

# FINANCIAL SECURITY

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**M. KOTYUKOV:**

*"Today, there is an obvious need in new, hybrid approach to financial transparency and security. It implies uniting efforts of both governmental authorities, financial and non-financial sectors and scientific, first of all, academic community".*



# CONTENTS

- 5 Welcome Speech of Mr. Yury A. Chikhanchin, Director of Rosfinmonitoring

## Cover Story

- 6 Contribution of Russian Science to Financial Security System and Economic Transparency  
9 Network AML/CFT Institute – Illustration of Successful Implementation of Network Educational Programs

## Education in BRICS Countries

- 12 Link ABBS - AML/CFT Network is Crucial for Enhancing International Cooperation

## Network Institute

- 14 Personnel Training at Network AML/CFT Institute: Outcomes and Prospects

## International Scientific and Research Conference “Risks and Threats to BRICS Economies” November 10-12, 2015, Moscow, Russia

- 17 BRICS and China: Challenges and Opportunities  
22 Establishing Comprehensive, Economic and Legal Approach to Risks and Threats in Anti-Money Laundering Regime  
27 Building up Business School in BRICS: Indian Experience  
31 Building Sustainable Competitiveness of BRICS Countries: Business Schools' Role  
36 Chinese Harmonious Culture Impact on Corporate Social Responsibility and Sustainability Management in China  
40 Economic and Financial Security of Economic Agents: Evolutionary Simulation Model of Indicators  
43 Universities' Relevant Challenges in Developing Russian Financial Monitoring System  
48 Eurasian Economic Union's Role in Ensuring Economic Security of Its Member States: Russia and Kazakhstan's Experience  
52 Membership in New Oriental Banks as Possible Way of Russian Economic Security Support in Global Financial System  
54 BRICS Students Sport Competitions

## International AML/CFT System

- 56 Risk Assessment: Analysis and Experience Sharing  
58 7<sup>th</sup> Meeting of BRICS AML/CFT Council  
60 TREIN – FATF Training and Research Institute  
62 Rosfinmonitoring – UIF: Expanding Cooperation

## AML/CFT Education and Science

- 64 Graduates  
66 Teaching Financial and Legal Literacy to AML/CFT Experts (in Light of the Integration Processes within the EAEU)

## Sport

- 71 Sport. Health. GTO

## Newsblock

- 73 Innovative Look on Economy  
73 XXV International Financial Congress  
74 Spain Took Over the FATF Presidency in June 2016



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## DEAR READERS!

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**T**he growing complexity of the financial and economic system, technologies evolution and increase of data volumes require adoption of a new approach to financial monitoring personnel training. Other challenges facing us today include improving the public's financial literacy, working out topical training courses and implementing educational programs that can prepare students for working practice.



In its effort to tackle these challenges, Russia has chosen to pursue a proactive strategy, which included the establishment in 2013 of a network AML/CFT Institute. In order to develop this unique educational project, comprised of over 15 scientific and educational institutions from different countries in 2014 a Memorandum of Understanding with the Association of BRICS Business Schools was signed. The importance of cooperation with other BRICS countries, boosting the academic mobility of students and teaching staff, conducting joint scientific research and publishing activities formed the basis for closer integration of the two educational institutions.

For promoting this cooperation, an international scientific and research conference entitled "Threats

and Risks to BRICS Economies" was held in Moscow, Russia, in November 2015. The decision to organize the conference was endorsed by the Russian President Vladimir Putin.

The current issue includes articles by some of the conference participants: professors, lecturers and students, in which they present their views on issues of anti-money laundering and terrorist financing, economic security, etc. The relevance of the topics discussed, a wide range of attendees and an impressive interest in the event shown by the expert community have all contributed to the decision to hold a similar conference in autumn 2016. We encourage everyone interested to attend it!

Personnel training is currently high on the agenda of all major international AML/CFT organizations including the FATF. In this issue, you will find information about the FATF's Training and Research Institute (TREIN), which is being established in South Korea. We encourage the implementation of such initiatives and are confident that a growing number of educational institutions will only benefit the global anti-money laundering system, set high standards for the AML/CFT experts training and raise the overall level of public's financial literacy in different countries. Although much has already been achieved in this field, it is important not to stop but strive for better results.

*Yours sincerely,  
Yury A. Chikhanchin,  
Director of Rosfinmonitoring,  
EAG Chairman*

## COVER STORY

# CONTRIBUTION OF RUSSIAN SCIENCE TO FINANCIAL SECURITY SYSTEM AND ECONOMIC TRANSPARENCY

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Mikhail M. Kotyukov,  
Head of Federal Agency for Scientific Organizations (FASO of Russia)



**F**inancial security is one of the key issues faced by the modern world. Rapid development of information technologies renders the national boundaries more transparent and fundamentally changes the format of economic relations. Today, there is an obvious need to upgrade the system of combating legalization of shady proceeds. It is necessary to improve approaches to implementation of the Russian Financial Security Concept by uniting the efforts of government authorities, financial and non-financial sectors and academic institutions.

