FINANCIAL SECURITY

O. MARKOV: "Our performance was best reflected in the international organizations <u>assessments' results."</u>



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YU. CHIKHANCHIN: TASK WE FACE NOW IS NO LESS COMPLICATED THAN 15 YEARS AGO

Irina V. Ivanova, Editor-in-chief



wo factors had a major impact on creation of a national anti-money laundering system:

- continued criminalization of economy, in particular, banking sector;
- international community's request to apply FATF recommendations to our country.

It's growing threat to other countries from Russian "shadow" and criminal capital, as well as, to a certain extent, reluctance of the country's business community to be supervised, that led us to the FATF blacklist. We could no longer hesitate.

Freezing of certain Russian companies' foreign accounts, refusal to sign contracts and detention of our nationals, including officials, in some jurisdictions on charges of money laundering were among international community's responses to Russia's lack of action.

It was necessary to draft and adopt a bill on combating dirty money laundering. The only problem was that two prior versions of the bill had failed.



The first draft of the law "On Combating the Legalization (Laundering) of Illegal Proceeds", had been submitted to State Duma in November 1996 by a group of MPs led by V. Vorotnikov, an author of several studies into shadow economy. But in March 1997, the State Duma refused to consider the bill. It was followed by a second draft, which, despite passing the State Duma, was vetoed by President B. Yeltsin.

Backdrop

Prior to the adoption of a designated anti-money laundering legislation and establishment of Russian financial intelligence unit, fight against illegal financial transactions, including those related to money laundering, was waged mainly in the framework of the existing currency control system. Currency control agents – financial institutions and territorial customs authorities in particular – were required to report suspicious financial transactions to Russian Federal Service for Currency and Export Controls (CEC), Bank of Russia and State Customs Committee.

The most rigid systematic control was exercised over terms of payment in exportimport transactions, which were subject to strict accounting and monitoring procedures as part of the so-called foreign economic transactions certification process (a certain prototype of the modern system of mandatory controls in banks, which subsequently became the major group of reporting entities).

The CEC, established by Presidential Decree No. 1444 of September 24, 1992, was a federal executive body tasked with exercising currency and export controls on behalf of the Russian Government. Following a review and verification of the input, the CEC and its regional offices decided whether to initiate administrative or civil proceedings against guilty persons, and/or to refer case materials to law enforcement or the Interior Ministry's Interagency Centre.

The CEC established its first contacts with the FATF and first financial intelligence units

already in mid-'90s. The CEC played a key role in drafting and signing intergovernmental agreements on cooperation in fight against illegal financial transactions, including money laundering, with Italy, Croatia, Belarus and Bulgaria in 1997-1999.

The CEC was responsible for creating certain internal and external conditions for Russia's further integration into international AML/CFT system.

In fact, it was the Finance Ministry's Currency Control Department, headed by Yury Chikhanchin, which, as the CEC's successor, was a key contributor to Federal Law No. 115-FZ, enacted in August 2001, as well as providing a large number of personnel for the newly established Financial Monitoring Committee (FMC).

FS: Mr. Chikhanchin, how did you happen to get involved in drafting a new bill?

Yu. Chikhanchin: By chance. I was working at the CEC Krasnoyarsk office in 2000 (we were already in the blacklist backthen). The bill had already been blocked twice. The third draft was being prepared by the CEC, which, in fact, was in the process of liquidation. While visiting Moscow on business, I found myself among those who were working on a report for the Government on a draft anti-money laundering law. Later, during my first visit to the Russian White House, it came as a surprise to me that I would be the one making the presentation. There was a tense discussion centred on the choice of wording - "illegal proceeds" or "criminal". In the end, most people present went for the latter, as the former left too much space for interpretation. The proposed draft was then adopted as a basis by a working group set up at the Ministry of Finance, which began working on it. The bill was to be passed as soon as possible. I joined this group already as Head of the Ministry of Finance's Currency Control Department (CEC's successor).

It was a very complicated task. In a situation of a growing external pressure and hardening internal resistance, we had to start everything from scratch – discard everything that was wrong and unnecessary and keep all the rational things.

FS: What documents were used as a basis?

Yu. Chikhanchin: The FATF international standards and structure of the earlier bills. We chose three key areas: the establishment of a financial intelligence unit, introduction of a mandatory reporting procedure for financial institutions and establishment of a predicate offences list.

In a very short time we made a breakthrough: in 2000 the bill was submitted to the State Duma and already in 2001 it was adopted and signed by the Russian President.

The new law set us three key tasks: to create an antimoney laundering system, refine the mechanism for submission and processing of suspicious transaction reports, and establish a procedure for transfer of evidence to law enforcement.

FS: 15 years later, the tasks facing Rosfinmonitoring are much more numerous...

Yu. Chikhanchin: Over the years, the Service's functions have changed a lot. There are several reasons for this. First, in response to rising geopolitical tensions, the FATF has tightened its requirements, which we use to set new challenges. Secondly, Russian financial intelligence unit has showed that it was capable of dealing with the tasks beyond those defined by law, as well as has demonstrated its ability to conduct a deep analytical assessment of the situation in the country.

At the international level, we have secured the FATF's backing of our initiatives and are currently chairing the Eurasian Group on Combating Money Laundering and Financing of Terrorism and the CIS Council of Heads of FIUs; we're regularly invited to various FATF-style regional bodies; our foreign colleagues come to study our experience.

Domestically, we've managed to build proper professional relationships with all participants of the national anti-money laundering system - from financial institutions to public authorities. We are involved in activities of almost 30 interdepartmental commissions at different levels. We have gone beyond control and oversight. We are engaging the private sector through joint involvement in the identification of risks and conducting remote mutual assessments. The number of tasks set by the country's leadership is increasing year by year.

We have begun taking on specific challenges that are not typical for financial intelligence agencies, such as supervision over strategic and backbone enterprises; addressing problems of defence procurement; analysing investment projects; and monitoring public funds allocation. Our joint efforts with the Central Bank and law enforcement agencies have significantly strengthened financial sector and our economy as a whole.

We are witnessing a decline in number of suspicious transactions aimed at siphoning funds off overseas along with a whole category of economic crimes, common in the previous years. We succeeded in squeezing out illegal encashment centres with a turnover running into billions. Our experience in monitoring drug-related financial flows is highly praised around the world and yields tangible outcomes in identification of illegal encashment centres. We are capable of not simply tracking terrorists; we can predict their financial behaviour.

The task we face now is no less complicated than the one 15 years ago. We have managed to create a functioning AML/CFT system in the country and to successfully defend our interests in international organizations. Our job now is to preserve and increase this success. As Russia's status in the world continues to grow, this irritates some countries. This means that for things that can be easily forgiven to other countries, Russia may face unpleasant consequences. That's why we can't afford mistakes, even the smallest ones. We feel our importance to the country's leadership. For this reason, we will make every effort to meet the goals set for us, no matter how diverse and difficult they may be.



V. ZUBKOV: FINANCIAL INTELLIGENCE UNIT HAS ALL NECESSARY MEANS TO CURTAIL HIGH RISK ZONES IN RUSSIA

Irina V. Ivanova, Editor-in-chief



Viktor A. Zubkov – Head of Federal Financial Monitoring Service (until 2004 Finanial Monitoring Committee), 2001 – 2007

FS: When did the terms "laundering" and "legalization" first enter general parlance in Russia?

V. Zubkov: The international community got serious about the problem of dirty money back in the 80s. Perhaps partly due to the alien nature of the money laundering concept to the Soviet economy Russia joined these efforts much later. However, the pressure of Russia's international commitments forced it to embark on a path of major legislative reforms.

Backdrop

The current Criminal Code of the Russian Federation was adopted in 1996 and came into force on January 1, 1997. For the first time in Russia's legislative history, a codified regulatory document featured an article establishing liability for legalization (laundering) of funds or other asset acquired by illegal means (Art. 174). The objective aspect of this crime was expressed in carrying out financial and other transactions with funds or other assets knowingly acquired by illegal means, and in using such funds and other assets for entrepreneurial or other economic activity.

BELONIOCTH

Vedomosti newspaper. April 13, 2009. 1999-2009 Chronicles: Image Laundering

As of February 2000, the number of countries in full compliance with the FATF Recommendations, as well as those listed among its members, stood at 26. Russia was not among them. By that time, the FATF had already resolved to regularly publish a list of countries failing to combat money laundering. To this end, FATF experts were investigating 50 countries, mostly offshore jurisdictions. The FATF even threatened to expel from its ranks Austria for the practice of opening anonymous bank accounts, which this country quickly terminated. The first blacklist of 15 countries was published on June 22, 2000. The inclusion of Russia, alongside the Cayman Islands, Nauru and Vanuatu, was a huge shock for the country's leadership, according to one former senior Kremlin official. However, given the still fresh memories of the previous year's scandal on the laundering of Russian money through the Bank of New York, the FATF's reaction was rather predictable. Still, the FATF representative, Rick McDonnell, insists that the scandal itself did not contribute to the FATF's decision to blacklist Russia, "although the case itself serves as a good example of money laundering schemes."

"I tried very hard to force our law enforcement into it [the FATF]. But it was too late," lamented in the summer of 2000 Alexander Livshits, shortly before dismissal from the post of Russia's special representative in negotiations with G7. According to him, the decision

*

to publish the infamous list of countries linked to money laundering, and to include Russia in it, was adopted by the G7 ministers at a meeting held without Russia's participation. "Had there been our representative, he could've, at the very least, blocked Russia's inclusion in the list," Livshits said. But the biggest mistake, in the opinion of the former Kremlin official, was that no one in the Russian government even bothered to solve this problem through the use of administrative tools. "It was sheer recklessness. After all, there are certain rules of international politesse that need to be observed, and we just didn't have the right law in place." The Ministry of Finance had drafted the relevant bill back in 1998, but in 2000 it was still undergoing interagency coordination.

FS: Attempts to pass a framework anti-money laundering law had been made long before Russia's blacklisting by the FATF. Why was the process so difficult?

V. Zubkov: Yes, it was a tough process. As far as I remember, Boris Nikolayevich (Yeltsin ed. comment) received several versions of the document for consideration. There was no result. Despite some attempts by the country's leadership to do something about money laundering - the Ministry of Interior Affairs even set up in 1999 an Interagency Centre for Combating Money Laundering - the work to promote international anti-money laundering standards and coordinate activities of law enforcement and other supervisory bodies in this area stalled. It is guite probable that this situation would have lasted if it was not for the ascension to the Presidency, in 2000, of Vladimir Putin, who, following the publication in June of the same year of the FATF blacklist of countries and territories whose weaknesses in combating money laundering hampered international cooperation, ordered to take immediate action.





газета.ru

Gazeta.Ru June 9, 1999. Kremlin Is Unhappy with the Prospect of All-Out Surveillance of Russian Citizens

As reported by the RIA Novosti, with reference to an anonymous senior administration official, Boris Yeltsin vetoed the Anti-Money Laundering Act... An in-depth review of its provisions revealed that "its implementation would allow the government to involve all entities without exception in surveillance over each other, as well as over individuals". In addition, according to the same source in the Kremlin, the law allowed the government, "under threat of significant property damage or liquidation of an entity, to transform the systems that encouraged everyone to inform on everyone else into state supervisory bodies."

There was a lot of resistance to the law. But it was hard not to agree with the fact that the FATF, both then and now, has all the tools that every civilized country must have. They just forced us to adopt a full-fledged law. The Federal Law No. 115-FZ "On Combating Money Laundering" was finally adopted by the State Duma on July 13, 2001, endorsed by the Federation Council on July 20, 2001 and signed by the President on August 7, 2001. And on November 1, 2001, the President issued a decree establishing the Financial Monitoring Committee, an authorized body.

Its establishment was preceded by a protracted debate over which agency the Russian Financial Intelligence Unit should be attached to, with both the Ministry of Interior Affairs and the Central Bank being viewed as potential candidates for the role. However, having studied the experience of other countries, it was decided to make it part of the Ministry of Finance. I was appointed Head of the FMC with the rank of First Deputy Minister of Finance.

FS: Did the inclusion in the FATF blacklist really pose such serious problems for the country back then?

V. Zubkov: Back then, yes. And the President knew very well that if we did not comply with the FATF decision, the country would face sanctions. And they could be rather painful. You see, Vladimir Putin had only just been elected Head of State, and it was downright dangerous to begin his first term with a sanctions list.

ведомости

Vedomosti newspaper. October 21, 2003. Operation "Purity"

The FATF blacklisted non-cooperative countries and instructed financial institutions of other countries to exercise "due diligence in establishing business relationships and carrying out transactions" with/for persons from these countries. There were 26 countries on the list. Russia was included in it in 2000, after the scandal with the Bank of New York. Russia's reputation as a "money laundery" led to the unmotivated closure by international clearing banks of the correspondent accounts of Russian banks and suspension of all payments originating from Russia until the client was able, through submission of a large number of documents, to prove the legal origin of the money. "The restrictions placed on the activities of Russian banks in international markets were not always justified and sometimes used as an anti-competitive tool," acknowledges Vadim Lisovsky, First Deputy Chairman of the Board of Mosnarbank. "So, for example, if you tried to put up a security deposit in a contest to buy a business in Europe, the banks involved, citing the FATF's instructions, could potentially suspend your transaction until the contest was already over!" says Valery Tutykhin, a partner at law firm John Tiner & Partners.

FS: Some countries are also trying to use sanctions against Russia now. Is it less dangerous for us now?

V. Zubkov: If 15 years ago someone blocked Russia's international accounts used to transfer payments for goods and services, they would have triggered a collapse. It was evident from the situation with Ukraine, against which the FATF used its entire sanctions arsenal. Russia was not back then strong enough economically and financially to withstand this pressure. It is now that we have an "airbag" created at the time of high oil and gas prices. Back then, however, sanctions would have been not just painful for our country but downright dangerous.

FS: How did the FATF meet Russia, which came to fight for the removal from the blacklist?

V. Zubkov: We did not feel very confident, to begin with. When I first found myself at a Plenary meeting, we were sitting somewhere in a corner like "poor cousins". I decided to speak to one of the colleagues at the "big" table. I sat down next to one and asked, "Excuse me, do you happen to know a relatively fast way to exit the blacklist?" "No, I'm also on it," replied Michael Lauber, who, by the way, is Switzerland's Prosecutor General now.

As time went by, we got acquainted with other financial intelligence units, including the FinCEN (Financial Crimes Enforcement Network) in the US, where I went on a visit. Trips to European countries followed to see how things worked there and to get some valuable experience, which, unlike us, they had already acquired. For us, however, the lack of experience was actually good, as it allowed us to borrow from them only the best and most effective practices. Having to build Russia's anti-laundering system from scratch meant that we could learn from others' shortcomings and mistakes, eventually, in 2013, ending up with a system that was recognized as one of the most effective.

FS: How was the agency established?

V. Zubkov: The challenge I faced was not just to set up a new government body – to find the premises for it, hire people and purchase equipment – but to establish a functioning financial intelligence unit. To do this, we needed a legal framework – hundreds upon hundreds of documents – which was to meet all the FATF requirements with regard to our country and, secondly, govern relationships between all authorities. That was the task we set our minds to right away.

