

FINANCIAL SECURITY

NO. 2 OCTOBER 2013

N. BURYKINA:

«We keep pace with the global trend when all organizations involved in financial transactions intensively combat money laundering».



FINANCIAL SECURITY

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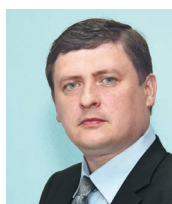
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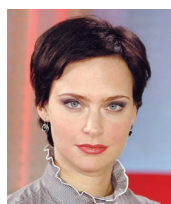
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DEAR READERS!



Since July 2013, Russia took presidency in the Financial Action Task Force on Money Laundering (FATF). It shows that our contribution to improvement of national anti-money laundering system is globally recognized. But the fight against illicit financial

transactions is not over. There is still a long way to go. The FATF presidency means an additional responsibility on Russia's side. We should be proactive in combating new money laundering technologies, mechanisms and financial institutions aimed at concealing dirty money and its sources. It means not just to properly supervise and control but also to make relevant laws for the above combat to be efficient.

In this context, Federal Law No. 134-FZ On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions that has recently come into force is very important as it provides grounds for detecting and preventing illicit financial transactions, money laundering, customs fee and tax evasion. This law amended more than twenty federal laws as well as Tax, Criminal, Criminal Procedure and Civil Codes. Many highly qualified professionals contributed to this law development and adoption.

Furthermore, on September 1, the Bank of Russia became a unified mega-regulator responsible for consolidated supervision and control over a wide range of financial sector players.

However, economy still faces many challenges. Investment climate is not favorable enough, and corruption is still widespread. These problems are critical and urgent both in Russia and abroad. However, today, several external and internal factors combined to create a unique situation with a lot of opportunities. Following the provisions of Federal Law No. 134-FZ and resolutions adopted at G8 summit in Lough Erne and G20 summit in St. Petersburg, we can dramatically improve relevant practices to minimize negative economic trends.

What is the essence of the above resolutions? Economic transparency needs to be increased by identifying beneficial owners of businesses, more efficient tax collection and more transparent offshore jurisdictions. G8 countries have already developed and published their national plans for increased economic transparency. Keeping pace with global trends, Russia may now have western countries not just criticize our statehood strengthening initiatives but also understand and support them via legal assistance and operational cooperation with our law enforcement, tax and supervisory authorities.

***Sincerely yours,
Yu. A. Chikhanchin
Chairman of Editorial Board***

COVER STORY

FOR TRANSPARENT HORIZON

Federal Law No. 134 as a legislative basis for struggle against illegal financial transactions

Natalya Burykina,

Chairman of the State Duma Committee on Financial Market



Natalya Burykina

One of the most critical issues on the global agenda is still efficient combat money laundering resulted from illicit trafficking in drugs, people, weapon, and other similar cross-border crimes.

World community is deeply concerned with money laundering due to grave negative consequences thereof. It is evident that anti-money laundering procedures will be more efficient if the economy structure and game rules are clear, and cash flows are transparent.

For these purposes, there is a global campaign aimed at increasing economic transparency, tightening state financial control and identifying beneficial owners, i.e., individuals who actually own major national companies and transnational corporations. Leading global players are looking for offshore jurisdictions to be also covered by the above campaign in order to stimulate national economy development by ensuring that taxes are mainly paid at the source of income.

World super powers absolutely agree on necessity of such measures and have determined certain objectives in the relevant guidelines during G8 summit in June 2013 (Lough Erne) and G20 summit in September 2013 (St. Petersburg).

Such scenario was not a surprise for Russia who has suffered a lot from corruptive schemes – our main problem leading to other issues, including illegal capital outflow and tax evasion. Therefore, we intensively cooperate with, and are respected by FATF.

Both Russian parliament and government were committed to developing legislative mechanisms for combating illicit financial transactions, and we paid particular attention to the relevant draft law, which Government introduced last year. At the very beginning, there were many things to improve but lawmakers and businessmen contributed thereto by reasonable remarks and informed criticism. Parliament members, government and independent experts improved the draft law by deleting irrelevant points and taking into account mutual requests, and as a result we adopted well-known Federal Law No. 134-FZ dated 28.06.2013 On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions. I believe that it's a quite good and efficient law. Its authors showed both high competence and ability to compromise in order to provide Russian law with several new law institutions, including mechanisms for identifying beneficial owners or freezing terrorist assets.

Due to the magazine subject, I'm not going to comment on the whole law but just its anti-money laundering part.

In my opinion, the above part of the law will be efficient if applied well. It can actually prevent money laundering by introducing legal liability for wrongful actions in this sphere and seizing both property and income derived from illicit transactions in compliance with new provisions of the Criminal Code and tax legislation.

The law provides for certain barriers and filters to deal with everlasting shadow companies. In particular, reasons to refuse state registration of a legal entity (Federal Law No. 129-FZ dated August 8, 2001, On State Registration of Legal Entities and Individual Entrepreneurs) are now provided in more detail and cover, for example, such cases when an individual being a founder or participant of a legal entity is deprived by court from performing business activities for a certain period of time or he/she is disqualified in compliance with the Administrative Offense Code of the Russian Federation.

In addition, an individual may now send a request to a registering authority in writing to object forthcoming entry of his/her data to be made into the Unified State Register of Legal Entities, which legal provision may also help deal with passport data misuse.

The law specifies additional reasons to suspend operations on bank accounts of the entities who failed to get in touch with tax authorities.

If provided for by law and approved by officials of the Federal Tax Service of Russia, tax authorities may now request, and banks have to provide: information about accounts and deposits opening by individuals who are not individual entrepreneurs; certificates confirming existence of and/or cash balance on such accounts and deposits; and certificates confirming transactions conducted on such accounts or deposits.

Let's now speak about anti-money laundering mechanisms. Subject to the new version of Federal Law No. 115-FZ dated 07.08.2001 On Combating Money Laundering and the Financing of Terrorism, organizations whose transactions involve cash or other property must identify beneficial owners of their clients.

The above legal provision implements some FATF Recommendations (rev., February 2012) into the Russian federal legislation; enables organizations who are subject to Federal Law No. 115-FZ decide whether a particular transaction is unusual, suspicious or may expose such organization to legal prosecution;

and provides for terms under which information must be provided to Rosfinmonitoring upon its request.

With respect to Federal Law No. 134-FZ, I would like to emphasize that credit and other financial organizations must not become investigation units but identify beneficial owners by available means only and in strict compliance with law.

Furthermore, subject to new provisions of Federal Law No. 115-FZ, organizations whose transactions involve cash or other property must first learn about the purpose and nature of business relationship of their new clients being legal entities and then inquire

after such clients' economic and financial objectives, financial situation and business reputation on a regular basis.

In addition, organizations whose transactions involve cash or other property may (as set forth by Clause 11, Article 7 of Federal Law No. 115-FZ) refuse to conduct transaction requested by a client except for crediting of cash received on individual's or legal entity's account if such transaction is not accompanied with documents required to record information pursuant to the Federal Law No. 115-FZ or if such organization's AML/CFT internal controls have reasons to suspect the transaction as conducted for the purpose of money laundering or terrorist financing.

All organizations whose transactions involve cash or other property, including credit organizations, may (as set forth by Clause 11, Article 7 of Federal Law No. 115-FZ, revised) refuse to conduct transaction requested by a client except for crediting of cash received on individual's or legal entity's account if such organization's AML/CFT internal controls have reasons to suspect the above transaction as conducted for the purpose of money laundering or terrorist financing.

As a result, a credit organization shall independently consider law framework and decide on a case-by-case basis whether to sign a bank account (deposit) agreement and shall independently assess risks associated with servicing the client when there is a high probability of his/her involvement in money laundering or terrorist financing..

So we keep pace with the global trend when all organizations involved in financial transactions intensively combat money laundering.

We believe the above measures to be just the first step towards establishing a new anti-money laundering mechanism for credit organizations in Russia. It will include both client profile which will become a backbone of anti-money laundering

Banks' role seems to be even more important because of rights granted thereto:

- Bank may refuse to sign a bank account (deposit) agreement with an individual or legal entity pursuant to internal control rules adopted by a credit organization if the bank suspects that such agreement is aimed at money laundering or terrorist financing;
- Bank may terminate a bank account (deposit) agreement with a client if at least twice during the calendar year the bank refused to conduct transaction requested by the client pursuant to Clause 11, Article 7 of Federal Law No. 115-FZ. (Procedures for bank account agreement termination and account cash balance disposal are described in more detail in amendments made by this Federal Law No. 134-FZ to the Civil Code of the Russian Federation).

measures within credit organizations and reporting to financial intelligence on suspicious activities as a whole instead of data on separate suspicious transactions detected by compliance staff through internal controls.

In addition to already mentioned amendments, Federal Law No. 115-FZ stipulates inter alia blocking (freezing) terrorist assets and suspending transactions that may be aimed at financing terrorism.

Therefore, subject to asset blocking/freezing institution combined with FATF Recommendations, if organizations and individuals are known to be involved in extremist activities or terrorism (persons in the List) or they are not in the List but there are reasonable grounds to suspect them thereof (including terrorist financing), then their assets must be frozen which means prohibition of transactions involving cash, securities or other property owned by such organizations or individuals.

Organizations whose transactions involve cash or other property must identify assets of the above persons. For this purpose, new law amendments coming into force oblige organizations to check whether their clients are in the relevant List and then check it at least once in three months.

At the same time, transaction involving cash or other property can still be suspended except for crediting of cash received on individual's or legal entity's account, which suspension mechanism does not contradict but complements asset freezing mechanism.



Certainly, we still need enforcement practice for new amendments to Federal Law No. 115-FZ, and both Government and Bank of Russia have to update their relevant regulations. The Law will operate efficiently only when such regulatory framework appears.

However, Federal Law No. 134-FZ provides for a new image of anti-money laundering system and establishes main institutions of law in compliance with Lough Erne summit results. Only few G20 states, including largest economies, can boast of the same progress. Lawmakers have contributed to more transparent economic horizon, provided law enforcement with new goals to achieve and will continue developing Russian legislation with respect to combating money laundering and terrorist financing.

THE OUTCOME OF THE RUSSIAN CHAIRMANSHIP IN THE EAG

Konstantin Litvinov,
Deputy Editor-in-Chief

It has been two and a half years since the signing of the Agreement on the Institutionalization of the Eurasian Group on Combating Money Laundering and Financing of Terrorism as an International Organization with the Secretariat as Its Standing Body.

Our timeline began with the signing of the Agreement at the 14th EAG Plenary meeting (July 2011, Moscow) at the initiative of O. A. Markov, the Chairman of the

Eurasian Group, and at the time an assistant to the President of the Russian Federation. The 15th EAG Plenary meeting (Xiamen, China, November 2011) elected Yu. A. Chikhanchin the Chairman for a two-year term. In November 2013, at the 19th EAG Plenary meeting in Ashgabat Russia is to step down and transfer the chairmanship to India.

Two years ago we developed the document titled The Action Plan of the EAG Chairman Yu. A. Chikhanchin for 2011–2013; now we can look back and take stock of what goals we managed to achieve, and to what extent.



The 14th EAG Plenary Meeting July 2011, Moscow

Consolidation the positions of the EAG member states in the global and Eurasian AML/CFT systems

The EAG member states are provided with expert support at the working groups and the FATF Plenary meetings. One of the primary EAG achievements in this respect is the removal of Turkmenistan from the FATF enhanced monitoring routine (exclusion from the so-called grey lists) in June 2012, as well as providing effective assistance to Kyrgyzstan and Tajikistan.

Boosting efficiency and enhancing the impact of our expert missions, consultations, seminars, trainings for the purpose of advancing the implementation and effectiveness of the national AML/CFT systems of the EAG member states

Specialists from Russia, Belarus, Kyrgyzstan, and Tajikistan acquired significant practical experience in the EAG Secretariat. Topical workshops conducted right before Plenary meetings became a tradition. Besides Moscow, these workshops were hosted in India, Belarus, and a regional workshop on terroristic asset freezing is currently being prepared to be held in Ashgabad, November 2013. Overall, we can say that the weight of the EAG within the global AML/CFT framework has significantly increased in the last two years.

Active work in the framework of the EAG in combating the financing of drug trafficking, crime and terrorism

In the autumn of 2012 we created the Working Group on Combating Drug Trafficking, Crime, and Terrorism which is active in many areas of information interaction between financial intelligence units. In addition, the Working Group settled the foundation for

the agenda of the Council of FIU Directors of the CIS member states, and achieved solid practical results with respect to countering criminal activity. A number of EAG observers take an active part in the Working Group.

The preparation to the upcoming rounds of the FATF and EAG mutual evaluations, active participation in the development of methodology materials within the FATF and FSRB, enhancing assessors training, and methodology support of the EAG expert activity, implementation of new technologies in the work of assessors

The preparation for regular FATF and EAG evaluation rounds centers inter alia on the development of new EAG mutual evaluation procedures, which while largely based on the FATF evaluation routines retain a certain degree of regional specifics. In October 2013 the FATF is going to adopt its procedures, and the EAG is planning to use them as the foundation for its own mechanisms to be adopted at the 19th Plenary meeting. In anticipation of the next round of evaluations the EAG will be organizing training for assessors, and educational workshops for member states. It is noteworthy that the overall level of AML/CFT competence of the EAG delegations has increased considerably, while some of the heads of delegations have been acknowledged as world-class experts.

The EAG Secretariat has switched over to the fully digital document workflow, which allowed us to advance our responsiveness in interaction with the delegations. The EAG serves as the platform for designing documents for the new round of mutual evaluations, and discussions between the EAG member states and observers on the current issues, that are far from being simple if one takes into account the long-term effect of the regulations



Signing the EAG agreement, 2011, Moscow

and documents we adopt, as well as the new FATF methodology which expands the scope of mutual evaluations to the efficiency of national AML/CFT systems, while previously it covered only technical compliance.

Intensification of work with the EAG member states and observers for the purpose of enhancing their participation in the EAG activities and providing technical assistance within the EAG framework

The EAG Secretariat invested its efforts in developing partnership with the MONEYVAL (a joint workshop in 2012), the APG (a joint workshop on typologies held in September 2013, in Mongolia), and the MENAFATF (a joint workshop on typologies is being considered for 2014). A series of workshops with other FSRBs is a good example of horizontal partnership within the FATF family. We exchange best practices even with the groups that do not have an observer status with the EAG, for example with the West African GIABA.

We have had working meetings with the secretariats of the FATF, APG, MONEYVAL, and MENAFATF, that led to a number of agreements on the intensification of horizontal cooperation, potential joint events, joint typological research, experience and best practices exchange, and exchange of experts in the course of mutual evaluations.

