's activity needs to focus on mutual evaluation of the member-states'. This process would allow identification of vulnerabilities and weak points in combating the threats to the global financial integrity, and also help in assessing the efficiency of the system. The key objectives for the member-states, are preparation for mutual evaluation as per the revised standards of FATF and EAG mutual evaluation procedure, having a pool of trained assessors, AML/CFT risks assessment, monitoring of voluntary tax legislation compliance programs as well as further reforming national AML systems and updating them in compliance with the international standards.

I believe that the Eurasian group activity will continue to progress and will be characterized by attracting interest of new members and observers who have displayed effectiveness in implementation of FATF revised standards, as well as, by consolidation of its position in the world.



**RUSSIA AND ITS ROLE IN INTERNATIONAL AML/CFT SYSTEM**

## **TERMINATION OF THE RUSSIAN PRESIDENCY IN THE FATF**

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*The plenary meeting of the Financial Action Task Force (FATF) attended by the governmental delegation consisting of Rosfinmonitoring, the Administration of the President of the Russian Federation, the Ministry of Internal Affairs of Russia, the Federal Security Service of Russia and the Bank of Russia, which was for the last time chaired by Russia (V.P. Nechaev), was held on June 22-27, 2014 in Paris*

*Irina V. Ivanova,  
Chief Editor*

The decision to send the Russian representatives to the FATF forum – despite the politically motivated transfer of the venue from Moscow to the French capital on the initiative of most western states – was adopted by order of the President of the Russian Federation. Relevant preparations and determination of the delegation tasks regarding the actions to be taken in existing conditions were performed with active participation of the Administration of the President of the Russian Federation and the Ministry of Internal Affairs of Russia.

The Russian delegation circulated a statement in which it reminded to its colleagues of the FATF being a purely technical mechanism aimed at solution of problems in the sphere of anti-money laundering and financing of terrorism and emphasized that raising political issues and pleasing political fancies should not be allowed.

The head of the Russian delegation – Rosfinmonitoring Director **Yu.A. Chikhanchin** emphasized as follows:

*“The decision was not just to come, but also to hold the meeting under our chairmanship. And – honestly*



*speaking – not all states could forecast such an outcome expecting us to not attend the venue at all”.*

According to interviews with meeting participants this decision was highly appreciated by the international AML/CFT community as commitment of Russia to effective control financial crimes irrespective of political situation.

Summarizing Russian chairmanship results in the FATF it is important to note adoption of the investigation of financial flows linked to the production and trafficking of Afghan opiates that was initiated by Russia, approval of the strategy for involvement in the global FATF network of non-recognized entities and territories, end of the 3<sup>rd</sup> round follow-up report to the mutual evaluations that as of removal Russian Federation from the follow-up process, taking off maximum number of states from the “black” and “grey” FATF lists, first of all Vietnam, Kyrgyzstan, Mongolia, Syria, Cuba, as well as enhancing the synergy between the FATF and the Egmont Group of Financial Intelligence Units.

The main issues dealt with by the delegations were:

- expansion of FATF membership and determination the readiness of the candidate countries
- updating the “black” and “grey” FATF lists
- assessing the risks of virtual currencies use
- elaboration of the best AML/CFT practices

Following the discussion of the states progress in implementation of the national action plans for elimination of strategic AML/CFT deficiencies, from February this year, a total of five jurisdictions – Yemen, Pakistan, Syria, Turkey and Ethiopia – have left the “black” list. Thus, the number of states on the list (Algeria, Indonesia, Iran, DPRK, Myanmar, Ecuador) decreased to six. However when last July Russia took presidency 14 countries were subject to the FATF’s monitoring process. Each of the countries that have been removed from the follow-up process has its own history of being under the monitoring, however all of them – in order to be finally removed from the follow-up process – have to accept within the nearest two months the controlling FATF expert mission meant to locally verify compliance of the declared progress with actual achievements.



Considering the problems associated with promotion of safety in Yemen and Syria, the mission will have to be put on hold. At that, representatives of the countries will have to search for opportunities to hold «face-to-face” meetings with the FATF experts in order to provide prompt information on the current work in improvement of the national AML/CFT system.

Decision regarding Turkey, which was ultimately forced by the FATF members to bring its legislation concerning combating the financing of terrorism in compliance with the standards, became a breakthrough. The conflict persisted for several years and had cost Ankara incomprehensible efforts at the highest level. Two years ago they hardly escaped suspension of their FATF membership.

Kyrgyzstan is no longer subject to the FATF’s monitoring process under its on-going global AML/CFT compliance process. Tajik partners are close to the same result. Similar decision in their relation is expected during the nearest FATF plenary session (October 2014) after debriefing of the verification mission.

Based on the end of 3<sup>rd</sup> round of the mutual evaluations, countries, which had never before done this, filed their requests to be taken off the follow-up process. Australia, Argentina, Germany and the Republic of Korea have taken sufficient steps succeeded in this address.

In the format of the Policy Development Group (PDG), discussions continued with regard to the draft of guidance for risk-based approach in the banking sector, as well the draft of guidance for transparency and beneficial ownership. These documents meant to help states implementing updated FATF Recommendations are expected to be approved during the plenary meeting in October this year.

In the framework of the plenary session were held meetings with the Deputy Director-General of the

Anti-Money Laundering Bureau of the People's Bank of China Liu Zhengming, the Executive Secretary of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) J. Ringguth, as well as heads of delegations of Argentina, Brazil, Germany, India, Lichtenstein, Poland and RSA.

The next FATF plenary meeting is to be held in October this year in Paris under the Australian Presidency (R. Wilkins).

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Speaking during the final part of the Plenary as he was stepping down as FATF President,

V. P. Nechaev expressed his appreciation for the support he received from different countries during his tenure of the high office, even though at times achieving a consensus required a lot of effort. V. P. Nechaev thanked everyone for their cooperation, noting that the majority of the priority objectives set by the President were successfully attained during this year.

In turn, representatives of different member countries and organizations participating in the FATF Plenary, among them Canada, Korea, Mexico, the USA, Turkey, UNODC, Egmont Group and FATF-style regional bodies, expressed their personal gratitude to V. P. Nechaev.



## EAG PLENARY MEETING IN MOSCOW: MEETINGS OF WORKING GROUPS

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*The EAG Working Groups session took place in the framework of the Plenary Meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) that was held in Moscow on June 16-20, 2014*

*Nikita A. Bobryshev, Anna V. Bulaeva, Inessa A. Lisina,  
Konstantin V. Litvinov, Konstantin G. Sorokin*

### **Review of the EAG Working Group on Typologies**

The WGTYP reviewed the current status of typology studies held by EAG member states including those performed through FATF and discussed upcoming trends in research for the future periods. As of

the date of the meeting, responses as part of the research called Cybercrime and Money Laundering (research conducted by Ukraine) had been received from 13 states.

During the WG session, Co-Chairman of the group on behalf of the Russian Federation I.E. Voluevich proposed the states to discuss such an urgent



problem as cybercrime. In participants' opinion, development of related tools that have to do with "cybercrime" may come to the frontburner for financial intelligence units (FIUs) in the near term. In particular, such tools may comprise the list of organizations and individuals involved in cybercrimes to be based on the facts of unauthorized access to bank accounts and misappropriation of monetary funds owned by clients of credit institutions. In the long run, as the tools advance, receipt of automatically generated reports on respective suspicious transactions would become possible.

A typical type of such fraud is a variety of so-called "Nigerian fraud" where bank accounts to be used in fraudulent schemes are opened to the name of a dummy company whose name is the same as the name of an actually existing major company (and whose details are published on an exact copy of the official web-site of the official company in order to misguide potential contractors). Further, money from such accounts are either cashed or withdrawn to other accounts.

Of special interest to participants was the speech on cryptocurrencies made by ITMCFM representative E.M. Volovik who introduced the participants to new trends in this field – such as the means used to enhance anonymity of transactions with Bitcoin cryptocurrency. Among other things, attendants studied functionality of DARK WALLET – a browser add-in that allows concealment of the client (buyer) within the Bitcoin system by means of serial IP-spoofing. Also was presented a new technology implemented in Stealth Addresses project<sup>1</sup>. This technology allows displaying in the blockchain (the open register where all data concerning Bitcoin transactions are stored) other IP-addresses of the sender and receiver. It is very convenient as regards collection of money from several wallets. Of interest also was such cryptocurrency as Zerocoin<sup>2</sup>. This cryptocurrency – according to its authors – effectively hides sender's IP-address and acts as a kind of filter that allows to conceal matching of a certain cryptocurrency unit with a specific transfer operation. It is characteristic that a number of major western universities participate in the project.

Also, the WGTYP discussed the events planned for the second half of this year– joint EAG/OSCE/ITMCFM workshop on the subject of Cybercrime and Money Laundering and joint EAG/MENAFATF workshop on typologies and capacity building.

ITMCFM representative K.G. Sorokin introduced participants to preliminary results of the earlier finished advisory forum with EAG private sector where he acted as one of the moderators, and also presented ITMCFM projects – EAG videoconferencing system, staff training in the Institute of Financial and Economic Security of MEPhi, Financial Security journal.

At the end of the meeting, the states received recommendations to prepare their offers on future subjects of typology studies by the next EAG plenary meeting.

### **Review of the EAG Working Group on Mutual Evaluations and Legal Issues**

EAG Secretariat informed the meeting participants of receipt from the Russian Federation of an official notice concerning completion by P.V. Livadny of his mission as the Co-Chairman of WGEL. It was suggested that the Plenary Meeting instruct the Secretariat to elaborate during the inter-session period together with the EAG member states the candidacies for the position of WGEL Co-Chairman and bring up the issue for discussion and approval in the course of the 21<sup>st</sup> EAG Plenary Meeting in November this year.

WGEL became the venue for discussion of the Memorandum of Understanding between the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) and the Counter-Terrorism Committee Executive Directorate (CTED). The Working Group suggested that the Plenary Meeting instruct the EAG Secretariat to implement editorial corrections obtained during the meeting and prepare the document for execution during the inter-session period.

The EAG Secretariat informed WG participants about joint FATF/EAG/MONEYVAL assessor training seminar that was held in March this year in Moscow and of the scheduled EAG expert training workshop that is expected to take place in India on October 6-10.

As part of preparations to the 2<sup>nd</sup> round of mutual evaluations by EAG, the schedule of evaluations as improved by the EAG Secretariat was reviewed in accordance with decisions made during the inter-session WGEL meeting that was held in Moscow in March this year. The schedule was approved by resolution of the 20<sup>th</sup> plenary meeting.

<sup>1</sup> <http://sourceforge.net/p/bitcoin/mailman/message/31813471>

<sup>2</sup> <http://zerocoin.org>



Working Group members discussed the procedure for holding of the 2<sup>nd</sup> round of mutual evaluations and implemented some corrections. The decision was made to recommend to the Plenary Meeting accepting this document as a basis and – where necessary – introduce amendments during the inter-session period including those based on discussions of the Evaluation and Compliance Group (ECG) of FATF which will discuss EAG Procedures in October 2014. Upon WGEL recommendation final approval of the schedule will take place during the 21<sup>st</sup> EAG Plenary Meeting in November 2014.

Meeting participants discussed the draft protocol of cooperation between the Board of Financial Intelligence Units of CIS member states and the Eurasian group, and made a number of comments and proposals. It was suggested that the Plenary Meeting instruct the Secretariat submit the Draft Protocol of Cooperation between the Board of CIS FIU and EAG to the Secretariat of the Board of CIS FIU during the inter-session period.

The Working Group approved suggested procedures for consideration of programs of voluntary compliance with tax legislation in EAG member states.

WGEL reviewed reports on the progress of Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. The group made certain decisions that were registered in the Public Statement based on the results of the 20<sup>th</sup> EAG Plenary Meeting.

### Review of the Working Group on Risks and Supervision

During the meeting of the working group on risk monitoring and supervision (WGRS), delegations reviewed amendments and additions to the Mandate

of WGRS, action plan of the working group and co-chairman candidacies.

According to its action plan, WGRS scheduled the following events for the nearest two years:

- exchange of experience in application of the risk-based approach in supervisory activity and the national risk assessment;
- implementation of online monitoring of regulatory base of EAG member states in the sphere of AML/CFT supervisory activity;
- participation in visiting missions pertaining to exchange of experience in AML/CFT supervisory activities.

Resolution of the EAG Plenary Meeting approved in the new format the WGRS mandate for the period of two years, the action plan of the working group and co-chairman candidates:

- Aleksey Alimovich Stepanov – head of Macroanalysis and Typologies Department of Rosfinmonitoring;
- Andrey Eldarovich Gasanov – deputy head of the Directorate of the Financial Monitoring and Foreign Exchange Control Department of the Bank of Russia;
- Mishra Pankaj Kumar – OSD, Department of Economic Affairs of the Ministry of Finance of the Government of India.



## Review of the Working Group on Technical Assistance

During the meeting of the Working Group on Technical Assistance (WGTA), delegations discussed the draft EAG Budget 2015, introduction of amendments and additions to financial documents of EAG, WGTA Mandate and other documents. Based on discussions, it was decided to submit for approval to the Plenary Meeting the above documents.

As part of WGTA work, joint meeting was held with the working group of mutual evaluations and legal issues (WGEL) where alteration of the formula for calculation of the amount of EAG member states' contributions was discussed.

In order to understand the demand of EAG member states for technical assistance in the sphere of anti-money laundering and financing of terrorism in the presence of delegations (UNODC, OSCE, NRNU MEPHI) and EAG observer states from Armenia and Poland, presentations by Tajikistan, Turkmenistan, the Republic of Uzbekistan, the Republic of Belarus, the Republic of Kazakhstan, the Republic of Kyrgyzstan and the People's Republic of China were listened to. Representatives of delegations told about development of AML/CFT system in their states, results of mutual evaluation and recommendations on the latest follow up report, current situation in the national AML/CFT system, key priorities and requests for technical assistance as well as of current initiatives taken by EAG member states. Speakers welcomed further organization of training workshops for officers of financial intelligence units, supervisory and law enforcement agencies to enhance professional knowledge and skills in the sphere of AML/FT with the use of videoconferencing opportunities and traveling abroad, as well as provision of support in strengthening of two-way communication with the states that possess advanced experience in AML/CFT.

## Review of the Working Group on Financial Counteraction of Drug Business, Crime and Terrorism

The scheduled meeting of the Working Group on Financial Counteraction of Drug Business, Crime and Terrorism (WGFC) was attended by all EAG member states and observers: Mongolia, Poland, Turkey, the Eurasian Bank for Reconstruction and Development (EBRD), the UN Counter-Terrorism Committee (CTC), the Collective Security Treaty Organization (CSTO) and the United Nations Office on Drugs and Crime (UNODC).

Significant part of discussions concerned researches on the subject of financing of terrorism and extremism conducted by the group. Researched issues:

- criteria of suspicious transactions;
- analysis of financial flows, countries and institutes involved in transfer of money from drug trafficking;
- combating transportation of cash by couriers;
- mechanisms for inclusion/exclusion in/from the list of terrorists and international cooperation in this sphere;
- countries that receive money through Hawala;
- model of cash flows associated with Afghan opiate trafficking;
- mechanisms for freezing of proceeds that may be used for financing of terrorist/extremist activity.

**Hawala** is a non-official traditional money transfer system. It extensively operates in Africa, Asia and Middle East.

The client who wishes to use Hawala services approaches a hawaladar found in a newspaper ad or known to the client personally. Hawaladar accepts cash and instructions concerning where the money should be transmitted. Then, hawaladar directly/indirectly sends to his partner in the place of payment delivery a message that contains the

name of the payment receiver, the password, code or secret sign, which constitutes a ground for giving-out of money in the destination point.

In this system, no documents are used; everything is based on trust and belonging of the hawaladar and the client to the similar nationality. Thus, tracing such money transfers is rather difficult. It is one of the reasons for Hawala to be used to transfer money for financing terrorist acts and drug trafficking.

Of practical importance to group members are the issues pertaining to precursors. These are the substances that in certain reactions lead to formation of new substances. In particular cases, they are predecessors of narcotic and psychotropic agents, and their trade is restricted and subject to control.

The group gives specific attention to information exchange between the states and to issues of cooperation in certain cases. During the meeting, officers of the Turkish FIU presented the best practices in combating the financing of terrorist and extremist activities. In general, participants marked significant contribution of Turkey to the Group work: delegates actively participated in conducted research as well as in all meetings and discussions. Participants unanimously supported the initiative of the Russian delegation to appoint Turkey as the group co-chairman. The candidacy will be presented at the 21<sup>st</sup> Plenary Meeting of the EAG.

**Upon completion of the meeting of the Working Group, Turkey representatives – financial expert of the Department for International Relations of the FIU of Turkey (Masak) Eda Erol and financial expert of the Department for Freezing of Terrorist Assets of the FIU of Turkey (Masak) Hatice Topkaya – answered the questions of the Financial Security journal**

***– What were the most interesting points of the meeting? Will the experience you obtained during discussions with other group members be useful and interesting to the Turkish FIU?***

– The subjects we discussed during the meeting were very useful and interesting to us. Participation in such meetings gives us a chance to contribute to EAG work. We may improve our collaboration with EAG member states by means of these meetings that will promote further effective implementation of FATF Recommendations.