That was how we started. I began to build up a team. We were joined by a group of currency and export control experts headed by Yury Chikhanchin, and then we invited people from other ministries and departments. Still, there were not many takers for the jobs on offer: civil servants are paid the same wherever they are, meaning that it often made little sense for them to swap a comfortable place for something new and unknown. So I went to the President and asked for money. Eventually, the President issued a classified decree, increasing the funding by 25%, and people started coming.



ИЗВЕСТИЯ

Izvestia newspaper. January 8, 2002. FIU's Creation Goes According to Plan

"There's every reason to believe that the assigned task will be fulfilled," officials at the Ministry of Finance told Izvestia. Without waiting for its official unveiling, the committee began its work even before the start of the New Year holidays and, as they say in the ministry, "is already involved in information sharing with foreign FIUs." By February, the FMC's staff strength, including its regional representatives, should reach nearly 300 employees. In the meantime, however, financial interests of our country are guarded by a "limited contingent" of just 20 officers. Besides the Ministry of Finance staff, the Committee's talent pool gets its personnel also from the economic divisions of law enforcement agencies.

V. Zubkov: By February 1, 2002, all the necessary legal and organizational prerequisites needed for the national anti-money laundering system to function were put in place, and the financial intelligence unit officially started its work. Over the next couple of years, not only did we manage to fine-tune the Committee's operations but also rendered it technically superior to its European counterparts, reaching the level of the FinCEN of the US.

FS: Were there any problems with building relationships with financial institutions during the elaboration of the anti-money laundering mechanisms?

V. Zubkov: It depended on the situation. You see, it was not enough to have the right equipment to receive suspicious transaction reports, for this we needed networks. Since it was way too long to build everything from scratch, I went to the then Chairman of the Central Bank, Viktor Gerashchenko. Well, all I can say is that we settled everything over lunch.

Коммерсантъ

Kommersant newspaper. February 7, 2002. Financial Intelligence Agency Faces Avalanche of Tip-Offs

For one week now, Russia has a new intelligence agency officially called the Financial Monitoring Committee (FMC) under the Ministry of Finance. The first to experience the powers of the new agency were the country's banks, which must now report all suspicious, from the point of view of money laundering, transactions to the FMC, or face the prospect of losing their license ... Banks are already reporting on their clients in a big way. Still, Viktor Zubkov refused to specify the total number of suspicious transaction reports submitted per week, saying only that there are "a lot of them." Some figures were provided by the Central Bank Deputy Chairman, Mr.Melnikov, not least because all data sent to the FMC passes through the communication channels of the Central Bank, which, in contrast to the FMC, is linked to the country's banks via its electronic communication network. According to him, on February 4 banks transferred 2.3 megabytes of data, and on February 5 already almost twice as much, 4 megabytes.

FS: What was the bankers' reaction?

V. Zubkov: What is really important for banks dealing with the financial intelligence unit is that the information they send to the designated authority should remain confidential, like a secret shared by two people. Back then, we managed to persuade financial institutions that all the information they sent us would remain within the FMC's walls. I am proud of the fact that, neither during my years in the office nor thereafter, anything has ever leaked out. There was not a single bank that could credibly claim that any of the information is for sale or ended up, God forbid, in the hands of criminal organizations. The trust in the service was huge. Furthermore, I tried to meet with bank representatives every year, made speeches and explained how we worked. And, it seems to me, they trusted me.





FS: The media back then was overwhelmingly of the opinion that the FATF would not like Russia's progress and would leave it on the blacklist. How did you feel?

V. Zubkov: In September 2002, as part of the evaluation of the progress made by the blacklisted countries, we were visited by a FATF expert mission. We showed them Russian legislation and work carried out by the FMC, Bank of Russia, law enforcement and supervisory authorities. They also visited banks and financial institutions, as well as surveyed the work done by our regional branches. The mission was led by Ted Greenberg, then a representative of the US Department of Justice, the very man who got us on the blacklist in the first place, and who, on top of that, now came to Russia to audit us. I can't even tell you how much "bashing" we got from him! However, thanks to his perseverance and diligence, we did everything right.

One example of the level of our preparedness was the almost unanimous adoption by the State Duma on the last day of the experts' visit, on September 27, 2002, of two important federal laws, submitted by the President of the Russian Federation, aimed at further improving the AML/CFT framework.

Russia became a full member of the FATF on June 19, 2003, in Berlin.

"From now on, the Russian Federation is a full member of this organization," said Viktor Zubkov, Chairman of the Financial Monitoring Committee and Head of the Russian delegation at the FATF, RIA Novosti reports. We exited the blacklist in 2002. I even remember saying to them then: "We're going to set up our own FATF-style Eurasian regional group." It drew laughter back then, but we still did it. I called Mr. Putin, and he said, "Thank you." This was very valuable to me. On that evening, the then President of the Group, a representative of Germany's Central Bank, took us out to a restaurant in Bonn ...which was closed for money laundering! That was a funny incident. And already in June 2003 in Berlin, Russia became a full member of the FATF.

Коммерсантъ

Kommersant newspaper. June 6, 2002. Russia Becomes Member of the Financial Intelligence Club

A Plenary meeting of the Egmont Group of Financial Intelligence Units was opened in Monaco yesterday. It will last until June 7, but the mission of the Russian delegation is already accomplished: all 58 members of the Group voted unanimously vesterday to grant Russia's Financial Monitoring Committee (FMC) membership in this organization. ... Interestingly, the support of foreign financial intelligence officials was won by Viktor Zubkov almost exclusively with the help of his power of persuasion. After all, there is still very little the FMC boss has to show: despite receiving almost 200,000 suspicious transaction reports from banks in the last four months since February 1, 2002, there was only one prosecution so far; the FMC refuses to reveal the specifics of the case.



FS: Was it easy to build relationships with other international groups?

V. Zubkov: In 2002 Russia joined the Egmont Group of Financial Intelligence Units, which was very important as it put us on the same level with the financial intelligence units of other countries. It also opened up more opportunities for cooperation and information sharing.

FS: ... and, despite the mistrust on behalf of the FATF, you established a regional group.

V. Zubkov: Yes, that's how it was. In October 2004, the declaration on the establishment of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) was signed in Moscow by Belarus, China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan, with Uzbekistan acceding to it later.

Коммерсантъ

Kommersant newspaper. September 30, 2004. Russia Wants Its Own FATF

A regular session of the FATF (international organization that counters "dirty" money) began yesterday in Stockholm. This is the first time Russia has attended a meeting of this organization as a full member. Despite its newcomer status, the Russian delegation is determined to lead the fight against criminal capital in the territory of the former Soviet Union and wants to ask the FATF to open a regional office in Moscow. ... While on his way to Stockholm, Viktor Zubkov announced his intention to offer the FATF to establish a FATF style regional body for the CIS countries, with headquarters in Moscow. "We have already discussed this issue with the FATF members, and many agreed with us that there was a need for such a regional body," said Mr. Zubkov. At the moment, such regional bodies can be found in Europe, Asia, Africa, South and North America. According to Viktor Zubkov, many CIS countries do not mind having their curators come from Moscow. "The executive authorities of Ukraine, Belarus, Moldova, Kyrgyzstan and

Azerbaijan have already asked Russia for support in establishing their own financial intelligence units," he said. Mr. Zubkov uses rather interesting arguments to back up this request: "It makes financial sense given that these countries speak Russian and they won't have to translate all the necessary documents."

V. Zubkov: We began our work to build the EAG with Belarus. They were receptive to our ideas. Basically, we simply took our regulations and translated them – after all, our countries are so close. Ukraine came next. However, when it comes to our engagement with Ukraine, we were left a bit disappointed: after all our help, it failed even to mention Russia when reporting its achievements to the FATF, heaping all the praise exclusively on the US and its "European colleagues". Still, that incident does not change the status quo: Russia commands a lot of respect in the EAG.

Коммерсантъ

Kommersant newspaper. December 9, 2004. Russia to Teach Neighbours to Fight Dirty Money

It's obvious that Russia is not driven purely by altruism in offering help to its neighbours. According to Rosfinmonitoring, a total of 17 million CIS nationals cross Russia's semi-transparent borders in both directions each year, "carrying in their suitcases" millions of dollars. The Kremlin's goal is to control these cash flows. However, a majority of CIS countries still have neither their own financial intelligence unit nor antimoney laundering legislation. As a result, complains Viktor Zubkov, who is now also EAG Chairman, Rosfinmonitoring often simply has nobody to communicate with in many CIS countries. For this reason, \$1 million, as he highlighted yesterday, would be spent on technical assistance to EAG member countries in establishing their own anti-money laundering systems.



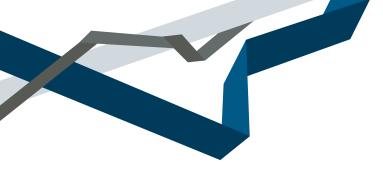


FS: As the first Head and the founding father of the Russian financial intelligence unit, what do you think about current expansion of the service's powers?

V. Zubkov: It is a natural process, as well as a logical outcome of the development of the country's economy and financial sector. When we were laying the foundations, we tried to cover the key sectors, but progress does not stop there. Security of public funds is currently one of the biggest problems facing our country, which means Rosfinmonitoring's involvement. If someone at the Vostochny space port is stealing money hand over fist, it is the responsibility of Rosfinmonitoring to track down the funds and find out who is to blame. State defence procurement, corruption, syphoning off funds - all these are high-risk areas. And if Rosfinmonitoring has the capacity to process these huge data volumes and analyse intricate criminal schemes - which it does, judging by regular instructions it receives from the President of Russia - then we should keep on doing it. Good luck!



Dear colleagues and friends! I sincerely congratulate you on the 15th anniversary of the Federal Financial Monitoring Service! Over the years, the Service has transformed itself into a government structure that holds a leading position within national and global anti-money faundering framework. Looking back at the early days of the formation of Russia's financial intelligence unit – then known as the Financial Monitoring Committee – T would particularly tike to mention the veteran staff of the Agency whose coordinated work, made possible a qualitative leap in the creation of the national *AML/QFT* system. Rogfinmonitoring today is an important government institution that is directly involved in finding solutions to the problems facing our state. Russia's status as a prominent member of the FATT and other FATT-style regional bodies has earned it international recognition. In its role as a national security risk assessment centre, Rogfinmonitoring plays a key role in protecting the country's financial security. I am convinced that your purposeful work aimed at detecting and preventing difences in financial, banking, budgetary and corporate sectors, as well as at combating terrorist financing and corruption, will continue to bear fruit in the source of health, happiness, peace and prosperity. Special Presidential Representative for Cooperation with Ga Exporting Countries Forum, Chairman, Gazprom Board of Directors W. Zubkgev



O. MARKOV: OUR PERFORMANCE WAS BEST REFLECTED IN INTERNATIONAL ORGANIZATIONS ASSESSMENT'S RESULTS

Irina V. Ivanova, Editor-in-chief



Oleg A. Markov – Head of Federal Financial Monitoring Service, 2007–2008

FS: Mr. Markov, you were Head of the Federal Financial Monitoring Service in 2007-2008. What were the highlights of your tenure?

O. Markov: First of all, I would like to point out that we used quite a fairly developed legal and technical framework put in place in the previous years. This work included steps to improve and further develop the federal anti-money laundering system and implement, in collaboration with the relevant state authorities, the Concept of the National Anti-Money Laundering/Counter-Terrorism Financing Strategy.

In quantitative terms, there was a significant expansion of the federal database and a rise in number of financial investigations, whose findings were subsequently referred to law enforcement. The number of convictions under articles 174 and 174.1 of the Criminal Code also increased.





Rossiyskaya Gazeta. September 27, 2007. Oleg Markov Joins Intelligence Service

Last Tuesday saw Deputy Prime Minister and Finance Minister Alexey Kudrin put Oleg Markov forward as candidate for the post of the country's Chief Financial Intelligence Officer. And already on Wednesday, Prime Minister Viktor Zubkov signed a relevant decree.

Few people expected problems with the appointment of Markov to the post, given that rumours about his likely elevation had begun to circulate back in March, when he joined Rosfinmonitoring leaving the post of First Deputy Chief of the Presidential Protocol. Almost immediately after that, we learned about Viktor Zubkov quitting the agency. In a new position, Markov was tasked with overseeing fight against terrorist financing, a job he became fully familiar with already six months later.

As already reported by RG, despite the fact that Oleg Markov, 54, is relatively new to Rosfinmonitoring, he is known in official circles as a man who spent his entire career in government jobs. In the 1990s, he had worked alongside Vladimir Putin and Viktor Zubkov at St. Petersburg's City Hall.

O. Markov: We worked on design and development of Rosfinmonitoring's Uniform Information System, which allowed us to improve cooperation with law enforcement and financial institutions and streamline operational management of interregional departments.

Legal AML/CFT basis was evolving. New amendments to the framework law called for a greater focus on transactions carried out by foreign public officials and their relatives, as well as for the enclosure of payer details with cashless payments and money transfers made without an account. As part of bylaws refinement process, the government, through its decree, extended the list of reporting entities.

The Service took an active part in the anti-drug operation "Channel 2008", which detected an extensive international drug payment network. Its' participants – including a large number of individuals and entities – were reported to the competent authorities.

Rosfinmonitoring was engaged in identification of possible terrorist financing sources and channels, and their suppression. We made sure that the relevant agencies always had access to the up-to-date List of Individuals and Entities Involved in Extremist Activities.

The Service's regional offices were provided with access to Rosfinmonitoring's information database, which helped improve the quality of financial investigations conducted in the regions and enhance collaboration with regional law enforcement agencies.



"Vek" newspaper. September 26, 2007.

...Notably, in the evening of September 24, Vladimir Putin signed a decree removing Rosfinmonitoring from the purview of the Ministry of Finance and placing it under direct subordination of the government. This means that, Viktor Zubkov, who left Rosfinmonitoring due to the new appointment, will be able to exercise direct influence over it this time as Head of the Cabinet.

FS: What milestones in international cooperation can you remember?

O. Markov: We continued to strengthen international cooperation through active involvement in the work of the Council of Europe, MONEYVAL, Roma-Lyon Group on Counterterrorism and Counter-Crime and the Counterterrorism Action Group.

An important area of Rosfinmonitoring activities was dedicated to bilateral ties with foreign FIUs through information sharing, joint investigations (more than 200), research, workshops and trainings. Effective cooperation was conducted with financial intelligence agencies of more than 100 countries.

Progress was also made in interdepartmental coordination. We signed more than two dozens of cooperation agreements with the relevant federal executive bodies, as well as held regular meetings of the Interagency Committee for Combating Terrorism Financing. The establishment of the Advisory Council under the said Committee allowed us to engage the business and academic communities in information sharing, development of coordinated proposals for AML/CFT system improvement and personnel training.



RBC-daily. April 21, 2008.

Today the delegation of the Group of States Against Corruption (GRECO) starts their visit to Russia. Following the outcomes, the GRECO will deliver its assessment of Russia's progress in fulfilling its anti-corruption commitments.