Mongolia has recently become the EAG observer, and Mongolian public servants were trained in the International Training and Methodology Center for Financial Monitoring.

We actively use our videoconferencing system for joint meetings and roundtables with representatives of financial intelligence units and supervisors from the EAG member states.

The EAG collaborates with the UN agencies, as well; for instance via a series of regional workshops and missions of the UN Counter Terrorism Committee (CTC). The EAG observer states have been showing increased activity, Turkey, Poland, Lithuania, and Mongolia deserve a special mention.

Launching new typology research within the EAG system that takes into account the revised FATF Recommendations, and the new AML/CFT risks

Events organized by the EAG serve as a reliable source of current information on the recent initiatives and typology work.

The EAG even expanded its initial plans in this respect: at the 19th Plenary Session the group plans to join the APG research on the production, transportation, and marketing of gold.

The EAG works on the most vital typology subjects, for instance the off-shore issue. There is extensive research initiated by the Russian Federation on the topic of the financial flows related to Afghani drug trafficking. This effort is undertaken by a number of interested countries - members of the FATF and EAG. In addition, we completed the laundering money through stock market research headed by India.

Upon the completion of every event the EAG Secretariat prepares and disseminates reports and reference materials (in English and Russian), that

provide the EAG member states with the opportunity to study the issues we discuss and decisions we make.

In conclusion, it should be underlined that the EAG Secretariat that is headquartered in Moscow, has grown into a full-fledged executive body of an international organization, where representatives of the EAG member states work on a continuous basis, which deepens the interaction within the group. We continuously work to advance the qualification of our Secretariat employees, and clearly define areas of responsibility among them.

Today the EAG Secretariat is a stable international structure that solves issues far beyond the subject matter of its events. The Secretariat has its own budget, which allows it to cover administrative and technical functions. The EAG Secretariat is a regular participant of the FATF Global Network Coordination group that advances the cooperation between the FATF and FSRB's.



The 13th EAG Plenary Meeting July 2011, Moscow

**INTERNATIONAL TRAINING AND METHODOLOGY
CENTRE FOR FINANCIAL MONITORING**

VIDEOCONFERENCING: BRIDGING THE DISTANCE AND TIME GAP

Innovative technologies for EAG financial intelligence units

*Alina Pascal,
editor-columnist*

*Konstantin Sorokin,
advisor ITMCFM*

Financial intelligence units, law-enforcement agencies, regulatory bodies and the private sector... How to bring the representatives of these groups together from different countries of Eurasian region at short notice and without leaving the workplaces? Since 2010, this problem has been handled successfully by the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG). It has been more than three years since the videoconferencing solution was implemented. And now it is evolving rapidly.

This communication tool has been deployed as part of the technical assistance provided by the Russian Federation to EAG member states. Today the solution is becoming increasingly popular among financial intelligence units of the Russian Federation, Belarus, Kazakhstan, Tajikistan and Uzbekistan. The International Training and Methodology Centre for Financial Monitoring (ITMCFM) is the system operator responsible for maintenance of videoconferencing facilities and support of related activities.

Videoconferencing facilitates distant learning (lectures, workshops), round-table discussions, meetings, sharing progress reports and best practices in topical areas.. Representatives of the private sector and associated state agencies are often invited to participate in videoconferences.

Following is a list of the most interesting topics of the recent videoconferencing activities (the first half of 2013):

- customer due diligence by representatives of designated non-financial businesses and professions, regarding revised FATF Recommendations;
- procedures for applying the AML/CFT risk-based approach to financial institutions;
- information exchange between tax authorities and financial intelligence units;
- sharing best practices in the organization of AML/CFT training;
- money laundering through notaries, lawyers and other independent legal professionals: state AML/CFT regulation and compliance monitoring;
- money laundering through reinsurance companies: practical steps to counter money laundering through insurance products and reinsurance;
- precious metals and precious stones market: exchange of hands-on experiences in combating laundering of proceeds from illicit mining or traffic of precious metals or precious stones (including regulatory framework, detection of predicate offences and scrutiny of financial transactions);
- combating drug trafficking: boosting the effectiveness of FIUs;
- schemes of legalizing criminally derived proceeds (expert assessment);
- detection and investigation of offences related to money laundering of criminally gained assets: problems and solutions;
- evaluation of FIUs' effectiveness and efficiency;
- schemes of money laundering and terrorism financing through the use of bank products, best international detection and deterrence practices;
- interaction between FIUs and law-enforcement agencies on countering terrorism and extremism;
- requirements for a reporting entity's internal policies, procedures and controls;
- strategic analysis (mission and objectives, methodology, implementation, information system capabilities to support strategic analysis, analysis results);
- money laundering through offshore jurisdictions: (managing FIUs' lists and classification of offshore centers).

Videoconferencing is used not only for scheduled activities outlined in the EAG calendar (which is based on proposals of EAG member states) but also for unscheduled events such as the admissions procedure of the Institute of Financial and Economic Security (IFES) of MEPhI. There is no need for applicants to

purchase air-tickets to Moscow for interviews as they have the opportunity to communicate with teachers virtually. The videoconferencing circuit has been enhanced to provide connection to IFES, thus enabling future financial intelligence employees from distant locations to participate in topical workshops and some

pre-arranged EAG events. This makes it possible to get hands-on experience in the area of financial intelligence and training of FIU specialists.

Videoconferencing is becoming increasingly popular in the sphere of education. This year, IFES graduates from different EAG countries have defended their diplomas in the real-time mode and their future colleagues and FIUs executives could ask them relevant questions.

The usage of videoconferencing can be wide-ranging. For example, a discussion of the draft agreement on information exchange of the Customs Union has been organized by ITMCFM upon the request of the Eurasian Economic Commission to the Federal Financial Monitoring Service.

Currently, videoconferencing is progressing at a rapid pace. It has spawned a great interest among financial intelligence units. In this context, very promising, as we see it, is cooperation with the Council of Heads of Financial Intelligence Units and anticipated signing of the memorandum of cooperation between the Council and EAG.

ITMCFM has revised the draft 'Procedure on Setting up a Video Conference'. The draft is expected to be submitted for approval at the EAG regular Plenary in November 2013.

With regard to the future of videoconferencing, it is worth mentioning that in the year 2013, ITMCFM, as the system operator, is going to complete the upgrade of relevant facilities, including those required for simultaneous translation. This will enable full-fledged participation of English-speaking countries in EAG activities. To bring these plans into effect, all EAG partners should express their wish and willingness.

In the long run, videoconferencing will also embrace Interregional divisions of the Federal Financial Monitoring Service. Connecting regional offices is yet another way to enhance videoconferencing circuits, as it is seen by financial intelligence units of EAG member states. Today the Federal Financial Monitoring Service has a stand-alone up-to-date videoconferencing circuit that covers both central office and interregional



divisions. If integrated with the EAG circuit, which is subject to further enhancement, the situation when employees from remote interregional divisions and their counterparts from Chinese and Indian FIUs discuss a diploma of an IFES student being defended in English in real-time mode might become reality.

Let us look at another example. In an interregional division, an experienced professional (say, a chief executive of a large bank) delivers a two-hour-long lecture on anti-money laundering, which is translated and simultaneously broadcast to all countries of the videoconferencing circuit (central offices and regional divisions). Since travels to Moscow might in some cases appear to be time-consuming, it's much easier for such lecturers to share their best practices with English-speaking countries through the use of videoconferencing. As far as our foreign partners are concerned, employees of interregional divisions can meet with their Chinese and Indian colleagues

only at international events, while videoconferencing allows them to exchange knowledge on a regular basis.

Educational videoconferencing should be an important area of focus for the AML/CFT network institute – first it could be used for domestic purposes, and in the longer term it could be applied in CIS/EAG countries.

Obviously, each stage of the deployment will require organizational (cable laying and equipment delivery), technological (standard compliance) and financial support. This can be ensured only through joint efforts. However, in the future a well-established system will promote comprehensive cooperation between FIUs to develop and strengthen national AML/CFT systems of the involved countries.

FINANCIAL INTELLIGENCE UNITS OF THE EAG STATES

FINANCIAL INTELLIGENCE UNIT OF THE REPUBLIC OF BELARUS

*Financial Monitoring Department of the State Control
Committee of Belarus*

Vitaly Prosvirov,

*Head of Coordination and International Cooperation Division at the Financial
Monitoring Department of the State Control Committee of Belarus*



Vitaly PROSVIROV

The Financial Monitoring Department of the State Control Committee of Belarus was founded in September 2003 upon the Decree of the President of the Republic of Belarus. Decree # 328

of the President of Belarus dated July 23, 2012 established the coat of arms and the banner of the Financial Monitoring Department of the State Control Committee.



The Financial Monitoring Department (hereinafter referred to as "the Department") has been created in pursuance of international conventions adopted

by Belarus, Recommendations of FATF (the Financial Action Task Force) and international best practices of financial intelligence units in preventing legalization of illegally acquired proceeds and financing of terrorism.

Major tasks of the Department are:

- taking effective measures to prevent legalization of criminally derived money and financing of terrorism;
- facilitating international cooperation;
- developing and providing support of a computer-based solution for registration, processing and analysis of information on financial transactions at risk.

According to the assigned tasks, the Department has a number of special duties and responsibilities.

These include support of the IT-based analytical system, collection and analysis of data on suspicious financial transactions, information (documents) requests, dissemination of reports to law enforcement agencies, activity monitoring as regards persons carrying out financial transactions, suspension of debit transactions, and information exchange with foreign financial intelligence units, conclusion of international inter-agency agreements, participation in international activity.

The Law On Measures to Prevent Legalization of Illegally Acquired Proceeds and Financing of Terrorist Activity put a solid basis under the Belarusian national system for countering legalization of funds obtained through illegal activities and financing of terrorism, where Financial Monitoring Department of the State Control Committee of Belarus occupies a central position.

In compliance with the Law, the Department collects and analyzes information on suspicious financial transactions and, if there is enough grounds to suspect that the transaction is related to laundering proceeds

of crime and financing of terrorism, sends relevant information and materials to a prosecuting agency.

A high-priority issue of the Department is detection of suspicious financial transactions associated with:

- legalization of criminal proceeds;
- illegal turnover of goods on the territory of Belarus;
- delivery of dubious-quality goods to public and state enterprises;
- illegal outflow of funds to foreign accounts;
- theft of public funds.
- off-the-book financial flows through the territory of Belarus.

For this purpose, there has been created an IT-based analytical system that helps detect suspicious financial transactions associated with illegally acquired proceeds and financing of terrorism.

Having access to a number of databases of state agencies, the Department constantly upgrades the system and rapidly develops new software solutions.

At present, Financial Monitoring Department of the State Control Committee has been developing and implementing an IT-solution for registration, processing and analysis of financial transactions subject to special control, within the framework of the National program for accelerated development of services in the sphere of information and communication technologies for 2011-2015.

Over the year 2012 and 6 months of 2013, more than 3000 analytical documents related to more than 9000 legal entities and 15000 natural persons were prepared and sent to prosecuting agencies. As a result, imposed penalties and additional tax charges totaled to about 350 billion rubles, more than 135 billion rubles were recovered, 740 shell companies were liquidated.

International cooperation aimed at combating money laundering and terrorism financing has been rapidly evolving.

Since its foundation, the Department has been working in close connection with FIUs of 80 countries. FIUs of Russia, Lithuania, Latvia, Cyprus and Germany are the most active participants of information exchange.

Over the year 2012 and 6 months of 2013, 291 requests/reports were sent to and 246 requests/reports received from foreign FIUs. Information received via international communication channels from foreign financial intelligence units was analyzed and reported to law enforcement agencies. Several criminal proceedings were initiated.

The legislative basis for the Department's international cooperation is being expanded. Belarus signed agreements on cooperation with FIUs of 17 nations.

The Department is the competent agency of the parties to the Memorandum of Mutual Understanding between the Belarusian State Control Committee and the People's Bank of China on the matters of cooperation in exchanging ML/FT data, signed on September, 21, 2006.

Additionally, the financial intelligence unit is a competent agency under the Agreement on cooperation in combating organized crime, illegal trafficking in narcotic drugs, psychotropic substances and their precursors, terrorism and other forms of serious crime, signed by Governments of the Republic of Belarus and the Republic of Latvia on May 17, 2007 and the Agreement on cooperation in combating crime, signed by the Governments of the Republic of Belarus and the Republic of Poland on December 8, 2003.

It should be noted that the Department participated in preparation of the Agreement between Member States of the Commonwealth of Independent States on Combating Laundering of Criminal Proceeds and Financing of Terrorism that was signed by the leaders of CIS member states on October 5, 2007 in Dushanbe (Tajikistan) and became effective on September 23, 2008.



The residence of the FMD

In cooperation with law enforcement agencies, the Financial Monitoring Department partakes in the implementation of the Nelegal (illegal immigrant) operation (aimed at countering illegal migration of third country's citizens and trafficking in human beings) and Kanal regional anti-drug operation carried out on a regular basis by the member states of the Collective Security Treaty Organization.

In 2007, at the 15th Plenary meeting of the Egmont Group, held in Hamilton (Bermuda Islands) with support of financial intelligence units of Russia and Ukraine, FIU of Belarus received full member status in the Egmont Group – an informal organization of financial intelligence units (139 as of today) created to support national AML regimes, share best practices, provide for the exchange of relevant information and education of FIU officers.

In 2012-2013, at the Best Egmont Case contest the Department was awarded two certificates (diplomas) as one of the most active participants of the contest.

Special attention should be given to our collaboration with the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG) that was established on October 6, 2004 in Moscow at the founding conference attended by six founding countries: Belarus, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, and later expanded to include Uzbekistan, India and Turkmenistan.

On the instruction of the President of the Republic of Belarus, the Financial Monitoring Department represents the interests of Belarus in EAG.

Following the results of the competition «The best case of the Egmont Group» that was held among FIUs in the framework of the 21st Egmont Plenary meeting (Sun City, South Africa) the Financial Monitoring Department of the State Control Committee of the Republic of Belarus was noted for submitted material with national example of money laundering scheme disclosure.

The work organized by the experts of the FIU in cooperation with FMD of the SCC and foreign financial intelligence units was highly appreciated. As a result the money laundering activity of foreign companies was stopped and the channel of money transit through the Belarusian banks was blocked. After breaking debit transactions of 5 foreign companies by the Belarusian FIU on their accounts was arrested about 1 million dollars. Those money was transferred to the state revenue. Since shell companies in their illegal activity duplicated names of the real entities, current scheme was named “Mirrors”.

In 2008, EAG experts assessed current Belarusian AML/CFT system for compliance with international standards.

Based on the evaluation results, the experts prepared a report where they acknowledged progress in meeting FATF Recommendations and suggested further steps of improving the national AML/CFT regime.

The Department actively cooperates with EAG working groups and participates in EAG Plenaries.