The Turkish FIU was established in 1997. Since then, our specialists have taken part in workshops and meetings of MONEYVAL, Egmont Group, EAG and FATF. Decision to select Turkey as the co-chairman



of the group may be very beneficial both to us and the EAG. Anyway it will be an interesting example of cooperation.

We are interested in practical experience that participants share in the course of discussions, for example, regarding legislation of EAG member states, the strategy for combating terrorism and terrorism financing.

***– Do you cooperate with FIUs of EAG member states as part of your activity? Are there any examples of such cooperation, say, as part of information exchange or requests on certain cases?***

– Yes, among other things, as part of cooperation with Egmont Group. We mostly cooperate with Russia. We also maintain information exchange with Uzbekistan, Kazakhstan and Turkmenistan. Collaboration along the links established by Egmont Group is a sound way to enhance collaboration between EAG member states and the group observers. And certainly some practical aspects of our activity may be discussed here – during the meetings of EAG working groups.

# ONLY TOGETHER CAN WE MEET RECENT GLOBAL CHALLENGES AND THREATS

*On 19–20 June 2014, Moscow hosted the 20<sup>th</sup> anniversary Plenary meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).*

*The Plenary was chaired by EAG Chairman Dr. K. P. Krishnan (India)*

*Konstantin V. Litvinov,  
Deputy Chief Editor*

Among the attendees were Yury Chikhanchin, Rosfinmonitoring Director; Vladimir Nechaev, FATF President; Andrey Novikov, Deputy Chairman of the CIS Center; Zhang Sinfen, Director of the Executive Committee of SCO Regional Anti-Terrorist Structure (RATS);

representatives of countries members of the EAG: Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan, as well as experts from states and international organizations with observer status in the EAG.







In a message to the delegates read out at the opening of the Plenary session, President of the Russian Federation **Vladimir Putin** noted the success achieved by the EAG in recent years, which has grown into a major international organization whose reputation is recognized by all:

*«I am convinced that only by combining the efforts of all countries and the entire international community we can meet today's global challenges and threats ... In addition, I would like to mention the importance of avoiding the politicization of these activities, which are based on clear criteria – international standards for combating money laundering and terrorist financing.»*

In his speech to the session participants, EAG Chairman **Dr. K. P. Krishnan** expressed a similar idea:

*«The FATF and EAG are technical organizations, which is what both groups have been saying all along. I regret that we haven't been able to organize any joint events, in spite of the efforts made.»*

FATF President **V. P. Nechaev** explained the reason for the cancellation of the joint meeting:

*«For a number of reasons, including because of the absence of a quorum, it became impossible. In order not to affect the fight against such phenomena as money laundering, terrorist financing and other criminal manifestations, Russia has agreed to move the FATF plenary meeting to a different venue, where a quorum will be present. The fight against money laundering cannot wait.»*

During the Plenary, participants discussed the issue of capital amnesty in the Eurasian region, its impact on the status and effectiveness of the national AML/CFT systems and the need to monitor this process by the Group. In addition, the Plenary discussed cooperation between the EAG and its partners from the SCO RATS, ATC CIS and UN Counter-Terrorism Committee.



The focus of the meeting was on the monitoring work following the completion of the first round and preparations for the second round of mutual evaluations of the national anti-money laundering systems of EAG member states. Follow up reports on progress in the development of national AML/CFT systems were presented by experts from Kazakhstan and Kyrgyzstan.



## ***CONSULTATIONS WITH THE PRIVATE SECTOR WILL BE AN ONGOING PROCESS***

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*Moscow, June 16 2014, in the framework of the 20 Plenary meeting of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) was organised a meeting of the Private Sector Consultative Forum “Risk-Based Approach to New Payment Methods”*

***Konstantin V. Litvinov,***  
*Deputy Chief Editor*

The event was organised by the International Training and Methodology Center for Financial Monitoring (ITMCFM) and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).

The event was organised by the International Training and Methodology Center for Financial Monitoring (ITMCFM) and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).

The meeting was hosted by Rosfinmonitoring officials, representatives of the financial intelligence units and private sector of the Eurasian Region states, ITMCFM experts and the delegates of MEPhI Financial and Economic Security Institute. The meeting started with the opening speech by the FATF President Vladimir Nechaev.

The consultations were divided into 3 sections where the following issues were discussed: «Government and business. Ways of cooperation

for ML/FT risks assessment and mitigation»; «New payment methods and ML/TF risks»; and «Facilitation of the dialog between government and private sector by educational and research institutions».

The first section heard the presentations made by Viktor L. Dostov and Pavel M. Shust, the representatives of the E-Money Association, and by Vladislav E. Ponamorenko, assistant professor of the Chair of Monetary Relations and Monetary Policy and the Chair of Financial Law of the FSEBI HPE Financial Institute Affiliated to the Government of the Russian Federation. The speakers highlighted the important issues pertaining to adaptation of the risk-based approach to the key trends in the innovative retail financial instruments market, discussed the cooperative efforts undertaken for implementation of the risk-based approach in the NPPS sector and elaborated on the ways of mitigating ML/FT risks in the CES member states foreign trade.

The second section became the arena of the most heated discussions and debates over cryptocurrencies, electronic money and new



payment instruments. The presentation was made by Evgeny M. Volovik, member of the FATF ad hoc group, who informed the participants about the FATF Guidance on New Payment Methods and presented information on Bitcoin ATMs. The section also discussed ways of mitigating ML/FT risks related to money transfers via payment terminals (presentation made by Dmitry P. Gronin, Manager of Financial Monitoring Service of Platina Bank) and the recent modifications in the Russian legislation pertaining to regulation of payment methods (presentation made by Nadezhda I. Prasolova, the Deputy Head of the Rosfinmonitoring Legal Department).

The third section discussed ways of facilitating public-private sector dialogue by the educational and research institutions. The main topics discussed included the development of the AML/CFT Network Institute and the educational, research and periodical publication projects presented by the ITMCFM. The presentations were made by Ekaterina V. Ledyeva, Konstantin G. Sorokin, Pavel V. Kukushkin and Alina V. Paskal, all of whom represented the ITMCFM. In

his presentation, A.V. Reznikov, assistant professor of the Economy and Management Department of the Education and Science Institute (the non-commercial partnership for facilitating advancement of education and science), elaborated on the development of the AML/CFT knowledge.

In his closing remarks the FATF President Vladimir P. Nechaev noted that all presentations were very interesting and informed that the issues related to virtual currencies would be further discussed during the upcoming FATF Plenary meeting:

“The FATF is not going to drop this subject and the information obtained and discussed at the events like this consultative forum will help to develop recommendations and improve the existing systems which could be benefit many countries. In my opinion, the outcomes of this EAG Plenary week will allow us to offer many useful ideas, proposals and recommendations. In general, such consultations with the private sector, which have already become the traditional events, will be the ongoing evolving process”.

### *Irina Prusova, National Bank of the Republic of Belarus*



– Currently, significant modifications are made in our AML legislation as it pertains, in particular, to application of the risk-based approach in implementation of control and monitoring measures. We need

to do a lot of work to develop the RBA guidelines for practical application by the Belarusian banks. In this context, it was very useful to learn the opinions and views of our Russian colleagues – the representatives of the regulators and the private sector. It is very important for our future work.

***Mirzosharif M. Sharipov, First Category Expert  
of the International Cooperation Division of the Financial Monitoring Department  
of the National Bank of Tajikistan:***



– The ideas and opinions exchanged at the Consultative Forum became the key to development of a common understanding of the risk-based approach and its application by both the private sector and the government institutions.

One of the main topics discussed at the meeting involved the ML/FT risks related to virtual currencies and the measures that could be or have been already undertaken to prevent and mitigate these risks.

It should be noted that the events like this Consultative Forum play important role in efficient implementation of the FATF Recommendations since they bring together the representatives of all sectors that are subject to the AML/CFT requirements as well as the representatives of the civil society and the government authorities.

Comparing with the previous events of this type, this meeting was featured not just by

the increased number of participants, but also by their active engagement in discussions. The Consultations became the real bilateral dialogue between the representatives of the private sector and FATF and FSRB member-states, and also provided the opportunity for the participants to share their experience and discuss challenges and problems related to the new payment methods.

In general, the Consultative Forum served as the effective platform for the dialog between private sector and state authorities. The meetings were rich in the events for the representatives of both the private sector and the regulators and, therefore, proved to be of practical value.

And finally, I would like to note that, in our opinion, it is expedient to hold such events in future for our further commitment to address the innovations in the financial system, such as the issues related to cryptocurrencies (virtual currencies) that are gradually becoming the integral element of the global financial system.

***Maksad Shagdarov, Senior Manager – Compliance Officer,  
People's Bank of Kazakhstan***



– I very much enjoyed participation in this Consultative Forum which was dedicated to consideration and discussion of important issues for both Russia and Kazakhstan, including problems related to abuse of new technologies by criminals and measures aimed to prevent it. Generally speaking, the anti-money laundering law was adopted in Kazakhstan quite recently, just four years ago.

However, we have already made the significant progress in this area. Specifically, I would like to emphasize the importance of application of such new instrument as the risk-based approach. The banks that are subject of financial monitoring must know and assess their clients by applying the RBA measures.

It was very interesting to hear the presentations of the specialists in this area, and I think that the experience of the leading experts will benefit our work.

### *Alena Kishkurno, National Bank of the Republic of Belarus*



– All presentations made at the Consultative Forum contained the latest up-to-date information. The presentations made by the experts demonstrated that their experience was based on both theoretical and methodological researches and practical work in the areas highlighted in their reports. Using this opportunity, I would like to express my gratitude to the organizers of this event who allowed us to obtain such important information.

Given that my job in the Belarusian National Bank involves development of e-money related methodological documents and guidelines, I was particularly interested in hearing the presentations delivered by Viktor Dostov and Evgeny Volovik that contained a lot of useful information. The discussion of the issues raised

in the presentations was also very interesting. It is obvious, that today there is no common opinion about e-money and virtual currency in particular, but, as everyone knows, the truth is born in argument. Being the methodologist, it is important for me to understand the current developments and trends and hear the opinions of the international experts to ensure that the issues related to e-money and virtual currencies are adequately reflected in the national legislation.

Belarus was one of the first countries to include the e-money related provisions in the national legislation. Nevertheless, we keep on learning from our foreign colleagues. At present, we develop the E-Money Transactions Regulations (to be adopted by the National Bank Board) which will include certain adapted provisions of the relevant Russian legislation.



# ***CONSOLIDATION OF EFFORTS, DETERMINATION OF PRIORITIES***

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*The third meeting of the Council of Heads of the CIS FIUs took place in Moscow*

*Irina V. Ivanova,*  
Chief Editor

The meeting resulted in the signing of several important documents. Namely:

- Memorandum of Cooperation between the Council of Heads of the CIS FIUs and the Anti-Terrorist Center of the Commonwealth of Independent States
- Memorandum of Cooperation between the Council of Heads of the CIS FIUs and the Office for the Coordination of the Fight against Organized Crime and other Dangerous Crimes on the Territory of the CIS Member States
- Memorandum of Cooperation between the Council of Heads of the CIS FIUs and the Council of Border Troops Commanders

In addition, the Council approved the Concept of Cooperation which aims to consolidate efforts and

define the principles, priorities and main directions of joint actions of financial intelligence units of the CIS.

Among the main objectives of cooperation are the organization and conduct of joint operations aimed at minimizing the risks arising from money laundering and terrorist financing and the promotion of information exchange, including the establishment of secure communication channels between financial intelligence units of the CIS and friendly neighboring countries.

Information exchange provides for the sharing (including by means of remote access) of national lists of individuals and entities related to terrorist or extremist activities and placed on the international wanted list.

In addition, provisions are made for the granting of remote access to a number of basic national information databases:

- register of legal entities



- register of individual entrepreneurs
- accounting records of legal entities

In the future, these capabilities could be complemented by a set of statistical indicators. Also, for the purpose of risk management and improving the efficiency of statistical analysis, it makes sense to share statistical data on cross-border financial flows between the CIS countries.

All of these tools would enable FIUs to mount effective joint thematic operations (like «Channel») aimed at addressing common problems of AML/CFT.

In addition, participants discussed the main directions of operational coordination of financial intelligence within the CIS, as well as plans to undertake independent initiatives related to the assessment of risks to national security of states and their minimization. The next Council meeting will be held in Tajikistan in November 2014 within the EAG plenary week.

## INTERNATIONAL BLOCK

## ROSFINMONITORING DELEGATION TOOK PART IN THE APG PLENARY

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*The Rosfinmonitoring delegation, headed by Deputy Director V. I. Glotov, took part in the expert and working group sessions and the annual plenary meeting of the Asia-Pacific Group on Money Laundering, held in Macao (Special Administrative Region of China) on 14 – 18 July of this year. EAG Secretariat representatives also took part in the forum as observers*

**A.G. Petrenko,**

*Head of International Cooperation Department of Rosfinmonitoring*

During the opening ceremony, while speaking about the importance of global anti-money laundering, countering the financing of terrorism and prevention of proliferation of weapons of mass destructions (AML/CFT/PWMD) efforts, representatives of the host party, co-chairs of the APG (Australia and China) and the newly elected FATF President R. Wilkins of Australia noted the success of the Russian presidency of the FATF, expressed their willingness to continue the initiatives and projects started by our country and highlighted the importance of

preserving this international institution as a purely technical structure that sets agenda for all FSRBs, including the APG.

In the context of a mid-session discussion centered on the need to further strengthen the global FATF network in addressing the challenges of a new round of mutual evaluations aimed at improving the effectiveness of combating ML/FT/PWMD, participants highlighted the collaboration between the APG and the EAG as an example of successful cooperation between FSRBs. APG Executive Secretary G. Hook thanked Russia and the Eurasian Group for their support of the Asia-Pacific region countries during their review by the



FATF's International Cooperation Review Group (ICRG), which allowed Bangladesh, Vietnam, Mongolia, Nepal and Pakistan to exit the «black» and «grey» list of this organization during the Russian presidency.

Due to the continued presence of a considerable number of APG member jurisdictions on the FATF's list of countries subject to enhanced follow-up process, the agenda of the session was dominated by a review of follow-up reports and elimination of deficiencies in the national AML/CFT/PWMD systems. Given the strength of the APG membership (41 countries, making it the largest FSRB) and the specifics of its plenary meeting schedule (once a year), the Secretariat of the Group carries the main burden of monitoring, reporting and organizing face-to-face meetings. In this regard, given the challenges of the now ongoing 4th round of mutual evaluations that demand the input of additional human resources, better planning and professionalism of experts, the APG asked the EAG and the Russian Federation to join efforts to create a common pool of experts, while highlighting the success of the joint EAG/APG workshop in September 2013 in Ulan Bator, which was held with the active participation of the Rosfinmonitoring.

Following a review of the submitted reports, Afghanistan, Cambodia, Indonesia, the United States and Japan were retained on an enhanced follow-up process. With regard to Japan, the group decided to support a special public statement issued to Tokyo by the FATF's Paris plenary.

On the issue of further extension of the APG membership, the North Korea and Tuvalu were granted observer status.

During a traditional roundtable discussion, along with other member and observer countries, the Rosfinmonitoring presented materials on the measures to improve the national AML/CFT system undertaken by Russia last year. The information was well received by the delegations present.

Several bilateral meetings were held on the sidelines of the meeting.

Consultations were held on ways to enhance information sharing with the FIUs of Australia, New Zealand and Macau. Bilateral cooperation agreements based on the updated in the FATF Recommendations (2012) model project were signed with the FIUs of Malaysia, Myanmar and China.

In view of the passing of the position of APG co-chair to New Zealand, the next annual meeting will be held in July 2015 in Oakland.



## MITIGATING VIRTUAL CURRENCY ABUSE RISKS

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*The FATF published document which considers the ML/FT risks related to virtual currencies. This document entitled **Virtual Currencies – Key Definitions and Potential AML/CFT Risks** contains the brief overview of the virtual currency systems and, as the title suggests, analyzes the risks which may occur as the result of abuse of this technology*

*Evgeny M. Volovik,  
ITMCFM Project Manager*



*Evgeny M. VOLOVIK*

It so happened that the FATF document was published in just few days following publication of the OECD document *Bitcoin Question: Currency versus Trust-Less Transfer Technology*. However, the OECD's research document is virtually unrelated to the AML/CFT issues which are in the focus of the FATF.

The FATF document is of high value since it is one of the first attempts to introduce the common terminology related to digital currencies at the international level. Until now, there was certain confusion regarding the currency definitions, but now we have the clearly defined terms, such as "centralized and decentralized currency", "electronic money", "digital currency", "virtual currency", etc.