The GRECO was established by the decision of the Council of Europe in 1999. Russia became a full member of this organization in February 2007 and, at the same time, began to work on amendments designed to bring its legislation into line with the UN and Council of Europe conventions against corruption.

At this monitoring stage, the GRECO will assess the extent of compliance of the Russian law with anti-corruption requirements. Visitors will meet representatives of the investigative agencies, Ministry of Justice, the legislature and expert community. **O. Markov:** Our performance was best reflected in the international organizations assessment. Thus, for example, following the evaluation visit by the Group of States against Corruption (GRECO), Rosfinmonitoring's anti-corruption efforts, with account for the Agency's powers to analyse data on transactions with cash and other assets linked to money laundering, were rated as satisfactory.

Finally, in the period under review, the effectiveness of Russian AML/CFT system was confirmed in the course of tough FATF, MONEYVAL and EAG evaluations of its compliance with international standards. Following these evaluations, Russia was placed among the top ten performers alongside Sweden, Italy and Canada, while Rosfinmonitoring was included in the global list of top five FIUs.



RIA Novosti. December 14, 2007. Markov Replaced Zubkov as EAG Chairman

At its 7th Plenary meeting in China, the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) appointed Rosfinmonitoring Director Oleg Markov to the post of EAG Chairman, replacing Viktor Zubkov, according to a report issued by Rosfinmonitoring. The report also says that at the same meeting, Turkmenistan, India and Poland were granted observer status in the EAG.

The Plenary also approved the mutual evaluation report for China, conducted jointly by the FATF and EAG, and a followup report to Kyrgyzstan's mutual evaluation report, approved at the previous Plenary meeting of the EAG.

The 7th EAG Plenary was held in Sanya (China) on 13-14 December. The meeting was attended by the FATF President.



FS: The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a new FATF-style regional body, was established in 2004 on the initiative of the Russian Federation. You became its second Chairman. Can you say a few words about your work in this post?

O. *Markov:* Indeed, in December 2007 foreign colleagues showed their confidence by electing me EAG Chairman. I held this position until November 2011. It was a period associated with growth, although not entirely unhindered, and efforts to build the Group's reputation in the world. Our work was directed at fulfilling the policy objectives set out in the EAG constituent documents and other regulations as well as at the implementation of the requirements of international organizations involved in the fight against money laundering and combating the financing of terrorism (AML/CFT).

In addition, we were mindful of the emerging realities such as evolution of socio-political processes in the world, development of the global financial and economic system and changes in international law, which called for a rapid assessment of the situation and adoption of adequate response measures.

The EAG sought to fulfil its mandate as an expert and analytical organization engaged in the development of effective AML/CFT systems in Eurasian countries. Therefore, our primary objectives laid in facilitating the process of incorporation of the FATF Recommendations into national legislation, implementation of the mutual evaluation program, and review of effective anti-money laundering and terrorist financing measures adopted by EAG member states.

In addition, the EAG was engaged in international cooperation and technical assistance, with the relevant international organizations, institutions and countries; reviewed typologies of money laundering and terrorist financing; and exchanged experience in combating these crimes with account for regional specifics.

In the course of mutual evaluations, we tried to maintain the maximum level of objectivity and impartiality; provide an accurate assessment of national anti-money laundering systems; and, most importantly, develop practical recommendations for the elimination of the identified drawbacks, plan and monitor their implementation. It is important



to remember that some EAG countries began this work almost from scratch, which made experience of countries that had recently joined fight against money laundering particularly valuable.

Potential of modern information technology allowed us to create an interactive expert community, uniting experts in financial monitoring, financial security, law and banking technologies who were interested in the development of global anti-money laundering and terrorist financing processes. With launch of the EAG website, AML/CFT personnel were provided with a forum for conducting research and online discussions of relevant AML/CFT initiatives.

One important area of our work was to strengthen horizontal links between various elements of the global anti-money laundering system, a task that took on an added relevance with granting FATF associate member status to the EAG and observer status in the Asia/Pacific Group, a FATF-style regional body.

The EAG actively developed cooperation with international and regional counter-terrorism organizations. Observer status in the EAG was granted to the Shanghai Cooperation Organization (SCO). The EAG and SCO paid great attention to development and strengthening cooperation in fight against terrorism and terrorist financing in Eurasia.

Another area of cooperation related to coordination of efforts to build a "security belt" designed to combat drugs manufacturing and their trafficking through the region, as well as to eliminate terrorist centres and training camps in Russia's border territories.





The EAG signed a Memorandum of Understanding with the Coordinating Council of Heads of the Competent Authorities to Counter Drug Trafficking (KSOPN) of member nations of the Collective Security Treaty Organization (CSTO). This document established an effective mechanism for cooperation between EAG financial intelligence units and CSTO competent authorities in fight against drug trafficking and drug-related money laundering in Eurasia. The true implementation of this paper began with participation of CIS FIUs in the "Channel" operation.

Another important development was the conclusion of a Cooperation Agreement with the Interparliamentary Assembly of the Commonwealth of Independent States Members Countries (CIS IPA), which provided for interstate cooperation in preparation of draft and model laws and comprehensive information sharing. This Agreement laid the foundations for creation of integrated databases of EAG and CIS legislation and formed grounds for adoption by the region's countries of effective laws aimed at intensifying fight against money laundering.

In 2010 the EAG became an associate FATF member, a move that accelerated the process of mutual integration of activities. It also gave all EAG member states, including those without FATF membership, opportunity to participate in the FATF activities on behalf of the EAG. They were provided with full access to FATF documents as well as opportunity to participate in its meetings, mutual assistance procedures and activities of its working groups. In turn, FATF member states became more involved in the EAG work. That period will also be remembered for the growth in the Eurasian Group's potential. The Group granted membership to Turkmenistan and India, which expanded the EAG boundaries and strengthened its ties with the Asia/Pacific Group. Meanwhile, the list of the Group's observers was expanded to include Poland, Serbia, Montenegro, Asia/Pacific Group, Middle East & North Africa Financial Action Task Force, Eurasian Development Bank and UN Counter-Terrorism Committee.

Finally, a key step in the Eurasian Group development was its transformation into an international organization, a move driven by the need to formalize a whole complex of organizational, financial, logistical resources and to clearly define roles of the EAG participants, both members and observers. The Group's status as an international organization allowed EAG countries to step up their participation in the work of the Group and their involvement in the global anti-money laundering and terrorist financing processes. It also boosted the observers' role in the Group's activities and in strengthening of its relations with regional and international partners. The crossborder nature of money laundering and terrorism financing crimes means that the only way to tackle them effectively is through joint action. In this sense, the Group's international standing allowed it to act as a credible participant in these processes both within the region and beyond.

The EAG Treaty states that the Group is funded though assessed contributions of all participating countries. It reduces the financial burden on Russia –



and it is no small thing in general – which shouldered the lion's share of expenses related to the Group's maintenance.

In conclusion, I would like to highlight the leading role of the Russian Federation in the EAG activities, which is not only due to the country's role in its establishment. Our country is the Group's most active participant. Russia's representatives held the EAG presidency most of the time since its establishment. Russia provided, and continues to provide, considerable technical assistance to other EAG members, in particular, in training financial intelligence, supervisory and law enforcement personnel. To this end, the country set up the International Training and Methodology Centre for Financial Monitoring. Since the EAG establishment, Russia has hosted most of its plenary meetings and a significant number of trainings, typology workshops, consultative forums with the private sector, and other important events. Russian experts' active participation in the EAG working groups, typological studies, mutual evaluations, on-site missions and high-profile visits made a significant contribution to the formation of an effective anti-money laundering and counter-terrorist financing system in Eurasia.

Training programs provided by higher education institutions for young specialists are essential to create talent pools of national AML/CFT systems. One of the first such educational institutions in the CIS was the Russian Institute of Financial and Economic Security (IFES).

The Institute's benchmark is "Integrated Information Security" and other programs in interest of Russian AML/CFT system. In 2009 under the Eurasian Group technical assistance the IFES began training students



for national AML/CFT systems of EAG countries. At the moment, its higher education training courses are attended by students from Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and other countries. Its team of lecturers consists of experts with extensive handson anti-money laundering experience.

Summing up the outcomes of my tenure as EAG Chairman, I would like to emphasize that during that period the Group's high standing and influence became recognized by the international community; foundations of the institutional AML/CFT framework were laid in all EAG countries; and, finally, we all underwent the 1st round of mutual evaluations, identified priorities and prepared comprehensive plans for the future development of our national antimoney laundering systems.

We achieved such results through joint efforts of all Group members and with great help from our international partners. The four years of cooperation were filled with mutual respect, understanding and warmth of human relations. **GREETING ADDRESSES**



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A. KUDRIN: FIU HAS MORE POWERS IN RUSSIA THAN IN OTHER COUNTRIES

Irina V. Ivanova, Editor-in-chief



FS: Mr. Kudrin, you were one of the founders of the Russian financial intelligence unit. Could you recall some landmark moments associated with this process?

A. Kudrin: Russia was on the FATF blacklist. This meant that there was no trust in any transactions carried out by Russian banks. The use of western banks by Russian nationals, including for trading, was complicated. Any transaction was under suspicion. If we had not set up our antimoney laundering system and integrate into the international network, the level of trust in Russian financial institutions would still be very low.

Коммерсантъ

Kommersant newspaper. October 7, 2002. FATF Hangs On to Russia.

"Russia shouldn't be on the FATF blacklist anymore. They must delist us!" is one of the statements regularly made by Russian officials in the past two years, ever since the signing of the Anti-Money Laundering Act in August 2002 by the President. And yet, Russia is still on the blacklist, with few signs of a pending removal by FATF members. Perhaps, it just suits them this way.

FINANCIAL

For example, such countries as Hungary, Israel, Lebanon, Liechtenstein, St. Kitts, Nevis, the Bahamas and the Cayman Islands have already exited it, with one of the vacated places filled in September 2001 by Ukraine. Russia, meanwhile, appears to be firmly stuck on it. This would not be at all surprising if the country did not do anything to combat money laundering. Russia, however, is trying, and trying very hard. Last August, for example, it adopted the appropriate legislation, and, in February 2002, it established the Financial Monitoring Committee (FMC), Russia's financial intelligence unit. Since that time, the country's financial intelligence officers have been receiving up to 1500 suspicious transaction reports daily (primarily from banks), which they analyse and refer to law enforcement, leading to the opening of several criminal cases. Furthermore, acting in compliance with the FATF requirements, the FMC has joined the fight not only against money laundering but also terrorist financing, without even, as in the latter case, waiting for the introduction of all the necessary amendments to the law.

The proposal to set up a financial intelligence unit came to the Russian President from the Ministry of Finance. The President guickly agreed with that proposal and issued the necessary instructions. We cooperated with the relevant ministries, State Duma, law enforcement and representatives of business and banking industry to draft a bill. The document was ready, but we could not agree among ourselves on some details. So I invited everyone to a meeting in my office at the Ministry of Finance. It was evening. We sat down but once again it became clear that we could not agree on all the details. Then I offered to continue negotiations "until the bitter end." All agreed. In the end, at about four in the morning, we agreed on all the amendments that delineated the powers of the financial intelligence agency. The business community was convinced that it would not be subjected to excessive pressure as a result of the adoption of this bill. To get the newly established agency up and running, I offered Viktor Zubkov the newly created position of First Deputy Minister of Finance.

ведомости

Vedomosti newspaper. October 2001.

October 2001, President V. Putin is making a statement on the tax reforms during the visit of the World Economic Forum at the Moscow Marriott Grand Hotel. But the first question he is asked after finishing his speech concerns a very different topic. "When will Russia establish its own financial intelligence unit and what will happen to banking secrecy after that?" inquires Mikhail Alekseev, Deputy Chairman of the Board of Rosbank. "Does such a thing [banking secrecy] exist in Russia?" asks Putin in reply to the accompaniment of laughter and applause from the audience."

The question concerning the Russian government's plans to set up a designated authority responsible for combating money laundering and safeguarding, in this context, banking secrecy in Russia.

V. Putin: Has such a thing ever existed?

I think, on the one hand, we must not be afraid of all the tools that render business transparent for the state. We also must, in today's contest, take another look at the world we live in. And finally, we must firmly and clearly define the rules that will make it impossible for criminals, terrorists, corrupt officials, etc. to continue to function and feel comfortable in Russia. In this regard, I support the Russian government's efforts to combat money laundering. It does not mean, however, that we should toughen conditions for legitimate businesses - far from it. Instead, we should focus specifically on banking secrecy protection. The relevant document on establishment of such a body will be prepared and signed in the very near future.



ведомости

Vedomosti newspaper. April 13, 2009. 1999-2009 Chronicles: Image Laundering

After the unpleasant story with the FATF, officials revised the bill, significantly tightening the anti-money laundering measures compared with the international practice, and submitted it to the State Duma before the New Year holidays. At about the same time, Vyacheslav Soltaganov, Director of the Federal Tax Police Service, submitted his proposals for creation of a financial intelligence agency to Mr. Putin. This initiative alarmed the business community, especially in the context of Putin's jokes about banking secrecy. But, by November 2001, when a presidential decree on the establishment of the Financial Monitoring Committee (FMC) came out, Soltaganov was already out of the job, and a decision was taken to integrate FMC into the "not so scary" for businesses Ministry of Finance. The post of Director of the new agency was offered to Viktor Zubkov, whom Putin knew very well from his work in St. Petersburg.

A. Kudrin: Right from the beginning of our work, it became clear that we lacked experience, especially given Rosfinmonitoring's status as a high-tech structure that needs to receive data on every single transaction in the country. We had to set up a complex information system that would track all transactions in excess of 600 000 rubles, the threshold that existed at the time. The final software product had to monitor and analyse huge volumes of data and search for all related transactions linked to possible money laundering schemes. This is the way how transaction chains, which led to encashment, were unveiled. To develop the necessary software, we were assisted by the Italian Financial Intelligence Unit and a number of similar structures in other countries. We studied their experience and they transferred to us a part of their software for localization.

Our software allowed us to obtain some practical results, such as the uncovering of a whole web of laundering and encashment transactions related to drug trafficking that our law enforcement had been unable to detect using the traditional investigative tools. I must say they were impressed with the new tool.

Коммерсантъ

Kommersant newspaper. September 11, 2002. Financial Intelligence Officers Reveal Their Secrets to Deputy Prime Minister

According to Alexey Kudrin, when a year ago the government and the State Duma were discussing the Anti-Money Laundering Act, "everyone was concerned that we might get too overzealous reporting on one another. In the end, we didn't. The country's anti-money laundering system is working, and targets specifically criminals." In fact, thanks to the efforts of the Russian financial intelligence officers, criminals get caught not only in Russia, and not only for money laundering, but around the world, including the financial backers of terrorists. Alexey Kudrin said that, after the FMC had sent out "a few dozen information requests related to suspicious transactions, criminal cases into money laundering were opened in Europe, including Switzerland, while the FBI arrested a number of people involved in terrorist financing." In addition, investigators uncovered the financial channels used to fund apartment bombings in Russia. According to Alexey Kudrin, they lead to Turkey, United States and banks of other developed countries. "You can't hide from our intelligence officers in any offshore or other country. It's one of the most advanced Russian agencies, an agency that truly belongs to the XXI century," said the Deputy Prime Minister pretentiously. "We can spend days showing you examples of money laundering," was Viktor Zubkov's reply to the praise.