Along with foreign counterparts, our specialists make typological research in the field of money laundering and terrorism financing.

In May 2013 the Department and other government agencies of the Republic of Belarus organized and hosted the 18th EAG Plenary events in Minsk including

a joint EAG/Egmont workshop, working group meetings and EAG Plenary. Egmont Group Chairman, Deputy Head of Belgian FIU Mr. Boudewijn Verhelst, and President of FATF (Financial Action Task Force) Mr. Bjorn S. Aamo visited the Republic of Belarus for the first time to participate in the event.

The CIS Council of the Heads of Financial Intelligence Units held its first inaugural meeting at the 18th EAG Plenary. Alexander V. Maksimenko (the Director of the Financial Monitoring Department of the State Control Committee of the Republic of Belarus) was elected Chairman of the CIS Council of Heads of Financial Intelligence Units for 2013.



A. MAKSIMENKO – the head of the Belarusian FIU, the chairman of the CIS FIUs Union

The Council was founded upon the initiative of Belarus in compliance with the Agreement on Establishment Of the CIS Council of the Heads of Financial Intelligence Units signed on December 5, 2012 in Ashgabat by the CIS Heads of State.

Due to EAG and ITMCFM (Russia) support, the Department regularly employs the videoconferencing system to hold international events either in the form of workshops or meetings.

The Department incorporates the inter-agency working group on coordination of interaction in the field of AML/CFT and the working group on AML/CFT typologies.

STATE AND PRIVATE SECTOR

MOVING TOWARDS MAXIMUM TRANSPARENCY AND EFFICIENCY

*Interview with Nikolay Varlamov,
Deputy Director, JSC Russian Grids “Rosseti”*

*Konstantin Litvinov,
Deputy Editor-in-Chief*



Nikolay VARLAMOV

FS: *What is the idea to your mind of transparency for a company? How does this term apply to state-owned corporations?*

N.V.: JSC Russian Grids “Rosseti” is the largest infrastructural public corporation of the Russian Federation, operating in one of the most important economic sectors – power engineering. According to the Decree of the President of the Russian Federation, it is positioned as a company playing a strategically important role in the national economy. Being fully aware of the responsibility to society, regulatory bodies and authorities, we are committed to constant improvement of our policy as regards the company’s transparency.

There are several aspects that can be considered in this context. First of all, I would point out the transparency of the company’s activity. Public initiatives aimed to promote the investment attractiveness of our company and the country as a whole are at the center of an in-depth debate by expert panels and the entity known as open government.

The second aspect is the transparency of procurements made by our subsidiaries and affiliates. It is a sensitive issue widely discussed in the media and evaluated in relation to suitability of purchases published at zakupki.gov.ru. As far as our company is concerned, we have clearly defined in our corporate standard the need for maximum transparency, maximum use of innovative technologies and electronic trading platforms, etc. to ensure competitive procurements and to acquire the widest possible choice of contractors. We focus our efforts on attracting as many contractors as possible, including small and medium enterprises.

Companies of the “Rosseti” group use special procurement openness indicators that give us grounds to perform relevant assessment and make managerial decisions on those who failed to fully comply with these indicators.

Finally, the third aspect that has recently attracted particular attention is the transparency of our contractors. Here I mean our procurement procedure transparency when our company or other companies of the holding are in charge of procurement orders or projects. The KYC (“Know Your Customer”) principle set forth in Federal Law No. 115-FZ when used in our context can be rephrased to “Know Your Contractor”. Our investment programs account for billions of rubles. Therefore, even at the pre-procurement stage we require that bidders disclose information on their beneficiaries.

FS: *There has been much talk, both at the domestic and international level, around such a topical issue as beneficiaries. The definition of the beneficial owner is set out in Federal Law No. 134-FZ that has come into effect in Russia.*

N.V.: Let’s see how it will work. I think the new definition should be properly applied. But turning back to the point – we urge each possible contractor to disclose comprehensive information on beneficiaries. I would like to reiterate that the “Know Your Contractor”

principle laid by the corporate strategy of “Rosseti” has been put into practice. We know our contractors perfectly well.

Obviously, we are not going to rest on laurels. Our goal is to promote an even higher level of transparency to meet international best practices. It is necessary to ensure full compliance with state requirements for our company and to successfully address today’s international legal challenges and threats.

Building confidence is our key-priority task – and not only among investors, but first of all among our customers. We realize that much is to be done to achieve this goal. The company should be reliable and, therefore, transparent, open and responsible with regard to all aspects of Russian law and international standards.

FS: *What additional risks to their business do state-owned companies bear?*

N.V.: I must say that maximizing profit is not necessarily the key goal of state companies. Building new infrastructure is their key goal and top strategic priority. “Rosseti” controls more than 70 per cent of distribution networks and more than 90 per cent of transmission networks of the national electricity industry. We are committed to long-standing delivery of reliable, high-quality and affordable energy to all customers of the Russian Federation.

It won’t be an exaggeration to say that we contribute to the integrity of the power engineering systems of the Russian Federation. And this task is closely connected to the country’s energy security. But at the same time we certainly do not forget about investment attractiveness and creation of new infrastructure which should, more importantly, go far ahead of region or even economy development. Access to electric grids provided by our company is one of the key factors that help other commercial entities succeed in their business.

In terms of additional risks, natural monopolies have to comply with a number of requirements set



out by state authorities and regulators. Our activity is largely regulated by federal executive authorities, in particular – the Ministry of Energy and Federal Tariff Service. However, we work with many other organizations as the scope of our business covers a wide range of areas: from land management to security issues, both industrial and ecological. Therefore, our company has to operate within certain legal and regulatory constraints.

FS: *Do you think it is necessary for state-owned companies to disclose information on their contractors and managers as well as all beneficiaries of their subsidiaries? There has been information in the mass media that top officials of such companies tacitly acknowledge that this measure has no sense? How does your company cope with this problem?*

N.V.: This is a very pressing and painful issue. I have already outlined our best practices and approaches in the declaration of income. This work is underway. It's well-known that more than a year ago these requirements were applied to all officials of federal executive bodies. Last year the Government Executive Order was issued to implement the same experience in respect to employees of state-owned companies.

We do not stand on the sidelines and we have already carried out two declaration campaigns – over the years 2011 and 2012. It took a lot of efforts

from our HR department and employees and most of them treat this activity with due regard. Even more so: unlike civil servants and employees of state-owned corporations, in our company an employee should submit declarations for the members of his/her immediate family– not only spouses and children but parents, sisters and brothers as well.

I would not say that there is a behind-the-scenes discussion of this issue in terms of its adequacy, expediency, etc. As a company with government involvement, we are fully aware of our responsibility and employ personnel conscious of state interests and the need to promote transparency and openness.

That being said, we should not forget about international initiatives put forward in no small measure by the Russian Federation. Under Russia's G20 presidency, optimization of tax planning was high on the agenda. Anti-corruption measures and the promotion of transparency were also points of discussions. I believe that our company should stay abreast of the latest development trends, ensure full compliance with existing requirements and even outpace them by expanding the number of declarants as compared to civil servants and employees of state-run companies.

FS: *It is not yet clear how to implement mandatory disclosure of information on beneficiaries by contractors of government-sponsored enterprises. Can the Russian Law give legal force to the Government initiative on disclosure of state company's beneficiaries? The definition of the beneficiary owner can vary in different countries; some of them do not define it at all. How do you solve the problem of disclosing information on an offshore company's beneficiaries? Could this entail additional risks?*

N.V.: To answer the question, we must refer to Federal Law 134-FZ. First of all, I would like to note that our company is not subject to this law. However, we are trying to stay current with the latest amendments to the

Russian legislation and international regulations and to use them as guidelines for our corporate strategy.

I have already mentioned that the “Know Your Customer” principle has been set forth in Federal Law 115-FZ long ago. Therefore, the beneficiaries are kept under scrutiny; this work is underway. As for offshore enterprises, it is a challenging issue. We have been making every effort to find out our own solution and comply with the highest-level requirements. Leaders of our country continually called for deoffshorization of our economy and this plan is being gradually put into effect. Our procurement procedures require that companies that carry out respective works be registered in Russia or their beneficial owners operate under the jurisdiction of the Russian Federation.



Now we think of new mechanisms of company assessment with regard to its goodwill. A set of parameters, including company's goodwill is used to pre-qualify bidders and if the bidder is connected to an offshore its scoring will be reduced. In this context, it is essential to establish a solid legal basis to help us correlate competition restraints defined by the law with the deoffshorization course (to avoid cross-effect).

We've been implementing these practices on our own initiative because electric grid companies are not clearly defined as a subject to the respective law. We are staying ahead of the curve due to understanding of the country's standpoints and global trends.

FS: *Prime Minister Dmitry Medvedev emphasized in his speech: “A federal level system to monitor the efficiency of public spending and financial resource usage in state-owned corporations should be set up”. How do you think control over enormous amount of funds transferred to the state-owned corporations can be exerted?*

N.V.: In today's complex economic environment, public funding might jump-start a business. Obviously, these funds must be protected from abuse to the maximum extent possible.

I believe that in terms of transparency and proper use of such assets there have been created a lot of mechanisms and venues for discussing the rationale of various projects that require allocation of public funds. We have already undergone public hearings of our 12 month investment program by the Ministry of Energy.

Besides, there emerged a need to attract independent experts, both Russian and foreign, to carry out technological and price audits of investment projects that use public funding or when their total value accounts for several billion rubles. In other words, attraction of independent experts and preparation of an audit report contribute to adequate decision-making in respect of a particular project.

And finally, we should not forget about ring-fenced bank accounts. Several large banks have suggested that this mechanism be used to supervise and monitor assets targeted at a particular investment project. The point is that a bank as a credit organization puts together a customer and a contractor. So, in the “customer-contractor” relations there appears the third party – the bank that participates in all stages of project assessment, including the delivery/acceptance act.

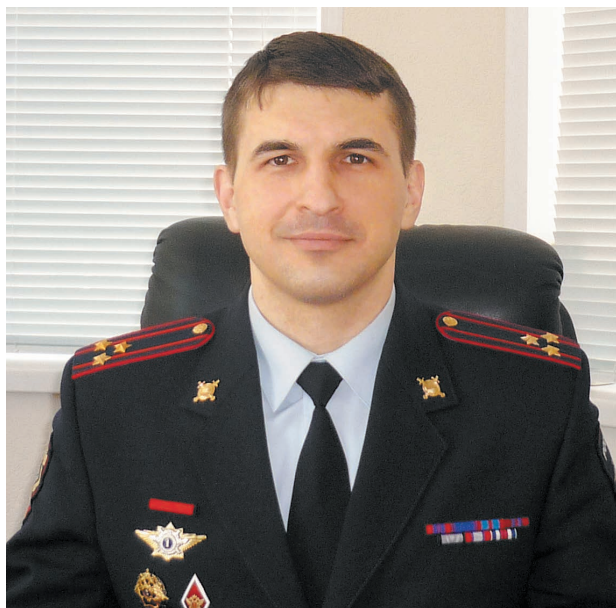
Thus, in my opinion, the third party whether it is a meeting venue for experts or a credit bank organization, could serve as an efficient means for proper use of federal budget funds and company's assets.

SECURITY WATCH

ON THE POTENTIAL OF THE NEW ANTI-MONEY LAUNDERING LAW

Ivan Ivanov,

Deputy Head of the Legal Department of the Ministry of the Interior of the Russian Federation



Ivan IVANOV

The Federal Law No. 134-FZ dated 28.06.2013 On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions is one of the most crucial federal laws in the sphere of legal regulation for crime counteraction adopted in the current year.



The law was drafted pursuant to the Russian Federation President's instruction of January 12, 2012 No. Pr-65. The amendments envisaged by the Federal Law On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions to the legislation of the Russian Federation are aimed to facilitate prevention, detection and suppression of financial transactions, including the use of shadow companies, and the legalization of criminal proceeds, terrorist financing, taxes and customs duties evasion, as well as receiving the proceeds of corruption .

The Russian Ministry of the Interior (MIA) in close cooperation with the State Duma Committee on Financial Markets at all stages of drafting and revising the law managed to address the legal loopholes that prevented its investigators from getting banking secrecy disclosures on other than tax-related crimes, as well as to set a legal basis for transferring their criminal intelligence reports to tax authorities.

As we know, earlier it was only the information on transactions and accounts of legal entities and individual entrepreneurs that law enforcement agencies could receive while detecting, preventing and combating tax crimes. In case of other offences information on accounts and deposits of individuals, or of the transactions and accounts of legal entities and individual entrepreneurs could only be provided at the stage of preliminary investigation of an already initiated criminal case to the agency in charge of the investigation with the consent of its head.

All this often stymied enforcement actions, as evidenced by numerous proposals of territorial divisions of the MIA of Russia and other departments and organizations of the Russian MIA to modify the relevant legislation.

In this regard, the Legal Department of the Russian MIA has monitored the enforcement of banking secrecy acts by its territorial divisions. There have been 103 reports summarizing the challenges faced by the police operational units in the performance of their duties for the detection, investigation, suppression crimes, and tracing persons who committed them. As many as 62% of such reports received from 64 territorial MIA divisions contained proposals to amend the current RF legislation regulating the procedure followed by the MIA bodies when they request and receive secrecy information protected by law.

According to the information provided to the MIA, in the vast majority of cases it was bank secrecy information. Moreover, in more than half of the said cases the police units failed to get the requested information.

The reasons for non-disclosure were references to legally guaranteed non-disclosure of bank accounts, bank deposits and account transactions; the absence of the legislation enabling law enforcement to request and receive pertinent information from organizations and officials, and, of course, legal impediments for bank secrecy disclosures on offences other than tax-related that were detected and investigated.

It is obvious that in this situation the possibility to document the illegal activities of persons for their subsequent criminal prosecution, particularly for committing economic and corruption-related crimes was severely limited. In some cases, the MIA bodies managed to obtain the necessary information by applying to court or interacting with other agencies, such as prosecutor's offices, Federal Financial Monitoring Service, which, however, significantly reduced the efficiency of the measures taken to detect and investigate crimes.

Thus, the analysis of our data showed that operational police departments' better access to banking secrecy is mostly demanded in law enforcement practice. The results of the monitoring were the basis for those innovations that were implemented in the adopted federal law aimed at combating illegal financial transactions.

In accordance with the amendments Article 26 of the Federal Law On Banks and Banking Activity was supplemented by provisions authorizing officers carrying out investigative actions with the right to receive from credit institutions information on transactions and accounts of legal entities and individual entrepreneurs, as well as on transactions, accounts and deposits of individuals, if there is information about the signs of preparing, committing or having committed crimes, as well as individuals preparing, committing or having committed them, if the data to initiate a criminal case are incomplete. The disclosure decision will be taken by the court, whereas the list of officials eligible to send a disclosure request to the court should be designated

in a respective regulation issued by the relevant federal executive bodies.