The FATF report notes that digital currency may be used for legitimate purposes. Prominent venture capital firms invest in virtual currency start-ups and clearly understand the opportunities provided

by this new technology: virtual currency has the potential to improve efficiency of payment and remittance systems and reduce the transaction costs for payments and fund transfers. For example, Bitcoin functions as a global currency that can avoid exchange fees, and is currently processed with lower fees/charges than traditional credit and debit cards. Bitcoin may potentially benefit to existing online payment systems, like PayPal.

The FATF also points out that digital currencies may facilitate micro-payments, allowing businesses and individuals to monetize very low-cost goods or services sold on the Internet.



Besides that, the document states that digital currency support financial inclusion of the under- and un-banked population. The report also addresses the issues pertaining to international remittances. In general, the FATF document may be considered as the “optimistic” one in terms of practical application of this technology.

As for the AML/CFT risks, the FATF concludes that digital currencies are “potentially vulnerable to money laundering and terrorist financing abuse” for many of the reasons. They may “allow greater anonymity than traditional non-cash payment methods”. Virtual currencies can be traded on the Internet, are generally characterized by non-face-to-face customer relationships, and may permit anonymous funding. “Virtual currencies may also permit anonymous transfers, if sender and recipient are not adequately identified”.

The FATF indicates that decentralized systems may be particularly vulnerable to anonymity risks and provides the following explanation:

“For example, by design, Bitcoin addresses, which function as accounts, have no names and

other customer identification attached, and the system has no central server or service provider. Bitcoin protocol does not require or provide identification and verification of participants or generate historical records of transactions that are necessarily associated with real world identity. There is no central oversight body and no software currently available to monitor and identify suspicious transaction patterns in Bitcoin system”.

Law enforcement cannot target one central location or entity (administrator) for investigative or asset seizure purposes (although authorities can target individual exchangers for client information). Bitcoin thus offers a level of potential anonymity impossible with traditional credit and debit cards or “outmode” online payment systems, such as PayPal.

Virtual currency’s global reach increases its potential AML/CFT risks, since it facilitates cross-border fund transfers through the complex infrastructure spread across the globe. This segmentation creates additional problems for law enforcement and oversight authorities since the responsibility for AML/CFT compliance is unclear.

These problems are exacerbated by the rapidly evolving nature of decentralized virtual currency technology and related business models, including the changing number and types/roles of participants providing services in virtual currency payment systems. And importantly, the FATF makes the conclusion that components of a virtual currency system may be located in countries that do not have adequate AML/CFT controls.

The FATF warns that virtual currency systems could be complicit in money laundering when deliberately seek out jurisdictions with weak AML/CFT regimes. Decentralized convertible virtual currencies allowing anonymous person-to-person transactions may exist in a digital universe entirely outside the reach of competent authorities of any particular country.

The FATF essentially admits that mala fide persons, trying to avoid law enforcement scrutiny and evade international financial regulations, including financial sanctions, may use the digital currency technology for establishing trading sites outside the reach of law enforcement and regulators.

The FATF notes that law enforcement has already investigated serious cases that involve abuse of electronic money. The report presents some of such cases: the case involving money laundering by Liberty Reserve; rise and fall of Silk Road website



used for online trading in drugs; and extinction of Western Express International. To be fair, the latter case had nothing to do with Bitcoin or other cryptocurrencies, since it involved E-Gold and WebMoney.

It should be emphasized that so far the FATF has made no attempts to set any kind of international virtual currency regulation standards. Therefore, each country relies on its own regulatory mechanism. Such inconsistent virtual currency regulation actions taken by countries benefit to criminals: as mentioned above, they get the opportunity to create illegal schemes by exploiting weaknesses of the national AML/CFT regulatory frameworks.

*On behalf of the FS journal we would like to thank the representatives of the E-money Association Viktor Dostov and Pavel Shust for their expert assistance in translation. Electronic version of the report is available at ITMCFM web site.*

## ***PAYMENT SYSTEM MUST BE PROTECTED FROM CYBERCRIMINALS***

*On 19-21 August 2014, Kyrgyzstan hosted a regional workshop titled “Crime in Cyberspace and Money Laundering”*

*Konstantin V. Litvinov,  
Deputy Chief Editor*

The event was organized by the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), the Organization for Security and Cooperation in Europe (OSCE), the Financial Intelligence Unit (FIU) of Kyrgyzstan and the International Training and Methodology Center for Financial Monitoring (ITMCFM). The workshop was attended by representatives of 12 countries: Belarus, India, Kazakhstan,

China, Kyrgyzstan, Lithuania, Russia, the United States, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Opening statements were made by organizers of the event: EAG Executive Secretary Boris Toropov, Deputy Head of the OSCE Centre in Bishkek John McGregor, Chairman of the State Financial Intelligence Service under the Kyrgyz Government Malice Mambetzhonov, and Deputy Head of the Expert & Information Department of ITMCFM Konstantin Litvinov.







The first day of the workshop was dedicated to combating cybercrime, a tool used to commit fraud and money laundering. The work began with a speech by EAG Administrator Aliaksandr Vodziany titled «International Framework for Combating Cybercrime and Money Laundering». Attending delegations presented summaries of their national legislations: the definition of cybercrime, legal classification of this crime category as well as statistics on reported crimes. Pavel Shust, an analyst at E-money Association, made a presentation titled «Minimizing AML/CFT Risks to New Payment Services». Igor Voluevich, head of Rosfinmonitoring's Department for Development of Information Systems, talked about the most common cyber money laundering methods and tools. Representative of the Ukrainian FIU Maxim Vasyuk used the example of his country to explain the role played by financial intelligence units in combating money laundering and cybercrime.

During the second day, participants discussed the traditional and latest methods to combat computer crimes.

A special feature of the event was a wide range of topics related to high-tech crimes, ranging from skimming to the illegal use of virtual currencies. The issues connected with the virtual currency Bitcoin were explained in a report by ITMCFM representative Evgeny Volovik, who stressed that even those countries that have not yet had to deal with decentralized virtual currencies will be forced to eventually develop their own approaches to this phenomenon. Because of their specificity, the traditional tool for minimizing the risks may not be effective, meaning that it's necessary to develop new, unorthodox solutions to this problem.

A detailed report on countering extremist and terrorist online activities was presented by Rosfinmonitoring's representative Evgeny Semenov.

It is necessary to accept the fact that it is impossible to consider the issue of extremism and terrorism discretely by isolating online propaganda from funding or planning of illegal activities. All of them are related to each other, and therefore a comprehensive analysis will allow us to apply systematic rather than targeted measures for more effective crime prevention.

A valuable input to the discussion in the form of cybercrime investigation experiences was made by law enforcement officers of Lithuania, the United States and Tajikistan. Representatives of the National Bank and the FIU of Kyrgyzstan briefed the participants on the fraudulent transactions carried out through the Kyrgyz payment system and the use of the automated banking system «Bank ++». These examples highlighted the importance of analyzing not only transaction details, but also additional information. It appears that a close scrutiny of interrelations existing between different transactions will become one of the main trends of law enforcement activities in the financial sector in the coming years.

The third day was devoted to summarizing the event outcomes. In the final document issued following the completion of the workshop, participants praised the high expert level of the event as well as the novelty and progressiveness of the submitted materials, which allowed the participants to share ideas and best practices and to strengthen international cooperation in the field of cybercrime and accompanying it money laundering and terrorist financing. The Eurasian Group took the initiative to organize such events under the auspices of the OSCE and the EAG at least once every two years, taking into account the fact that the development of new technologies entails activation of criminal manifestations in this area.

### *Esendik K. Mussabekov, head of the Analytical Department of the State Financial Intelligence Service of the Kyrgyz Republic*



«First of all, I would like to say this: We are very pleased that this event took place. It's worth noting the properly selected format of the workshop as well as its content. I believe the presentations made by experts were very useful for everyone. Kyrgyzstan is not immune to cybercrime, and for this reason the workshop was very important for the competent authorities of our country.

I consider it important that the workshop was attended by representatives of the private sector,

which has shown its readiness to cooperate, a practice that should of course be continued. The established during the workshop contacts with representatives of different countries will allow us to better meet the new challenges and threats posed by cybercrime. The virtual space is expanding very rapidly. It represents a global network where fraud recognizes no borders. That's why we too need to learn to use common legislation to provide mutual legal assistance. It is already happening in some countries as we saw from the examples presented at the last workshop.»

### *Pavel M. Shust, an analyst at E-money Association (Russia)*



«I'd like to take this opportunity to thank the event organizers for a well thought-through workshop program and involvement of a wide range of experts. I am particularly grateful to the staff of the Kyrgyz FIU for their hospitality and warm welcome.

Private sector's participation in the workshop confirmed once again that business and law enforcement authorities have similar goals. We

all want to ensure that our payment ecosystem is protected against criminal abuse. All the more urgent in this context is an opportunity for us to exchange experiences in addressing the challenges facing us. Many financial institutions are already using effective tools to prevent fraud. Some examples of typologies showed to us yet again that the same mechanisms can be used to reduce the risk of ML/FT. It seems appropriate that further adoption of these technologies in the sector should only be encouraged.»

### *Scott Salo, liaison officer of the U.S. Secret Service at the Russian Embassy*



«The workshop can already be declared a success just for the ability of the organizers to bring together experts and specialists from different countries and to cover such a large region. It's rather difficult

to single out something over something else. I was particularly impressed by the Lithuanian presentation. Equally interesting was a presentation on the use of the virtual currency Bitcoin. Me myself a liaison officer specializing in such matters and consider this presentation very useful and informative.

*Donatas Mazeyka, head of the Cybercrime Unit of the Lithuanian Criminal Police*

«Such activities primarily contribute to the establishment of direct contacts with colleagues from other countries, which are particularly important for the investigation of cybercrime and money laundering as the two become increasingly intertwined. Therefore, I fully support the view that such workshops should be held more frequently.

For myself, I think the most useful presentation was that of an ITMCFM representative dedicated to virtual currencies. I've been researching

this topic myself, but this in-depth, all-inclusive presentation gave me new information on the issue. I would also like to highlight the report by a representative of the Russian private sector, especially on issues of online anonymity and pseudo anonymity.

On the whole, presentations made by our colleagues were highly useful and, in some cases, very impressive. They allowed us to see that the problem of cybercrime, despite its complexity, is nevertheless being tackled, and that Eurasian countries are making their own concrete contribution in this area.»

THE JOURNAL GUEST

## FINANCIAL SYSTEM OF CRIMEA HAD TO BE CREATED FROM THE VERY BEGINNING

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*On 16 March 2014 the Crimea became a part of the Russian Federation. This event has set new challenges for the entire national anti-money laundering system. During his summer visit to Sevastopol, D. G. Skobelkin, Deputy Chairman of the CB, said, “as the financial system of Crimea and Sevastopol is still building up, it remains vulnerable to dubious transactions and criminal schemes”.*

*Head of Rosfinmonitoring Oversight activities department O.G. Raminskaya told us what the Financial Intelligence Service thinks of it.*

*Irina V. Ivanova,  
Chief Editor*



*Olga G. RAMINSKAYA*

**OR:** March, 16 2014, Crimea began a new life that opened a new chapter in Rosfinmonitoring's history and set new goals that needed to be addressed in a new and highly challenging environment, when resources were limited and deadlines tight.

As far as risks and threats of the Crimean financial system then it has been classified as high risk. As a result, at present Rosfinmonitoring works to identify, forecast and prepare preventive measures to deal with the most vulnerable risk sectors such as international and regional areas, industry, budget, migration, etc.

**FS:** *What were the difficulties encountered by you?*

**OR:** They were numerous, including those related to organization, financing and personnel. We lacked adequate facilities, additional funding, personnel and equipment... And some of those challenges remain



even today, despite our best efforts to mobilize the available, albeit far from unlimited, human and material resources.

Among the primary and most urgent tasks facing the agency (related to the initial identification of the key risk areas and sectors) were:

- identification of entities involved in AML/CFT;
- integration of these entities into the Russian AML/CFT system;
- adjustment of the flow of transaction-related data, development and implementation of a mechanism for acceptance of reports on transactions with monetary funds and other assets from CFD reporting entities, and establishment of communication lines based on the RFM's website and AWP «Organization»;
- establishment of contacts with the local authorities, as well as representatives of the administrative office of the Plenipotentiary Representative, Federal Security Service, Interior Ministry, Federal Tax Service, Federal Service for State Registration, Prosecutor's Office and law enforcement authorities of Crimea;
- identification of discrepancies in the functions of AML/CFT agencies under Ukrainian and Russian legislations;
- establishment of cooperation with other supervisory authorities, especially the mega regulator;
- informing the local reporting institutions of the need to comply with the requirements of the AML/CFT law and the procedure for identifying and reporting transactions to the FIU;
- provision of guidance and practical assistance.

**ΦБ:** *What are the main legal challenges? Any issues with legal discrepancies in the work of credit institutions?*

**OR:** The main problems are related to the so-called «transition period» that Crimea and Sevastopol are undergoing and the adoption of Russian legislation.

## Information

According to the National Bank of Ukraine's data, made available to Banki.ru, a total of 77 banks operated in Crimea and Sevastopol at the time of the peninsula's accession to the Russian Federation, 17 of which accounted for 80% of all banking transactions: Privatbank, Oschadbank, Ukreximbank, Delta Bank, Raiffeisen Bank Aval, Prominvestbank, UniCredit Bank, First Ukrainian International Bank, Sberbank of Russia, Alfa-Bank, KB Nadra, VTB, UkrSibbank, Finance and Credit, Ukgazbank, Black Sea Bank for Reconstruction and Development (BSBRD) and Morskoy Bank. The largest credit institution operating in Crimea was Pryvatbank, accounting for about 30% of all deposits.

The number one source of these problems is, of course, a huge number of differences existing between the Russian and Ukrainian anti-money laundering legislations. They are the ones that warranted a transition period in the first place, during which Crimea should adapt and learn to comply with Russian legislation.

**FS:** *What are the key differences?*

**OR:** In short, despite the common purpose – combating money laundering – the Russian and Ukrainian anti-money laundering laws apply to slightly different groups of entities and social relationships.

The main features of the transition period are defined by Federal Law No. 37-FZ of April 2 «On specifics of functioning of the financial system of the Republic of Crimea and the federal city of Sevastopol during the transition period».

Among other problems is the lack of a support base for the identification of entities, property, assets...

**FS:** *Representatives of the Crimean banking community gave examples related to the implementation of the customer identification requirements, including through TIN.*

**OR:** That's right. When we began working there, we simply couldn't identify customers or create customer files because Kiev had blocked access to the unified Ukrainian database immediately after the departure of Ukrainian banks.

**FS:** *One of the local bankers said in an interview that «under Russian law, we are required to notify the tax authorities about all accounts opened to customers, but it's not possible for us to prepare such notifications without first having these data in electronic form. The same is true for reports submitted to Rosfinmonitoring. Under the existing rules for «external» indicators, we're required to report almost every bank customer in Crimea».*

**OR:** That's right. We understand the customer identification challenges facing the banks operating on the peninsula. The current Russian anti-money laundering legislation has reached a level where fine-tuning goes much deeper and where the «know your client» principal is fundamental. This means that Crimean banks need to study their clients in more detail, work with them more closely and compile information for «customer files» from all possible sources.

**FS:** *What, then, have you been able to achieve so far?*

**OR:** Within a very short time period, we've been able to resurrect the flow of transaction reports from credit institutions and establish relationships with government agencies and key partners.

On June 25, at the Simferopol office of the Plenipotentiary Representative of the President of the Russian Federation, Rosfinmonitoring hosted an offsite meeting, chaired by first deputy director Y F. Korotky, which brought together for the first time more than 30 federal and local authorities and the Bank of Russia. The outcome of this event was the signing of several important inter-agency agreements, the placement of emphasis on the need to consolidate shared resources in light of the region's specifics and the forthcoming international expert evaluations, and the decision to establish an Interagency Working Group on combating illegal financial transactions within the region.

Cooperation in the area of online information exchange has been established with the Federal Tax Service. In addition, as of now, we have contacts with all banks operating in the CFD, and have begun receiving reports from them.

**FS:** *How many banks are currently operating in Crimea?*

**OR:** At the beginning of September we have already 18 banks. Financial institutions are, of course, a key element of the anti-money laundering system, as it is

	Banks operating in the Crimean FD	Total branches	Total ATMs
1	RNKB (JSC)	243	163
2	Krayinvestbank JSC	6	61
3	GENBANK CJSC	30	8
4	Just Bank LTD	3	0
5	Pervomaysky Bank (CJSC)	3	0
6	KB RUBLEV CJSC	1	0
7	AKB VladikomBank CJSC	7	0
8	FIA-BANK CJSC	1	0
9	Severny Kredit Bank (JSC)	1	3
10	AB ROSSIYA	7	9
11	KB MAST-Bank JSC	4	2
12	KB Kuban Kredit LTD	1	0
13	KB Financial Standard (LTD)	1	0
14	Ruskobank JSC	1	0
15	KB Verhnevolzhsky JSC	1	0
16	Black Sea Bank for Reconstruction and Development JSC	41	0
17	Morskoy Bank JSC	17	0
18	AK Baikalbank	6	0

Data as of September 9, 2014

their job to safeguard the financial system and act as barriers to the flows of dirty money. A steady and well-balanced flow of high quality information on suspicious transactions may become our strongest weapon.