A. Kudrin: It did not take us long to realize that many money laundering schemes led to the former Soviet republics of Central Asia, and that the effectiveness of our efforts would suffer if these countries did not have their own FIUs. For this reason, I came up with an initiative to assist them in this matter. Moreover, I received the Russian President's permission to allocate \$2 million for technical support in creating such agencies in Kazakhstan, Tajikistan, Kyrgyzstan and Belarus. The FATF gave us permission to set up a regional anti-money laundering group under the Russian presidency. We received funds to purchase equipment and develop software. This allowed us, in a good sense, to stretch our "financial tentacles" to the neighbouring countries – after all, we both needed it. Russia held the presidency of that regional group for many years.



RIA Novosti. October 5, 2004.

Russia will spend \$1 million next year on the maintenance of the Secretariat of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) and assistance to Eurasian countries in establishing financial intelligence units.

"This a small amount for our budget and the one we can afford", pointed out Mr. Kudrin.

These funds, in particular, will be used to provide technical support to Eurasian countries in establishing financial intelligence units and drafting anti-money laundering and terrorist financing legislation, he explained. In addition, the financial assistance will be used to train financial intelligence officers for these countries and buy technical equipment.

"Russia's initiative to establish the Eurasian Group received support of all international organizations, including the UN and the Council of Europe," emphasized Mr. Kudrin. According to him, all G8 Finance Ministers expressed their support for the establishment of a new FATF-style regional group at their recent meeting. He also expressed the view that combating terrorist financing was an important aspect of the fight against terrorism.

"Every frozen dollar or ruble represents the lives saved," said Kudrin.

FS: Why was the FIU attached to the Ministry of Finance, and not to the Central Bank, for example?

A. *Kudrin:* Rosfinmonitoring is a governmental body. The Central Bank, on the other hand, has its own functions. Later, when the Central Bank became a mega-regulator, it started to play a major role in financial markets analysis. But back then, the government was the key decision-maker. It is a governmental function. The Central Bank, nevertheless, was closely involved in its establishment.

Коммерсантъ

Kommersant newspaper. November 2, 2001.

Deputy Prime Minister and Finance Minister Alexey Kudrin announced yesterday the establishment of the Financial Monitoring Committee (Russian FIU), following the signing by Russian President V. Putin of a decree to this effect. This was followed by a meeting between Vladimir Putin and the newly appointed Head of the FMC, Viktor Zubkov. As a result, the Ministry of Finance has strengthened its position in the government. Starting this February, intelligence officials will begin receiving financial information on Russian citizens.



The bill was drafted by the Ministry of Finance, which was also involved in the preparation of the Presidential decree for the establishment of the designated authority, named Financial Monitoring Committee by the MF officials. Consequently, the bill says that the new financial intelligence unit is attached to the Ministry of Finance, a fact that left the Ministry of Interior Affairs feeling very disappointed. As a result, in its letter to the Ministry of Finance this August it argued that the MF officials would not be able to distinguish money laundering. It also insisted that the newly created body should have an interagency status, comprising representatives of not only the Ministry of Interior Affairs and the Ministry of Finance but also, for example, the State Customs Committee and the tax police. The authors of the letter also highly praised the work of the Ministry of Interior Affairs' interagency Anti-Money Laundering Centre, established in 1999. In addition, as reported by The Kommersant earlier, Prime Minister Mikhail Kasyanov was also unhappy with the initiative. He would have been happier if the newly established FIU was accountable not to the Minister of Finance but to the Prime Minister directly.

Deputy Prime Minister and Finance Minister Alexey Kudrin announced yesterday with satisfaction that the staff of the Financial Monitoring Committee would come from the Ministry of Finance. Staff requirements are pretty high – more than 200 people will be needed for the Committee's central apparatus alone. As for the Head of the Committee, said Mr. Kudrin, he will have the rank of First Deputy Minister of Finance, taking the total number of First Deputies to five.

Vladimir Putin met Viktor Zubkov yesterday to talk about the tasks of the FIU. According to the President's Press Secretary Alexey Gromov, Vladimir Putin emphasized during the discussion that the financial intelligence agency should not use the information obtained against lawabiding businesses. After the meeting, Viktor Zubkov said that the Committee would employ only civilians and not law enforcement officers.

LENTA.RU

Lenta.Ru November 5, 2001.

"I will not hide from you the fact that Viktor Zubkov is personally acquainted with President Vladimir Putin", said Alexey Kudrin during his introduction of the Head of the Financial Monitoring Committee. "For the Head of a government agency handling absolutely confidential information, such an acquaintance is highly useful. Banking secrecy will not exist for the Committee, but, when it comes to legitimate transactions, all secrets will die there," the Deputy Prime Minister said.

FS: What do you think about the expansion of the financial intelligence unit's powers?

A. Kudrin: It is a delicate matter. In Russia, the financial intelligence unit has greater powers than in other countries. The FATF guidelines tell us that an FIU should be able to investigate suspicious schemes and transactions on its own, without having to follow the orders of other government agencies on who to audit next. It is not always the case in our country though. Nowadays, Rosfinmonitoring is used as a tool for fighting corruption and monitoring officials' bank accounts. To a certain extent, this is justified by the extraordinary situation related to the fight against corruption. However, it allows the agency to monitor a much wider scope of persons than the one that raises suspicion, and thus have access to additional commercial and personal information, which might be a reason for concern. But, again, it is important to balance between the needs and risks here.

FS: How do you assess after so many years the work carried out by Rosfinmonitoring?

A. Kudrin: Positively. It is one of the leading agencies used to control financial flows, especially in the context of fight against terrorism and corruption.

I would like to congratulate all Rosfinmonitoring staff and its director, Yury Chikhanchin, on the agency's





Ceremonial meeting dedicated to the 5th anniversary of the Federal Financial Monitoring Service (2006)

15th anniversary! Mr. Chikhanchin has been part of that system right from the start. He has done a lot to safeguard its traditions. Under his leadership, it has not become yet another agency that makes the life of businesses more difficult. Rosfinmonitoring should, just as now, stay invisible and not interfere in the dayto-day business activities. And yet, it should be able to see everything, identify problems and pass the information to law enforcement. It is a very delicate and very smart type of oversight. It represents an example to follow for other law enforcement agencies, an example of work done efficiently and intelligently, without any show offs and house-checks.

Congratulations to all Rosfinmonitoring staff and all the best!



G. TOSUNYAN: COOPERATION BETWEEN PRIVATE SECTOR AND FIU HAS ALWAYS BEEN CONSTRUCTIVE



Garegin A. Tosunyan, ARB President since 2002

FS: Mr. Tosunyan, when the plans to set up an FIU were still in the air, you were Advisor to Prime Minister E. Primakov (1998-1999 – ed. comment) on credit and financial matters. Do you remember where the process of establishing the country's anti-money laundering system took its origin?

G. Tosunyan: Yes, I was part of the Primakov team and held the position of First Vice-President of the Association of Russian Banks (ARB President since 2002 - ed. comment). I remember the moment Russia got blacklisted by the FATF very well. But I must say that this fact only served as a further impetus to the process which was already under way, since the idea of both the law (Federal Law No. 115-FZ "On Combating Money Laundering and Terrorist Financing" of August 7, 2001 - ed. comment) and designated authority had already been hatched by that time.





When the State Duma began discussing this issue, it was difficult to understand where the focus of the framework anti-money laundering law should lie. There were a lot of arguments, because we didn't even have a list of predicate offences. It was important to make a well-balanced law: on the one hand, it had to pass the State Duma and, on the other, it shouldn't have caused shock in the market. I remember discussing it with Viktor Zubkov and Alexander Shokhin (Chairman of the State Duma's Financial Markets Committee since December 1999 - ed. comment) and studying similar regulations in other countries... The job was to create something "vivid" and applicable. After all, we already had Article 174 of the Criminal Code (Art.174 of the Criminal Code "Legalization (Laundering) of Money or Other Assets Acquired by Third Parties Illegally" - ed. comment), but it was literally "dead".

FS: Why?

G. Tosunyan: Because it was impossible to find elements of crime, or to define Russia's place in the global system. You see, it's impossible to successfully fight money laundering in any single country. An AML/CFT system can only exist in conjunction with other systems – that's why the FATF was created in 1989. We, however, joined these efforts only in the 2000s. There were a lot of arguments about what

the new body should look like and who it should be attached to.

In autumn 2001, the decision was finally taken to establish the Financial Monitoring Committee under the Ministry of Finance. Ever since that moment, we've been working in close contact with the financial intelligence unit.

Коммерсантъ

Kommersant newspaper. March 14, 2005. Viktor Zubkov Draws Up New Banks Blacklist

Last Friday Head of the Federal Financial Monitoring Service (FFMS) Viktor Zubkov spoke about ten Russian banks suspected of money laundering. Meanwhile, first Deputy Chairman of the Central Bank Andrey Kozlov, ten days ago had said that that the Central Bank was considering stripping licenses of two banks possibly linked to money laundering.



According to Viktor Zubkov, some banks continue to carry out operations that seem laundering of criminal capital. "There aren't many of these banks. In fact, I can count them on the fingers of two hands," he said, adding that they were "mostly small banks". What Mr. Zubkov meant by "small" is very hard to guess, however, since he refused to name them. At the same time, one can't rule out the possibility that these "mostly small" banks may contain a couple of large ones. Ten days ago Andrey Kozlov said that the Bank of Russia was considering license revocation from two banks, "We're currently working with two banks that are openly involved in shady transactions."

G. Tosunyan: We became friends with Viktor Zubkov right from the start.

He is an amazingly intelligent and decent man, highly educated, erudite, polite and capable of both listening and hearing. Our first agreement between the FIU and the ARB was to hold regular joint AML/CFT conferences. They are held once a year in April at the Marriott. This year it was already our 14th conference. I think the example of this collaborative tradition speaks for itself.

Its' all about people, who stood and continue to stand at the helm. It's really hard to find such an "intelligent government structure" as this one.

FS: What do you mean by "intelligent structure"?

G. Tosunyan: Cultural factor – when your work is more about results and less about show off; when the staff doesn't abuse their powers and stay clear of scandals. In fact, it was only once when Mr. Zubkov's words about the Sodbiznesbank situation caused panic in the market ... but, to his credit, he quickly realized that he had underestimated the consequences of such statements. It's also his inherent ability to respond quickly to an unconventional situation and his sense of responsibility for his own position that serve as a

testament to the man's high cultural standards. This culture has since been inherited by the agency itself, which today is successfully led by Yury Chikhanchin.



RIA Novosti. May 14, 2004. Rosfinmonitoring Head Viktor Zubkov Justifies Revocation of Sodbiznesbank's License

"The fact that the Central Bank took this step is totally justified and necessary," said Mr. Zubkov. This statement was communicated to RIA Novosti by Rosfinmonitoring press office. "The CB's action was absolutely reasonable, considering the severity of the bank's violations of the anti-money laundering regulations," stated Mr. Zubkov. He stressed that this law clearly defines transactions subject to mandatory controls that must be reported to Rosfinmonitoring within 24 hours. Sodbiznesbank failed to provide this information for a very long time, about eight months. It was further revealed that the bank also failed to report a large number of suspicious transactions, which we had to know about.

FS: How was the system for exchanging suspicious transaction reports launched?

G. Tosunyan: It's fair to say that banks, naturally, were not happy with these innovations for personal reasons. First, it means extra work for them; second, it causes inconvenience for their clients; and, third, it involves buying new equipment. But in any case, it implies additional costs. Plus, there's a danger that a dissatisfied client may switch to a less scrupulous bank...

FS: What do you mean?

G. Tosunyan: Well, you must remember there are always those who think they'll never get caught,

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either by Rosfinmonitoring, because it may be too busy; or CB, because it may miss the wire transfer; or law enforcement, because its officials were paid off... But, thanks God, the majority prefer a comprehensive approach. I, along with my colleagues, look at it from a longterm perspective, which tells me that I'm better off complying with 115-FZ. Since I don't make money out of illicit schemes. I must be absolutely sure that my customer won't get me in trouble. If my customer does have something to hide, he'll get caught sooner or later. And when he does, I'll pay the price, both reputational and financial. In this sense, cooperation between the FIU and private sector has always been very constructive: we simply explained banks where their true interests lay - in minimizing their own risks.

FS: Have illicit financial schemes become more sophisticated over the past 15 years?

G. Tosunyan: One can't speak of any particular level of sophistication. Technically, with account for the latest innovations, it is possible. However, every financial crime has impudence and roughness at the bottom of it: grab as much as possible and as quickly as you can. It's perhaps their scale that has become more impressive. In the 2000s it was certainly hard to imagine a typical modern hacking scam: tons of money scattered

across numerous banks and an army of people pulling it out of the system in small amounts in a matter of minutes. Still, stories like the one happened to Vneshprombank will always have potential to surprise and shock.

ведомости

Vedomosti newspaper. January 18, 2016. How Vneshprombank Lost Its Money

The situation around Vneshprombank evolved quickly. In mid-December 2015, it became known that on 1 December the bank violated the mandated minimum capital requirements ostensibly because, following its audit by the CB, it had to replenish its reserves. According to the bank, it managed to cover the shortfall already on the following day with the help of a RUR 3 billion subordinated loan provided by Boris Mints-owned O1 Group at 12% per annum.

According to the CB, the list of bank's shareholders as of October 2015



included 19 individuals and entities, the largest of which (approx. 14%) was Prioritet Ltd, whose beneficiary was the Curacao Foundation. However, in its own accounting statements, the bank always listed among its majority owners its founder and permanent President Larisa Marcus (as of October she owned 8% and her brother, Georgy Bedzhamov, about 1%), Alexander Zurabov, a wellknown financier, (about 8%) as well as Nikolay Chilingarov, son of the famous polar explorer, politician and member of the board of directors of Transneft Artur Chilingarov (less than 1%).

The night of 18/19 December, Mrs. Marcus was detained on suspicion of a large-scale fraud, and arrested on December 21. The bank, whose customers included major Russian public and private companies, senior officials, managers and their relatives, was implicated in the theft of funds from the VIP customers' accounts and asset stripping.



G. Tosunyan: One of the problems lies in protection that criminal businesses receive from some government structures. This is because banks are like taxi drivers. But even a taxi driver always can turn down a request from a questionable passenger.

In general, however, the financial sector is very interesting in a sense that it reveals the system of relations in society. By looking at cash flows, one can understand almost everything about everyone. The country's focus on economy's transparency adds extra relevance to the work of Rosfinmonitoring, which is literally "on the trail of money". Financial intelligence has always used its knowledge for good. I wish it further success!