The academic sector possesses substantial scientific capabilities to combat money laundering. The institutions under the FASO of Russia are home to research laboratories in key disciplines, including humanitarian sciences, essential for understanding the nature of the shadow financial market. The knowledge accumulated by them can help to develop modern techniques for financial activities monitoring

and illegal transactions detection. At the same time, information and computer centers established in the scientific and research institutes under the Russian Academy of Sciences (RAS) are capable of developing solutions for processing big data.

However, just some years prior to the reform of the RAS, it was difficult to implement all the anti-money laundering and counter the financing of terrorism (AML/CFT) capabilities of the academic science. The work carried out by the research institutes was typically limited by individual areas of their specialization. In 2013 the management framework in the basic sciences sector was changed. The academic institutions became part of the Federal Agency for Scientific Organizations. The clear goal was set for us as well as for the Academy of Sciences – to more closely integrate research activities in various areas and with the real sector. I can say that we jointly with the RAS follow this path and have already achieved certain results. The fundamental research program entitled “Financial and Legal Mechanisms for Business Transparency” has been developed and is implemented under the auspices of the RAS Presidium. This program involves comprehensive study of conditions and prerequisites that could facilitate achievement of the national goal – elaboration of business-friendly environment. The program is coordinated by the RAS Vice-President, Academician Taliya Khabrieva. Scientists working under the program use modern methods for forecasting and identifying financial threats, such as Computable General Equilibrium (CGE) models. This is a new development in the applied economics.

***Taliya Khabrieva, RAS Vice-President,  
Academician:***

"The main goal of the program is to design and specify understanding of the most significant features of the Russian Federation financial system. It will ensure business transparency, on the one hand, and provide national financial security, on the other hand, and elaborate proposals for development and consistent implementation of the National Financial Security Concept.

This involves elaboration and further incorporation of modern methods of sociological, economic and mathematical monitoring and assessment of illegal financial transactions volume and, in particular, development of the Target Computable General Equilibrium Financial Model intended for preventing financial threats and risks and ensuring financial equilibrium. The research team of the Central Economics and Mathematics Institute, headed by Academician Valery Makarov, is already exploring potential for practical application of such models."

The CGE model (that is being worked out by the scientists of the RAS Central Economics and Mathematics Institute) will enable to perform qualitative assessment of consequences of illegal financial transactions.

Another fundamental objective to be achieved in course of building up the Financial Security Concept involves direct detection of illegal transactions. Specialists admit that, today, it is virtually impossible to “see” money laundering schemes using old methods (by analyzing single events). The schemes are constantly evolving and new more sophisticated techniques emerge. Therefore, there is a need for a tool that would detect and freeze suspicious activities in a timely manner. Development of such hardware and software package requires application of interdisciplinary approach. In this context, elaboration of a cooperation framework among scientists specialized in different scientific disciplines – mathematicians, physicists, sociologists, linguists, economists – is one of our priorities, and we undertake active efforts in this field. In particular, we have created a platform for further development of horizontal linkages among institutes. We have offered scientific organizations to define research topics and agree among themselves on contribution to the joint project. We called such format of academic cooperation: complex research programs. One of them entitled “Mathematical, Social and Economic Modeling for AML/CFT Purposes” is dedicated to financial security.



This program is implemented on the basis of the cooperation agreement signed between the FASO of Russia and Rosfinmonitoring in 2015. The goal of this project is to design predictive analytics software that will enable to more effectively identify "suspicious" transactions, reducing percentage of false positives. The situation where physicists work in cooperation with linguists, psychologists, sociologists and lawyers within a joint project was hard to imagine ten years ago, but today it is becoming common practice in the area of interdisciplinary research.

***Nickolai Kolachevsky, Director  
of P. A. Lebedev Physical Institute,  
RAS Correspondent Member:***

"The most important aspect of predictive analytics is creation of patterns, i.e. teaching a machine to understand how a potential perpetrator should behave. This is the most challenging issue, and mathematics alone cannot solve it. It requires joint efforts of analysts, psychologists, sociologists, etc. Once the image is created, it should be applied to the existing volumes of data. For this we need highly intelligent systems, like those developed by Google. The scientific departments of the Physical Institute with rich experience and scholarly traditions are involved in research in this area.

Besides, I count much on support of our colleagues from other academic institutions. I am convinced that we will be able to create a team for state support in ensuring financial security."

***Alexander Dynkin, Director of E.M. Primakov  
National Research Institute of World  
Economy and International Relations  
(IMEMO), RAS Academician:***

"Under the Complex Program, we can arrange for research projects with due consideration for the international anti-corruption and counter-terrorist financing experience. The goal of such projects will

be detection of financial aspects of money laundering, i.e. identifying chains that finance these activities and combating illegal international financial transactions.

A number of world-class specialists of our Institute are involved in research of terrorist activities nature. Their publications have a very high international quote index. The scope of the research is very extensive, but the topic itself has been in the focus of the IMEMO experts for a long time."