The banks can roughly be split into three groups. The first group consists of banks headquartered in Russia and operating in full compliance with the domestic law. They are also the ones that handle government funds, which are huge. These funds include payments to the CFD and Sevastopol, government and other extra-budgetary funds, utility payments, etc. The biggest of them are RNKB and CHBRR.

The second group consists of banks which previously operated under licenses issued by the NBU and which currently also handle some of the government funds, especially those intended for Sevastopol. This group includes Morskoy Bank JSC and Black Sea Bank for Reconstruction and Development JSC. They were chosen at an early stage, when the Ukrainian currency was still in circulation, because they could work with the hryvnia and because of their previous experience of providing services to the Black Sea Fleet.

Early on, when banks began to report to us, their reports were in the Ukrainian language, which presented a challenge of their understanding and analysis. In addition, all submitted reports were in paper format due to the fact that their operating systems were different from the ones used by the Bank of Russia. As of now, all these issues have been resolved.

The third group consisted of typical small- and medium-sized banks (except, perhaps, for Genbank, which is currently under our scrutiny) which decided to try their luck and capture a market share. Large banks, as you're aware, chose to stay away from the CFD for fear of sanctions.

**OR:** In terms of financial risks, the Crimean financial system has been classified as high risk. As a result, already today Rosfinmonitoring works to identify, forecast and prepare measures to deal with the most vulnerable risk areas and sectors, such as industry specific, budget, international, regional, migration, etc.

**FS:** *What about the process of cooperation with the Bank of Russia?*

**OR:** Rosfinmonitoring and the Bank of Russia work very closely with regard to the CFD, starting from the working group on sustainable functioning of

the banking and payment systems of the Republic of Crimea and Sevastopol and their integration into the banking and payment system of the Russian Federation (P. V. Livadny and myself represent Rosfinmonitoring in these groups) and ending with finding common solutions to all strategic issues.

**FS:** *What are the main regional risks and threats that can be identified already now?*

**OR:** The financial and economic situation in the region remains challenging. We haven't completely resolved the issue of illegal currency exchange offices. Residents of Crimea have grown used to being dependent on cash, especially during the summer season. As of September, there are 400 such exchange offices operating in Crimea.

Due to delays in the opening of its post offices by Russian Post, the task of monitoring financial flows to Ukraine via Sevastopol Post, the only entity that was licensed to offer remittance services to Ukraine, remains unresolved. There was a period when we registered a spike in the volume of remittances between Ukraine and the peninsula made via CONTACT. Those remittances were sent by the same persons to the same address and the same counterparty (an individual) within a short period of time. To its credit, Sevastopol Post reacted quickly and now this process has been brought completely under control.

Yet to be addressed are the issues related to the functioning of such industries as the market of precious metals and jewels. As a result, the work of pawnshops is hamstrung.

Of particular concern is the issue of monitoring budgetary funds. In this regard, we urge banks to supply to us information under the internal control code of 6001.

**FS:** *And what about the non-banking sector?*

**OR:** There's been a surge of activity in the real-estate sector, which resulted in the creation of a self-regulated organization comprising 60 members. In whole, it's a very vibrant segment which, unfortunately, was dominated by illicit real-estate agents who conducted property transactions before they were officially allowed. There's still a lot remains to be done in this area. Equally busy are notaries. In Ukraine, they acted as intermediaries in real estate transactions and had access to all necessary databases (FTS and State Register), resulting in



higher levels of responsibility. I personally met some of them and appreciated the high level of their professionalism and willingness to cooperate.

**FS:** *What are Rosfinmonitoring's short-term plans?*

**OR:** Today we're launching the second stage of the formation of the financial system of the Crimea, which, in my opinion, is going to be even more complex. It involves a sustained in-depth monitoring

of priority areas: industry, budget funds, defense industry, shipbuilding, seaports, real estate, resorts and the creation of a gambling zone.

Pursuant to the order of the President of the Russian Federation Vladimir Putin, the job of integrating Crimea into the Russian Federation must be completed by January 2015.

*Editor's Note: The data given in the text correspond to the situation at the end of August 2014.*



## INFORMATION ABOUT FEDERAL LEVEL EVENTS

## TO SECURE FUNDS IS THE MAIN TASK FOR ALL STATE AUTHORITIES

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*The meeting with the heads of the law enforcement, supervisory and oversight authorities of Krasnoyarsk Territory to discuss measures aimed at securing funds allocated for hosting the XXIX World Winter Student Games in 2019 was held in Krasnoyarsk*

*Irina V. Ivanova,*  
Chief Editor

In his welcoming speech, Yury Chikhanchin, Rosfinmonitoring director, highlighted the importance of the objectives faced by all ministries and agencies: "We need to examine and analyze how the national and Krasnoyarsk budgets are executed, what portion of the budgetary funds we can spend and what should we do to ensure favorable conditions for replenishing the budget".

**Vadim Goncharov**, deputy Plenipotentiary Representative of the RF President in the Siberian Federal District, reminded about the recent experience of hosting the international events which demonstrated

that such issues as fund fraud, embezzlement, corruption, etc. were actively used for challenging the success and discrediting the country:

*"This practice is typical not only for sports events, we all remember about the wave of criticism that engulfed the APEC Forum held in Vladivostok. The most recent sports mega-event, the FIFA World Cup hosted by Brazil, was also clouded by corruption allegations ... This is the time for us to analyze the problems and deficiencies occurred in course of the previous events, determine the ways of efficient cooperation and coordination between the law enforcement and oversight agencies and to arrange this event such as to ensure that financial aspects do not spoil the pleasure and enjoyment of the success".*



In his speech, **Viktor Tolokonsky**, Acting Governor of Krasnoyarsk Territory, articulated the tasks to be accomplished by the region – to effectively spend the budget resources, decriminalize the economy and improve the governance and management quality:

*“The experience of hosting the Universiade in Kazan and the Olympics in Sochi will help us to meet these objectives. We have strived and still are doing our best to take into account the challenges and problems encountered in course of arrangement of those events. ... Forty billion rubles of budgetary funds will be allocated for this upcoming event, 80% of which will be provided from the federal budget and the remaining 20% will come from the regional budget”.*

*“If the goal is set, we will achieve it, - stated **Yury Chikhanchin**, head of the Russian FIU. – The practical experience of hosting the Olympics, the APEC Forum and the World Student Games in Kazan demonstrated that the governmental mechanisms were effective. All we need to do is to properly use them. If all stakeholders, and primarily the Regional Government represented by the Governor Administration, are keenly interested in success, the goal will be quickly accomplished and the proper business structures will be set up. The Russian business is law abiding one and I trust it.*

*We brought together the oversight, supervisory and law enforcement agencies to look and assess whether or not they are ready to accomplish the goal set by the federal government. Based on the outcomes of the discussion it can be concluded that yes, Krasnoyarsk is ready. There are certain problems and various options of improvement of the cooperation and coordination mechanisms, but these are minor issues that can be addressed in the process of work. In general, the readiness is very high. Our mission is to improve the overall*

*effectiveness, enhance transparency of spending budgetary funds and engage the proper mechanisms of all financial institutions”.*

**Alexander Timoshenko**, head of Rosfinmonitoring Interregional Office in the Siberian Federal District:

*“Securing the budgetary funds, including those allocated under the public contracts, is the priority of all government agencies. In this context, arrangement for proper cooperation and coordination is of paramount importance. In our opinion, in order to implement the measures aimed at prevention of illicit spending of the budgetary funds allocated for hosting the World Student Games it is necessary to establish the coordinating body, which main function will be coordination of the efforts undertaken by the relevant agencies and services. We need to learn from the experience of Tatarstan that established the register of public contracts signed in course of the preparation for the World Student Games. It is also expedient to discuss the potential use of special accounts or transaction IDs, like those used for carrying out international transactions, and to compile the list of authorized banks entrusted by the government to handle the budgetary funds and assign some of the monitoring function to them.*

*I would like to point out the following: once a public contract is signed and funds are transferred to commercial companies, only Rosfinmonitoring can trace further destination of these funds. Neither the Federal Service for Financial and Budgetary Oversight, nor the Federal Antimonopoly Service are capable of doing this. Only our unique instruments allow us to trace further flows of these funds. However, we do not possess the almighty power - quality of our work depends on completeness of reports filed with the federal database”.*

In the closing remarks, **Yury Chikhanchin** reiterated that the objective faced by the government authorities is not to “convict the guilty persons, but to prevent embezzlement of funds”.

## PRIVATE SECTOR

# MANAGEMENT, RISK CONTROL AND COMPLIANCE IN RUSSIA

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*Inessa A. Lisina,*  
*Editor and Reporter*

The roundtable meeting concerning the issues of management, risk control and compliance in Russia was held on June 24, 2014 in Moscow. The event was organized by the Russian division of Thomson Reuters. It is a well known international company, with divisions in more than 100 countries, providing access to information resources in the sphere of finance, law, taxes. Clients of Thomson Reuters are employees of international corporations, international and governmental organizations including those involved in internal control, compliance, anti-money laundering and combating the financing of terrorism (AML/CFT).

In 2011 and 2013, the company held global interviews with specialists in risk management, compliance, financial services working in the most regulated fields of the market and responsible for AML/CFT measures. The results demonstrated that activity of these specialists constantly becomes

more complicated due to implementation of new regulatory practices that change with emergency of new threats. According to the Director for Business Development in Russia and CIS of Thomson Reuters Oleg Kurzanov, money laundering, financing of terrorism, business ethics, bribery, corruption, Foreign Account Tax Compliance Act (FATCA) issues remain the key relevant problems to the above categories of specialists in 2014.



THOMSON REUTERS

Discussion topics were divided into three groups:

**1. Anti-money laundering and combating the financing of terrorism in Russia.**

First section speakers were representatives of major banks and Rosfinmonitoring that allowed carrying out a systematic analysis of discussed issues from the viewpoint of both regulated organizations

and the regulating authority. Dmitry Chistov – Risk and Compliance Director of KPMG – acted as the moderator. He noted at that point professional community had a good knowledge and applied basic principles of global AML/CFT practices and existing regulatory provisions. Determining ultimate beneficiaries, detection and forecasting of potential ML/FT risks remain the most urgent issues.

Vnesheconombank Compliance Director Tatiana Melnik told about the practice existing in the bank. Since Vnesheconombank is a bank, a governmental corporation and a securities market player at the same time. AML/CFT questions including those concerning ultimate beneficiaries data are already included in each bank document. Every bank client is a subject of due diligence. Thus, opening a bank account may take 3 to 6 months. During the time, the client is examined by most committees of the bank that issue their opinion on client reliability in various terms – risks, ultimate beneficiaries, economic security. Every month, the client submits to the bank information about its ultimate beneficiaries even if they do not change. It is explained by the fact that the bank implements strategic governmental projects.

Deputy Head of the Administration for Organization Supervisory Activities of Rosfinmonitoring Igor Turkanov pointed out that G20 states were the first to declare the necessity of disclosing beneficiaries details. It is particularly important to companies with great capital turnover. If the client does not disclose information on ultimate beneficiaries, he/she may excite increased attention of law enforcement agencies without even committing illegal acts. The modern trend is that regulators do not consider separate operations, they are rather interested in operation sequences that all may fall under suspicion. So, clients themselves need identification in the first place.

In opinion of the Rosfinmonitoring representative, disclosure of beneficiaries is first of all required in order to combat the financing of terrorism. An important point here is shutting off the sources of funds before violators succeed in implementation of terrorist acts. To do so, information requested by regulating authorities shall be transferred in due time and in full scope.

## **2. Business ethics of financial compliance and AML/CFT specialists.**

Main topics of the discussion section were the issues of ethical principles and code of conduct of

financial control and compliance specialists; effective methods of control and prevention of bribery and corruption; reputational risks.

Regional Manager of the Department of Business Information for the States of Europe, Middle East, Africa of Thomson Reuters Julia Vashchuk pointed out that governmental authorities in various states have by now enhanced their efforts in combating corruption, money laundering and financing of terrorism. Recently, the Foreign Corrupt Practices Act of the USA (FCPA) of 1977 has become more frequently applied in the world. Also, amounts of penalties applied to companies under this act have increased.

The UK Bribery Act of 2011 operates on a similar principle. Now, the Government and state authorities perform numerous investigations as part of this law, although no fines or penalties has yet been applied in accordance with it. However, experts note a certain trend in emergency of similar laws, and growing penalties for evasion of fulfillment of those.

## **3. Practical difficulties in implementation of FATCA requirements.**

Among the issues discussed, organizers underlined the relevance of introduction of FATCA requirement and issues of implementation thereof in Russia.

**The Foreign Account Tax Compliance Act (FATCA)** is the US federal act that binds US citizens including those residing outside the United States to provide information about the state of their financial accounts opened outside the United States, and binds foreign financial institutions to inform the Internal Revenue Service (IRS) of accounts of their clients opened in the territory of the USA. The Congress adopted FATCA in order to make it more difficult for the American tax payers the process of concealment of assets allocated to offshore accounts and shadow companies and thus replenish the federal tax crimes pool.

Section moderator, partner for tax and legal service practices of Ernst&Young Maria Frolova said that the issue remained relevant. Discussion and execution of regulations concerning the FATCA conditions began



as early as in 2010, but until now legislation has been changed and updated permanently.

Several days before the event, the State Duma of the Russian Federation adopted and submitted for execution to the Federation Council a draft law that will allow Russian financial institutions meeting the requirements of FATCA.

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The event that united the experts of banking, financial, consulting sectors, representatives of

regulating authorities, became the first among events scheduled by Thomson Reuters for this year. A series of roundtable meetings will encompass not just Russia, but all CIS states as well. Meetings of expert community in Qatar, Egypt and UAE are also planned. Organizers believe that exchange of opinions and best practices among specialists in the sphere of management, risk control and compliance will promote enhancing efficiency of work of financial, credit and bank organizations involved in AML/CFT throughout the world.

## **BITCOIN AND CRYPTOCURRENCIES: OUTLOOK FOR RUSSIA**

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*On August 9, 2014, the 1<sup>st</sup> International Conference Forum  
“Bitcoin and Cryptocurrencies: Outlook for Russia” was held in Saint Petersburg.  
The event was organized by Crypto Currencies Foundation Russia (CCFR)*

*Inessa A. Lisina,  
Editor and Reporter*

Guests and speakers on the conference were developers of Bitcoin applications and projects, journalists of specialized mass media, representatives of banking sphere, business communities and experts who study cryptocurrencies.

The following subjects were discussed during the event most widely:

- regulation of cryptocurrencies in Russia and experience of foreign regulators;
- application of cryptocurrencies in the modern world, opportunities to implement business projects using cryptocurrencies;
- specifics, profitability and ways of bitcoin mining;
- analysis of popular cryptocurrency exchanges;
- FATF approaches to cryptocurrencies regulation.

A famous traveler, participant of UNESCO expeditions, Sergey Solovyev told he was going to take part in an expedition where all payments would be made using bitcoins only. The expedition is meant to demonstrate that bitcoins in the modern world may be used as an alternative to conventional money.





Speech of the representative of the International Training Center of Financial Monitoring Evgeny Volovik who is an active participant of all FATF discussions on the issue of virtual currencies regulation excited great interest among forum guests. Evgeny Volovik took part in development of the latest guidelines of the group "Virtual currencies – key definitions and potential AML/CFT risks» (June 2014). Based on the results of the speech, a large-scale discussion took place. Conference participants were interested in FATF activities, approaches of the Russian supervision bodies to regulation alternative currencies sphere.

Doctor of Economic Sciences, Professor Artyom Genkin performed systematic analysis of international practices of bitcoin regulation and application thereof. According to his forecasts, in 5-10 years, the sphere of virtual currencies application will be legally regulated and described in detail in legislation of most states. The first reaction of the global community to development of virtual currencies and cryptocurrencies was a suspicion. In the beginning of 2014, some countries, particularly, Australia, warned their citizens that bitcoins were rather a high-risk sphere – the states

could not control their use and thus may not be responsible to citizens.

The Chairman of the E-Money Association Viktor Dostov voiced in his speech that in his opinion pooling of all payment systems into a single "payment cloud" was the most modern trend. Payment cards, mobile payments, QIWI wallets and other possible payment methods may be integrated in a single system in the nearest future. In its turn, it will be exactly the system that will determine the account to withdraw money from – depending on fee charged, convenience of payment and other conditions. Integration in the system of the capability to perform bitcoin operations will allow expanding their field of application.

Considerable audience and numerous discussions yet again proved relevance and interest of professional community in further development of alternative payment methods. In opinion of the participants, an even wider development and extension of the area of application of cryptocurrencies should be expected. More and more business representatives are interested in development of bitcoin projects and today foundation is laid for successful implementation of such projects on the national scale.