I. SIROTKIN: ROSFINMONITORING ROLE IN NATIONAL COUNTER-TERRORISM SYSTEM



Igor G. Sirotkin - Deputy Chairman of the National Anti-Terrorism Committee

btaining advance information about terrorist financing sources and channels is cited among key conditions for successful antiterrorist measures in Russia's Counter-Terrorism Concept, approved by the President on October 5, 2009.

According to Presidential Decree of June 13, 2012 No. 808, the Federal Financial Monitoring Service acts as coordinator of the national anti-terrorist financing system, which is an integral part of the country's counter-terrorism efforts.

Rosfinmonitoring Director has been a member of the National Anti-Terrorist Committee since its establishment, responsible for the development and implementation of measures aimed at cutting off funding to terrorist organizations. In addition, Rosfinmonitoring Director chairs regular meetings of the Expert Advisory Group of the Committee for Combating the Financing of Terrorism, during which representatives of more than 10 agencies discuss the most pressing practical issues in this area.



One such issue relating to comprehensive terrorist financing efforts was regularly considered at the Committee meetings on Rosfinmonitoring's initiative. Rosfinmonitoring is currently coordinating the implementation of the Intelligency Comprehensive Action Plan to Combat Terrorist and Extremist Financing 2016-2018, already the 3rd plan approved by the Committee. Among other agencies involved in the implementation of the plan are the Russian Federal Security Service, Interior Ministry, Investigative Committee, Ministry of Justice, Federal Customs Service, Federal Guard Service, General Prosecutor's Office and others.

This approach to combating terrorist financing has yielded considerable results, among which are introduction of effective interagency cooperation and operational interaction mechanisms; establishment and on-going improvement of a legal procedure for blocking (freezing) accounts of individuals and entities known for their involvement in terrorist and extremist activities; and imposition of tougher liabilities for terrorist financing. It has also led to involvement of banks and other financial organizations, which are required to promptly report all suspicious clients and transactions.

In 2015 alone, Rosfinmonitoring referred to law enforcement and special services over 700 risk bulletins, resulting in identification of about 160 objects of investigative interest and launch of indepth investigations against 42 terrorist cells.

Rosfinmonitoring investigative techniques were used in a joint CIS operation targeting approximately 1400 individuals, about 80 of them had links to ISIL, terrorist organization banned in Russia.

Rosfinmonitoring cooperation efforts involved 32 foreign FIUs and were aimed at almost 1500 foreign nationals and over 30 suspected financial terrorist cells.

The results of Russia's anti-terrorist financing activities are also recognized by the country's

foreign partners. Thus, at plenary meetings of the Financial Action Task Force (FATF) and the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering (MONEYVAL) our country was highly rated and was removed from the regular follow-up process.

Meanwhile, intensity of counter-terrorism efforts is not declining but intensifying, as Rosfinmonitoring is currently working to improve operational mechanisms for disrupting terrorist financing channels.

Initiatives developed by the Interagency Commission for Preventing Financing of Terrorism, established by the Russian President on November 18, 2015 and tasked with extrajudicial freezing of assets, are being integrated into practice of law enforcement agencies. Decisions adopted by this Commission have already resulted in the freezing of assets of persons suspected of involvement in terrorist activities totalling about 500000 rubles.

The work on administration improvement of the List of persons, organizations and individuals involved in extremist activities or terrorism is on-going. As of now, accounts of more than 6000 terrorists and extremists containing funds totalling at least 30 million rubles have been blocked.

Process of establishing legal framework of a Rosfinmonitoring-sponsored mechanism to promptly block websites used to raise funds for terrorist organizations is ending up. This new mechanism will allow authorities to quickly disable various terrorist financing schemes.

As shown above, Agency's efforts allow our country to not only quickly identify terrorist financing channels and persons involved, but also create obstacles to the emergence of terrorist financial infrastructure. Therefore, Rosfinmonitoring makes a significant contribution to development of national counter-terrorism system and to fight against terrorist financing not only in Russia but also worldwide.



ROSFINMONITORING INTERNATIONAL COOPERATION

Rosfinmonitoring is an integral part of the international AML/CFT system. Furthermore, the Agency is currently ranked among the most effective FIUs in the world

t the time of Rosfinmonitoring establishment, we lagged behind the rest of the world by almost 10 years. Despite joining fight against dirty money rather late, Russia has managed not only to improve its reputation but actually to reduce economic crime.

Financial Action Task Force (FATF) was established by G7 in 1989. Its first blacklist of 15 suspicious countries was published on June 22, 2000, with Russia being among them. A couple of years later, the country not only quitted the blacklist but became a full member of the FATF and joined the Egmont Group, which unites the world's leading financial intelligence units. Since then, the volume of requests sent to and received from foreign FIUs has been growing every year. This means that the number of international financial investigations, in particular, related to search and seizure of assets, is also increasing.

Rosfinmonitoring engagement with other Eurasian FIUs – conducted through the EAG and CIS CHFIU – is key to maintaining security in this region.



X EAG Plenary meeting, Saint-Petersburg, Russia, 2009





XX Egmont Group Plenary meeting, Saint-Petersburg, Russia, 2012

Addressing political and regulatory issues, Russia simultaneously strengthens operational coordination among the CIS financial intelligence units in such key areas as combating financing of terrorism and mitigating risks of cash flows to/from the Commonwealth countries.

In 2014, thanks to the Russian financial intelligence

unit's efforts, the BRICS Council on Anti-Money Laundering and Countering the Financing of Terrorism started its work.

Preparations for the next FATF evaluation in 2018 is one of the key challenges lying ahead for Rosfinmonitoring in the near future.

I Meeting of the Council of Heads of CIS FIUs, Minsk, Belarus, 2013

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THEODORE GREENBERG: ALL ABOUT RUSSIAN AML/CFT REGIME WAS PRETTY SAD



Backdrop

In the 2000s, Theodore Greenberg was a special Advisor to the US Department of Justice on international money laundering and an expert with the Financial Action Task Force (FATF). Later, he worked as a senior World Bank advisor and earned a reputation as one of the world's leading pundits in fight against money laundering and financing of terrorism.

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Коммерсантъ

Kommersant newspaper. September 25, 2002. Russian Banks Leave FATF Unimpressed

FATF experts began yesterday the assessment of Russian banks' practical implementation of the AML/CFT law, prior to deciding whether to remove Russia from the blacklist of noncooperative countries. The final decision is due to be taken at the forthcoming FATF Plenary, scheduled for October 9-10 in Paris. According to Kommersant, the list of banks to be scrutinized by FATF experts –prepared by the Bank of Russia – includes Alfa-Bank, Vneshtorgbank, Probusinessbank and Zenith.

The FATF evaluation team is led by Ted Greenberg of the US Department of Justice. Kommersant yesterday failed to glean any details about the upcoming bank audits. The FATF experts' refused to speak to the media as they had no authorization.

Still, our correspondent learned that the experts auditing Probusinessbank inquired about its methods for detecting violations, their total number and the bank's response measures. Actually, this information was already available to the expert team, since the Financial Monitoring Committee (FMC), which is responsible for compliance with the anti-money laundering laws, had sent FATF its action plan back in August. "Quite naturally, experts were interested more in the things that were wrong rather than right," Alexander Zheleznyak, Probusinessbank Chairman, told Kommersant. And there was no shortage of the wrong ones.

Firstly, Russian banks are apparently unable to identify even individuals, because they do not have access to the databases on lost and stolen passports and certificates of criminal record. Secondly, they get no feedback from the FMC.

"The FMC receives a lot of information, but we don't know what happens to it afterwards. In fact, we may face a situation where we continue to work with a client who has already been found guilty of money laundering. That's why the FMC needs to notify banks about the steps it takes in response to these reports for them to be able to decide whether to continue relationship with such a client," says Mr. Zheleznyak.

I made my first AML/CFT-related trip to Russia immediately after the Financial Action Task Force (FATF) decision to place Russia on the list of noncooperative countries, the so-called "blacklist". It was Friday, June 2000. On Monday, we arrived as part of the Council of Europe delegation on a visit that, trust me, cheered very few people in Moscow. At the time, all about Russian AML/CFT regime was pretty sad. Still, we were given a very warm welcome. Right from the start, it was a dialog between professionals, and this is how it stayed ever since, allowing us to make great success out of it. Russia knew it would be placed on the FATF list of so-called non-cooperative countries, while we, outsiders, were aware that fight against money laundering and terrorist financing was not on the Russian government's list of top priorities.

At the same time, Russia was an important partner for the FATF in building global anti-corruption/money

laundering and terrorist financing system, which, as we hoped, would free the world from evil of those who commit these crimes. To achieve this, we all worked long and hard. The FATF cooperated with Russian representatives to develop a legal AML/CFT framework and regime.

This issue was also repeatedly raised at G8 summits. All Heads of State, including Vladimir Putin, were determined that Russia should exit the blacklist, but to achieve this, we, of course, would have to do a good job.

However, there were serious concerns that on paper Russia would meet all the requirements while leaving everything essentially unchanged. It's at this juncture that I met Viktor Zubkov, a meeting that was like a breath of fresh air.

He showed up and immediately made everything very clear: "I'm the one," he said, "who will oversee AML/CFT in Russia. We make a commitment to the FATF to do everything necessary to create a model anti-money laundering system in Russia."

Company magazine. October 21, 2002.

Done. Russia was removed from the FATF blacklist.

Three years after the scandal around the Bank of New York, organization that is unofficially subordinated to the IMF (whose tranches, according to media reports, were laundered by "Russian mafia" through BoNY), finally noticed our country's efforts in combating money laundering and terrorist financing.

It's not clear though what influenced the FATF's decision most: the hard work carried out by the Ministry of Finance's Financial Monitoring Committee or the need to appease the Kremlin in run-up to the war with Iraq. In any case, we can be certain that there was no less politics in the FATF's de-listing decision than in the listing one.



We visited many beautiful cities in Russia, and everywhere we were welcomed and shown how much had already been done.

I had a chance to talk to Mr. Zubkov the day after his meeting with Vladimir Putin. Russia committed itself to fulfilling the FATF requirements, while Mr. Zubkov was made responsible for fulfilling these commitments. To this end, he set up the Financial Monitoring Committee (now Rosfinmonitoring), which is currently rated as one of the leading financial intelligence units in the world. Russia carried out this work in partnership with the FATF. We also appreciate Mr. Zubkov's contribution to the creation of the Eurasian Regional Group on Combating Money Laundering and Financing of Terrorism (EAG).

I am honoured to see the growth of Rosfinmonitoring and its influence. In Russia, the financial intelligence reports directly to the Head of State. I'm sure that Rosfinmonitoring owes much of this "independence" from other government bodies to the character of Viktor Zubkov.

Actually, Viktor once visited me in Washington, where I introduced him to my daughter Rachel. She was quite small then, but still clearly remembers the evening when Uncle Viktor tried to teach her a few words in Russian. Alas, neither she nor I can recall any of those. Yet, I do remember the Russian toast "Na zdorovye!" And may your glasses be full as you celebrate your 15th anniversary.

J. RINGGUTH: OVER 16 YEARS RUSSIA CREATED STRONG, CENTRALIZED, WELL-RESOURCED, NATIONAL FIU



FS: John, you have been following the development of the Russian AML/CFT system for a long time. Does the Russian AML/CFT system has any peculiarities compared to other countries? Are there any events in particular that you have memorized (with regard to the development of the AML/CFT)? How would you assess the overall results that the Russian AML/CFT system has achieved during last 15 years as well as the results achieved by the Russian FIU?

J. Ringguth: I would not use the word "peculiarities". I would use the word "strengths". When I first visited Russia the building blocks of an AML/CFT system were only beginning to be put in place. The speed with which Russia progressed on AML/CFT in the 3 years after 2000 was remarkable. When I first visited there was no real FIU. For me, the big achievement over the last 16 years is the creation of a strong, centralized, well-resourced, national FIU which is able to bring together an enormous range of financial and other intelligence in analyzing suspicious activity, and to drive national performance on AML/CFT. It is a credit to the leadership of Rosfinmonitoring that such a system is now in place and delivering results.





FS: Do you remember your first visit to Russia? What have you memorized in particular from that visit? Can you describe some interesting moments that happened to you during that time?

J. Ringguth: I remember much! It was my first trip to Russia. I am a keen "student" of history and seeing the famous Moscow sights and monuments for the first time with my own eyes was amazing. Conducting a meeting with law enforcement in what had been the office of Mr. Andropov was like experiencing a bit of "living history". That, and the buffet lunches in the Central Bank with every kind of fish on the table, are stand-out memories of the first trip! Since then I have returned many more times, though probably the most unforgettable was one December mission in the early years of Rosfinmonitoring, when Vladimir Nechaev marched me virtually all round Moscow in the snows of a Russian winter to ensure that I saw everything. I am glad he did!

FS: Could you please tell us a few words about the importance of tight international cooperation between countries including between FIUs?

J. Ringguth: In a world where crime is transnational, effective international cooperation is vital. Ratifying and implementing treaties like the Warsaw Convention

is crucial in this process. Judicial cooperation can still be slow, but when one country gets critical evidence from its foreign partners, which it can use to convict a money launderer or terrorist financier, we are all the winners. We can then show that the huge resources we put into AML/CFT worldwide do deliver results, not just at home but internationally. Behind so many important cases, very often is the international exchange of AML/CFT intelligence by the global FIU network. It is one of the great, but often unacknowledged, success-stories in AML/CFT.

FS: Some media sources at the time when Russia was blacklisted by the FATF were saying that such international organizations could be used as instruments of political pressure on countries. We heard some similar opinions from some media sources today (not only from the Russian media). What do you think about this?

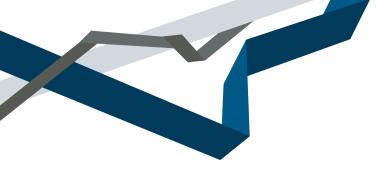
J. Ringguth: I too have heard this said and not only by Russian media. Blacklisting by FATF is a hard process for the countries involved. In my view, such steps should be used as a last resort for major deficiencies, where national AML/CFT progress has been too slow. Outstanding major deficiencies should always be analyzed objectively against agreed criteria, and those criteria should be applied



consistently and fairly in respect of all countries large or small. In my experience, we always tried extremely hard to apply such measures fairly and consistently. These processes do deliver results for the countries themselves (as they did in Russia) and for the international community.

FS: We would appreciate if you could say a few greeting words on the occasion of 15th anniversary of the Russian FIU.

J. Ringguth: I have enjoyed all my many visits to Russia enormously and have warm memories of the kindness and hospitality of my hosts. In this business, we are all bound to be critical of aspects of each other's systems at some point. It is much better if we can do this as "critical friends", and remain friends afterwards. I send all my friends in the FIU and in EAG my very best wishes on this important anniversary.



D. THELESKLAF: CREATION OF FIU PLAYED VERY IMPORTANT ROLE

Daniel Thelesklaf is the current Director of Liechtenstein FIU, Chairman of Moneyval and the former Head of the Swiss FIU. Mr. Thelesklaf participated in strengthing Rosfinmonitoring positions. He shared with the "Financial Security" magazine his impressions and vivid memories



Inessa A. Lisina, Deputy editor-in-chief



Daniel Thelesklaf

FS: Mr. Thelesklaf, you've cooperated with the Russian Financial Intelligence Unit for a long period. During this time a lot of joint events and meetings were held. But I'm sure that the first visit was the most memorable. Please, tell us about it.