It should be noted that this approach is fully in line with international experience in this field. Moreover, a Russian lawmaker has made it clear in the law that a court decision is a mandatory prerequisite for bank secrecy disclosures, thus setting up stringent disclosure requirements to guarantee that the request is justified. In contrast to this approach, some countries do not require a court decision for disclosures, such as Belarus, Ukraine (where bank secrecy disclosure is obtained on the Attorney consent only), the United States (which do not require any approval), Switzerland, Austria, Liechtenstein.

One of the most important aspects of the legislative innovation for the law enforcement system is the establishment disclosure procedures for all agencies authorized to carry out investigations by the Federal Law On Operational and Investigative Activity.

As for the MIA, the access to bank secrecy is provided not only to the units combating tax crimes, but also to other police departments, for example, involved in the fight against illegal trafficking in arms, drugs, cultural values, financing terrorism and extremism and other serious offences.

Another important improvement for law enforcement combating illegal financial transactions is amendments to Article 11 of the Federal Law On Operational and Investigative Activity, enabling law enforcements to send their criminal intelligence reports to tax authorities to be used in their tax compliance activities, as well as to ensure proper representation of the interests of

the state in bankruptcy cases and in the registration of legal entities. The amendments also envisage that the provision of the criminal intelligence results to the authorities is authorized by the head of the respective investigative agency in line with the agency's internal norms and regulations.

It should be noted that the adoption of the Federal Law also aims to significantly strengthen control over laundering of proceeds from crime.

Thus, the Federal Law On Combating Laundering of the Proceeds from Crime and Financing of Terrorism aimed at suppressing illegal financial transactions was amended to comply with the new FATF recommendations adopted in February 2012. In particular, the list of organizations required to implement the said Federal Law was expanded, while the list of transactions subject to mandatory control and the responsibilities of the organizations operating with monetary funds or other assets were updated.

Measures to counter money laundering were changed substantially. Thus, credit institutions are now entitled not only to refuse to conclude bank account (deposit) agreement with an individual or legal entity in the cases stipulated by the Federal Law On Combating Laundering of the Proceeds from Crime and Financing of Terrorism, but also under certain circumstances to terminate a bank account (deposit) agreement. The latter becomes possible if at least twice during the calendar year the bank refused to conduct transaction requested by the client. The reason for the refusal could be the client's failure to provide the required documents or if the credit institution has reasons to believe the transaction is suspicious. The right to refuse to conclude a bank account (deposit) agreement existed before, but it had a more formal basis than the one provided by the Federal Law No. 134-FZ. The latter provides that for such refusal, a suspicion that the said agreement is intended for conducting money-laundering or terrorist financing transactions, is enough.

In addition, the Federal Law On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions introduces additional legal tools that can be used to suppress the activities mentioned. These include the ability to freeze funds or other property of the organizations or individuals.

In accordance with the FATF recommendations, the RF Criminal Code was supplemented with provisions for the confiscation of the proceeds of economic crimes and designating these crimes, as well as socially dangerous violations of the law related to cross-border currency transactions as money laundering predicate offences.

The definition of legalization (laundering) of proceeds from crime, no longer has the provision that this concept does not apply to a number of economic crimes. Earlier, some offences were not predicate to money laundering. For example, such offences could include: Non-Return of Funds in Foreign Currency from Abroad (Article 193 of the Criminal Code), Evasion of Customs Payments (Article 194 of the Criminal Code), tax-related crimes (articles . 198 - 1992 of the Criminal Code). In the new versions of Articles 174 and 174.1 of the Criminal Code establishing responsibility for the legalization of criminal proceeds, there are no exemptions for qualifying individual actions as laundering the proceeds mentioned.



The new wording of Articles 193 and 193¹ of the Criminal Code of the RF, establishing liability for failure to perform the repatriation of funds in foreign currency or national currency, as well as to conduct transactions to transfer funds in foreign or national currency to the accounts of non-residents using forged documents are aimed at addressing deficiencies of the current norms and standards and ensuring an effective legal response to illegal export of capital abroad. Responsibility for these illegal acts should be established only in cases of entities willfully performing them. The regulation would not allow prosecuting the heads of legitimate companies, and its application will not have a negative impact on foreign investments in the Russian economy.

Liability was established for the illicit transportation across the customs border of the Customs Union within the Eurasian Economic Community of cash in the currency of the RF and (or) foreign currency and traveler's checks or external or internal securities.

The sanctions of Article 16.4 of the RF Code of Administrative Offences, providing liability for non-declaration or false declaration by individuals of foreign currency or the RF currency were strengthened. The Code was additionally amended to expand the list of persons whose applications may be considered as grounds to start an administrative lawsuit.

We believe that the adoption of the Federal Law On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions will have a favorable social and economic impact, in terms of reducing the level of criminalization of the Russian economy, as well as in ensuring maximum compliance of the Russian legislation with international standards. This, in turn, will improve the investment climate and increase the level of safety of law-abiding businesses. Significant anti-corruption potential of the Federal Act should also be noted.

LAW TO IMPROVE ECONOMIC ENVIRONMENT

Sergei Arakelov,
Deputy Head of the Federal Tax Service



Sergei ARAKELOV

The Federal Law “On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions” was signed at the end of June; some of its provisions have already come into force.



This piece of legislation was developed at the request of the President of the Russian Federation regarding the necessity to ensure the implementation of the measures aimed at increasing the transparency of the financial activity of business entities, including combating tax evasion in the Russian Federation.

With the goal of fulfilling the request of the Russian Federation President the legislators complemented the draft with the provisions aimed inter alia at creating an

environment that would complicate the use of various mechanisms of illegal minimization of taxes, including the creation and operation of fly-by-night companies.

Let us discuss these provisions in greater detail.

One of the provisions of the above Federal Law that is already in force, is the one that expands the grounds for the use of the arrears recovery mechanism for arrears charged to a tax payer following a tax audit (not only in the case where proceeds are transferred to the accounts of dependent entities (subsidiaries) or primary (prevailing, participating) entities, as it used to be stated in the Tax Code of the Russian Federation prior to the changes introduced by Federal Law № 134-FZ, but also in the case where assets are transferred during a tax audit). This mechanism would enable the tax authorities, in the event they exhaust the procedures set by the Russian Federation Tax Code for the enforced collection of arrears without recourse directly from the tax payer under review, to collect the due amount from the dependent entities (subsidiaries), parent (prevailing, participating) entities, or from other entities recognized by the court as dependent on the tax payer with arrears, as well as deter assets and proceeds from being transferred for tax evasion purpose.

The changes to the Civil Code of the Russian Federation and the Federal Law On the State Registration of Legal Entities and Individual Entrepreneurs have come into effect.

The objective need for a legislative change in legal entity registration has, in fact, been around for quite a time.

It is evident that the existing legislation left unscrupulous entrepreneurs room to abuse the state registration procedure without any hindrance and eventually with no consequences both for the purposes of evading the payment of dues to the budget by creating fly-by-night organizations, and for other illicit activities.

Taken together the said changes inter alia will allow us to ensure the veracity of the data added to the Unified State Register of Legal Entities.

The provisions that have now come into effect without changing is the notification concept of legal entity registration and its timeframe, set down an obligation for the registration authority to check the veracity of the data to be added to the register, to inform the stakeholders on the upcoming state registration of the changes to the charter of the legal entity and the upcoming entering of the data in the Unified State Register of Legal Entities, and broaden the list of grounds for denying a state registration.

In addition, new changes to the Russian Federation Code of Administrative Violations have come into effect; these enhance the availability of information contained in the register of disqualified persons. The law states that these data be publicly available via the official Internet website of the federal executive body authorized to maintain the register of disqualified persons. The access to the said information available via the Internet is free of charge. However interested persons are entitled to obtaining the data from the said register in the form of a statement or a certificate proving the absence of the requested information for a fee.

On January 1, 2014 a piece of legislation comes into effect that will make filing of value added tax returns mandatory for tax payers, tax agents, and non-tax payers in the event they invoice or are invoiced in the course of exercising entrepreneurial activities in the interests of another person on the basis of mandate contracts, commission or agency contracts in the digital form via telecommunication channels.

In addition, the tax return now includes data from sales and purchases ledgers.

Overall, the suggested regulation is aimed at lowering administrative barriers for business, reducing financial and time-related costs for the preparation and filing of tax returns, increasing the transparency and ease of interaction with the tax authorities.

A simplified document workflow between tax payers and the tax authorities will speed up information exchange, reduce disputes related to the operations of organizations delivering correspondence, and lead to the minimization of the number of required documents.

It is noteworthy that over 80% of current tax payers submit their tax returns electronically, most of them keep electronic accounting and taxation records.

Furthermore, starting on January 1, 2014 tax authorities are given the right to demand clarifications in the course of an in-house tax audit of a revised tax return where the sum of debt is lowered. The tax payer who provides clarifications, has the right to submit statements from taxation and (or) accounting registers, and other documents that confirm the veracity of the data entered into the tax return.

On July 1, 2014 a regulation comes into force that provides the tax authorities with the right to obtain information on accounts of individuals, as well as information on account activity in the event a tax audit is performed with respect to these persons or documentation is requested.

It should be noted that data on individuals' account activity may be requested only in the cases mentioned by the Tax Code of the Russian Federation, and at the approval of the head of a higher taxation authority, or the head (deputy head) of the Federal Tax Service of Russia.

Since 2015 a regulation comes into force that details tax payers' obligations with respect to receiving digital documents from the tax authority, and filing of respective receipts.

This obligation corresponds to the regulation that expands the grounds for suspension of transactions with taxpaying entities in the event of failure to comply with the obligation to submit to the tax authority the statement of the receipt of the request to submit documentation, request to supply clarifications, and request to visit the tax authority.

The goal of these changes is to ensure communication between the tax payer and tax authority.

In addition, since 2015 tax agencies will receive the right to request clarifications and documents, as well as carry out other measures of tax supervision, including inspection, access to the territory of the taxpaying entity in the course of an in-house VAT return audit.

It should be noted that the above measures are aimed not only at expanding the rights of tax agencies, and strengthening tax supervision, but also at improving taxation management and creating an environment of equal competition.

Despite the large scale of the recent changes to the tax legislation, in particular with respect to reducing administrative hurdles, there is a lack of regulations that provide for a speedy response to tax evasion. Therefore the economic environment for scrupulous and unscrupulous tax payers is, in effect, not equal.

All of the said changes are aimed at countering unscrupulous tax payers, and will lead to improving the economic environment and creating opportunity for those who build their business in compliance with law to work in a normal competitive setting.



INTERNATIONAL UNIT

TAX CRIME AS MONEY LAUNDERING PREDICATE OFFENCE

Evgeny Volovik,

Head of the Department of Information and Communication, ITMCFM



Evgeny VOLOVIK

During the Plenary meeting in July 2013 in Sun City (ZAR) the Egmont Group



addressed the role of financial intelligence in suppression of tax crimes in several workshops. Its role is increasing due to the objective situation in the world affected by multiple circumstances, such as the consequences of the financial crisis, decline of the economic growth, ageing of population, etc. In these conditions governments of all countries are looking for ways to increase tax revenues.

Industrially developed countries are making new efforts to increase the flow of tax revenues to state budgets. The fight against tax evasion is steepening, most tax havens are being attacked, and offshore-

related topics have become regular in international fora and all sorts of meetings.

The natural course of this fight is combating the laundering of the proceeds of tax crimes. The professional community notes the significance of anti-money laundering work related to tax offences. These proceeds form a sensible part of the global flow of dirty money.

During the events in Sun City the Egmont Group gave special consideration to the discussion of the financial intelligence role in domestic systems of combating tax crime. The financial intelligence is deemed to be useful in the following matters:

- detection of tax criminals and their crimes;
- receiving of financial intelligence data concerning tax payers allegedly committed tax offences;
- detection of beneficiaries of legal persons and entities used for committing tax offences, etc.

To face these challenges FIUs possess resources that other agencies lack. The financial intelligence is collecting information about suspicious transactions and can usually request additional data from reporting entities. Foreign experts highlight that the financial intelligence has the authority to obtain information concerning not only individuals committing tax crimes but also their relatives, business partners, etc.

Nevertheless, the Egmont Group consider international information exchange the most important and at the same time unique resource of the FIU, absent in other agencies. If we compare information exchange within the Group with the exchange between other agencies (for instance, within mutual legal assistance), its key feature will be its high rate. Tax authorities can benefit from this advantage to receive information related to tax payers' cash flow from foreign counterparts.

The international exchange of banking information may play a key role in detection of tax evasion. The

case of the employee of HSBC Private Bank in Geneva who stole data and transferred it to the French Ministry of Finance illustrates the high value of such information. Later the data were transferred to other countries, in particular, to Italy. This information enabled to prosecute many tax evaders.

Needless to say that cooperation should not be built on data theft, it is possible to make it legally. Leading Western industrial countries regularly make use of data transfer.

The experience of foreign countries shows that when investigating tax crimes and related money laundering the close cooperation of the Financial Intelligence Unit and the fiscal authorities is of crucial importance. An FIU and domestic tax authorities share information: the financial intelligence uses tax databases in its work and then transfers the formed cases of financial investigations back to the tax authorities for further proceedings. Like the work with other predicate offences, the function of an FIU in this case may be on one hand the conduct of financial investigation upon request of tax or law enforcement authorities, or on the other hand, it may spontaneously initiate a financial investigation and then transfer the formed case up the chain for further proceedings.

It is noteworthy that in some countries tax authorities serve as a sort of initial financial monitoring body. For instance, in Latvia tax authorities may transfer tax payer suspicious activity reports to the FIU, in Nigeria taxmen disseminate suspicious transactions reports following conducted tax audit to the financial intelligence.

It should be noted that FIUs of several countries regularly work for tax authorities. For instance, in India it is the tax administration that is the main consumer of information products of the financial intelligence. We can see the same situation in Ireland: under the report of the Department of Justice for 2009–2011, during that period they received 38984 suspicious transactions reports 80 % of which dealt with tax payment and social security contribution. The Australian financial

intelligence showed the following statistics of transfer of conducted financial investigations to other agencies in 2011-2012 financial year:

| Number of transferred cases | | Total amount of cases, (Australian dollar) |
|---|------|--|
| To the Tax Service | 3745 | 252 million in additional tax assessments |
| To the Department of Human Service | 973 | 3.1 million annualized savings* |
| To other Law Enforcement, Human Services and Revenue Partner Agencies | 305 | |

(<http://www.austrac.gov.au>)

* I suppose it refers to the preclusion of fraud related to pension tax contributions.

This table allows us to conclude that the Australian financial intelligence focuses its efforts primarily on increasing tax revenues.