## FINANCIAL INTELLIGENCE UNITS OF THE EAG STATES

# HISTORY OF THE FINANCIAL INTELLIGENCE UNIT OF REPUBLIC OF TAJIKISTAN

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**Shamsiddin A. Nurov,**  
*Director of the Financial Monitoring Department  
of the National Bank of Tajikistan*



**Shamsiddin A. NUROV**

The Financial Monitoring Department of the National Bank of Tajikistan (hereinafter the «FIU») is a national center specializing in the gathering, processing, analysis and provision to Tajik law enforcement authorities of information related to combating money

laundering and terrorist financing. The FIU carries out its activities on the basis of the Decree of the President of the Republic of Tajikistan No. 724 of October 20, 2009 and Resolution of the National Bank No. 33 of Tajikistan dated February 15, 2010.

In discharging its AML/CFT functions, the FIU is guided by the Law of the Republic of Tajikistan «On combating money laundering and terrorist financing (No. 684 of March 25, 2011) and other AML/CFT regulations.

For the purpose of ensuring compliance with the FATF requirements, the Prime Minister of the Republic of Tajikistan approved on June 11, 2011 the Action Plan to bring the Tajik legislation in line with the FATF Recommendations (No.2/107).

This Action Plan has allowed Tajikistan to achieve significant progress in the AML/CFT sphere. These achievements have received praise from the FATF and EAG leadership, which in turn allowed Tajikistan to move from the EAG enhanced to regular follow-up process.



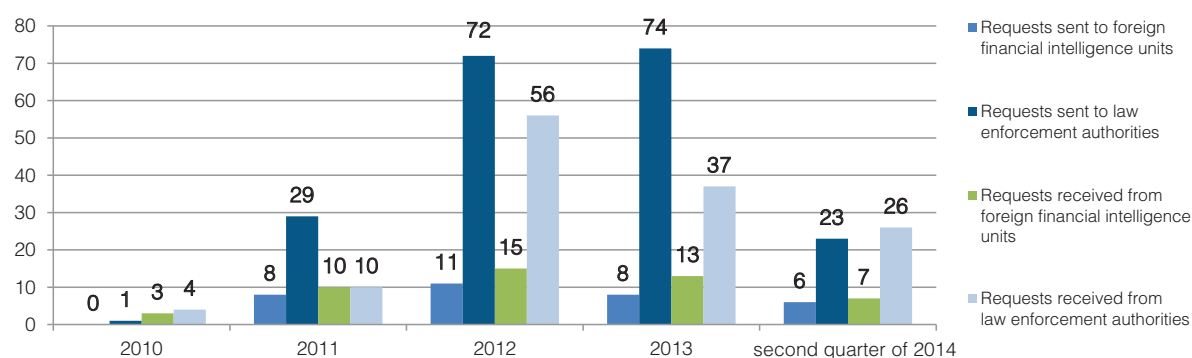
Pursuant to Articles 14 and 16 of the Framework Law and the FATF Recommendations, the FIU of Tajikistan works closely with law enforcement authorities and financial intelligence units in the field of anti-money laundering and countering the financing of terrorism.

During the period from 2010 to 2014, the FIU of Tajikistan received a total of 181 information requests

from law enforcement authorities and foreign financial intelligence units. All of them were processed and responded to.

Additionally, the FIU of Tajikistan sent 232 information requests to law enforcement authorities and foreign financial intelligence units.

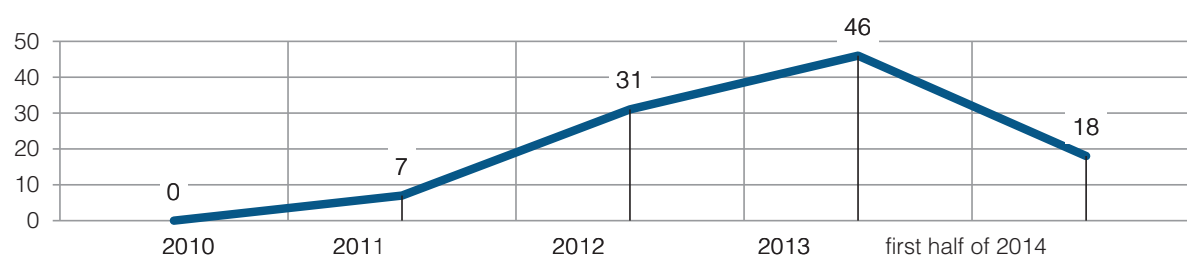
*Fig. 1. Information exchange involving law enforcement authorities and foreign financial intelligence units*



During the reporting period, the FIU of Tajikistan received 102 suspicious transaction reports from institutions carrying out transactions with monetary funds or other assets, all of which were properly processed.

In particular, 5 transactions were suspended, but allowed to go ahead after a thorough analysis and receipt of confirmation of their legality from law enforcement.

*Fig. 2. Submission of suspicious transaction reports*



During the reporting period, the country drafted and adopted several AML/CFT regulations designed to ensure compliance with the FATF standards, including amending the laws of the Republic of Tajikistan «On combating terrorism», «On combating money laundering and terrorist financing», «On currency regulation and currency control», «On notaries public» «On insurance

activities», «On the securities market», «On auditing activities» and «On postal communication».

Along with the above-mentioned regulations, amendments were made to the Criminal and Administrative Codes of the Republic of Tajikistan.

The above regulations were prepared in accordance with the requirements of the FATF Recommendations

and in conformity with the Action Plan to bring the legislation of the Republic of Tajikistan in line with the FATF standards. These amendments are aimed at strengthening the national AML/CFT system.

A special area of the Financial Monitoring Department's activities focuses on promoting cooperation with the FIUs of foreign states. Pursuant to Article 16 of the Law «On combating money laundering and terrorist financing» and in compliance with the FATF Recommendations, the FIU of Tajikistan has signed cooperation agreements with the FIUs of Armenia, Kyrgyzstan, Russia, Ukraine, Turkmenistan, Iran, Kazakhstan and Belarus.

It should be noted that similar agreements are expected to be signed with the FIUs of the United Arab Emirates, China, Turkey, Japan and the UK.

In accordance with the terms of the cooperation agreements signed with foreign FIUs, the Department analyzes the incoming requests from foreign FIUs and sends appropriate responses to them. Besides processing requests from foreign FIUs, Tajikistan also sends its own requests to foreign FIUs, thus contributing to a mutually beneficial information exchange between Tajikistan and different countries based on the cooperation agreements concluded with them.

It should be noted that the exchange of information is carried out by means of a secure communication channel of the Egmont Group (Egmont Web Secure).

In addition to collaboration with foreign financial intelligence units, the FIU of Tajikistan entered into cooperation agreements with the relevant ministries and departments of the Republic of Tajikistan, namely the Ministry of Finance, the Ministry of Internal Affairs, the State National Security Committee, the Tax Committee, the Customs Committee, the Drug Control Agency and the Communication Service.

Under the terms of these agreements, the FIU and the ministries and departments of the Republic of Tajikistan established a procedure for the exchange of information within the framework of bilateral cooperation in the field of AML/CFT.

One of the important elements of the Department's activities is the use of new technologies for the advancement of the national AML/CFT system. Starting March 2013, the FIU of Tajikistan has been using the Smart Vision+ software to receive suspicious transaction reports and information on institutions carrying out transactions with monetary funds or other assets that are subject to mandatory control. These reports are necessary for analysis and automation of the record keeping process, monitoring and operational analysis. The results of the Smart Vision+ software analysis are used in the preparation and transmission of requests and materials to law enforcement and other competent authorities of the country.

Thus, it is necessary to underline that the use and implementation of new information technologies is one of the branches of the Tajik FIU's progress tree. It should be noted that the potential of the country's AML/CFT system is gradually improving and following a steady and well-established trend.

In this process, the exceptional role is played by international institutions, in particular the FATF, the EAG, the World Bank, the Asian Development Bank and the UN Office on Drugs and Crime.

Finally, I would like to take this opportunity to express my gratitude to all international organizations and colleagues for the past and ongoing assistance and fruitful cooperation, which contributes to the development of the national AML/CFT system.

**EDUCATION AND SCIENCE IN AML/CFT**

## ***NEW ISSUE OF IFES MEPhI***

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*From June 30 till July 2 2014, graduates of the Institute of Financial and Economic Security of NRNU MEPhI defended their diplomas in Rosfinmonitoring*

*Konstantin V. Litvinov,  
deputy editor in chief*

*Konstantin G. Sorokin,  
special correspondent*

According to the tradition, the event was in a distant mode attended by heads of foreign financial intelligence units (FIUs) who look forward to see the graduates – now, the professionals – to join the FIUs that had organized their training. Director of Rosfinmonitoring Yu.A. Chikhanchin thanked his colleagues from FIUs of Belarus and Tajikistan for their participation in the final stage of specialists training.

According to the tradition, the event was in a distant mode attended by heads of foreign financial intelligence units (FIUs) who look forward to see the graduates – now, the professionals – to join the FIUs that had organized their training. Director of Rosfinmonitoring Yu.A. Chikhanchin thanked his colleagues from FIUs of Belarus and Tajikistan for their participation in the final stage of specialists training.

Of special interest was the defence of the graduation project by Alina Aydaralieva who had been sent to IFES by the financial intelligence unit of Kyrgyzstan. The subject of her diploma paper was “Analysis of opportunities to use Bitcoin as a financial tool to develop comprehensive measures to regulate this sector of economy for the purposes of compliance with international requirements to combating the financing of terrorism”. The project was defended in English with simultaneous interpretation into Russian and received very high appraisal of the event participants. Financial Security journal did not stand on the sidelines and offered the graduate to publish her findings as a topical article (read this issue). The editors office also took interest in the graduation paper on the subject of “Development of methods for monitoring of Internet resources that publish information about the ways of production and use of narcotic substances, psychotropic substances and their analogs in various countries” prepared by the graduate from the Republic of Tajikistan Bahodur Majidzoda who studied in the institute under the



direction of the Ministry of Education of the Republic of Tajikistan (to be published in the nearest issue of FS).

Worth mentioning is the fact that this year as part of the project for training of officers for the national AML/CFT systems of EAG member states, which project housed by the Institute of Financial and Economic Security of MEPhI has been implemented by the ITMCFM since 2009, the largest class – of 10 specialists – was prepared. We remind that 5 specialists graduated in 2012, and 8 specialists – in 2013.

We wish every success to the graduates who will soon join financial intelligence units of EAG member states in this tough profession they have chosen.

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The diploma award ceremony was held in the conference hall of the Federal Financial Monitoring Service on July 30. The event was attended by the Director of Rosfinmonitoring **Yu.A. Chikhanchin** who pronounced a valedictory to graduates of IFES MEPhI.

Deputy Director of Rosfinmonitoring V.I. Glotov reminded that the high level of IFES graduates is proven by the fact that already now about 50 former students work in the financial intelligence unit of Russia, with their number in some departments reaching 15-20 per cent of the total number of employees. We should emphasize that four graduates of 2014 have already been employed.

When answering the question put by the Financial Security journal, deputy director of IFES MEPhI **Elena E. Pisarchik** said,

*“If we speak of specifics of this – already seventh – class of IFES graduates, there are many representatives of Tajikistan who will work in the national FIU. Diplomas were granted to students from Kazakhstan, Kyrgyzstan,*

*a representative of Belarus became our graduate for the first time ever. We cherish an idea to establish the Association of Graduates of IFES MEPhI to maintain permanent contact of alumni with the institute and among themselves in order to implement various projects”.*

The representative of the Republic of Belarus, **Kirill Zelenkov**, spoke on behalf of the graduates:

*“We came to this institute not just from different corners of Russia, but from different corners of the world. On behalf of all graduates, I would like to thank our lecturers who have tolerated us for all the five years. We are very grateful to our parents who have supported and helped us. And I wish you – my dear group mates – to confidently surmount the hurdles and go forward to reach your goal!”*

### *Yu.A. Chikhanchin to IFES MEPhI graduates*

«We are very glad that many of you have already participated in the work of our service, because learning to apply acquired knowledge in practice is the most important thing. From your early academic years, many of you started to accomplish practical tasks associated with the national anti-money laundering system, and in the senior years – in your academic research papers and graduation projects – elaborated and proposed practical solutions for current tasks in the sphere of AML/CFT. I congratulate you on your graduation, on new working days, and I wish you never lose motivation and find a niche for yourselves”.



# **WORKSHOP FOR RF GOVERNMENT INSPECTORS IN CHARGE OF SUPERVISION OF COMMUNICATIONS, INFORMATION TECHNOLOGIES AND MASS MEDIA**

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*Anna V. Bulaeva,  
Correspondent*

On June 17–19, 2014, the training workshop on government oversight (supervision) of compliance by communications operators with the AML/CFT legislation: requirements, methodology and improvement of the efficiency was held in Moscow by the Federal Service for Supervision of Communications, Information Technologies and Mass Media (Roscomnadzor) jointly with the International Training and Methodology Center for Financial Monitoring (ITMCFM).

Taking part in the workshop were the government inspectors of the headquarters and local offices of Roscomnadzor and the representatives of the Ministry of Communications and Mass Media, the Federal Financial Monitoring Service and the Bank of Russia and also the representatives of the largest communications operators – Post of Russia,

 **РОСКОМНАДЗОР**  
ГОСУДАРСТВЕННЫЙ КОНТРОЛЬ (НАДЗОР) ЗА ДЕЯТЕЛЬНОСТЬЮ В СФЕРЕ СВЯЗИ

Mobile TeleSystems, MegaFon and Vimpelcom-Communications.

The meeting was opened by the welcome speech by Mikhail Bukovsky, Deputy Director of Communication Networks Regulation Department of the Ministry of Communications and Mass Media, who made the presentation dedicated to government oversight and supervision of compliance by the communications operators with the AML/CFT legislation.

On the first day, the discussions were focused on practical implementation of the AML/CFT regime. Oleg Kovalev, Deputy Head of Roscomnadzor Department and Head of Communication Oversight and Supervision Management Division, presented the main results of the government oversight and supervision of compliance by the communications



operators with the AML/CFT legislation. Olga Sholomitskaya, acting Head of Division for Cooperation with Supervisors and Private Sector of Rosfinmonitoring Supervision Management Department, delivered the presentation entitled the ***National AML/CFT System in the Context of the Revised FATF Recommendations – ML/FT Risks and Threats Assessment***. The representatives of the Bank of Russia, Pavel Sumbulov, Head of the Sector of the National Payment System Department, and Philipp Khramtsev, Head of the National Payment System Department, presented the RF national payment system legislation. A number of presentations were also made by the representatives of the private sector.

The representatives of the major communications operators informed the participants about measures undertaken by their companies for ensuring compliance with the AML/CFT legislation and implementing the AML/CFT internal controls. The Post of Russia shared its long-term experience of addressing the observations made in course of inspections conducted by Roscomnadzor local offices and informed about implementation of internal controls in its branches.

Also being considered was potential implementation of the mechanism for computerizing the AML/CFT internal control systems. This mechanism will allow the companies to expedite analysis of customers

and their transactions potentially related to money laundering, exclude subjective judgments, improve assessment quality, significantly simplify information sharing with Rosfinmonitoring and reduce internal control costs.

The first day of the event was completed by the presentation dedicated to cooperation between Roscomnadzor and Rosfinmonitoring delivered by Olga Chikhnyaeva, Consultant of Roscomnadzor Communication Oversight and Supervision Department.

On the second day, the International Training and Methodology Center for Financial Monitoring (ITMCFM) arranged the training workshop for the RF government inspectors in charge of supervision of communications, information technologies and mass media. Taking part in the workshop in the capacity of instructors were the leading experts of the Federal Financial Monitoring Service – Svetlana Khomutova, Deputy Head of Rosfinmonitoring Legal Department, and Sergei Barinov, Advisor of Rosfinmonitoring Legal Department.

Considered and discussed at the workshop were the recent amendments to the RF AML/CFT legislation and its further improvement and also the draft regulations developed for practical implementation of Federal Law No.134-FZ dated June 28, 2013. Special attention was paid to recommendations for determining actions (inactions) as administrative

offences under the relevant sections of Article 15.27 of the RF Code of Administrative Offences and for imposition of administrative sanctions and administrative proceedings.

Seventy five Roscomnadzor officers who attended the workshop received the training certificates (certifying that they completed the 8 hours training course).

On the last day of the event, the officers of Roscomnadzor headquarters made presentations on the urgent practical issues pertaining to supervision, oversight (inspection) and regulation of the communications companies. The speakers elaborated on practical application of the AML/CFT legislation in the communications sector, detailed the specificities of the government oversight and supervision and analyzed the methodological recommendations for conducting supervision and monitoring of compliance by the communications operators with the AML/CFT legislation with the application of the risk-based approach. The specialists of Roscomnadzor headquarters presented the analysis of the results of AML/CFT inspections of Roscomnadzor local offices conducted by the prosecutorial authorities (orders issued by the prosecutorial authorities).