D. Thelesklaf: I believe it was in 2003: I was invited by Rosfinmonitoring to participate in an international workshop on terrorist financing in Moscow. The memories of terrible past terrorist attacks -9/11, but also attacks in the Russian Federation - were still present, and so was a common will to do our best to prevent future attacks. All participants were eager to focus the discussion on achieving the best possible results. Under the leadership of Chairman Viktor Zubkov, we were all united in the common goal to deny access to financial sources for terrorist, terrorist organizations and their sponsors. I still very warmly remember the beautiful meeting room in the President Hotel, the big round table that afterwards I saw on television when



Heads of State and Government visited Moscow to meet with their counterparts.

FS: We can say that you made a great contribution to strengthening Rosfinmonitoring international position – particularly to becoming Egmont Group member.

D. Thelesklaf: I had the privilege to serve as Director of the Swiss FIU until late-2000. Russia already started to consider how to establish an FIU, and it was clear to me that Rosfinmonitoring would become an important partner for us. This is why we decided to become sponsor for Rosfinmonitoring's membership in Egmont. After my departure from Money Laundering Reporting Office of Swiss FIU, this sponsoring role was continued by my friends at the Liechtenstein FIU, Michael Lauber, now Attorney General of Switzerland, and Rene Brühlhart, now Head of the FIU of the Holy See. The Liechtenstein FIU is very proud of its contribution to ensuring full integration of Rosfinmonitoring in the Egmont Group. From the early days on, it was evident that Rosfinmonitoring would have a central position in Russia's AML/CFT framework. And it was equally predictable that Rosfinmonitoring would play a key role in Egmont, which found its highlight in hosting the 20th Egmont Plenary in Saint Petersburg in 2013, and by representing the Eurasia region in the Egmont Committee.

FS: Rosfinmonitoring activity started at difficult time – in the beginning of 2000s our country was put on the FATF "black list". In your opinion what helped Russia to quit it?

D. Thelesklaf: Joining Liechtenstein's fate, Russia was put by the FATF on its list of Non-Cooperative

Countries and Territories in June 2000. As a reaction, both countries improved their systems in a very short time. Only one year later, the FATF recognised that Liechtenstein had addressed the deficiencies identified by the FATF through the enactment of legal reforms and had also taken concrete steps to implement those reforms: Liechtenstein was, therefore, removed from the NCCT list in June 2001. Shortly after, in October 2002 the FATF also stated the important progress made by Russia and delisted the country. In both situations, the creation of an FIU played a very important role. The fact that Rosfinmonitoring joined the Egmont Group in 2002 was crucial: the removal of Russia from the so-called black list was to a large degree the result of Rosfinmonitoring success. The "black days" are gone, for a long time now. Now, Russia is not only a respected member in MONEYVAL, but also, for many years, an active and important member of the FATF.

FS: The main topic of this issue is anniversary of Federal Financial Monitoring Service. But it should be mentioned that Liechtenstein FIU marks 15 years as well. On behalf of the "Financial Security" editorial board I'd like to wish you further success in fight against money laundering and terrorism financing!

D. Thelesklaf: Thank you! I should say that when we talk about collaboration we mention institutions. But what we actually mean are people. Collaboration only works if people know each other, trust each other and like each other. The leadership, senior management and staff of Rosfinmonitoring are such people. I am privileged to have the opportunity to work with them at all levels and at many occasions.



LONG WAY MILESTONES

Vladimir P. Nechaev, Executive Secretary, Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)



Vladimir P. Nechaev The FATF President (July 2013 – June 2014)

Il those who joined the Russian Financial Monitoring Committee (FMC, now called Rosfinmonitoring) in 2001-2002 are pleased to see the outstanding results achieved by this new government agency over the last 15 years. This includes not just establishment of the national AML/CFT system from scratch, but also great success in the international arena.

The Committee was established in a situation when Russia was in the FATF list of non-cooperative countries and territories and, therefore, our primary goal was to get Russia removed from that list as soon as possible. The goal was achieved in February 2002. The Russian delegation participated in the FATF Plenary Meeting as observer already in February 2003, and became the FATF member in June 2003. To that end, we hosted a number of on-site missions that were satisfied with adequacy of the new Russian AML/CFT system. It was not an easy task, since we had to rectify deficiencies indicated both in the first report on mutual evaluation conducted by the Committee of the Council of Europe (MONEYVAL). But at the same time, it was very interesting like in any new project, where you open up new horizons.

I was lucky to be at the heart of it all, since I worked in the FMC International Cooperation Department and took part in all those events.





One of the first initiatives that had significant impact on further development of the global AML/CFT system was a proposal of the Russian Federation to create an FATF-style regional body in the Eurasian Region. At that time, countries in this region were not members of any international bodies and had almost no AML/CFT systems and even financial intelligence units. I recall the great interest and unanimous approval of this initiative by the FATF members at the FATF Plenary in October 2003.

The Eurasian group was established a year later and, currently, it is an FATF associate member and enjoys well-deserved recognition. Today, I am proud that I was personally involved in creation and development of the Eurasian Group.

Later on, I became Chairman of MONEYVAL. It is safe to say that further presidency of the FATF was

based on the experience gained during my work in the regional bodies. In this context, establishment and development of cooperation in the framework of the global AML/CFT network was undoubtedly one of the priorities of my presidency.

It is also noteworthy that, were it not for the reputation of Rosfinmonitoring, the Russian presidency of the FATF in 2013-2014 would not be so successful.

The FATF decisions are taken by consensus without voting, which, to a certain extent, complicates its work. However, it should be emphasized that the initiative to conduct a typology study into financial flows linked to the production and trafficking of Afghan opiates made during the Russian presidency was unanimously supported by all members.





Under the Russian presidency were adopted and published documents on Terrorist Financing in West Africa, Role of Hawala and other Similar Service Providers in Money Laundering and Terrorist Financing, and Money Laundering and Terrorist Financing through Trade in Diamonds. The FATF also published the Best Practice Paper: The Use of the FATF Recommendations to Combat Corruption.

The important outcome of the Russian presidency of the FATF was removal of the largest number of countries from the "black" and "grey" lists – it is necessary to underscore the progress made by Kyrgyzstan, Vietnam and Mongolia.

When I think that it took Russia just 14-15 years to transform from the country that was in the FATF "black" list and had almost no AML/CTF framework into the FATF member that presided over the FATF and the leader of the EAG, I feel proud and satisfied with the work done. And it became possible because all employees considered this work as their vital common goal.

I would like to congratulate all Rosfinmonitoring staff on the anniversary and to wish every success in their future endeavors!

YU. KOROTKY ANALYTICS: HOW IT ALL STARTED...



Yury F. Korotky – First Deputy Director of the Federal Financial Monitoring Service, in charge of Coordination and Cooperation Department, Information Systems Development Department, Information Systems Management Department

s we approach an anniversary of an important event, we tend to remind ourselves about the origins. For those of us who were among the first to join Rosfinmonitoring, the most vibrant memories are connected, perhaps, with drafting and adoption of the first in our country anti-money laundering law. It was, with no doubt, an unprecedented and unique experience. Things to remember, as we put it.

However, by the time I joined the Agency, this law had already been adopted, while the date of its entry into force was still a few months away. February 1, 2002 was the day when the first transaction reports from reporting entities were expected to be submitted to the designated authority in pursuance of Federal Law No. 115-FZ.

Presidential Decree No.808 of 13.06.2012 on Matters Related to Federal Financial Monitoring Service

Federal Financial Monitoring Service (Rosfinmonitoring) is a federal executive agency in charge of combating legalization of proceeds obtained through crime (money laundering) and suppressing the financing of terrorism and proliferation of weapons of mass destruction, developing the government AML/CFT/PWMD policy and regulations, coordinating relevant efforts of other federal executive agencies, government authorities and institutions and acting in the capacity of the national centre for assessing national security threats posed by transactions (deals) with funds or other assets and elaborating threat responses.

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Although it may look simple, but how do we switch on the mechanism? The task of collecting and storing data is actually very troublesome and labourintensive but guite clear. However, we wouldn't have been able to accomplish without the dedication and hard work of our IT experts, systems integrator and third-party developers. In an unprecedentedly short term - starting literally from scratch - we managed to create a primary financial monitoring system for reporting entities capable of filtering, processing and encrypting electronic transaction reports, their transfer via secure communication channels (WS Transaction) and receipt by the designated authority. On February 1, 2002, the designated authority received its first STR (suspicious transaction report), which today is exhibited in the Agency's museum. All this mattered, but was still only part of the overall process referred to as "financial oversight", which we had to launch in a matter of weeks.

Federal Law No. 115-FZ on Combating Money Laundering and Terrorism Financing

Art. 8 where there is sufficient evidence indicating that a transaction (deal) is related to laundering proceeds of crime or financing of terrorism, the designated body shall provide transaction-related information and documents to the relevant law enforcement or tax authorities.

On paper it all seemed straightforward, but in practice it was really tough to discern those "sufficient grounds" amidst a huge volume of transaction data. For us it meant to master a new professional skill: ability to study financial transactions and detect links to money laundering and terrorist financing.

I remember we began this work by identifying high value transactions and literally highlighting the input stream in different colours based on the suspect class each transaction, its participants or any other attributes belonged to. For example, we used blue for all threshold transactions, green for repeat transactions whose alleged purpose was to split large amounts, red for transaction participants implicated in other crimes as well as for transactions carried out in the so-called areas of IAF operation (illegal armed formations, an expression that was used at the time to denote territories with a high level of terrorist activity), and so on.

Today we'd call this process a risk-based approach, but then it all boiled down to the initial processing of data and preparation of daily reports for presentation to the management. One such report, containing a 15-20 page summary of the most significant, in our opinion, suspicious transactions, would be put on the Director's table in a sealed A4 size envelope every morning.

Curiously, the criteria used to determine significance of transactions was based on a jokingly termed "pupil principle". Those transactions, that literally, made our analysts' pupils expand and were considered the most dubious and suspicious. These transactions were then included in the daily report. The envelope was opened and its contents were examined daily by Viktor Zubkov in person, a tradition he used to joke about: "When I retire, you can keep me as an analyst!"

Meanwhile, the reports, containing his notes in pencil, were always sent back to the analytical team. Actually, to unravel the meaning of Mr. Zubkov's sprawling, handwritten margin notes in form of brackets or question marks was sometimes no easier than to establish a link between a transaction and criminals, or to determine that allimportant "sufficient grounds". However, Mr. Zubkov always saw things beyond the surface, all his notes and comments were highly valued by our analysts. In fact, it wasn't uncommon for a major financial investigation to derive from his notes in the margin.

While most high-profile financial investigations were still to come, we were busy fine-tuning our operations: the daily reports were converted into primary materials (referred to as "PMs"), PMs gave rise to in-depth investigations whose findings, in turn, led to the so-called '8s', case materials sent to law enforcement and used to file charges under Article 8 of Federal Law 115-FZ.

The first STR, as was said before, was delivered on February 1, 2002. It was, as I still remember, a transaction report from one Kaliningrad bank relating to a transfer of \$20,000 to an offshore company in the United Arab Emirates. The transaction code was 6001 and it had something to do with fashion business.



Meanwhile, the first criminal case based on our materials was initiated already on April 16, 2002, i.e. exactly two and a half months after launch of the national AML/CFT system. I also clearly remember the decision to institute criminal proceedings under Articles 174 and 174-1 of the Criminal Code taken by a senior criminal investigator of the 4th Interregional Section of the Criminal Police Department for Combating Economic Crimes at the Sverdlovsk Region Chief Directorate of Internal Affairs. We didn't have our interregional departments (IRDs) back then and carried out all our work exclusively from the central office in Moscow. Honestly, I don't even remember now how this case ended. But it doesn't really matter, because the important thing is that it was the first time that the outcomes of our information and analytical work continued in a criminal procedure.

From the perspective of 15 years of experience, all those first steps seem childish, naive and somewhat even awkward. But that doesn't make them less touching and dear, especially to those who took them and who started it all. It's the same as looking at your baby pictures.

After that, there were dozens and hundreds of major cases and tens of thousands of less important materials of financial investigations. One of the most high-profile cases, the one labelled as "unprecedented in the world's anti-money laundering practice" by the renowned international AML/CFT expert Ted Greenberg, was the "Leus case" against the head of the now defunct Investbank. Its unprecedented nature was due to several factors. It was the first time a banker was convicted of money laundering – and not as a head of an entity whose, so to say, oversight made it possible for a crime to be committed there, but as a person who had personally set up and used a subsidiary credit institution to launder money. And, secondly, Leus was convicted under Article 174 of the Criminal Code for the so-called "pure" laundering, i.e. not for selflaundering, but for the provision of money laundering services. The court's sentence was even more unprecedented for the domestic judicial practice of convictions under Article 174 due to the fact that the act of prior embezzlement of more than \$40 million from the National Bank of Turkmenistan, had been documented outside the Russian jurisdiction and, as such, did not have to be additionally proven in a Russian court.

As you can see, not all of our "first steps" were "childishly naive". Already at that time we laid a solid foundation for inclusion of Rosfinmonitoring in the list of the best financial intelligence units in the world.

In this anniversary year, on behalf of those who began the work that made Rosfinmonitoring what it is today, I wish for old traditions to live on and for new ones to keep emerging. This, perhaps, is the secret of Rosfinmonitoring's health and longevity.



P. LIVADNY: ANTI-MONEY LAUNDERING LEGISLATION AS LEGAL REFLECTION OF NATIONAL AML/CFT SYSTEM



Pavel V. Livadny – State Secretary, Deputy Director of Federal Financial Monitoring Service. Coordinates Legal Department and Records Management Department

n August 7, 2016, we marked the 15th anniversary of Federal Law No. 115-FZ "On Combating Money Laundering and Terrorist Financing", which led to the introduction into Russia's national regulatory framework of a brand new practice of involving financial institutions in fight against economic crimes. Although experience of application of this approach by the international community did not date back decades, the international anti-money laundering system had by this time been already set up and successfully functioning both at the national and supranational level. It was supported by an appropriate legal framework comprising both traditional "hard" laws such as the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988 and the UN Convention against Transnational Organized Crime 2000 - and "soft" laws - such as famous Financial Action Task Force (FATF) Forty Recommendations. Russia found itself in the role of a student learning modern approaches, first, to the law-making process and, later, to law enforcement practice in this area. Time has shown however, as is typical for Russian history, that the student has not only succeeded, but also surpassed his teachers in some areas.



Today, the country's anti-money laundering and combating the financing of terrorism law is one of the fastest growing sub-systems of the domestic legislation.

It includes, in addition to Federal Law No. 115-FZ – which remains its heart and soul – multiple regulations: federal laws and single provisions, presidential and government decrees, departmental regulations of the Bank of Russia, Rosfinmonitoring and other federal government bodies, high court judgments and generalizations.