Meanwhile, the cursory analysis shows that even in countries where tax administrations are traditionally the main consumers of financial intelligence products and their collaboration yields tangible results in terms of considerable additional tax revenues, the statistics of prosecution for the laundering of tax crimes proceeds are not so bright.

Requests — responses and transfer of proactive financial investigation cases are not the unique forms of interaction of the financial intelligence and the tax administration. In Serbia to combat tax crimes interdepartmental task forces are being formed, they consist of tax, financial intelligence and the prosecutor's office employees. The prosecutor's function in such groups is to supervise the investigation and timely grant permissions necessary for proceedings.

Tax crimes are very difficult to investigate. The international practice itemizes hardships in qualified determination of the source of illicit funds. Moreover,

it is often quite difficult to identify the moment of committing a tax crime, the amount of illicit proceeds, and the start and the end of the laundering cycle.

Foreign specialists note that it is much more difficult to investigate tax evasion crimes committed by corporations with a very complicated ownership and management structure than crimes of tax payers who are natural persons. At the same time, they underscore the efficient use of criminal liability of legal persons (where it is present in the domestic legislation).

According to Recommendation 3 of the new version of the FATF Standards, countries should be required to include serious tax crimes in money laundering predicate offences. This FATF novation presents the domestic AML/CFT system of any country with dozens of tasks. Generation of tax-related suspicious activity reports by reporting entities and its analysis by an FIU is usually considered one of priorities. Notably, that was the position of Switzerland's financial intelligence. A reporting entity should have tools enabling it to detect transactions allegedly connected with tax crimes and laundering of related proceeds. For instance, this refers to features of customers and transactions allegedly tied with a tax crime. Preparing a list of these red flags may turn out not an easy task. The Wolfsberg Group experts even argue that it is technically impossible to compile such a list and the best way out of the current situation is the following:

- to make a list of red flags referring to a group of offences including tax crimes;
- to generate suspicious activity reports relying on these red flags list;
- to determine a predicate offence more precisely in further stages of the investigation.

All the more so as reporting entities may disseminate suspicious activity reports to the financial intelligence even when they are not able to speculate about the body of a predicate offence (whether that be illicit drug trafficking or corruption, or tax evasion, etc.).

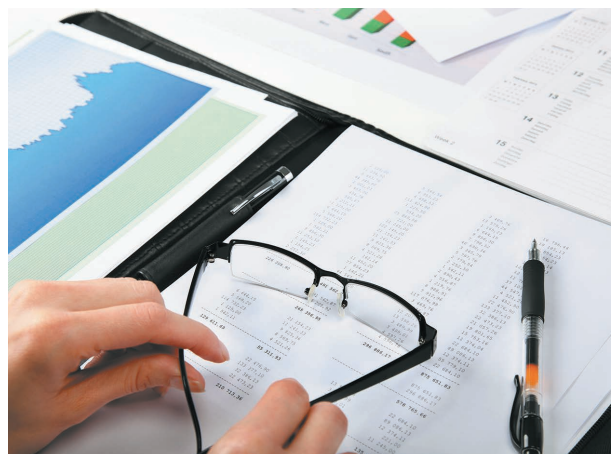
However, as some financial intelligences report, in countries where tax crimes have been considered as money laundering predicate offence for a while, they manage to work relying on red flags list. In Nigeria, for instance, these features in particular include:

- transactions of the contractor performing a large state contract when he lacks specified tax reports;
- sales of real estate without paying goods and services tax (analogue of VAT);
- growth of cash settlement of the company, granting of unconventional loans;
- unusual information in financial statements, for instance, large cash transactions;
- direct fraud: forgery of collateral and other documents, creating a clone site of tax authorities, etc.

Such a list can puzzle you: it is easy to notice that to use all the mentioned red flags it is necessary to have documents (tax and account reporting) which a reporting entity in another country may not have.

The international community believes that at the initial stage financial institutions should receive lists of indicators of suspicious customers and transactions from the tax administration. As they accumulate experience in preparing reports, the list may be further elaborated and expanded.

Speakers at the Egmont Group workshops highlighted that AML/CFT reporting entities should not



duplicate tax authorities in detecting tax criminals. It means that a credit institution should not be engaged in tax inspections when it is trying to verify tax accuracy. Information held by reporting entities and tax administration is different: a reporting entity can see only the customer and their transactions while tax authorities have tax reporting, notably a tax return of a tax payer (in this case they are a customer of a financial institution). To be fair I should note that in a number of countries a bank has the right to ask the customer to provide a tax return but it is able to do so only in case of mortgaging.

So, I briefly described only a few of the challenges that countries are facing in the context of making tax crime one of money laundering predicate offences. It is evident that issues are numerous. To overcome them, as foreign experience shows us, we need commitment and well-coordinated work from all the participants of a national AML/CFT system, first and foremost, the financial intelligence and tax administration.

EAG/APG WORKSHOP: AN EXAMPLE OF PROMISING COOPERATION

Konstantin Litvinov,
Deputy Editor-in-Chief

On September 23 – 27 of the current year the capital of Mongolia Ulaanbaatar hosted the EAG/APG joint typologies and capacity building workshop.

Over 250 representatives from 37 countries of the Eurasian and Pacific regions as well as from a series of international organizations registered for this event.

The Mongolian Government represented by the Bank of Mongolia was the receiving party. All arrangements for the Russian Federation were made by the International Training and Methodology Center for Financial Monitoring. The Russian delegation was headed by Pavel Livadny, State Secretary and Deputy Director of the Rosfinmonitoring.



The workshop opening. General committee



The report of P. Livadny

All distinguished guests stressed the importance and significance of that impressive event at their welcoming speeches. Mr. B. Dzhabkhlan, the First Deputy of the Governor of the Bank of Mongolia, underscored in his opening speech: "The fight against money laundering and terrorist financing is impossible without smoothly running cooperation that facilitates sharing of opinions and contributes to more efficient crime detection. I believe that this workshop will strengthen our relations."

Mr. G. Hook, the APG Executive Secretary, particularly noted the similarity of the EAG and APG tasks: "This is our first joint event, though these two FSRBs have had close ties for a long time: we have several common member-states and observers, we have common borders, common tasks and common challenges we are facing in combating money laundering and terrorist financing." In turn Mr. B. Toropov, the EAG Executive Secretary, stressed that the workshop is laying foundation for further development of the positive interaction of two FSRBs: "Typologies research and capacity

building are important components of our work. I am confident that we will be able to find a great number of common points, common interests, to share our expertise and elaborate necessary decision."

After the opening ceremony the workshop agenda was briefly reviewed. Representatives of the EAG, APG and FATF talked about the objectives, tasks and activity of their organizations in typologies studies. Then, participants could listen to specific presentations: Money Laundering Investigations and Mongolia Challenges (the speaker was Mr. G. Erdenbat, Mongolia), Gold Turnover in China (the speaker was Mr. Chzhan Yan, the People's Republic of China), Financial Flows Connected with Illicit Afghan Drug Production and Trafficking and Related Money Laundering and Terrorist Financing (the speaker was Mrs. A. Bobylkova, the Russian Federation).

Typologies workshop sessions ended on September 25 with the presentation of the findings and the APG/EAG capacity building workshop started on the same day.

The issues of corruption, gold and drug trafficking, non-commercial organizations, and electronic money are topical for both FSRBs. This event confirmed to the full extent that the EAG and the APG can cooperate and in a very efficient manner despite of certain differences in the format of such fora. For instance, the EAG will formally join the gold turnover research conducted by the APG only in November this year at its 19th Plenary meeting though de facto these studies are already in place.

Some important agreements were reached during this event, inter alia the arrangement of joint research of financial flows connected with drug trafficking in Oceania, as well as the issues concerning the so-called Golden Triangle located in the APG region, but as drug sales are cross-border, it is necessary to combat it together. Agreements on collaboration expansion in national AML/CFT mutual evaluations

of member-states of both FSRBs and on assessors sharing for its conduct were reached.

The choice of Mongolia as a venue for the workshop was not random: this country is geographically situated on the border between the EAG and APG regions; moreover, it has old close economic and cultural ties with Russia, as well as a long common border. It is noteworthy that several presentations of Mongolia representatives at the workshop were in Russian. The Russian party also contributed to mutual understanding by providing participants with simultaneous interpreting (Russian – English and English – Russian).

Generally, the atmosphere of the workshop was very amicable, open and business-friendly. The report on the first successful practice of a large joint workshop of two FSRBs will be presented at the nearest meeting of the FATF Working Group on Typologies.



The participants of the workshop

Gordon Hook – The APG Executive Secretary (Australia):

– We intend to expand the APG membership. Under the Charter, we are enabled to accept all countries within the Asia/Pacific region, and each such country has the right to apply for the APG membership. In particular, we are conducting negotiations with such countries as the Democratic People's Republic of Korea concerning the membership and observer status. We are also in active communications with another three countries: Micronesia, Tuvalu and Kiribati.

I am confident that the APG members will be glad if we receive the application from the Russian Federation. Russia is present in the Asia/Pacific region and our Plenary meeting unanimously approved its admission as an observer. The APG co-chairmen discuss from time to time the question of the full membership of Russia and all related observations I have heard for now were positive. I know that Russia is a member of other international organizations – the FATF, MONEYVAL, EAG, but it is not an obstacle to become a member of the APG – China and India are members of the FATF, EAG and APG at the same time. I cannot speak for all APG members, but my personal opinion is the following: if Russia joins the APG, it will play a positive role in our work.

I believe that the APG has the closest relations just with the EAG among other FSRBs: we have common members and observers, and we have overlap in our tasks. This workshop is the first event organized jointly with the EAG. All comments and opinions I heard about it were very encouraging. This week on multiple occasions we have exchanged opinions about the workshop with Boris Toporov, the EAG Executive Secretary, and came to the common conclusion that this is the first step in a series of further events. They can have other forms — workshops, training, and even joint annual Plenary meeting of both FSRBs. We also discussed the possibility to bring EAG experts into APG mutual evaluations and vice versa. We are not only looking forward to this opportunity, but we will also facilitate such exchange for the good of our common cause.

Pavel Shust, analyst of the “Electronic Money” Association (Russia):

– I would like to express special gratitude to organizers for inviting private sector representatives. We received the opportunity to tell regulators and financial intelligence units about the role of virtual currencies in global payment environment, what risks they can pose for the financial system transparency and what attracts certain categories of consumers.

Cryptocurrencies and virtual currencies are a relatively recent phenomenon. Nevertheless, despite the gradual growth of this sector, it is still poorly studied. Meanwhile the use of these technologies for settlements makes analysts worldwide look for the key to understanding the popularity of private currencies, and AML specialists analyze their risks from the point of view of financial crimes. Due to this it is difficult to overestimate the significance of the virtual currency workshop held under the aegis of the APG and the EAG in Mongolia. I think this event was the first of its kind in this area and gathered participants from multiple jurisdictions: from Russia to Australia and from the United States to Japan. Participants shared their best practices in the field of virtual currency categorization and regulation, and actual examples of conducted investigations.

Following the findings of discussions, opinion exchange both at the workshop and on the sidelines, participants agreed to continue studying the sector development, share information concerning virtual currency spreading and restrict the regulatory steps to the ones comparable to the actual risk level. We concurred that virtual currencies can have capacity to increase the inclusiveness of financial services and their interaction with the regulated financial sector can significantly mitigate existing risks.

While preparing to the workshop, the APG disseminated a virtual currency questionnaire among its jurisdictions and found out that some countries do not have an idea about this technology. I am convinced that the workshop held in Ulaanbaatar significantly contributed to the understanding of the sector in Asia/Pacific and Eurasian regions. ►

It will allow to comply with FATF Recommendation 15 on new technologies in a more efficient manner and to use the capacity of this financial innovation for the benefit of consumers, State and the global financial system as a whole. In its turn the Association "Electronic Money" is ready to continue sharing its expertise and best practices with all stakeholders.

We would like to thank the APG and EAG Secretariats for preparation of so comprehensive workshop and express gratitude to the Mongolian Government and the Bank of Mongolia for the warm welcome we received in Ulaanbaatar.

Balesh Kumar – co-chairman of the APG Working Group on Typologies (India):



– In my opinion the fact that it was the first joint APG/EAG workshop is one of the reasons for its success. I would like similar workshops on typologies and building capacity to happen more often. It is especially important for India because our country is a member of the EAG, APG and FATF at the same time.

Since we were an APG member long before the admission to the Eurasian Group, we would like to share our best practices with our partners from the EAG, which will soon hold its regular Plenary meeting in Ashgabat. Developing this kind of interaction is very important both at the FATF and regional levels. The APG and EAG are very close in a number of aspects.

FOCUS ON – TRANSPARENCY AND IDENTIFICATION

Inessa Lisina,
journalist- reporter

The 42nd Plenary meeting of the MONEYVAL Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, an FATF-Style Regional Body (FSRB) took place in Strasbourg, September 16–20, 2013.

The extensive agenda included such points as changes to the Rules of Procedure, granting the right to vote to the new member states, information on the development of EU AML/CFT Directive 4, and others.



The Mutual Evaluation Committee reviewed reports of varying monitoring levels with respect to Albania, Bulgaria, Bosnia and Herzegovina, Hungary, Georgia, Macedonia, Monaco, San-Marino, Ukraine, and Croatia.

Bulgaria, Monaco, and Croatia managed to gain higher ratings in the mutual evaluation, inter alia with respect to the core and basic recommendations.

The traditional exchange of information on AML/CFT initiatives included a detailed report on the research into the issue of detecting illegal financial flows related to the production and trafficking of Afghani drugs, which was initiated in the FATF by Russia.

This was the first session to feature participation of specialist from the inter-regional departments of the Federal Financial Monitoring Service.

Valentina Konicheva — Deputy Head of the Priority Activities Division of the Inter-regional Department of the Federal Financial Monitoring Service in the Central Federal District:



FB: What did you gain from your visit to the MONEYVAL meeting as a professional?

V.K.: In the last four years my primary task was carrying out financial investigations and macro analysis. My experience with Rosfinmonitoring undoubtedly acquainted me with the work of the FATF that develops and implements international AML/CFT standards, and the FSRB's which disseminate the international standards and combat ML/FT in the various regions of the world. However, it was my participation in the recent MONEYVAL Plenary meeting that helped me understand deeper the workings of these agencies, and study their decision-making mechanisms.

FB: The agenda of the 42nd MONEYVAL Plenary meeting was quite extensive — from general organizational issues to mutual evaluation reports of the member states. What was the key focus, in your opinion?