During the event, the business case studies dedicated to combating money laundering and terrorist financing was arranged for the representatives of Roscomnadzor territorial bodies. The goal of the case was to determine the level of understanding of the AML/CFT issues, develop the cooperative skills for addressing the existing problems and promote

the teamwork skills. The winners were announced on the final day of the workshop. The winners of the Best Teamwork award were representatives of Roscomnadzor territorial bodies in the Volga Federal District, the delegates of the territorial bodies in the Central Federal District won the Best Specialist award, while the Potential award was won by the personnel of the territorial bodies in the Far Eastern Federal District. The special cups were awarded to the winners.

The results of the event were summarized at the round table, where the representatives of the headquarters and the territorial bodies of Roscomnadzor discussed certain issues. Being discussed were the effectiveness of the supervision system and lack of resources. The attendees tried to find solutions of a number of problems related to legislative definition of new AML/CFT powers of Roscomnadzor following significant extension of the number of the supervised communications operators.

The workshop facilitated further cooperation and coordination between Roscomnadzor and Rosfinmonitoring. The participants expressed their desire to proceed with sharing the AML/CFT experience. It was proposed to hold the regional AML/CFT meetings, conferences and professional development training workshops. It was also proposed to hold consultations on the issues that fall within the terms of reference of Roscomnadzor and Rosfinmonitoring, *inter alia*, with engagement of the private sector, and working meetings to develop proposals and common position on the AML/CFT related issues.

## ***A MEETING WITH THE HEADS OF THE RELEVANT BASIC STRUCTURAL UNITS OF THE AML/CFT NETWORK INSTITUTE PARTICIPANTS***

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*Ekaterina V. Ledyeva,*  
*observer*

The problem of money laundering and terrorist financing poses a threat to the stability of the national financial systems and the world economy as a whole. The criminal community continues to come up with new money laundering schemes, develop its offshore operations and make inroads into legitimate businesses. The combating money laundering and terrorist financing calls for a continuous improvement and professionalism of experts able to be proactive in preventing risks and safeguarding the country's financial sector.

In this context, advancement of educational initiatives in the field of financial monitoring, including through improvements to the financial literacy of members of the public and provision of training and retraining opportunities for new and existing AML/CFT specialists, plays a very important role. The success of this task depends on effective multilateral cooperation and collaboration between government

agencies, businesses, educational and scientific institutions.

In early July 2014, the Federal Financial Monitoring Service (hereinafter «Rosfinmonitoring»), the National Research Nuclear University MEPhI (hereinafter «NRNU MEPhI») and the International Training and Methodology Center for Financial Monitoring (hereinafter «ITMCFM») hosted a meeting with the heads of the relevant basic structural units of the AML/CFT Network Institute participants. The meeting was devoted to the topical issues of specialists training and research in the area of financial monitoring.

During the meeting, participants discussed issues related to the development of professional standards, defining the areas of training and qualifications of AML/CFT specialists as well as the establishment and operation in institutions of higher education participating in the Network Institute of units responsible for training and research in the field of financial monitoring.

Participants shared experiences and identified areas for further collaboration, updated their





knowledge in the field of economic security, learned about the history of international and national AML/CFT systems, existing risks and threats and the latest legislative changes in this field. Representatives of the relevant basic structural units specializing in AML/CFT training witnessed the defending by the graduates of the Institute of Financial and Economic Security (IFES MEPhI) of their graduation theses in a ceremony held at Rosfinmonitoring via videoconferencing and attended by representatives of financial intelligence units of EAG member states. They highlighted some of the most interesting students' works on crypto currencies and economic and information security, many of which have practical application and can successfully be used by various public and private organizations.

Participants visited the National Research Nuclear University «MEPhI», where the principal of the University M.N. Strikhanov briefed them on the specifics, current activities and the future development plans of that institution.

Representatives of educational and research institutions also toured the IFES facilities and visited its laboratories. The Institute has accumulated significant educational and scientific potential in the field of AML/CFT specialists training during a period starting since 2006.

During a visit to ITMCFM, AML/CFT Network Institute participants learned about the structure of the Center, areas of its specialization and specifics of its work. The visitors were greeted by ITMCFM general director V.V. Ovchinnikov, who identified a possibility for joint educational projects. Heads of different departments gave presentations on specific aspects of their educational programs.

Participants of the event stressed the importance of research carried out in the field of AML/CFT. Science and education should go hand in hand to achieve the main goal: the creation of a human and scientific potential necessary for safeguarding the country's national security in the financial sector. Such events should become traditional, as it allows the participants to share their experience, ideas and development solutions, which can then be translated into new forms of cooperation an example of which is the AML/CFT Network Institute, which has brought together 15 leading educational and scientific institutions of Kazakhstan, Kyrgyzstan and Russia. By providing high quality training opportunities for students from different countries, the institute will contribute to the strengthening of international cooperation in the field of education, exchange of students and lecturers, and facilitate joint research in the field of financial monitoring.

# ***ON THE ISSUE OF EFFECTIVENESS OF FOREIGN EXCHANGE CONTROL OVER FOREIGN TRADE TRANSACTIONS IN THE CONTEXT OF CAPITAL OUTFLOWS AND THE NEED FOR DEOFFSHORIZATION OF THE RUSSIAN ECONOMY***

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***Anna M. TIMOFEEVA***

The issue of capital outflow including Russia. According to the Russian CB, last year the net outflow of capital from Russia totaled \$62.7 billion, with the amount of grey money leaving the country, which includes revenue from criminal activity, estimated at \$5.4 billion<sup>1</sup>.

While withdrawal of investment and speculative capital is carried out in most countries by large multinational financial institutions, the responsibility for the outflow of illicit capital tends to lie with the well-organized international criminal groups. Among the jurisdictions playing an important role in the migration of capital are developing economies, i.e. countries with insufficiently stable national currencies. They are the ones who tend to bear the

<sup>1</sup> Russian Central Bank. URL: <http://www.cbr.ru/statistics>

brunt of speculative attacks conducted at the height of every new economic crisis, as well as being the target of various criminal groups specializing in capital export. In these circumstances, financial regulators around the world face a particularly daunting challenge: besides preventing capital flight, whose flow constantly increases, they have to identify in this flow the funds related to ML/FT.

One overriding priority in this context, as well as in the context of evolving legislation and expanding diversity of tools available to criminal groups (including new IT technologies), lies in the effective detection and suppression of the activities of shell companies through measures aimed at prevention of the establishment and operation of nominal legal entities as well as in overcoming the negative social and economic consequences of the existence of a shadow economy.

The key requirement of the existing currency repatriation regulations for the prevention of capital flight relates to the repatriation of national and foreign currency assets by residents, i.e. the responsibility of exporters to deposit revenue from foreign trade transactions to their bank accounts and the responsibility of importers to return the transferred abroad funds in the event of non-fulfillment by counterparties of the terms of foreign trade contracts in a timely manner. This requirement is also considered to be fulfilled in the case of receipt by a resident of insurance payments awarded under insurance contracts concluded with foreign counterparties<sup>2</sup>.

However, the current version of the currency repatriation regulations needs updating to reflect changes in legislation and the evolving situation in the global financial markets. The principle of freedom of contract allows the parties to an agreement to set the payment deadline at their discretion, to which the repatriation period is then tied. Since exporters are interested in being paid as early as possible, they try to move the payment deadline in the contract forward, typically in the region of 5-7 business days from the date



of shipping, completion of work or provision of services. However, differences in the working days calendar of Russian and foreign businesses, as well as various technical issues, inevitably lead to the violation by residents of the established repatriation terms.

Importers, on the other hand, are interested in setting the minimum refund period in their contracts to hedge against contingencies related to failed deliveries, with many even opting to leave this provision out of them altogether in order not to create a false incentive for the supplier to cancel the delivery and use the advance as an interest-free loan<sup>3</sup>.

As a result, honest participants of foreign trade activity run the risk of being fined for late payment caused by their counterparty, while those wishing to keep their money abroad can perfectly legally set payment deadlines that are decades away. For this reason, the current version of the repatriation regulations needs to be updated to allow the imposition of restrictions on the movement of capital and the establishment of a period after which the transaction will cease being regarded as current<sup>4</sup> and will become capital<sup>5</sup>.

<sup>2</sup> On insurance of export loans and investments against business and political risks: Government Decree No. 964 dated November 22, 2011 // Corpus of legislative acts of the Russian Federation No. 48 of November 28, 2011, Art. 6936.

<sup>3</sup> I V. Hamenushko, Currency Regulation in the Russian Federation / I V. Hamenushko. - M., 2013.

<sup>4</sup> Current currency transactions are primarily inward and outward foreign currency payments for imported and exported goods, works and services that cannot be deferred; payments associated with the crediting of export-import transactions for a period not exceeding 180 days; taking out and granting financial loans for a period not exceeding 180 days.

<sup>5</sup> Capital currency transactions (capital movement transactions) are direct investments (investments in the authorized capital of the company); portfolio investment (purchase of securities); delay of more than 180 days in payment for export (or, respectively, in delivery of imported goods); financial loans for a period exceeding 180 days; all other types of foreign exchange transactions that are not current transactions.



Failure of a resident to comply with the requirement for repatriation of funds results in administrative or criminal liability<sup>6</sup>. That said, imposition of an administrative penalty does not relieve the guilty party from the obligation to deposit its export earnings to accounts in the authorized banks or to repay funds if it cannot fulfill the terms of foreign trade contracts.



The position of the Constitutional Court of the Russian Federation on this issue is that, in view of the principle of freedom of contract, participants of foreign economic activity are entitled to choose their counterparties and therefore, when being held accountable for violation of their obligations related to the repatriation of currency, shall be liable for non-performance of their public duties, included those related to the actions (inactions) of their counterparties. Performance by an entity of its public duties related to repatriation can be used as the basis for bringing legal action against the counterparty whose actions (inactions) caused the imposition of penalties<sup>7</sup>.

Interpretation of the rules of repatriation by the Supreme Arbitration Court of the Russian Federation resulted in a legal position pointing at the absence of crime in the act in situations where the exporter has not taken active steps to keep the proceeds abroad<sup>8</sup>.

The above example and opinions of different courts underscore the need for a clear distinction between the movement of capital and current transactions, given that transactions that were originally started as current may eventually become capital ones.

Thus, repatriation is intended to prevent the evolution of current transactions into capital ones, or the execution of capital transactions under the guise of current ones. Repatriation requirements are designed to support the equivalent nature of foreign trade transactions by preventing commodity flows from breaking away from money flows.

Here one may possibly agree with the opinion of I V. Hamenushko to the effect that for an accurate recording of currency transactions in the country's balance of payments, it would be enough to keep the control procedures and abolish the substantive requirements of repatriation. For example, banks acting as currency control agents could, when preparing accounting records to be used for the calculation of the country's balance of payments, designate transactions where no foreign currency revenue has been received as capital transactions on the 180<sup>th</sup> day after the export date. At the same time, both contractors and companies that carry out such transactions on a regular basis must, without a doubt, become subject to enhanced financial monitoring from service companies and banking institutions.

There exists a certain problem related to the vast amounts of data on possible violations of the currency law by clients submitted to the Russian Central Bank by authorized banks.

Under existing laws, an authorized bank that has identified a violation shall report it to the Bank of Russia and do nothing else. Upon expiration of 180 calendar days from the date of fulfillment of contractual obligations as set forth in the transaction passport, the bank closes and archives the passport, despite the violations of the currency laws contained therein.

The Bank of Russia, in turn, forwards the information on the identified violations to Rosfinnadzor, which is empowered to enforce sanctions against

<sup>6</sup> See: Administrative Code of the Russian Federation: Federal Law No. 195-FZ of Dec. 30, 2001 (as amended May 5, 2014) // Russiyskaya Gazeta. Dec. 31, 2001. No. 256. Art. 15.25; Criminal Code of the Russian Federation: Federal Law No. 64-FZ of Jun. 13, 1996 // Corpus of legislative acts of the Russian Federation. – Jun. 17, 1996. – No. 17.06.1996. – № 25. – Art. 2954. – Art. 193-193.1.

<sup>7</sup> See: Constitutional Court Determination No. 572-O-O of May 19, 2009.

<sup>8</sup> See: Ruling of the Presidium of the Supreme Arbitration Court of the Russian Federation No. 15714/08 of Apr. 28, 2009 with regard to case No. A40-15595/08-147-214.



participants of foreign economic activity for violations of the currency regulations. However, besides these functions, Rosfinnadzor is also responsible for exercising control over state budget expenditure, making it difficult for it to respond given the sheer volume of data on violations by customers it receives from banks.

Thus, according to Rosfinnadzor, the number of reports warranting unscheduled inspections received by it from the CB in 2013 exceeded 500,000, whereas the number of unscheduled currency investigations conducted by Rosfinnadzor in response to these reports was only 8,402<sup>9</sup>. These statistics make a strong case for the use of a risk-based approach, along with possible inventorying measures and creation of a data bank of incoming report typologies and their automatic processing. In this case, Rosfinmonitoring's experience in the area of inspection scheduling may be very useful, given the effectiveness of its supervisory unit that boasts a violation detection rate of well in excess of 90%. In this regard, in view of the limited state and private sector's resources, the use of a risk-based approach will enable efficient use of existing resources, while the automation of processes will allow the replication of this practice with minimal effort.

Improvements in the quality of currency control mechanisms will, in turn, contribute to a reduction in the volume of residents' remittances to low-tax jurisdictions, i.e. offshore zones.

As is well known, the use of offshore schemes results in lower tax revenues, contributes to capital flight and causes a rise in costs and prices of goods and services due to the involvement of multiple middlemen. In addition, after being deposited to the accounts of offshore companies, the bulk of the dirty money is laundered, destroying the links tying these funds to specific crimes, and then channeled back into the country's economy, undermining its health.

In his annual address to the Federal Assembly in late 2011, the President of Russia expressed concern over the Russian economy's reliance on offshore jurisdictions. And although the task of deoffshorization was set back in December 2011,

still much remains to be done in his area. Hence, this April saw the launch of a National Action Plan designed to strengthen the fight against tax evasion and concealment of beneficial owners' identity. The work on the implementation of this plan has already begun.

While the Ministry of Finance is preparing a package of bills, some big businesses have already announced their intention to return their money under Russian jurisdiction. Among them are RusHydro and Rusal, which plan to bring their money to Russia from Cyprus by the end of 2014, as well as KAMAZ, Interros and others.

Professor **B. Heifetz**<sup>10</sup>, senior researcher at the Economics Institute of the Russian Academy of Science, points out at the following «bottlenecks» in the proposed anti-offshore initiatives:

*There are roughly 40 to 60 recognized offshore jurisdictions in the world. Recent developments, however, point at the popularity of complex three- or four-tier schemes that, besides companies from recognized offshore jurisdictions, also feature one or two companies from premium jurisdictions, the so-called «sparring offshore jurisdictions».*

*A majority of anti-offshore measures provided for in the existing and newly drafted Russian regulations are based on the Finance Ministry's List of 41 recognized offshore jurisdictions<sup>11</sup>. This allows companies through the addition of several new links to their offshore financial chain to bypass many newly proposed initiatives (e.g. the proposed by the Accounting Chamber of Russia tax on withdrawal of capital) or to undermine their effectiveness. Therefore, effectiveness of many anti-offshore measures depends on the use of more accurate tools.*

In addition, Russia still has not signed any specialized international agreements on tax information sharing. Although this requirement is currently being integrated into all newly revised agreements on avoidance of double taxation, only four such modified agreements (with Cyprus, Luxembourg, Switzerland and Belgium) have been enacted in the past three years. According to OECD experts, 25 out of 80 existing Russian agreements

<sup>9</sup> See: Rosfinmonitoring Performance Report 2013. URL: <http://www.rosfinnadzor.ru/work/opendata>.

<sup>10</sup> B A. Heifetz. Gradual Deoffshorization / B A. Heifetz // Direct Investment. - 2014. - No. 4 (144).

<sup>11</sup> Concerning the approval of the List of states and territories offering preferential tax treatment and (or) not requiring disclosure and provision of information on financial transactions (offshore zones): Order of the Ministry of Finance of the Russian Federation No. 108n of Nov. 13, 2007 (as amended Aug. 21, 2012) // Bulletin of normative acts of federal executive bodies. - Dec. 10, 2007. - No. 50.

on avoidance of double taxation need updating to bring them in line with the latest international standards. That said, Russia has recently been approached with proposals to conclude tax information sharing agreements by such popular with Russian businesses tax jurisdictions as the BVI, Bermuda, Isle of Man and Jersey.

Thus, the task of achieving successful deoffshorization of the economy without undermining investment climate can be achieved through the execution of a carefully planned economic policy, given that although the application of fragmentary measures against the use of offshore zones without

creating any internal economic incentives is likely to result in higher budget proceeds in the short term, it may not significantly improve the country's attractiveness to both foreign and domestic investment in the long term<sup>12</sup>.

In summary, the solution to the problem of capital flight lies in the government-led comprehensive revamping of the entire system of currency regulation and currency control. Let's hope that the co-developed by financial institutions deoffshorization measures will help overcome these problems and generate positive results already in the near future.