Regulations governing AML/CFT public relations are richly strewn across various branches of law, including criminal, civil, administrative, financial, tax and banking, with rules of international law playing a key role. It's impossible to understand the nature and specifics of AML/CFT relations without regard to the basic norms of constitutional law - after all, the antimoney laundering legislation restricts rights of both individuals and entities. It's not without a good reason that the provisions of Federal Law No. 115-FZ were scrutinized by the Russian Federation Constitutional Court (see, for example, Ruling No. 484-O-O of March 22, 2012 and No. 519-O of December 1, 2005). Finally, the anti-laundering legislation includes provisions of a number of cross-sectoral federal laws, such as Federal Law No. 213-FZ of July 21, 2014 "On Opening of Bank Accounts and Letters of Credit, on Conclusion of Contracts of Bank Deposit and a Contract for Maintaining the Register of Holders of Securities, by Businesses of Strategic Importance for the Military and Industrial Complex and Security of the Russian Federation, and Amendments to Certain Legislative Acts of the Russian Federation" or No. 272-FZ of December 28, 2012 "On Sanctions Against Individuals Implicated in Violation of Basic Human Rights and Freedoms, Including Basic Human Rights and Freedoms of Russian Citizens".

When it comes to the AML/CFT system, two features, I believe, stand out. First, its intrinsic beauty and the presence of all essential for its proper functioning elements (institutions, regulations, processes, outcomes of their application and their absolutely clear and comprehensible interaction) that makes it a complete, viable and self-sufficient system capable of exerting a significant influence on the world around it. Second, the nature of the AML/CFT system is universal. It means that each national AML/CFT system (every jurisdiction has one, which is a unique case in international practice) reproduces the global

AML/CFT system. Moreover, it features not only basic principles but even details with regard to national characteristics. This ensures maximum correlation between the national AML/CFT regulations and international standards.

The AML/CFT system includes the following elements: a) institutions (public/private bodies and organizations responsible for its functioning); b) a regulatory framework that sets out requirements for accountable entities and defines the structure and jurisdiction of institutions as well as the scope of their powers and mechanisms of their implementation; and c) vital processes of institutions – known in legal parlance as law-enforcement practice – including sanctions against reporting entities for failure to ensure compliance.

The Financial Action Task Force (FATF) is a backbone AML/CFT organization. It is an inter-governmental body which has no formal international legal status, but with a fixed membership and a funding system based on individual contributions. The group currently unites 35 most developed countries (Russian Federation has been an FATF member since 2003). The FATF's existing mandate, approved in 2012 by G20, provides for the setting of AML/CFT standards, assessment of absolutely all jurisdictions for compliance with these standards and application of sanctions against noncompliant countries. Inclusion in the FATF sanctions list entails extremely harsh consequences for the economy and business reputation of the "offending" countries, compelling the governments of these countries to meet, to the maximum extent possible, the FATF requirements (which, incidentally, are quite reasonable and useful).

A list of Russian AML/CFT institutions, which make part of the national security system, includes state actors such as Rosfinmonitoring, law enforcement and supervisory authorities, including the Bank of Russia and prosecution agencies, as well as non-state actors such as internal control units and designated officials of banks and other financial institutions. Activities of the system's institutional elements are coordinated by Rosfinmonitoring with the help of various advisory bodies established by both presidential decrees and departmental orders. Besides performing their main functions aimed at prevention, detection and suppression of money laundering, terrorist financing and other illicit financial transactions, one of the key responsibilities of the state anti-money laundering system participants is to ensure compliance of the country's legislation and enforcement practice with





the FATF Standards and to cooperate with the FATF in its assessment of the Russian Federation to obtain a positive outcome of this assessment.

Meanwhile, the country's legislation (international treaties of the Russian Federation, federal laws, presidential and government decrees, departmental orders, regulations and instructions) captures this reality and, expressing it in legal terminology and thereby legitimizing it, regulates functioning of institutions as well as creates and adjusts the law enforcement practice.

The 15 years of the anti-money laundering system's history is a period of continuous development, in particular, of the regulatory framework, and a timeline that can be divided quite clearly into several phases.

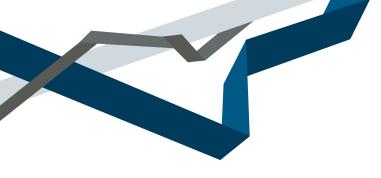
The first period, which began with the adoption of Federal Law No. 115-FZ and ended with the FATF regular evaluation in 2007-2008, is the period of AML/CFT regulatory framework establishment. Back then we got along with the framework Law, a couple of government regulations and a few decrees of the Bank of Russia and Rosfinmonitoring (FMC). It was a time when we literally reproduced the FATF requirements, making certain amendments to our legislation. The practice was justified by good ratings for compliance with the FATF Standards, although there were some negative comments too. The second period, which began in 2008 and lasted until 2013, was primarily related to correction of deficiencies, sometimes very serious ones, detected in our laws during the evaluation. This period is largely remembered for the adoption in June 2013 of the well-known Federal Law No. 134-FZ, which introduced conceptual changes to about twenty different regulations, allowing us to exit the regular follow-up process as part of the 3rd round of FATF evaluations without any questions to our legislative system. In addition, we learned to solve problems that sometimes went far beyond the competence of the anti-money laundering agencies, as well as earning a reputation among other federal executive authorities as a Service capable of addressing major legislative challenges.

The third period, which hasn't ended yet, can be described as a maturity stage for the AML/CFT legislation. We are successfully implementing the revised FATF Standards 2012. Regulations that have been tested by our legislative and law enforcement practice are successfully integrated into the legislations of related industries. Among the best examples is establishment of state system for monitoring the defence procurement sector. Rosfinmonitoring standard-setting approaches, as well as those developed by other legal institutions, are being utilized today to create a comprehensive regulatory framework for the



country's financial security system. At the same time, the work in this area is becoming increasingly difficult due to the new challenges such as rapid development of innovative financial technologies for online provision of customer services, blockchain platforms and digital payment instruments. This reality forces us to be constantly on our toes and on the lookout for new resources, especially internal ones. Another basic feature of the current period is the increase in the number of qualified and concerned players on the previously Rosfinmonitoring-dominated AML/CFT regulatory playing field. And their opinions do not always coincide with ours. This is what makes our work even more interesting.

In summary, AML/CFT legislative framework is still improving and growing together with the FATF Standards. The process is based on our awareness (I hope more and more profound) of Russian security and economy's needs. It doesn't stop in selfadmiration but complies with any new international trends and at the same time respects real domestic challenges.



G. BOBRYSHEVA: KEY PERIOD OF MY PROFESSIONAL CAREER WAS AT FEDERAL FINANCIAL MONITORING SERVICE



Galina V. Bobrysheva - Deputy Director of the Federal Financial Monitoring Service, in charge of Supervisory Activities Department and Financial and Economic Department

believe that the key period of my professional career was at the Federal Financial Monitoring Service.

I was lucky to have highly experienced and wise people among my superiors, from whom I learned a lot.

I can clearly recall my interview with Viktor Zubkov for a job in the central office, his precise and penetrating questions to understand my motives and determine the area of work which would suit me most.

Another one was Oleg Markov, who quickly spotted potential development opportunities for the system and established a new algorithm of interaction between the central office and its interregional departments in conducting financial investigations.

And naturally, Yury Chikhanchin, Rosfinmonitoring Director since 2008. Over these years, the Agency has seen many changes. In sign of special trust Rosfinmonitoring was placed under direct subordination of the Russian President. This led to a significant increase in responsibilities and new and more complex challenges. In this context, Mr. Chikhanchin's unique ability – and one of his personal strengths – to keep track of many details and be aware of the reference points is of huge importance.





ITMCFM staff

But let's go back to the history. My first steps up the career ladder were taken almost 15 years ago at Rosfinmonitoring Interregional Department in Siberian Federal District (SFD IRD). It was time of the FIU's formation and a very challenging period, although a creative one. Back then we still lacked clear regulations and rules of procedures and had to improvise a lot. Only later the necessary legal framework that formed the basis for future actions was put in place.

I am sure it is my work at the interregional department that gave me that core experience. I still remember how in 2003 I conducted my first inspections as IRD Deputy Head, reviewed cases of administrative violations and defended the IRD's position in courts. It is during this time I realized that in the supervisory practice, and probably everywhere else, there can be no trifles. After all, these decisions have a huge impact not only on lives of specific individuals and entities but also on the image of the system as a whole, not to mention one's personal professional reputation.

I have fond memories of the Interregional Department team, the way it was formed, the challenges we faced and the overall workflow. I would like to say special thanks to my first boss there – Alexander Tymoshenko – an energetic man who has not only built successful operations in Siberia but also initiated many processes within the Agency. He has headed this IRD ever since its establishment and it is to his persistence, broad grasp of matters and the ability to scrutinize problems that the IRD owes its high standing both within the Agency and beyond.

My views of Rosfinmonitoring activities renewed after I joined its central office in 2006. I realized that the system was much more complex than it seemed from a regional perspective.

One of the most interesting areas of work was involvement in the preparation and conduct of the FATF evaluation of Russia in 2007-2008, a period that is inextricably linked to the name of Sergei Osipov, who was in charge of this process. Being part of his team gave me a lot of experience, especially in financial and supervisory matters I was in charge of, which are considered among the most complex and vulnerable in terms of the FATF standards. That experience taught me that the only way to address complex problems is to work in cooperation. Our team comprised not only Rosfinmonitoring staff but also representatives of other anti-money laundering agencies, such as the Central Bank, Prosecutor General's Office, Federal Insurance Supervision Service, Federal Service for Financial Markets, etc.

Another memorable period of my career is linked to the International Training and Methodology Centre for Financial Monitoring (ITMCFM), by that time a fully formed independent institution. Our job there was to turn this institution into a veritable expert forum and a generator of new ideas. It is important





to underscore the special role played by its staff, thanks to whom the ITMCFM is recognized not only in Russia but also far beyond.

My stint with the Centre coincided with the turning point in the history of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG). We were tasked with creating a full-fledged international organization in which all participants played an active role. It was a very difficult task that we managed to solve only with the help of Rosfinmonitoring Director Yury Chikhanchin and Oleg Markov, who held at the time the post of Presidential Advisor and EAG Chairman.

It happened so that I spent my entire time at Rosfinmonitoring dealing with supervisory matters. Its effectiveness, in my opinion, depends on the feedback from the private sector. To achieve synergies in the anti-money laundering system, it is important to build relationships on trust and to constantly work on expansion of the existing communication formats and channels.

Another important area of my work is the financial support of Rosfinmonitoring activities, which, contrary to some beliefs, is not a routine operation. This work is carried out by a team of experts from Rosfinmonitoring financial and economic departments, to whom I am very grateful for their hard labour, which may not always be that noticeable.

Summing up, I would like to say that 15 years is quite a long time. Yet, this time has passed very quickly and there is still much to do. New challenges require constant mobilization.

I wish the entire Rosfinmonitoring staff success and urge every one of us to put heart and soul in their work! Happy anniversary!



V. GLOTOV: PEOPLE – AGENCY'S MAIN STRATEGIC ASSET

Irina V. Ivanova, Editor-in-chief



Vladimir I. Glotov

Deputy Director of the Federal Financial Monitoring Service. Coordinates the work of the International Cooperation Department, the Personnel Management & Anti-Corruption Department and Interregional departments

FS: Mr. Glotov, how did you happen to be working for financial intelligence?

V. Glotov: I remember very well the moment when I first heard about Russia's newly established financial intelligence unit. That was back in February 2002, when I was Head of the Volga Federal District office of Financial Recovery and Bankruptcy Service. I came across V. Zubkov's interview in a newspaper while on a flight to Bashkiria. He spoke about the Financial Monitoring Committee establishment. I just suddenly felt the urge to be part of that story. So when later the FMC decided to open its branch in the Volga District, S. Kiriyenko, then Presidential Plenipotentiary Envoy, deemed it appropriate to put my name forward for the post of its head.

I met with Yu. Chikhanchin, backthen First Deputy Head of the FMC, and he briefed me on the current situation and explained how the work in the region should be carried out. Later I was introduced to V. Zubkov, who was satisfied with my candidacy. In September 2002, with a letter of my appointment in hand, I arrived in Nizhny Novgorod and began to work.

FS: Nizhny Novgorod, however, is not your hometown. Wasn't it difficult at first?

V. Glotov: It was challenging. But I wasn't entirely new to the region, having worked there already for a couple of years, namely starting from 2000, as an Economic Security Advisor to S. Kiriyenko. In any case, it was difficult to start. Our immediate job was to hire staff and find a new office. But it all worked out in the end. I'm particularly happy that there are still people at the Interregional Department in the Volga Federal District whom I personally hired back then.

I ran the regional office for almost 4 years, until 2006, when V. Zubkov invited me to Moscow and tasked with setting up a Department of Information Security & Protection. Prior to that moment, these matters had been under the purview of a single sub-department. I'm glad that this Department is still functioning well today.

FS: You left Rosfinmonitoring for a few years...

V. Glotov: When O. Markov (Rosfinmonitoring Director from 2007 to 2008) accepted the post of Assistant to the President for Human Resources, I was appointed his Chief of Staff. I re-joined Rosfinmonitoring only in 2012. But during the entire period of my absence, I never stopped thinking and caring about the Agency. Formally, I even was connected to it through Mr. Markov's chairmanship in the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).

FS: You're currently in charge of two such, one might say, divergent areas of Rosfinmonitoring's activity: international and domestic, where you're responsible, on the one hand, for the positioning of Russia in international organizations and, on the other, for the activities of regional offices. How do you manage to reconcile them?

V. Glotov: I'm also in charge of the HR department and anti-corruption efforts. Actually this approach makes sense. Having been in the shoes of a Regional Unit Head, I understand very well the needs and capabilities of our interregional departments that represent Rosfinmonitoring in different regions. International affairs, meanwhile, are the key area of our work, as well as acting as the Agency's front office responsible, in its defence of Russia's position, for projecting outwards the efforts of all divisions. As for the task of reconciliation, it's people who make it all possible.

FS: It's all about people then?

V. Glotov: True. That's why whenever something somewhere goes wrong, the Director quite rightly calls me and asks, "What's going on?" Naturally, I have specific people standing behind every event. It's people that are Rosfinmonitoring's main strategic asset.

FS: What are the objectives of your near-term work with the regional offices?

V. Glotov: Stepping up the speed of interaction with the central office. You see, we're living in a fast-paced world, where everything happens here and now. Much needs to be done to improve cooperation between the capital and the regions and to enable a faster adoption by the latter of innovative approaches. This applies to the submission and analysis of information and mastering of financial investigative techniques. At the moment, unfortunately, breakdowns do happen.

FS: When one of the first FATF evaluation missions came to Russia in 2002, they were amazed of the speed of the FIU's reaction to suspicious transaction reports submitted by one regional bank and by how well the feedback system was functioning in the country. The next evaluation is in 2018. Do we have anything to show?

V. Glotov: For sure. There wouldn't be any need for anyone to verify the arrival of an STR by phone this time either. Everything will be clearly visible in real time.