V.K.: In view of the specifics of this organization one of the primary topics was the evaluation mechanism as a whole. The discussion revolved around its procedural stages, the information required for on-site missions, the format in which inspectors should receive these data, and other issues. ►

Since effective operation of both the regional group and national AML/CFT regimes is impossible without high qualification of inspectors, officers of Financial Intelligence Units (FIU's), and employees of financial institutions, at the beginning of the event the Plenary paid particular attention to training. In particular, we reviewed training programs launched by a number of countries, including the Russian Federation.

Another major topic was fighting transnational organized crime. One of the most effective measures in this respect is seizure of assets that in addition to undermining the foundation of the criminal world can become a source of damages recovery for the state.

Increasing transparency of legal entities alongside identification of beneficiary owners has recently been the subject matter of most heated debates at various conferences and meetings. This Plenary meeting being no exception devoted particular attention to this issue.

Fedor Ivanov— the Senior Expert of the Supervisory and Legal Division of the Inter-regional Department of the Federal Financial Monitoring Service in the Northwestern Federal District:



FB: What new and useful information did your colleagues from other MONEYVAL member states share with you, as an expert of the supervisory and legal department?

F.I.: Thanks to this MONEYVAL meeting I could obtain practical proof of my theoretical knowledge on the international AML/CFT system and the national regimes, as well as could witness the work of this system on the international level. In its discussion of the mutual evaluation reports the Plenary considered many issues related to the implementation of the standards of international regulations in the national legal systems, as well as identification of beneficiary owners, that were defined in the Russian AML/CFT law following the coming into force of Federal Law No. 134 dated June 28, 2013. ►

While debating the supervision issues of AML/CFT compliance we had the opportunity to compare the general principles behind the work of supervisors in other countries and Russia, as well as their cooperation.

FB: What topics were in the center of the discussion at this Plenary meeting?

FI.: If we look outside of the main points of the MONEYVAL Plenary agenda, I would make note of the short but acute discussion of the European Court ruling in the Yasin al-Qadi case. It states that his name must be excluded from the terrorist blacklist. The US representative alongside a few of experts expressed their concerns over potential repercussions for the international AML/CFT system in relation to this judicial decision; the human rights activity in Europe may now enter in a confrontation with the international AML/CFT system.

FB: What, in your opinion, was the main result of the meeting?

FI.: Overall, the main outcome of the meeting was the adoption of the reports submitted by Croatia, Monaco, and Bulgaria, as well as by other states in accordance with the Plenary agenda. In addition, during the meeting the changes to the MONEYVAL Rules of Procedure were discussing. They granted the right to vote to the new member states and territories, including the Crown Dependencies of Great Britain (Jersey, Guernsey, and the Isle of Man). However, in my view, of no less importance is that such international venues provide participants with the opportunity to familiarize themselves with the work of colleagues from other countries, and to analyze the current trends of the international AML/CFT policy. This meeting announced the results of the work carried out by the Committee representatives at other international AML/CFT fora, and stated the plans for future events. The agenda also included a report on the upcoming changes of the mutual evaluation methodology, as well as on the specialist training that would take into account these changes that among other things mentioned a joint training (the EAG, MONEYVAL and FATF).

All of this will beyond any doubt influence the work and development of the Russian AML/CFT system, and consequently will have a direct bearing on our daily activities.

RUSSIA TAKES THE FATF PRESIDENCY

In Oslo, a new head of the Financial Action Task Force outlined his presidency priorities

*Irina Ivanova,
Editor-in-Chief*

In July 2013, Russia started its presidency in the Financial Action Task Force (FATF) and completed 11-year way to leadership in combating money laundering after being in the FATF Blacklist in 2002. Mr. Vladimir Nechaev of the Russian Federation became the President of FATF, he succeeded Mr. Bjorn Skogstad Aamo of Norway and declared that his presidency will focus on further compliance with international standards during the next round of mutual evaluations, search for balance between better financial inclusion and combat money laundering and terrorist financing, and addressing tax-related money laundering.



Russia: from Blacklist to Presidency

The FATF was founded 24 years ago in response to emerging threats caused by the abuse of the global financial system. The FATF adopted international standards known as Recommendations, and implemented efficient mechanism to control compliance therewith in all countries. Later on, the United Nations Security Council and G20 supported these initiatives and obliged countries to comply with them. Today, approximately 180 states are subject to the above standards.

The FATF establishment provided new opportunities for combating national and transnational money laundering and terrorist financing. Efficient mechanism of mutual evaluations was implemented to influence states who fail to comply with the FATF Recommendations and international requirements. A blacklisted country not just tarnishes its reputation but also suffers from real economic difficulties due to restricted interaction with financial institutions and loss of investment attractiveness. Thus, the FATF sanctions result in actual economic loss.

Due to its long-term commitment and contribution, Russia's vote is significant and decisive in many FATF cases. On June 21, 2013, Mr. Vladimir Nechaev of the Russian Federation became the President of FATF and declared his presidency priorities for 2013-2014, announcing preparation for the fourth round of mutual evaluations as task No. 1.

The Russian presidency will have to address quite a daunting task - to adopt rules and procedures for conducting mutual evaluations for national AML/CFT systems compliance with FATF Recommendations. The same activities initiated by the FATF and Council of Europe committee will take place in Russia with due account of revised methodology for assessing state compliance with international standards. In the past year during the Norwegian presidency the FATF has finalized and adopted the new Methodology for Assessing Technical Compliance with FATF Recommendations and the Effectiveness of AML/CFT Systems, and, according to Mr. Nechaev, the Russian presidency will build on what has been started in this area under the Norwegian presidency.

Financial inclusion is one of key priorities announced by the new FATF President. During the FATF Plenary meeting, Her Majesty Queen Maxima of the Netherlands, United Nations Secretary-General's Special Advocate for Inclusive Finance for Development, addressed the same topic and spoke about bringing vulnerable social groups into the formal financial system. Today, many banks are afraid of such clients due to high risks associated therewith. But it is such fear that contributes to increase in global dirty cash flows. Subject to new FATF standards adopted in 2012, each country shall develop and approve its national risk assessment practice, which will help financial organizations offer legal financial products to risky clients in compliance with the requirements acceptable for the FATF.

Main Tasks for the FATF in 2013-2014, in line with the Ministerial Mandate of April 20, 2012

- Promoting and facilitating effective implementation of the revised Recommendations
- Starting the fourth round of mutual evaluations, including the training for the evaluators on the use of the Methodology
- Further developing the global network of the FATF in collaboration with the FATF-Style Regional Bodies (FSRBs) and the relevant international organizations, especially assisting the FSRBs in their preparations for the new round of their mutual evaluations
- Working towards better synergy with the Egmont Group of Financial Intelligence Units
- Enhancing communication and engagement with the private sector and civil society
- Continuing assessment of risks and new threats to the integrity of the global financial system
- Further engagement with G20 on the issue of corruption
- Refining the FATF's organizational and working methods to enhance effectiveness and efficiency

Vladimir Nechaev, President of the FATF (2013-2014):

The revised Recommendations underscore the importance of risk-based approach in the fight against money laundering and terrorist financing. Firstly, this means that countries will have to have effective risk assessment processes in order to identify, assess and understand their money laundering and terrorist financing risks and to ensure that operational, administrative and supervisory resources can be channelled to areas where the risks for money laundering (ML) and terrorist financing (TF) are higher. Secondly, it means that financial institutions and designated non-financial businesses and professions will have to make ML and TF risk assessments in relation to different categories of customers, products and countries. Co-operation and co-ordination with the private sector and between components of the private sector is an important element of this work.

In addition, Oslo plenary meeting delegates addressed the other critical issue: Internet-based and online payment systems. Such instruments are especially vulnerable for the use by terrorist organizations.

Russia also announced drugs-related issue among its priorities in the FATF and initiated the first research of opiate cash flows. Law enforcement bodies can detect drug traffic but it is much more difficult to trace drug money because not all money comes back to

drug producing country but may remain somewhere else. The research will be completed by June 2014.

Today, the FATF focuses, inter alia, on developing a mechanism to identify beneficial owners of legal entities. Beneficial owner identification and recording is a key component of any anti-money laundering system. In Russia, this issue might be resolved with new Federal Law No. 134-FZ On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions.

FATF'S FOCUS ON LEGAL PROFESSIONALS

Inessa Lisina,
journalist- reporter

According to Visa Europe report, shadow economy of Europe is worth about €1,9 trillion as the end of 2012. With this significant amount of funds, criminals are seeking to legitimize it and bring into the real economy.

As a result, lawyers, notaries, financial consultants and other legal professionals become involved in laundering of criminal proceeds. These professionals can assist criminals with development and implementation of schemes used for illegal financial transactions.

With hands-on experience, legal skills and knowledge of the case law, they can consult clients on a wide range of issues, including assets hiding, tax evasion, money laundering and other illegal activities. Therefore, FATF provides increased focus on vulnerabilities of legal professionals in the sphere of AML/CFT. The respective FATF report was issued in June 2013.

What sets the report apart is that it combines analytical data on involvement of legal professionals in activities related (directly or indirectly) to money

laundering and/or terrorism financing, with examples of cases investigated in different countries practicing either civil or common law.

Another hallmark is usage of questionnaire responses of 28 member states and associate members of FATF as well as self-regulatory organizations and professional bodies from 32 countries. This provides the most complete picture of the subject matter.

Obviously, lawyers, attorneys, notaries and other legal professionals should abide by common standards and ethical obligations when undertaking their work. For example, the International Bar Association (IBA) developed International Principles on Conduct for the Legal Profession that became an effective tool for combating ML/FT.

However, in the face of the challenge, legal professionals may choose to obtain profit from unlawful deals rather than abide by professional rules.

The situation is further complicated by a number of hurdles in prosecuting legal professionals. This might occur due to the following reasons. First, it may be difficult to gather enough evidence proving their complicity in money laundering schemes, including circumstances subject to professional secrecy.



For financial intelligence units, access to such information can be restricted.

Second, in compliance with FATF data received from the survey, legal professionals often rely on plea bargains to avoid reputation harm, loss of license (livelihood), and censure by the bar. Therefore, most cases do not end up with litigation.

In the majority of instances, legal professionals found guilty in money laundering and financing of terrorism, become subject to disciplinary sanctions. However, this is not sufficient and can hardly be considered as effective means for countering economic crimes.

The report outlines a number of ML/TF methods that might involve or require services/advice of legal professionals:

1. Misusing client accounts.
2. Purchasing real property (including usage of false documents).

The IBA Principles on Conduct for the Legal Profession

1. Independence. A legal professional shall exercise independent, unbiased professional judgment in advising a client or representing interests of a client.
2. Honesty, integrity and fairness. A legal professional shall at all times maintain the highest standards of honesty, integrity and fairness towards the lawyer's clients, the court, colleagues and all those with whom the lawyer comes into contact.
3. Conflicts of interest. A lawyer shall not assume a position in which a client's interest conflict with those of the lawyer, another lawyer in the same firm, or another client, unless otherwise permitted by law, applicable rules of professional conduct, or, if permitted, by client's authorization.
4. Confidentiality/professional secrecy. A legal professional shall at all times maintain and be afforded protection of confidentiality regarding the affairs of present or former clients, unless otherwise allowed or required by law and/or applicable rules of professional conduct.
5. Clients' interests. A legal professional shall treat client interests as paramount, subject always to there being no conflict with the legal professional's duties to the court and the interests of justice, to observe the law, and to maintain ethical standards.

Investments into real estate are very attractive among law-abiding citizens and, also, among criminals who can effectively hide proceeds of crimes.

3. Creating and managing trusts and companies that may be used for money transfer.
4. Managing client affairs.
5. Undertaking certain litigation.
6. Setting up and managing charities.
7. Setting up and managing charities to facilitate and finance terrorist organizations and those involved in terrorist financing.

However, legal professionals are not always knowingly involved in money laundering; they are more likely to be involved unwittingly as criminals seek financial services used every day by clients for

legitimate purposes. In some cases, it is hard to define whether a deal was aimed at hiding or laundering of funds. Therefore, FATF report considers red flag indicators that should draw particular attention of legal professionals to a deal.

It is quite challenging and almost impossible to provide for all possible red flags. They should always be considered in the context of a particular case. Individual red flag indicators may not be a basis for a suspicion of money laundering, but they will be a basis to ask questions of a client.

The majority of legal professionals, as it is generally recognized, comply with the law and their professional requirements, and they have no desire to be involved in ML and/or TF activity. Furthermore, ethical obligations, professional rules and guidance on ML/TF provided by self-regulatory organizations and professional bodies make legal professionals refuse to act for clients who seek to misuse legal services for ML/TF purposes.

Obviously, the refusal from becoming involved in illegal activity relies on legal professionals themselves.

FATF report provides the list of red flag indicators that could alert legal professionals to a suspicious transaction or deal

- The client is overly secret or evasive about his/her identity, the source of funds or the beneficial owner.
- The client is using an agent without good reason, or actively avoiding personal contact without good reason, provides false documents, or is known to have convictions for an economic crime.
- The client is or is related to an associate of a person listed as being involved or suspected of involvement with terrorist or terrorist financing related activities.
- The parties or their representatives are native to, resident in or incorporated in a ML/TF high-risk country.
- Transactions are made without an apparent business reason or purpose.
- There are multiple appearances of the same parties/persons in transactions (deals) over a short period of time.

FEDERAL DRUG CONTROL SERVICE (FSKN) AND FEDERAL FINANCIAL MONITORING SERVICE BOARDS HELD THEIR FIRST JOINT MEETING AT FSKN PREMISES

Irina Ivanova,
Editor-in-Chief

On September 24, 2013 the Federal Drug Control Service of the Russian Federation Board and the Federal Financial Monitoring Service Board organized a joint meeting chaired by V. P. Ivanov, the FSKN Director, and Yu. A. Chikhanchin, the Rosfinmonitoring Director. The key agenda item discussed by the joint meeting participants was Collaboration between agencies controlling narcotic drugs and psychotropic substances trafficking and Rosfinmonitoring for documenting evidences gathered through financial and criminal investigations of crimes committed by organized groups



and criminal associations related to laundering of proceeds from illicit drug trafficking.

V. P. Ivanov, the Director of the FSKN of Russia:



Modern criminology views drug-related crime first and foremost as criminal business with fantastic profits.

So, for example, the “GROM (Thunder) — 2013” field exercise in Kyrgyzstan set along Afghan opiate trafficking routes allowed to further verify heroin price formation as it is smuggled from the Central Asia to Russia. While in Afghanistan 1 kg of heroin costs 1 thousand dollars, in the neighboring countries it is around 3 thousand dollars, in the Fergana Valley it is traded for 20 thousand dollars, and in the territory of the Russian Federation it will cost as high as 100 thousand dollars per kilogram.

The drug-related crimes escalation follows the price escalation pattern resulting in 250 thousand annual drug-related investigations in Russia versus a mere 2.5 thousand in Afghanistan.