<sup>12</sup> R. Cherlenyak. Countering Capital Flight: motives and perspectives / R. Cherlenyak // EZH Yurist. - March 2014. – No. 12.

## FINANCIAL MARKETS

# INTEGRATION OF FINANCIAL MARKETS OF THE EURASIAN ECONOMIC UNION MEMBER STATES IN THE FRAMEWORK OF AML/CFT ISSUES

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On May 29, 2014, the Presidents of Russia, Belarus and Kazakhstan signed the Eurasian Economic Union Treaty (hereinafter the EEU

Treaty)<sup>1</sup>. Article 1, Clause 1 of the EEU Treaty states that the Union shall provide free movement of goods, services, workforce and capital. Free movement of capital is ensured primarily by a common financial market with the common rules and the legislative regulations that do not impede but facilitate free flow of funds. Removal of barriers in the financial services market should create the increasingly competitive environment, improve quality of the provided services and open up new vistas for businesses. Essentially, these efforts are aimed at enhancing the economic development of the member-states by establishing the common competitive market, including the financial market.

<sup>1</sup> URL: <http://www.economy.gov.ru/wps/wcm/connect/economylib4/mer/about/structure/depsng/agreement-eurasian-economic-union> (accessed on 30.07.2014)

One of the factors that facilitate the establishment of the common financial market is the intention of the EEU member-states to reduce dependence of foreign funding by creating new fund-raising opportunities. Establishment of the common financial market is, among other things, a milestone towards creation of a monetary union.

Transition from the Common Economic Space to closer integration of the member-states has changed the institutional framework of this integration entity. According to the Treaty the Union will have the following governing bodies: the Supreme Eurasian Economic Council (Supreme Council); the Eurasian Intergovernmental Council (Intergovernmental Council); the Eurasian Economic Commission (EEC); and the Eurasian Economic Union Court (Union Court).

The Treaty, being the result of codification of the legal framework of the Customs Union and the Common Economic Space, is featured by more precise legal concepts compared to other EEU legislation. It contains a wide range of terms and definitions, has the logical structure and includes the detailed transitional provisions. Since there is no legal definition of “financial market” in the Russian legislation (although this term is already used in the legislation<sup>2</sup>), the Treaty attempts to define the “common financial market” concept. It means the financial market of the member states that meets the following criteria:

- Harmonized requirements for supervision and regulation of the financial markets of the member-states;
- Mutual recognition of banking, insurance and securities licenses issued by the designated government authorities of one member state by other member states;
- Provision of financial services across the entire territory of the Union without the need to establish additional legal entities;
- Administrative cooperation, including information sharing, among the designated government authorities of the member-states.

The legal framework for establishing the common financial market includes: the Agreement on Trade in Services and Investments in the Common Economic Space Member States dated December 9, 2010, the Agreement on Creating Conditions for Free Movement of Capital in the Common Economic Space Member States dated December 9, 2010 and the Agreement on Requirements for Operation in Financial Markets of the Common Economic Space Member States dated January 16, 2014.



It should be noted that all Agreements listed above have been incorporated into the EEU Treaty<sup>3</sup>, however, the provisions of the AML/CFT-related agreements are not reflected in the said Treaty yet. Therefore, it appears that the Agreement on Combating Legalization (Laundering) of Criminal Proceeds and Financing of Terrorism during Transportation of Cash and (or) Financial Instruments across the Customs Border of the Customs Union dated December 19, 2011 and the Agreement on Procedure of Transportation of Cash and (or) Financial Instruments by Individuals across the Customs Border of the Customs Union dated July 5, 2010 are actually included in the second package of the legislation to be incorporated in the EEU legal framework<sup>4</sup>.

It is important to note that **the current version of the EEU Treaty does not cover the AML/CFT-related issues, which opens the opportunities for standard-setting in this area.** In our opinion, the

<sup>2</sup> For example, this resulted in the legal conflict between the second (“development and strengthening of the RF banking system”) and the fourth (“development of the RF financial market”) goals pursued by the Bank of Russia, as specified in Article 3 of Federal Law No.86-FZ on the Bank of Russia.

<sup>3</sup> The provisions of the Agreement on Trade in Services and Investments are incorporated into Section XV of the EEU Treaty and into the Protocol on Trade in Services, Establishment, Operation and Investments (Annex 16 to the EEU Treaty). The provisions of the Agreement on Creation of Free Movement of Capital and the Agreement on Requirements for Operation in Financial Markets of the CES Member-States are included in Section XVI of the EEU Treaty and in Protocol on Financial Services (Annex 17 to the EEU Treaty).

<sup>4</sup> Pursuant to Art.99, Par.1 of the EEU Treaty the international agreements entered into by the member-states in the process of establishment of the legal framework of the Customs Union and the Common Economic Space that are in force at the date when the EEU Treaty comes into effect shall be considered the international agreements of the Union and shall be complied with, insofar as they do not conflict with the EEU Treaty.



AML/CFT aspects should be integrated into the EEU Treaty with due consideration for the following issues:

- Coordination of the efforts undertaken by the Eurasian Economic Commission (EEC) and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG);
- Establishing the EEC structural unit in charge of harmonizing the AML/CFT legislation;
- Creation of the AML/CFT expert pool in the EEC consultative bodies and working groups (in particular, in the Financial Market Consultative Committee under the EEC Board);
- Harmonization of the AML/CFT-interrelated legislation, primarily the monetary and financial markets legislation, with due consideration for the AML/CFT issues.

In a situation where the establishment of the common financial market is underway, the EEU member-states should, first of all, create proper conditions for dialogue among the supranational and national regulators, the private sector and the research community for ensuring effective harmonization of the legislation and coordinating its practical implementation.

In our opinion, it is expedient to look at the experience of the European Union which has addressed these issues by establishing the committees that provide technical and consultative support to the European Commission, i.e. they serve as the mediators between the supranational body and the national regulators<sup>5</sup>. This mechanism provides for common understanding of various issues by the regulators, business community and research and expert community and facilitates rapid

and effective decision-making process. Generally speaking, Russia has already gained the positive experience in this area – the established Consultative Council under the Rosfinmonitoring's Interagency Committee consists of the leading experts in various sectors. Other EEU member-states have similar mechanisms. The EAG holds thematic consultations with the private sector. We believe that such practical experience of engaging the expert community in the AML/CFT decision-making process will be very useful in course of creation and development of the Eurasian Economic Union.

In order to draw attention of the high-level governing bodies of the EEU to the AML/CFT issues we propose to intensify cooperation and coordination between the EEU bodies and the EAG. It is expedient to develop the legal framework and identify forms and areas of such cooperation (establish the relevant committees and working groups under the Eurasian Economic Commission, extend the membership of the Financial Market Consultative Council by including the AML/CFT experts, etc.). This will allow for synchronizing the integration processes in the AML/CFT area with the similar processes in the related areas in the Eurasian Region (financial markets, taxation, customs regulation, etc.). Besides that, such cooperation will help to identify (update) the ML/FT typologies with active engagement of the banking, securities, insurance and foreign exchange sectors.

Pursuant to Art.70, Par.3 and Art.103 of the EEU Treaty and Annex 17 thereto the member-states shall harmonize the financial market legislation by 2015. The Eurasian Economic Commission has already started drawing up of the Strategy of Development of Financial Markets of the CU and CES Member States until 2025<sup>6</sup>. We believe that the AML/CFT issues should be adequately reflected in this important strategic planning document.

<sup>5</sup> R.A. Kasyanov, Arrangements for Operation of Financial Regulators in the European Union. URL: [http://vestnik-old.mgimo.ru/filesserver/27/21\\_kasianov.pdf](http://vestnik-old.mgimo.ru/filesserver/27/21_kasianov.pdf) (accessed on 30.07.2014)

<sup>6</sup> URL: [http://www.eurasiancommission.org/ru/auction/Documents/K\\_252\\_3.pdf](http://www.eurasiancommission.org/ru/auction/Documents/K_252_3.pdf) (accessed on 30.07.2014)

## VIDEOCONFERENCING

## REVIEW OF VC EVENTS HELD DURING SUMMER 2014

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*Konstantin G. Sorokin,*  
*special correspondent*

Despite summer being a traditional vacation season and with a view to preparations and holding in Moscow in June 2014 of the 20<sup>th</sup> EAG Plenary Meeting, VC events gathered many participants and excited traditionally high interest among EAG member states. Certain contributions to summer events were made by the Institute of Financial and Economic Security (IFES MEPhI) which – jointly with ITMCFM – organized in Rosfinmonitoring the broadcasting of diploma defence by graduates in the states where the VC system is employed. In the course of the VC defence, FIU heads and future colleagues of graduates had an opportunity to ask them questions related to the subject of their graduation papers. Employment of the VC system also allows strengthening inter-agency cooperation between the national FIU and law enforcement agencies, whose officers may interact in the course of events.

On July 11, 2014, in the ITMCFM, the VC roundtable meeting was held on the subject of **“Process of automated detection of suspicious activities (suspicious activity determination criteria, system for assessment of risk of anti-money laundering, detection of typical AML/CFT schemes”**.

The event held on the initiative of the Financial Intelligence Unit (FIU) of Belarus was attended by representatives of the FIU of Belarus, Kazakhstan, Russia, Tajikistan and Uzbekistan. The event was also attended by representatives of IFES MEPhI. Acting as lead speakers were the head for the Information System Development Agency of Rosfinmonitoring I.E. Voluyevich and the head for the Division of Macroanalysis Studies and Risk Assessment of the Department for Macroanalysis and Typologies of Rosfinmonitoring A.E. Shamin.

Speech of the Russian delegation exposed main databases and information system components employed by the Federal Financial Monitoring Service as well as specifics of practical application thereof. Participants studied prospective lines of development of Rosfinmonitoring information systems and the relevant presentation made by the departmental risk assessment center. At closure of the event, participants thanked IFES MEPhI for training of highly



qualified IT staff and spoke in favor of further exchange of relevant experience in CIS/EAG format.

July 01-02 2014, Rosfinmonitoring became the venue for diploma defence by graduates of the Institute of Financial and Economic Security of MEPhI. The VC event was attended by representatives of FIUs of Belarus and Tajikistan. *(See more detail on the event in the respective article in this issue).*

**On July 18, 2014, in the ITMCFM, the VC roundtable meeting was held on the subject of «Best practices of EAG member states in organization and implementation of national risk assessment and application of risk-based approach, employed methods for detection and assessment of risks of money laundering and financing of terrorism».** The event initiated by the FIU of Uzbekistan was attended by representatives of the FIU of Belarus, Kazakhstan, Russia, Tajikistan and Uzbekistan.

During the roundtable meeting, the Deputy Head of the Department for Macroanalysis and Typologies of Rosfinmonitoring A.N. Frolov made a presentation prepared by the departmental risk assessment center. Participants discussed the main approaches to risk assessment applied by different states and exchanged practical experience in implementation of such approaches. Rosfinmonitoring representatives introduced event participants to issue-related boards in various lines of activity of the risk assessment center (RAC). Risk assessment procedure is distinguished by the fact it is only in Russia that this duty is officially vested with the national FIU by virtue of the respective

regulation. In other countries, FIUs take part in risk assessment although regulations do not directly assign this duty to the FIU.

Representatives of the FIU of Uzbekistan emphasized that selection of a certain risk assessment procedure is difficult to some countries, and drew attention to the fact that the FATF topical guide did not provide any detailed field-specific procedure. Representative of the Uzbekistan FIU also emphasized the lack of clear requirements of FATF to publishing of reports on national risk assessment (NRO) – form, frequency, etc..

In the Republic of Uzbekistan, the inter-agency working commission of representatives of ministries, agencies, supervisory and regulatory authorities was established by virtue of the resolution of the Cabinet of May 12, 2012. Risk assessment is carried out within the frameworks of this commission chaired by the head of Uzbekistan FIU.

In the Russian Federation, such measures are developed in collaboration with the General Prosecutor's Office of Russia and the Central Bank of Russia. RAC operates in the mode of permanent monitoring and response. In the yearend, the report on assessment of risks and ML/FT threats is submitted to the President of Russia. Private sector is involved in the NRA process through the Advisory Committee. During the risk assessment follow-up stage, Rosfinmonitoring representatives told about measures applied:

- prevention of detected risk (e.g., informing any ministry or agency, making amendments to legislation) – the main objective of the Risk Assessment Center;



- establishing risk control (e.g., control events);
- risk suppression (e.g., blocking of funds, license withdrawal, suspension of activities, penalties and so on).

Based on the results of RAC work, problematic issues are discussed as part of the mechanism of the Inter-Agency Working Group for Restraining Financial Transactions under the chairmanship of the aide to the President of the Russian Federation Evgeny Shkolov. Functioning within this group is the expert group focused on the issues concerning adoption of measures against detected risks. Besides, as part of the mechanism employed by the Advisory Committee attached to the inter-agency AML/CFT commission of Rosfinmonitoring, representatives of private sector are involved in NRA operations.

Representatives of Kazakhstan shared their experience, too. Risk assessment was held in Kazakhstan based on the Procedure of the World Bank during 2011-2013. Today, recommendations concerning risk assessment findings are provided by law. In particular, entities subject to financial monitoring will be legally bound to perform risk assessment.

Representatives of Tajikistan FIU shared their experience that we find rather interesting. Particularly, they emphasized that in order to carry out NRA, a working group was established to involve representatives of governmental authorities, private sector and representatives of the Asian Development

Bank (ADB). ADB developed the NRA procedure specifically for the Republic of Tajikistan. The group of about 30 persons completed the primary analysis stage that continued from April 2014 until July 2014. The group is expected to continue its operations up to 2015. Based on the analysis performed, legislation amendment proposals were prepared and currently undergoing inter-agency approval.

On July 25, 2014, in the ITMCFM, the VC roundtable meeting was held on the subject of **“Exchange of experience in planning of financial sector audits based on the Risk Management System (auditing process, frequency, utilization of risk management system in carrying out of audits)”**. The event initiated by the FIU of Kazakhstan was attended by representatives of the FIU of Belarus, Kazakhstan, Russia, Tajikistan and Uzbekistan.

During the roundtable meeting, the representative of the National Bank of Kazakhstan made a presentation on the subject of “Monitoring Compliance of Second-Tier Banks with Legislation of the Republic of Kazakhstan Concerning Prevention and Combating of Money Laundering and Financing of Terrorism.

In the course of the discussion, representatives of Kazakhstan told that automated systems for detection of suspicious operations are not present in all banks of the republic. About twenty per cent of banks – basically, small- and medium-scale banks – have no such systems available, which among other things is due to financial factor since such systems are distinguished by high cost.





One of the interesting specifics of the banking sphere of Kazakhstan we would like to mention is that according to the rules for front office equipment (instruction No.58) every front office must be equipped with a camera, which would allow recording operations pertaining to taking-in and giving-out of cash. However, the period for storage of such information is governed by in-house regulations of the bank and usually constitutes 3 to 6 months. Such information may be provided to governmental authorities during audit.

In the course of his speech, Rosfinmonitoring representative emphasized that the audit schedule is elaborated on a quarterly basis, and there are approximately 25 thousand regulated organizations under the supervision of Rosfinmonitoring. As applied to risk-oriented approach, about 99% of audits held by Rosfinmonitoring discover some violations, which testifies effective selection of audited entities. Typical violations include failure to register (in particular, regarding property companies), failure to provide mandatory notifications (in 2013, the share of this type of violations constituted 28%, which amounted to 90 billion rubles), non-compliance of staff training requirements, non-compliance with the requirements of internal control regulations.

In the Republic of Belarus, control over banks and non-banking credit institutions is exercised by the National Bank, over gambling organizers – by the Ministry of Taxation. Issues associated with organization of control and supervision are governed by Decree of the President of Belarus No.510 of 16.10.2009 (in effect from 01.01.2010). Random inspection by risk criteria is applied (organizations are ranged in terms of risk). Inspection frequency – 1 year, 3 years, 5 years. The system of audit organization is distinguished by existence of the requirement that binds auditing agencies to carry out the audit simultaneously so as to prevent a succession of audits of one entity by different governmental authorities. Meanwhile, the audit period is limited to 30 days and may be extended through application of a complicated procedure that requires approval on behalf of chief executives of auditing agencies. Besides, representatives of the National Bank noted that up to 5 officers are assigned to audit the bank in terms of AML/CFT, with 160 persons (including AML/CFT experts) being involved in all lines of the bank activities. Meanwhile, in the course of the audit, all officers pay attention to AML/CFT issues and – where any suspicion of existence of

ML/FT arises – invite specialists. Taking into account the fact that there are rather few banks in Belarus (only 31 banks) every bank is audited three times a year on average. Control and supervisory activity in Belarus is automated – in particular, on agencies' proposals, the unified audit schedule is elaborated in an automatic mode, which is publicly available in the Internet. Besides, the Governmental Control Board and the Ministry of Taxation exchange information automatically.

There is the Republican Council for Coordination of Activities of Control Agencies in the Republic of Uzbekistan. Any extraordinary audit is held with its permit. The exclusion is the Central Bank that may perform the AML/CFT audit without permit of this Council.