FS: In your job as Rosfinmonitoring Deputy Director in charge of international cooperation and regional network, were you ever asked any uncomfortable questions about the status of the Agency's interregional department in Crimea (recently known as the CFD)?

V. Glotov: No. Crimea is, no doubt, part of Russia. So when it was recognized as part of Russia, we went



there literally on the third day and began setting up an interregional department. Today this region is part of the Southern Federal District. Since it's a large territory, it makes sense to have a mobile office there that represents Rosfinmonitoring's interests on the peninsula.

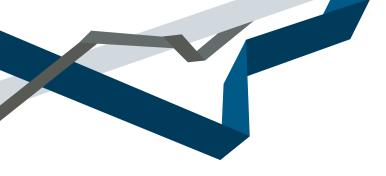
Crimea's experience is not unique though. When I was in charge of the VFD branch, we also had to address challenges related to the size of the territory: it's 1100 km from Nizhny Novgorod – the region's headquarters – to Orenburg, for example! So we set up an office in Samara to act as a hub for the surrounding regions such as Orenburg, Kazan, Ufa and Ulyanovsk. It was headed by G. Shatsky, then my Deputy and currently the Head of Rosfinmonitoring's Interregional Department in Crimea and the federal city of Sevastopol.

By the way, I still consider the Volga region to be part of me. And even the Director, whenever talking about the VFD, tends to inadvertently look at me. I'm glad I was able to leave our operations there in good hands, first in A. Samarin's and then V. Tsyganov's. Their management is yielding some good results, which makes me especially happy.

FS: Can we expect any changes in Rosfinmonitoring's management?

V. Glotov: We are currently working on a new approach to talent pool management, designed to make it more informal. This will allow our personnel to monitor their own career trajectory. To this end, we'll select candidates, carry out on-going work with them over a certain period of time, test and evaluate their progress in implementing different tasks... Everything will be reflected in each employee's personal record book to enable us later to take informed decisions regarding his or her possible promotion. We want to introduce a horizontal and, possibly, interregional, personnel rotation system. In fact, we have high expectations for these initiatives.

I'd like to congratulate all Rosfinmonitoring staff on the 15th anniversary, especially those who were at the forefront of financial intelligence. Don't remain satisfied with your current achievements; instead, keep on pushing yourself forward by reading books and developing yourself intellectually and spiritually! Remember, no matter how good HR technologies are, it's your personal efforts that make or break your career prospects. Good luck!



A. KLIMENCHENOK: IT WAS HARD WAY BUT WE PASSED IT FAST

Irina V. Ivanova, Editor-in-chief



Alexander S. Klimenchenok – Deputy Director of Federal Financial Monitoring Service, in charge of Counter-Terrorism Financial Department, Microanalysis and Typologies Department, Security and Information Protection Department (operational and current issues)

FS: Mr. Klimenchenok, you were one of Rosfinmonitoring's first employees. How did your work begin?

A. *Klimenchenok:* I began my career in financial intelligence in January 2002, when it was in the process of being established. Similarly to Mr. Chikhanchin, I joined the Financial Monitoring Committee from the Finance Ministry's Department of Currency and Export Controls. In fact, that same ministry – headed by Mr. Kudrin back then – was a training school for a lot of Rosfinmonitoring key personnel.

My first job at Rosfinmonitoring was the post of Deputy Chief of the Organizational & Inspection Department, and later of its Chief. The key initial task was to set up a regional structure and to launch operations in the districts. By that time (two years after its creation), we had established contacts between the central office and the relevant ministries, agencies and the private sector. At the regional level, however, it was more complicated. There was a lot of misunderstanding both in terms of regulatory framework and methodology. It happens when the state apparatus is expanded to make room for a new government body.



We had to make a lot of trips to the regions, address issues related to personnel, interact with local authorities. It was most administrative work. It was a hard way, but we passed it very fast. Only in six months of 2002 the most part of interregional departments was put in place and completed with competent managers.



FS: You were the first Head of the Counter-Terrorism Financing Department and witnessed how the work was organized there. What are the trends to be highlighted in this area?

A. Klimenchenok: It all began in 2003 with creation of a terrorist list, i.e. the List of Entities and Individuals Involved in Extremist or Terrorist Activities. With time, the range of our functions was expanded to include analytics. The Counter-Terrorism Financing Department was established on June 17, 2004. Besides the terrorist list, we began to conduct financial investigations and search for terrorists and their associates.

I don't think the formative period is over for the Agency as it keeps evolving. Recent years have seen major progress both in methodological work and understanding of terrorist funding processes. We have developed unique techniques and now conduct proactive investigations. In collaboration with banking sector and law enforcement, we have developed indicators of terrorism and a terrorist behavioural model that are based on the FATF typologies and findings of the Egmont Group's research. These typologies allow us to obtain more detailed and higher quality information from reporting entities.

In our work, we utilize a risk-based and systematic approach. Our talent pool has been expanded over the past 5 years through the addition of highly capable home-grown analysts and line managers, some of whom received training at IFES MEPhI.

Given the importance of the terrorist-related financial information, the introduction this year of the socalled extrajudicial freezing mechanisms enables our investigators to stay ahead of the curve, by taking preventive action and staving off the onset of possible consequences.

FS: How did you build your relationship with law enforcement? Is it to find common ground with the country's security forces?

A. *Klimenchenok:* Building cooperation with law enforcement wasn't easy. In essence, they had to deal with a one-of-a-kind enforcement agency that was placed between the private sector and law enforcement, complete with its own specific set of tools and functions.

All of us, including Viktor Zubkov and Yury Chikhanchin, had to visit every region, organize meetings at the plenipotentiary level with law enforcement and concerned agencies, hold discussions, showcase our capabilities, methodological tools, information sharing mechanisms and everything that could be of use in ML/TF crimes identification and suppression.

The Agency's formation period is left behind. We succeeded in establishing good working relations with the Interior Ministry, Federal Security Service and Prosecutor General's Office. Over the last five years, cooperation has been expanded further through the engagement of various specialized interagency bodies, such as National Anti-Terrorist Committee, State Antitrust Committee, various ad hoc committees of the Russian Security Council, and others. The list of joint engagements continues to grow.

When the ISIL challenge first emerged, Rosfinmonitoring was ready to counter new threats. Over the past two years we have come up with a number of initiatives in this area that are endorsed by our colleagues in law enforcement. They took into account the importance of intelligence provided. As of September 2016, the national section of the terrorist list contains 6486 individuals and 78 entities; the international section, 413 individuals and 94 entities.

Our work with the terrorist list involves investigative activities targeting the listed persons' associates, the use of various techniques to analyse suspicious financial transactions and exchange of such analysis outcomes with law enforcement authorities.

FS: One of Rosfinmonitoring's new functions is to act as the National Centre for the Assessment of Threats to National Security. Can you say a few words about the Agency's work in this role?

A. *Klimenchenok:* In 2014, Rosfinmonitoring established a Risk Assessment Centre (RAC). We have prepared two reports for the Russian President on assessment of the existing national ML/TF risks. At the moment, we are conducting comprehensive methodological work, developing macro-analysis

tools and improving our approaches to dealing with risk bulletins.

One of the problems is that there is no uniform risk mitigation experience; instead, we have different approaches and techniques. This means that we can rely only on ourselves in building a risk assessment model applicable to Russia that takes into account all its specifics and size. The RAC's job is to coordinate risks for all Rosfinmonitoring divisions. Through risk bulletins and analytics provided by the RAC they can look at their work from a different perspective.

In view of the ever-increasing volume of data processed by Rosfinmonitoring and its limited resources, the only way to improve efficiency is to use a risk-based approach, which means that the measures adopted must correspond to the identified risk level. The harder we work to mitigate high risks, the better our results are. Our number one task now is to make sure that all participants of the national AML/CFT system are involved in risk mitigation.



O. KRYLOV: SHOCKING IS NOT EMBEZZLEMENT SCALE OR SCHEMES' INTRICACY BUT CYNICISM OF CRIMINALS

Irina V. Ivanova, Editor-in-chief



Oleg V. Krylov – Deputy Director of Federal Financial Monitoring Service, in charge of Anti-Money Laundering Department and Department on Fighting Financial Crimes in State Procurement

FS: Mr. Krylov, how long have you been a member of the financial intelligence unit?

O. *Krylov:* I joined Rosfinmonitoring 8 years ago. Prior to that, from 1992 to 2008, I had worked for the Counter-Narcotics Agency (Chief Anti-Smuggling Directorate of Russia's Federal Customs Service), from where I retired. And then I was invited to join the Financial Intelligence Unit as Deputy Chief of the Financial Investigations Office.

FS: Was it difficult to adjust to the work in a new place?

O. Krylov: There was certainly no shortage of new experiences. Although I hardly qualified for the role of a newcomer given my previous experience in analytics, their approaches to data, its gathering and analysis were certainly new to me. Moreover, most of my colleagues happened to be very young, unlike in other government agencies, where personnel tend to be very mixed in terms of age. Here, however, 90% of analysts were young people!

FS: Is it good or bad?

O. *Krylov:* It's difficult to say. On the one hand, whenever there is a conflict, a more mature person may help resolve it using his wisdom. After all, many problems arise simply out of lack of life experience. On the other hand, professional development in young people tends to be more rapid. And since we often apply new approaches, the young team is naturally much faster on the uptake. From this viewpoint, it has certain advantages.

What amazed me most was the scale of embezzlement we came across. It was simply extraordinary. I just couldn't figure out how this could ever happen. Despite all my previous years in law enforcement, it became clear to me that economic crimes were in the league of their own. And it's not even so much about the scale of embezzlement, or the intricacy of these schemes, as about the sheer cynicism with which they were committed. It doesn't surprise me now, but I still can't put up with it.

FS: How has the Agency changed since you joined it?

O. *Krylov:* As far as the analytical departments are concerned, their functions have changed completely. When I joined the Office of Financial Investigations, its focus was exclusively on financial investigations, inspections. Nowadays, its portfolio is much more diverse. It includes things like state oversight and situation monitoring, which were previously almost absent. We get assigned tasks that may have to do with the country's security in a broad sense of the word. Our job today goes beyond simply tracking down criminal cash flows; we're required to conduct macroanalytical assessments of the economic situation.

FS: Is it because the FIU has access to a special arsenal of tools?

O. *Krylov:* No, the tools here are least important. To Rosfinmonitoring's credit, qualitative growth was always more important for it than quantitative. It's an objective process. At some point, we simply moved beyond our standards to reach a completely new level. This applies to both administrative decisions and analytics, which went beyond financial investigations. It simply became clear to us at some point that the findings of our financial investigations could be used to generate much more profound conclusions, beyond the simple classification of a transaction as the one linked to money laundering or not. All these things were happening before my very eyes.

FS: How has the attitude of other agencies towards the intelligence provided by Rosfinmonitoring changed?

O. Krylov: To begin with, there has been an increase in the sheer number of recipients of our risk-sensitive intelligence. We have traditional recipients of the Anti-Money Laundering Department information, such as the General Prosecutor's Office, investigative bodies of the Interior Ministry, Federal Security Service, etc. Then, following the establishment of the Department on Fighting Financial Crimes in State Procurement, the list of intelligence recipients was expanded to include such unusual for us agencies as the Ministry of Defence, Federal Antimonopoly Service, Audit Chamber and the Federal Treasury. In addition, we have close contacts with major state corporations, such as the United Shipbuilding Corporation, United Aircraft Corporation, Spetsstroy, etc. Our very approaches to intelligence have also changed. The same can be said about the agencies we work with, whose analysts view it from the viewpoint of possible localization or elimination of risks.

FS: In other words, it's less about catching thieves who committed a crime and more about preventing it?

O. *Krylov:* Yes, it's about eliminating the risk by squeezing out unscrupulous contractors, preventing overstatements of contract prices, etc.

When it comes to the traditional area such as financial investigations, the level and quality of cooperation with law enforcement has increased considerably. Given the steady flow of requests sent to us, it's clear that our intelligence is in demand. In fact, this flow is growing so fast that our resources, unfortunately, struggle to keep pace with it.

FS: What would you like to wish to Rosfinmonitoring and its staff?

O. Krylov: Untiring energy. And I think that's what our guys really are. Departmental statistics show that our personnel are constantly on the lookout for new approaches and work directions. The main thing is to be interested in your job, especially since it adds a creative element to our "bureaucratic" work. Generally speaking, I do believe that Rosfinmonitoring is a very creative agency! It's a place where you can't just do everything in line with rules, because if you do, we'll have to spend all our time writing them down. I wish us all to be more original and unconventional!



ROSFINMONITORING'S SECURE INFORMATION COMPUTER NETWORK

Mikhail G. Kozlov, Head of Corporate Projects Department, CJSC Comita



lose joint stock company Comita, established in 1991, by 2001 had accumulated considerable experience in developing software systems and solutions for secure document flow. Following the adoption of the Federal Law No. 115-FZ of August 7, 2001 "On Combating Money Laundering and Terrorist Financing" and publication of the Presidential Decree No. 1263 of November 1, 2001 "On Designated AML/CFT Authority", Comita (CJSC), jointly with RNT (CJSC), was invited to participate in development of a software system for processing data from reporting entities submitted in pursuance of the Federal Law 115-FZ.

We were working to tight deadlines. Only three months after its establishment on November 1, the Financial Monitoring Committee was supposed to begin discharging its functions – to combat money laundering and terrorist financing. This task required processing a lot of data.

A team of Comita and RNT consisted of a few dozen people who worked 24/7 for three months straight to build a secure information computer network (SICN) for the FMC.



So when on February 1, 2002 the Financial Monitoring Committee received the details of a transaction with funds or other assets under reference number 1 from STROYWESTBANK (Kaliningrad), we all breathed a huge sigh of relief.

But it wouldn't last. The experience of receiving and processing input from reporting entities exposed the inadequacies of the existing legislative framework: Bank of Russia Regulation No. 161-P of November 28, 2001 "On Procedure for Provision by Credit Institutions to Designated Authority of Information Required by Federal Law 'On Combating Money Laundering'" was replaced with a new piece of legislation (Regulation No. 207-P); FMC staff drafted regulations governing provision by non-credit institutions of data to the FMC.

Meanwhile, a steady stream of regulatory amendments meant that the SICN software needed regular upgrading. As it stands, Comita staff have been successfully supporting its system for collecting and processing data from Rosfinmonitoring reporting entities for 15 years now. The close collaboration established with Rosfinmonitoring and various credit and non-credit institutions has allowed us to reduce the proportion of rejected reports from 8-10% in 2002-2004 to less than 0.1% in 2016.

Since the SICN launch, its software has changed dramatically: we have enabled a secure two-way document flow with credit, non-credit and non-credit financial institutions, as well as the processing of a large number of incoming messages. While in 2002 we received on average 6000-7000 reports daily – which was considered a huge number back then – today the amount of daily reports received from credit institutions alone stands at 150 000-160 000.

It wouldn't have been possible now without some of the technical solutions implemented 15 years ago.

We congratulate the Federal Financial Monitoring Service on its 15th anniversary and wish it further success in addressing the tasks assigned to it.



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