The participants of the joint meeting underscored that money laundering has become increasingly transnational and established a financial base for organized crime. The accumulation of illicit capital, its

integration into the legal stream of commerce and its use outside the country build strong competitive advantages for criminal organizations, create an unfavorable climate for any investment and undermine the national economy.



V. P. Ivanov, the Director of the FSKN of Russia:

This is international experience; the U.S. has already been using for 22 years. We conduct operational investigations, use various information sources, our cases mention a number of natural and legal persons whose services were in this way or other used in drug trafficking. For instance, in the Moscow region we seized a big shipment of heroin, around 150 kg, brought in via Orenburg. It was transported by a firm registered in the region, and the supplier was an Asian company. Therefore, this firm may be connected to drug trafficking. When we receive this information and it is confirmed, then in accordance with the law we suggest, we will put this company on the list and advise against either trade or business agreements with it. The procedure is the same in respect to natural persons. We encourage our partners to make note of a suspicious situation and freeze the accounts of the company in question. Thus, it can be a powerful tool affecting the economics of drug business.

Yu. A. Chikhanchin, the Rosfinmonitoring Director:

The concerted actions of the Federal Drug Control Service of Russia, the Rosfinmonitoring, and the authorities of the U.S., the UAE, the Republic of Kazakhstan, and the Republic of Belarus in partnership with Interpol enabled us to arrest the leader of one of the biggest international drug cartels in the territory of the UAE in the end of 2012. In February this year this drug lord was extradited to the Russian Federation to face charges.

The regional anti-drug operation Channel may serve as an example of the efficient cooperation of the Federal Drug Control Service of Russia and the Rosfinmonitoring. It united the financial intelligence units and law enforcement agencies of the EAG and the CSTO countries. The operation showcased the high effectiveness of our joint effort and international cooperation.

The participants of the workshop also stressed the lack of regulation in the Russian legislation which does not allow to efficiently control transactions conducted through offshores and tax havens and creates opportunities for money laundering. To protect the economy from the

negative impact of drug-related money the head of the Federal Drug Control Service suggested creating a federal law enabling the law enforcement to compile a list of foreign natural and legal persons connected with smuggling drugs into our country according to competent authorities' data.

Yu. A. Chikhanchin, the Rosfinmonitoring Director:

This practice exists today and it is actively used when compiling Lists of entities and individuals allegedly involved in extremist activity or terrorism. There is the International List as well as the Russian. Financial institutions freeze the accounts of particular persons. This activity is of course beneficial.

Information on how the lists of drug dealers are compiled according to provisions of Foreign Narcotics Drug lords Designation Act

Under the above law that was signed by the U.S. President on December 3, 1999, as part of economic sanctions against foreign persons conducting or in some manner involved in international narcotics trafficking, the Secretary of Treasury, in consultation with the Attorney General, the Secretary of Defense, the Secretary of State and the Director of Central Intelligence provide the U.S. President with information necessary for a report in accordance with political tasks.

These data are also disseminated to the Director of the Office of National Drug Control Policy under the U.S. President Administration.

This law includes a single list enumerating significant foreign narcotics traffickers, their organizations and their operatives whose activity threatens the national security, foreign politics and the U.S. economy.

The U.S. President prepares an annual report for the United States House Permanent Select Committee

on Intelligence, committees of judicial authorities, international relations, armed forces and the Budget Committee of the House of Representatives and the Senate in two versions: the public part (public identification and updating of significant foreign narcotics traffickers as appropriate for sanctions in compliance with the present act) and the classified part (the detailed description of sanctions applied under this act, including persons responsible for its implementation and resources allocated for the implementation of these sanctions in the previous year as well as the information concerning the activity of new drug lords).

It is noteworthy that such lists are compiled for all states whose significant narcotics traffickers are involved in international drug trade.

If the U.S. President comes to the conclusion that the person on the list of significant foreign drug lords is no longer involved in this activity, he/she has the right to issue a corresponding public notice.

The list of drug dealers is available through the following link: <http://www.treasury.gov/ofac/downloads/t11sdn.pdf>.

EDUCATION AND SCIENCE IN AML/CFT SYSTEM

HR MANAGEMENT: MEETING TODAY'S CHALLENGES

*Konstantin Litvinov,
Deputy Editor-in-Chief*

On July 11, 2013 students from EAG member states, who undergo training in the Institute for Financial and Economic Security (IFES) of MEPhI defended their diplomas in the Federal Financial Monitoring Service. Heads of financial intelligence units from Kazakhstan, Russian Federation and Tajikistan, Rector of NRNU MEPhI Mr. Mikhail Strikhanov, ITMCFM General Director Ms. Galina Bobrysheva, top officials of the Federal Financial Monitoring Service and faculty of IFES MEPhI took part in the event (with Kazakhstan and Tajikistan participating via videoconference).

Mr. Victor Zubkov, the first head of the Federal Financial Monitoring Service, the founder of IFES, Doctor of Economics, Professor was the guest of honor at the event. Mr. Zubkov attended the session of the

examination board, studied diplomas to be defended, emphasized their topicality and thoroughness. In his opening speech, Mr. Zubkov noted that at the stage of creating the Federal Financial Monitoring Service specialists from different agencies were invited but young professionals were always in high demand.

– We discussed respective issues with MEPhI and the Rector complied with our request. It was the right decision as we got the opportunity to employ highly-skilled specialists, while internship in the Federal Financial Monitoring Service promoted seamless adaptation of students and their efficient work in the future. I would like to express my gratitude to Mr. Chikhanchin and Mr. Strikhanov for the suggested education model that turned out to be productive.

IFES was founded in 2006 on the basis on the Moscow Engineering Physics Institute (MEPhI) for preparation of AML/CFT specialists. In 2009 the first foreign students entered the Institute. Today, students from 8 countries of the Eurasian region have been studying in IFES. The training is supervised by the International Training and Methodology Center for Financial Monitoring.

In summer 2012 five graduates joined the ranks of financial intelligence units of Kazakhstan, Kyrgyzstan and Ukraine. In 2013, 38 students graduated from IFES, including 30 citizens of the Russian Federation and 8 representatives of EAG member states: Armenia – 1, Kazakhstan – 2, Kyrgyzstan – 1, Moldova – 1, Tajikistan – 3.

The Rector of the NRNU MEPhI Mr. Strikhanov said that the work started from scratch – with about 10 students in a group during the first year. Today, the institute has become much bigger with ever-growing demands.

– MEPhI is a brand: with fundamental knowledge given at first courses, students then get applied skills to meet employer's requirements. In this case, the Federal Financial Monitoring Service is an employer and this harmonizes integration between information technologies, financial law, economics, physics (in part), etc. Our students are motivated, they are aware of good job offers in the future. Therefore, the competition in such groups is very high. For undergraduates, classes are taught by seasoned

professionals apprising them of all leading-edge technologies (to the extent permissible).

Nowadays, almost 80 thousand legal entities are engaged in the anti-money laundering area of our country. In this context, further development of education in the AML/CFT field is considered one of the high-priority tasks of the Institute. At present, we have been working on dissemination of AML/CFT training for higher education programs used not only in Moscow and MEPhI but also in federal districts and CIS countries. All agencies indicated in the anti-money laundering law that has recently been adopted by the State Duma face growing demand in human resources. Mr. Vladimir Ovchinnikov, IFES Director, explained that the new law on education coming into effect on September 1, 2013 envisages a network of educational institutions.

– We have already started creating the Network institute. According to this model, institutions remain independent but can exchange students, teachers and training programs. Terms and conditions of the new law fully comply with the patterns that higher educational institutions have been implementing in



federal districts. We believe that best practices in the culture of learning will also be in-demand in the sphere of AML specialist preparation. We are trying to expand the model laid down by Mr. Zubkov and developed on the basis of MEPhI to prepare qualified personnel for the Russian Federation and EAG member states as well as implement it in other higher educational institutions, including those in the CIS countries.

Financial University under the Government of the Russian Federation, Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation, Pacific National University, Ural Federal University, St. Petersburg State Polytechnic University, Lobachevsky State University of Nizhny Novgorod and higher educational institutions of Kazakhstan have agreed to incorporate into the AML/CFT Network institute. The extension of the Network institute is discussing now with Belarus, Armenia and other members of EAG.

At the end of the event, Mr. Zubkov thanked top officials of the Federal Financial Monitoring Service

and MEPhI for the invitation to the diploma defense and said:

– The work was not as simple as that. However, significant progress has been made. Each year the Federal Financial Monitoring Service employs new qualified specialists. Today I have the opportunity to witness a whole new level of development: the defense of not only MEPhI students but also students from other countries. We have come a long way striving to engage students from the Eurasian region in our educational programs. This obviously remains a very important task.

I believe that the President and the Government of the Russian Federation have been pursuing sound politics as regards preparation of highly-skilled professionals. Today we face new challenges: corruption, illegal money flows, ongoing unrest in many regions of the world. Our financial intelligence is evolving rapidly. And it is quite natural that the FATF President is now a representative of the Russian Federation. Ten years ago this could be just a dream.

ITMCFM: TRAINING THE TRAINERS

Konstantin Litvinov,
Deputy Editor-in-Chief

On September 10 – 12, the International Training and Methodology Center for Financial Monitoring held a seminar Training of AML/CFT Trainers.

The training was provided not only for Russia's representatives, but also for employees of the Training and Methodology Center under the Financial Intelligence Unit of the Kyrgyz Republic as well as representatives of the National Bank of Kyrgyzstan. Colleagues from FIUs of Belarus, Kazakhstan, Tadzhikistan, and Uzbekistan participated in the event via videoconferencing. The objective of the seminar was to update and systemize knowledge, skills and competences of teachers training staff in the AML/CFT area.

The previous year 72 organizations signed an agreement with the ITMCFM and trained their employees (target training), that allowed to train over 13 500 employees of the private sector. This year already 74 organizations are ITMCFM partners, and the number tends to grow. As notaries are special subjects of the Federal law 115-FZ On Combating Legalisation (Laundering) of Proceeds from Crime and Financing of Terrorism, the ITMCFM concluded an agreement with the Federal Notarial Chamber and trained its employees in the AML/CFT area taking into

account the specifics of the notarial activity within target training.

The first day of the seminar was devoted to international standards and fundamentals of the anti-money laundering system, innovations and development prospects of the Russian legislation in connection with the adoption of both the new version of the FATF Recommendations and Federal Law No. 134-FZ. On the second day participants studied supervisory activity and internal compliance control of reporting entities. On the last day they examined changes related to the liability for non-compliance with AML/CFT legislation (changes touched upon both the criminal and administrative law) as well as new typologies ML/TF. The seminar ended with a round table Topical Issues of Training AML/CFT Specialists where participants discussed issues of the interaction between the ITMCFM and its partners and the development of the staff training system. These questions arise from both Federal Law 134-FZ On Amending Certain Legal Acts of the Russian Federation in Part of Combating Illicit Financial Transactions and new Law on education in the Russian Federation which came into force on the 1st of September of this year.

The most seasoned specialists of the Rosfinmonitoring other government agencies and institutions working in the AML/CFT area gave lectures at this seminar.



Participants asked many questions especially at the lecture Modern Pedagogical Approaches in AML/CFT Staff Training (the lecturer was Irina Evgenievna Apykhtina, the Head of the Department of State Policy in the Sphere of Higher Education of the Ministry of Education and Science of the Russian Federation).

At the end of the seminar participants received training certificates.

Ermek Beysheev,
Chief Inspector of the Analytical Group of the
Department of Individual Transaction Examination
of the Inspection Department of the National Bank
of the Kyrgyz Republic:

– The information provided at the seminar was quite comprehensive. The experience of our Russian

colleagues was interesting for us as representatives of a neighboring republic. We also appreciated the standards of organization. There are no doubts that we will use the received information in our work.

Pavel Smyslov,
compliance officer of “FKD Consult”:

– I am very pleased with the training received in the ITMCFM. I would like to underscore the operational excellence of the teachers: I received comprehensive answers to all my questions, so the feedback was very good. I noticed that the personnel of the Centre is very united which is of course beneficial for the quality of their work. I wish employees the best of luck and look forward to effective cooperation.

NEWS BLOCK

A Working Meeting between V.V.Putin the President of the Russian Federation, and Yu.A. Chikhanchin the Director of the Federal Financial Monitoring Service was held in the end of June 2013

Vladimir Putin and Yury Chikhanchin, the Director of the Federal Financial Monitoring Service, discussed the upcoming Russian presidency in the FATF, an intergovernmental body developing financial measures to combat money laundering.

V. Putin: *Yury Anatolievich, on the 1st of July Russia begins its presidency in the FATF, an international organization combating money laundering.*

We have been working alongside our associates within this organization for quite a long time; moreover, even here, in the East, on the territory of the former Soviet Union, we are building relevant relationships with our colleagues and helping them in organizing this work.

What is your view of the priorities of our presidency? What are the recent developments in your collaboration with colleagues from other Russian agencies, as well as your foreign partners?

Yu. Chikhanchin: It is true, the Plenary meeting of the FATF actually took place last week; it is this very group that is tasked with developing anti-money laundering measures. Russia, as you have just said, started its presidency.

I believe, it is a significant achievement on the part of all of our ministries, and agencies, that was, above all,

made possible by your signing of the Decree that made the respective draft into law. Adopting this draft was very hard, it was blocked three times, to the point of a veto.

In my opinion, these circumstances allow us to emphasize once again that Russia complies with all the FATF requirements supported by the UN Security Council, the G8, and the G20. You spoke [about it] at the G8 regular meeting.

It proves that the current Russian anti-money laundering system complies with all the relevant requirements of the international fora, which increases Russia's attractiveness.

What are our present tasks with respect to the FATF presidency? Obviously, our first and most critical objective is to keep up the level set today by the international community. We should implement the new, emerging standards.

In this context, the law that we have just mentioned and to which you lent your support, the law on countering illegal financial transactions, is of paramount importance to us. This law has passed through all the stages, and now alongside the Central Bank in its new capacity as the mega-regulator it will enable us address the immediate challenges we are facing.

In our presidency, as I have already reported, we pursue a number of issues. Our foremost priority is, of course, the implementation of the new standards in Russia and respective harmonization of our regulations.



The law that you've mentioned necessitated amendments to over 20 related laws. Now we have yet to put through more than 20 Government Resolutions and over 20 intra-departmental documents and regulations, as well as about two Presidential Decrees. In other words, it will still require a lot of work.

It will undoubtedly allow us to focus on the objectives the FATF is facing, first of all this is the task related to beneficial ownership. Once this issue was raised by the G8, we introduced a new concept in our legislation, namely – beneficial ownership, although that was quite a daunting task. But this accomplishment will enable us to somehow mitigate the negative impact of off-shores on our economy.