In the Republic Tajikistan, there are 16 banks including 4 foreign controlled banks, and 120 non-banking financial organizations including 119 micro-financing institutions. The Department of Bank Supervision of the National Bank of Tajikistan carries out audit activities.

Also, the meeting touched upon the issue of activities of trusts and legal entities. In Belarus, Kazakhstan and Russia, any trusts are extralegal. In Uzbekistan, trusts are prohibited. Besides, foreign offshore companies and trusts are prohibited from establishing legal entities in the territory of Uzbekistan. Thus, event participants were especially interested in experience of Tajikistan including the issues associated with planning of trust audits.

On August 01, 2014, in the ITMCFM, the VC roundtable meeting was held on the subject of **“Practice of Cooperation between Financial Intelligence Units and Law Enforcement Agencies”**. The event initiated by the FIU of Belarus was attended by representatives of FIUs and law enforcement agencies of Belarus, Kazakhstan, Russia and Tajikistan.

On behalf of Russia, the event was attended by representatives of structural subdivisions of Rosfinmonitoring: International Relations Office, Anti-Money Laundering Office, Anti-Terrorism Financing Office as well as Deputy Head of the R&D Center of FDCCS of Russia O.N. Korchagin.

During the roundtable meeting, the participants considered a number of issues that were of interest to both individual states and global community as a whole. Participants discussed legislative regulation and practical aspects of provision of information by FIUs (with or without disclosing the bank

secret) to law enforcement agencies, and practical organization of request processing and international information exchange.

Emphasis was placed on the issues of legislative environment and functional support of information cooperation between the national law enforcement agencies and FIU in the framework of an individual state. Roundtable participants shared their experience in organization of intergovernmental (international) cooperation in combating money laundering and on the issues of freezing, seizure and confiscation of criminal assets.

Participants of the meeting also paid attention to the quality of collaboration between law enforcement agencies and FIUs including the quality of execution of respective requests for carrying out of financial investigations. Participants came to the conclusion that cooperation is basically performed on a proper level and features necessary background for further improvement. The Russian Federation shared its experience in providing executive and investigating units of law enforcement agencies with access to information that represents the bank secret and in implementation of approach to inter-agency feedback during exercise of their authorities.

The parties also discussed basic criminological trends that the states encounter in the domestic arena. The discussion was initiated by the Republic of Belarus whose representatives claimed that the most complicated process they faced at the time was the transit of assets through their territory. Other participants confirmed existence of the same trend along with money laundering processes within the states. The Russian party shared its positive experience and results reached in the process of combating illegal financial operations mostly due to pursued domestic policy and introduction of respective amendments to legislation of the Russian Federation (Federal Law 134-FZ).

Of especial interest was the discussion of the issue concerning acquisition of information from the Caribbean (British Virgin Islands, Cayman Islands). Representatives of the Russian FIU emphasized that legislation of those states did not prohibit transfer of information on requests filed by foreign FIUs, however it should be taken into account that any legal entities registered in the territory of those states opened their bank account in entirely different jurisdictions, receipt of information from which (due to specifics of their legislation) constituted certain difficulties – those were the Baltics, Cyprus,

etc.. However, it does not decrease efficiency of FIUs operations with regard to the states that are «hard-to-reach» in the view of FIUs – they employ the mechanisms of requests via law enforcement agencies along the lines of the Ministry of Internal Affairs, Interpol and so on.

Among the most popular (for the last 1.5-2 years) requests in FIUs' practice, participants singled out withdrawal of capital, foreign FIUs' requests concerning individuals who own assets abroad, illegal drug trafficking, cybercrimes, high-technology fraud, human trafficking, etc..

At meeting closure, participants discussed the mechanism of operation of inter-agency committees and working groups on the national level. There is the Inter-Agency Working Group (expert level) that involves law enforcement agencies and supervisory authorities as well as banks functioning in Belarus. Group meetings are as a rule held on a monthly basis. A group of representatives of law enforcement agencies, bank supervision authority and representatives of reporting entities was established in Kazakhstan. Meetings are held on a monthly basis. In the Republic of Tajikistan, the Inter-Agency Commission comprising first deputy heads of specialized agencies, representatives of the Financial Monitoring Department of the National Bank of Tajikistan has been functioning since 2012. The group holds its meetings on a quarterly basis.

In the context of crime prevention in general and combating illegal drug trafficking in particular, such events become especially relevant considering attendance of such events by representatives of law enforcement agencies and FIUs of the states immediately involved in implementation of various regional projects and operations aimed at crime prevention (for example, "Channel" operation).

The events held received high appraisal on behalf of participants and will certainly enhance efficiency of activities performed by FIUs and other institutes of the national AML/CFT system.

\* \* \*

An equally interesting and diverse program of VC events is planned for autumn and winter. In the future, roundtable meetings on the following subjects are planned:

- exchange of experience in extension of AML/CFT supervision onto pawnshops, persons carrying out leasing activities as lessors without respective licenses,

*Oleg N. Korchagin,  
Deputy Head of FGA RI Center  
of FDCS of Russia*



Based on the results of the roundtable meeting, we should emphasize the importance of this kind of events that promote closer cooperation among national anti-money laundering systems.

Possession of knowledge and understanding of the way our partners work will in the long run provide opportunities for development of proposals to unify and harmonize our laws and thus to bring implemented processes in compliance with higher standards.

Besides, as practice shows, our work should not be confined to adoption of national laws or other regulations. Development of mechanisms to search new opportunities for permanent audit and experimental activity is important. Such events secure an opportunity for everyday cooperation on various levels between executives of law enforcement agencies, chief executives and representatives of FIU, which in the long run must trigger attainment of higher results in crime control.

organizations carrying out operations with precious metals and precious stones and respective items, accounting organizations and chartered accountants, persons carrying out entrepreneurial activities in the sphere of legal assistance;

- exchange of experience in development of AML/CFT instructions for entities subject to financial monitoring;
- prevention of money laundering within the framework of the Customs Union;
- roundtable meeting concerning cryptocurrencies and new payment methods (Bitcoin);
- combating laundering money obtained through stealing of budgetary funds;
- exchange of experience in money laundering and financing of terrorism through employment of organizers of gambling and lotteries.

Also planned is a series of training events to the benefit of FIU, supervisory and law enforcement agencies, private sector, including training courses in combating corruption in the financial sphere.

## NEWS BLOCK

## ***Director of Rosfinmonitoring Took Part in the Meeting of Ambassadors and Permanent Representatives of the Russian Federation***

Yury Chikhanchin, Director of Rosfinmonitoring, took part in the meeting of ambassadors and permanent representatives of the Russian Federation that was held on July 2, 2014 at the RF Ministry of Foreign Affairs.

In his speech, the head of the financial intelligence unit emphasized that combating money laundering and terrorist financing remains one of the most important and vital issues pertaining to the national security of our country.

With the rapid development of information technologies and transnational nature of crime, effective prevention of criminalization of financial sector cannot be achieved by a single country,



### ***Yury Chikhanchin, Director of Rosfinmonitoring***

“It should be noted that initially the FATF was established as the intergovernmental non-political Group for developing anti-money laundering measures and protecting the international financial system against penetration of criminal proceeds. However, the recent years have witnessed a more visible trend towards politicization of this forum and certain attempts have been made to apply a double standard policy to certain decisions taken by the FATF. Obviously, this is due to the fact that some countries try to protect their national interests, including the economic ones, as evidenced by the refusal of certain Western Europe countries to attend to the FATF Plenary Meeting scheduled for June 2014 in Moscow and the decision to hold the Plenary in Paris. Our concern about further potential politicization of the FATF activities was officially expressed at the said Plenary of this organization”.

but requires coordinated efforts of the entire global community. In this context, the Financial Action Task Force (FATF) plays the key role in the development of common standards for the global AML/CFT system.

The head of the Federal Financial Monitoring Service reminded that the agency continuously extends its international AML/CFT cooperation. Just in the first half of 2014, the relevant agreements were signed with Brazil, Anguilla, Andorra, Seychelles, Cayman Islands, the Netherlands and Belgium.



## ***Regarding the Meeting of the Expert Advisory Group of the National Anti-Terrorist Committee***

The regular meeting of the Expert Advisory Group of the National Anti-Terrorist Committee chaired by the Director of the Federal Financial Monitoring Service Yu. A. Chikhanchin was held on June 27, 2014 at Inter-regional departments of Rosfinmonitoring in the Southern Federal District in Rostov-on-Don. The topic of discussion was the issue of combating the financing of terrorism, with the meeting agenda as follows: "Organization of cooperation between concerned governmental authorities in handling the problems of combating the financing of terrorism and extremist activities in the course of preparation and conduct of the 22<sup>nd</sup> Winter Olympics and the 11<sup>th</sup> Paralympic Games 2014

in the city of Sochi through employment of risk-based approach. Outlook for implementation of acquired experience in holding of major social and political events in the territory of the Russian Federation".

Besides permanent members of the headquarters of the Federal Security Service of Russia, the Ministry of Internal Affairs of Russia, the Ministry of Justice of Russia, the General Prosecutor's Office of the Russian Federation, the Federal Drug Control Service of Russia, the Federal Customs Service of Russia, Rosfinmonitoring, the meeting was attended by representatives of law enforcement agencies as well as by the Deputy Director of the Executive Office of Plenipotentiaries of the Russian President in the Southern Federal District.

## ***The Association of Russian Banks hosted the meeting of the members of the ARB Committee on AML/CFT and Compliance Risks with Pavel Livadny, Deputy Director of the Federal Financial Monitoring Service***

The meeting participants discussed the Rosfinmonitoring initiative which proposed that the ARB should maintain the lists mala fide customers who voluntary terminated business relationships with banks due to refusal by a bank to carry out suspicious transactions.

According to Pavel Livadny, at present, banks quite frequently use the right to refuse to carry out suspicious transactions and much less frequently apply the measure of last resort – the right to terminate bank account/ deposit contracts with their customers.



*“The new measures applicable by the banks to their customers were added to the AML/CFT Law (115-FZ). Since information on application of these measures is reported to Rosfinmonitoring, it makes sense that it will maintain this list. The list will contain information on customers with whom the banks refused to enter into bank account/ deposit contracts and terminated such contracts and will be publicly available. The problem, however, is that the customers whose suspicious transactions were rejected continue their operations and approach other banks. The credit institutions shall be able to receive information on such customer. Therefore, another list should be compiled and maintained”,* explained the Deputy Director of Rosfinmonitoring.

The government authorities are not able to maintain such list, since they do not receive information on such customers. *“Therefore, in our opinion, it makes*

*sense that the relevant lists should be maintained by the banking community”,* opined Pavel Livadny.

The meeting participants supported the initiative, but pointed out a number of issues that require further consideration. First of all, maintaining by the banking community of the list of customers whose suspicious transactions were rejected will entail additional costs and increase burden on compliance departments. Secondly, there are legal risks related to potential claims of customers since they will be actually denied access to the banking system. Thirdly, to make a decision on listing a customer the banks should use the common approach to assessment of high customer risk.

The participants agreed to proceed with discussion of the disputable issues at the next meeting.

The bankers also discussed the FATCA compliance experience of foreign countries.

## ***Rosfinmonitoring Director Attends the XII International Banking Forum “Banks of Russia – XXI Century” in Sochi***

In his speech to the forum participants, Yu. A. Chikhanchin, head of the Federal Financial Monitoring Service, outlined a number of urgent issues confronting the Russian anti-money laundering system: about 20%, and some cases up to 40%, of funds allocated from the country's budget end up in the shadow economy.

*“We need to trigger earlier warning mechanisms to help credit institutions avoid getting into problem situations,”* said Yu. A. Chikhanchin. *“Although we've largely succeeded in shutting down the largest illicit platforms, they have since been replaced by small regional ones. Jointly with the CB, we're currently building a network of remote control mechanisms capable of detecting illicit schemes and the presence of shell companies. Despite this, there are several problems that can only be tackled together with the banking community.”*

One of the biggest problems, according to the Rosfinmonitoring director, is the return to the banking industry of managers and executives

previously employed by banks closed for their involvement in illicit, and in some cases criminal, activities:

*“We don't always know what happens to the questionable clientele and management of these banks after they decide to leave. It's our job to come up with effective solutions – possibly create special lists – that would allow us to safeguard the state sector and financial institutions against such unscrupulous individuals.”*

In addition, Yu. A. Chikhanchin pointed out at the hugely important role played by the financial system in maintaining the health of the country's economy. The FATCA standards are determined by two factors: the transparency of financial institutions and the transparency of the real economy. Transparency is not only about enforcing the law, but also about creating legal mechanisms for solving the existing challenges.

Yu. A. Chikhanchin highlighted the external threats to the financial sector. The fact that the FATCA sanctions mechanism requires residents to report to the American Internal Revenue Service.:

*“In essence, our financial institutions become tax agents and tax informants in the service of the U.S. economy. Similar initiatives are beginning to*

*be adopted by other countries, potentially creating a serious risk to our financial system.»*

The FATCA requires foreign banks to report information on the accounts of their American clients to the U.S. Internal Revenue Service. The banks that refuse to comply with this requirement are subject to a 30% withholding on payments. In essence, this act can be compared to a sanctions instrument. Such mechanisms, according to the Rosfinmonitoring director, have the right to exist, but they must be multilateral.

*«At all international venues attended by us, we try to advocate the use of internationally recognized sanctions mechanisms. Unfortunately, some countries insist on using country-specific measures for these purposes.»*

The XII International Banking Forum «Banks of Russia - XXI Century» was held with the endorsement of the world's leading financial institutions: the World Bank, the International Monetary Fund and the European Bank for Reconstruction and Development.

## ***Expert Meeting of the US-Russian Working Group on Afghan Narcotrafficking***

The regular expert meeting of the US-Russian Working Group on Afghan Narcotrafficking was held on June 24-26, 2014 at the Hotel Metropol, Moscow. This Working Group, operating under the project initiated by the EastWest Institute, consists of the leading US and Russian-based experts.

The participants of this event were Zamir N. Kabulov, Russia's Presidential Envoy to Afghanistan, Yury A. Gorlach, Deputy Director of the European Cooperation Department of the RF Ministry of Foreign Affairs, Zaheer Aslam Janjua, the new Pakistani Ambassador to Russia, Aftab Hasan Khan, Deputy Head of Mission at Pakistan Embassy Moscow, Nadzhibulla Shinwari, Attache of Afghanistan Embassy in Russia, Alexander S. Sinyagovsky, First Secretary of Kazakh Embassy in Russia, the representatives of the Collective Security Treaty Organization and a number of other officials. The diplomats from the Embassy of the Islamic Republic of Iran (Suied Ghasem Zakeri, First Secretary, and Hassein Pudinekh, Third Secretary) attended the event as the observers.

The Group held series of meetings to discuss the US-Russian relationships in the context of Afghanistan, and also the so-called "factor-2014" (withdrawal of the ISAF troops from Afghanistan) and possible development of the situation in

Afghanistan following the presidential elections currently underway in this country. In addition to the already published report ***Afghan Narcotrafficking: Joint Threat Assessment***<sup>1</sup>, the Group plans to issue another report pertaining to the security of the Afghan borders by the end of 2014. Besides that, the Group is also preparing the report on alternative development of Afghanistan.

In the aggravating international environment, this project initiated by the EastWest Institute and implemented with the support of the Russian Federal Drug Control Service (represented by the Research Center of this government agency with which the ITMCFM signed the cooperation agreement) serves as the efficient communication channel that allows for maintaining the US-Russian dialogue on such urgent issue as combating production of narcotic drugs in Afghanistan. Konstantin G. Sorokin, advisor to the ITMCFM Science and Education Department, whose articles are regularly published in our journal, is the member of the US-Russian Working Group.

During the event, the special issue of the ***Financial Security*** journal, dedicated to the completion of the Russia's presidency of the FATF, was presented to the attendees who evinced keen interest in this publication.

Further details of the project can be found on the EastWest Institute's official website at: <http://www.ewi.info/idea/afghan-narcotrafficking-joint-threat-assessment>

<sup>1</sup> <http://www.ewi.info/sites/default/files/ideas-files/JTA-russian.pdf>

## ***National Conference of the Inter-regional Departments of the Federal Financial Monitoring Service in the Federal Districts***



On August 19 – 20, 2014, the national conference for the officers of Rosfinmonitoring Inter-regional Departments in the Federal Districts dedicated to arrangement for the macro analysis and risk assessment efforts undertaken by Rosfinmonitoring was held under the auspices of the Inter-regional department of the Federal Financial Monitoring Service in the Siberian Federal District.

The attendees of the conference discussed the regulations and procedures for conducting macro analysis and risk assessment as well as defined the common terminology in this area.

The following decisions were made following the discussions held at the conference:

- Need to identify criteria for assessing the macro analysis results;
- Establish regional panels for identifying financial sector risks specific to the particular federal districts.

Creation of such panels may be the first step for establishment of the risk assessment centers in the Federal Districts. The need for such centers was pointed out by the representatives of all Rosfinmonitoring territorial bodies.



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