The second set of problems is related to financial inclusion or the expansion of financial services in the electronic (banking) form. To some extent, this will help us reduce cash turnover.

Nevertheless, we should keep in mind that the criminal world is not staying idle: it actively uses digital wallets, Yandex-money, etc., and we should partner all the ministries and agencies to develop new countermeasures, and approaches.

The third priority of our presidency is of course the strengthening of FATF-style regional bodies. Russia is currently presiding over the Eurasian Group which includes the former Soviet Republics, China, India, and Belarus.

I would also like to emphasize that at the last week's regular Plenary meeting [it was noted] that we are the only regional body (altogether the FATF evaluated 180 countries) where no one country is on the black or grey lists. It is a big achievement for Russia in the first place, as well as for the whole Eurasian community, which was made possible, indisputably, thanks to your efforts, as you raised this question on multiple occasions.

Yet another issue we should solve today is staff training (in view of the upcoming new standards), our force should include professionals from financial organizations, law enforcement, judicial and public authorities. Altogether, approximately 200 thousand employees of various levels work in the AML system.

Therefore we are planning to create the so called Network Institute uniting (certainly, in a purely virtual way) first of all three Moscow-based institutions of higher education: the MEPhI where they prepare good IT specialists, the Financial Academy (the Financial University) where teachers are experts in finance and credits; and the Diplomatic Academy that teaches languages and international law.

Additionally, a few regional institutions will join the Network Institute: the big Pacific University, the Siberian University, the Rostov Federal University and four foreign courses. All these universities will have unified methodology and teaching process. In a nutshell, this is the direction we are heading towards. We look forward to outstanding results.

I would also like to add that in the next few days our foreign graduates will be defending their theses. We will conduct this examination remotely, that means they will pass it here, while representatives of the countries that sent them will be present at the final exams via videoconferencing and will have the opportunity to ask them questions, and then they will accept these graduates back and provide them with jobs in their respective countries. This is becoming a big issue that will have to be addressed on the level of the FATF as well as the Eurasian Group. I am confident that we will reach our objectives.

In conclusion, the next year is the FATF's 25th anniversary – Russia has been trusted with holding the large Plenary meeting. Around 800 people will come here from 180 countries; it is going to be a very big event.

V. Putin: Good.

You have already mentioned the need to cooperate with the Central Bank— I would like to stress this

point: it is, indeed, a very important task, if we keep in mind that the Central Bank will be the basis for the mega-regulator for all our financial issues.

After we have strengthened the regulatory and legal framework that you described, we (following the example of other countries, at least a great number of them) will have to prepare our national plan to combat money laundering, tax evasion, and negative off-shore impact, where we have no information on ultimate beneficial owners of a given company.

All of this enormous enterprise is ahead of us, and I count on the sizeable contribution on the part of your agency. It would not be feasible to prepare such a national plan without your agency, which is why I ask you to participate in this work from the very start.

June 27, 2013, Moscow, Kremlin

The photo is provided by the Kremlin Press Service.

On the 4th International Meeting of High Ranking Officials Responsible for Security Matters



Nikolay PATRUSHEV

The Fourth International Meeting of Senior Officers overseeing security issues took place from July 2 to July 4, 2013, in Vladivostok. The event gathered delegations from 60 countries representing security councils, administrations of presidents and heads of governments, ministries and agencies that determine the security policies of their respective states, as well as the UN leadership.

The participants of the meeting welcomed greetings sent by Vladimir Putin, the President of the Russian Federation, and Ban Ki-moon, the UN Secretary General.

- The participants were unanimous in their view of the international scene as still posing both conventional and new security challenges and threats, and further blurring the borderline between national and transnational processes as a result of globalization as well as the aggravation of the world's economic, social, and financial problems.

This environment makes a continuous search for effective and timely approaches and solutions a prerequisite for security enhancement on the national, regional, and global levels. Solving this task is impossible without a constructive dialogue, mutual trust, and respect for each other's interests, bona fide cooperation, as well as increased responsibility for the measures taken.

The senior officials placed a special emphasis on further strengthening the role of the UNO and its Security Council in sustaining peace and settling conflicts, and agreed to carry on their joint work in enhancing the efficiency of both the existing and emerging bilateral and multilateral security mechanisms.

- The participants had a constructive and seminal discussion on the issues of international AML/CFT cooperation. They underscored the need to advance cooperation in this sphere via bilateral and multilateral mechanisms with the purpose of engaging wide circles of the global community, business, media, scientific and educational institutions in combating money laundering and financing of terrorism. This effort is a crucial factor in enhancing global and regional security, and will be instrumental in fighting terrorism,

extremism, transnational organized crime and drug trafficking.

- The report by the Russian Federation delegation and the supplementary report of the US delegation served as the basis for a substantive discussion of the main issues of advancing international and regional transport security. The senior officials emphasized the growing threats to the critical items of the transport infrastructure, underlined the urgent need for developing additional measures of their neutralization, and expressed their support for the design of universal standards for this sector for the purposes of enhancing the protection of transportation infrastructure, and the prevention of potential unlawful acts.
- At the initiative of the delegation from the People's Republic of China, the forum continued the discussion launched at previous meetings of senior officials on the issues of ensuring international information security as a new and increasingly urgent challenge of our day. The participants noted that while the long-term joint work gradually builds the foundation for fruitful cooperation in this area, establishing practical cooperation still requires unified criteria and approaches to be developed under the aegis of the United Nations Organization.
- The report of the Russian Federation delegation on the modern state of scientific and technological convergence as an alternative response to the new global challenges and threats was met with interest. The report underscored the need to establish a new and effective international mechanism for ensuring safe development and use of convergent technologies.
- This forum, in line with the previous meetings of senior officials supervising security issues in Sochi, 2010, Yekaterinburg, 2011, and in Saint-

Petersburg, 2012, was fruitful and instrumental in creating an environment of understanding and trust among the senior security officials, and in developing respective policies in the various countries.

The forum deemed it necessary to continue meetings in this format. The next meeting will be held in 2014, by the Russian party, the date and location to be advised.

*The web-site of the Russian Federation
Security Council
www.scrf.gov.ru*

From the Materials of the Press-Conference of the President of the Russian Federation on the Outcome of the G8 Summit

June 18, 2013, Lough Erne, Northern Ireland

Question: Mr President, the situation in Cyprus revealed the off-shore problem. And the G8 agenda purportedly includes issues related to fighting against off-shoring. You have brought up this problem on multiple occasions, including your Presidential Address to the Federal Assembly. Do you feel that there has been progress in resolving this matter?

V. Putin: What made me very happy was learning that the fight against off-shoring is an endeavor of the entire global economy, not just ours. Indeed, we thought this to be the case, but I am very pleased that the British presidency is taking this matter into its hands and blaze the trail, leading the way for all the other discussion participants. Especially so, since, as we know, most of today's off-shores fall under Great Britain's jurisdiction. Prime Minister Cameron himself maintains the view that we must fight these off-shores and disclose all the information available in this relation.

I believe the excessive reliance of the Russian economy on off-shores is most detrimental, as we usually do not

know the identity of the ultimate beneficiary. As a result, our potential investors are often wary of getting involved in our economy with serious investments, since they do not understand who they are dealing with, etc. This is a serious problem for all of us.

I have to note that Russia has not yet taken all the measures adopted by many other nations in fighting off-shoring. Only now are we adopting a law on disclosing the final beneficiary. The draft passed the State Duma and is currently in the Federation Council. As soon as it clears the Federation Council, I will certainly sign it. Following this, just like the other G8 member states, we will propose a national plan for fighting against off-shoring. Of course, all will be within reasonable limits and will not violate any of the current laws and regulations.

The second innovation we have undertaken is changing the tax laws in a way that would enable us to assume the obligation to provide the necessary information to our colleagues in other countries' tax services, on a reciprocal basis, of course.

Based on ITAR-TASS materials

The G20 Member States will Continue Combating Money Laundering and Financing of Terrorism

Strelina, September 6, 2013

The Saint-Petersburg G20 Leaders' Declaration adopted following the summit states "we reiterate our commitment to FATF's work in combating money laundering and terrorist financing and its key contribution into tackling other crimes such as tax crimes, corruption, terrorism, and drug trafficking."

In particular, the G20 states support identification and monitoring high-risk jurisdictions with strategic deficiencies in combating money laundering and financing of terrorism, while recognizing the countries' sizable progress in fulfilling the FATF standards.

The Declaration reads: "we encourage all countries to tackle the risks raised by opacity of legal persons and legal arrangements, and we commit to take measures

to ensure that we meet the FATF standards regarding the identification of the beneficial owners of companies and other legal arrangements such as trusts that are also relevant for tax purposes."

The document underlines that "we will ensure that this information is available in a timely fashion to law enforcement, tax collection agencies and other relevant authorities in accordance with the confidentiality legal requirements, for example through central registries or other appropriate mechanisms."

In addition, the G20 leaders ask their Finance Ministers to lead by example and provide an update by the next meeting on the steps taken to meet the FATF standards regarding the beneficial ownership of companies and other legal arrangements such as trusts by the G20 countries.

Based on ITAR-TASS materials

Government Officials, Deputies, and Bankers Discussed the Future of the Russian Banking System in Croatia

The Russian National Banking Forum Banking in Russia and Global Experience of Banking Services Development took place in Split, Croatia, from September 21 to September 24; representatives

of Rosfinmonitoring were among the participants.

The business part featured welcoming speeches of Garegin Tosunyan, the President of the Russian Bankers' Association, Alexander Torshin, First Deputy Chairman



of the Federation Council of the RF Federal Assembly, Robert Makaryan, the Ambassador Extraordinary and Plenipotentiary of the Russian Federation in the Republic of Croatia, Nadan Vidosevic, the President of the Croatian Chamber of Economy, and Ivo Baldasar, the Mayor of the town of Split.

Garegin Tosunyan, the President of the Russian Bankers' Association, presented a report on the topic of The Key Factors of Investment Attractiveness: a Look from Russia.

In his report he brought forward the Balkan Ease of Doing Business rating and the Corruption Perception Index, as well as an estimate of direct foreign investment from the RF to the countries of this region.

The report of the representative of the Bank of Russia deserves a special mention. The report presented by Kovrigin Mikhail Anatolyevich, the Director of the Systemically Important Banks Supervision Department of the RF Central Bank, on the topic of The Improvement and Development of Banking Supervision, Practical Issues of Implementation by Credit Institutions of the Bank of Russia Regulations inter alia covered the measures adopted by the Bank of Russia to restrain the unsecured consumer loans market.

Glotov V.I., the Deputy Director of the Federal Financial Monitoring Service, presented the report The Recent Changes to the AML/CFT Legislation.

In his speech he described the most recent changes in the AML/CFT legislation, in particular Federal Law № 134-FZ that was signed on June 26, 2013 by the Russian President.

"It is a new law, and it is early to speak about its impact. We acknowledge the problems of the private sector related to the new format of the national AML/CFT regime, nevertheless we hope for cooperation with professional communities, and other players," – he said. The Deputy Director went on to thank the professional banking community for its active partnership, and for the results that were made possible due to the joint efforts.

In his report on the topic of The Current Issues of Banking Regulation Senin Vladimir Borisovich, the Deputy Chairman of the Board of the OJSC Alfa-Bank, spoke on the necessity to develop the legislation on payment services, on the regulation of the relationships between banks and consumer borrowers, and on the regulation of corporate lending, in particular on borrowers' rights protection.

Another participant of the forum was Andrei Nechaev, the President of the Joint-Stock Commercial Bank Russian Financial Corporation. In his speech titled On the Development of Banking Regulation he covered the most urgent problems of credit regulation, and furnished some examples of debatable provisions in the

regulations of the Bank of Russia. In Nechaev's opinion, certain requirements of the Bank of Russia are formal, and outdated, while they should serve as a tool to make credit institutions accountable.

Another item of the 7th Russian National Banking Forum was the report by Istvan Lengyel, the Secretary General of the Banking Association for Central and Eastern Europe, Basel III — A New Reality. The report

dwelt on the strong and weak points of the new standards.

Vladimir Andrianov, the Director of the Strategic Analysis and Development Department of Vnesheconombank, gave his assessment of shadow banking. In his report Shadow Banking: Consequences for the Russian Economy Andrianov pointed out that the overall size of the shadow is estimated at approximately 46% of the GDP.

Conference in Novosibirsk

On October 3, 2013 V. A. Tolokonsky, the Presidential Envoy in the Siberian Federal District, chaired the meeting of heads of district law enforcement and supervisory authorities held in his residency. It was devoted to collaboration in the implementation of provisions of Federal Law No.134-FZ dated June 28, 2013 "On Amending Certain Legislative Acts of the

Russian Federation on Combating Illegal Financial Transactions" as well as the new FATF Standards.

P. V. Livadny, State Secretary and Deputy Director of the Federal Service for Financial Monitoring, G. V. Bobrysheva, Deputy Director of the Federal Service for Financial Monitoring, representatives of central offices of federal executive authorities, the Bank of Russia as well as the state authorities of the Siberian Federal District participated in this meeting.

V. A. Tolokinsky, Presidential Envoy:

Federal Law 134 strengthens responsibility for all unlawful actions in the financial sector and expands administrative and operational capabilities to prevent and suppress illicit financial transactions. These legislation innovations and the difficult stage of economic development in our country suppose more efficient work of all government agencies and more efficient, qualitative and close efforts consolidation of all authorities in this process.

P. V. Livadny, State Secretary and Deputy Director of the Federal Service for Financial Monitoring highlighted in his speech the importance of the adoption of this law because the issues of countering illegal financial transactions and terrorism financing are topical not only for Russia but for the whole world. The policy for handling these problems has been determined at the

highest international level: decisions of the G8 summit in Lough Erne and the G20 summit in Saint-Petersburg show the clear course toward better transparency of domestic economies. For Russia legislation changes in terms of combating illicit financial transactions put into force by Federal Law 134 dated June 28, 2013 became additional tools in optimization of related work.

P. V. Livadny, State Secretary and Deputy Director of the Federal Service for Financial Monitoring:

What is the keynote of the decisions of these international summits? It is the necessity to increase economy transparency through the identification of company beneficial owners, better tax collection, and transparency in offshore jurisdictions. Today we have the unique opportunity to receive not criticism of our efforts in consolidating the Russian statehood from our Western partners, but support and understanding, inter alia within legal assistance and operational interaction with Western law enforcement, tax and supervisory counterparts.

This meeting is the start of a series of events to be held in federal districts. This Rosfinmonitoring initiative supported by the Administration of the President of the Russian Federation was brought about due to quite a serious change of conditions and the necessity to strengthen the interaction in the context of the adoption of law 134-FZ which laid the groundwork for a completely new way of combating illicit financial transactions, economic crimes, and especially money laundering and terrorism financing.



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