Modern legislation, innovative analysis and forecasting techniques, highly intellectual detection systems are important components of financial security. But the key role in combating shadow economy is played by professional staff. Financial monitoring specialists should not just counter the existing threats but also take proactive steps. Given the importance of further development of integration partnership between science and education, the FASO of Russia provides support to the network AML/CFT Institute established by Rosfinmonitoring and actively participates in its work.

The professional standard for financial monitoring specialists was developed and adopted with the assistance of the academic institutions. This standard was approved by the Russian Ministry of Labour. Besides, the RAS experts took part in development of education fields for lawyers and economists specialized in AML/CFT and information security. These specific fields have been already incorporated into the universities of the network Institute. The postgraduate education programs have been executed jointly with the FASO scientific organizations.

It should be emphasized that the talent pool is the financial security system's cornerstone. I am sure that the advanced training practices of the network Institute will provide succession of AML/CFT management personnel.

The FASO of Russia will further develop and strengthen partnership with Rosfinmonitoring. The scientific capabilities and resources of the academic institutions cannot be underestimated in modern conditions. This partnership is especially relevant in the context of the national anti-money laundering and terrorist financing risk assessment effort.

# NETWORK AML/CFT INSTITUTE – ILLUSTRATION OF SUCCESSFUL IMPLEMENTATION OF NETWORK EDUCATIONAL PROGRAMS

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*Alexander A. Klimov,  
Deputy Minister of Education of Russian Federation*



**E**ducation lays the foundation for activities of any person and is an investment in the future, in progressive and successful development of an individual, society and state. Therefore, the revised version of Law No.273-FZ of 29.12.2012 on Education in the Russian Federation provides for innovative approaches to training of specialists, including networking format of educational programs, E-learning and remote education technologies. These innovations are aimed at improvement of competitiveness of the Russian education system and enhancement of academic mobility of students and teachers.

Education is a top priority for the future experts in anti-money laundering and countering the financing of terrorism (AML/CFT). Training of highly qualified staff, AML/CFT awareness, improvement of legal culture and public's financial literacy are key conditions for ensuring economic security of an individual, society and state as a whole.

The National Child & Youth Financial Literacy Week is traditionally held every March in Russia (under the Russian Ministry of Finance Project "Promotion of Financial Literacy and Development of Financial Education in the Russian Federation"). This year, over 570 000 people took part in various events of the Week. In total, more than 11 000 events were held: open lectures and lessons, field trips, workshops, master classes, contests, business games, etc. About 30 000 people in 20 cities tested their knowledge of basic financial matters, in addition to more than 50 000 people who passed such test online. Over 3 500 educational institutions applied for participation in the events via the Week's website. 2 000 creative projects were submitted to the jury of the essay contest arranged for young people aged 10 – 22 years during the II Russian National Child & Youth Financial Literacy Week. Talented and educated youth is the future of our country.

The most important objective of the higher education system is training of specialists demanded in the labour market, who are capable of and willing to be involved in real professional activities. We actively cooperate with the Russian Ministry of Labour, National Council for Professional Qualifications and the Industry Councils. Being actively implemented are the applied bachelor and master's degree programs under which more time and attention are devoted to on-job training of students. The AML/CFT-related specialist degree programs, such as Economic Security, Data-Processing Security Systems, Computer Security, and Customs, remain part of the education process.

In 2014 the Ministry launched the "New Professional Staff for Defense Industry" initiative, which proved to be highly effective after two years of its implementation.

Innovative forms of staff training expand students' access to modern educational technologies and learning options, facilitate more effective use of the available educational resources, increase variability of educational programs and allow students to build individual educational pathways by offering a wide variety of courses, disciplines and modules. Many foreign and Russian universities also exploit remote education technologies and tools.

Of special interest is the networking format of educational programs as provided for by Articles 13(1) and 15 of Federal Law No.273-FZ on Education in the Russian Federation of 29.12.2012 (hereinafter -

Federal Law). The Ministry has developed the Methodological Recommendations for arranging educational process with implementation of academic programs in the networking format. In the context of globalization, further extension of integration processes and growing demand for multicultural background, the universities tend to more closely cooperate with each other for shared use of available facilities, methodological framework and resources as well as for increasing faculty and students mobility.

The network AML/CFT Institute is a good case.

Such educational programs:

- shape a new generation of highly qualified professionals who have critical thinking skills and are capable of developing and implementing creative solutions;
- contribute to more intensive cooperation among educational and scientific institutions;
- facilitate establishment of common research and educational environment;
- promote internationalization of higher education and increase of academic mobility.

In 2,5 years of its effective operation, the network AML/CFT Institute has become a fully-fledged scientific and educational hub, involved in training of specialists capable of addressing threats to the financial and economic security. They are multidisciplinary pundits with various competences in economics, law, information technologies and international activities. The networking form of educational programs allows to build courses on multiple disciplines. Hence, the universities members of the network AML/CFT Institute develop and implement educational programs with due consideration for the peculiarities and special features of actual professional AML/CFT activities.

The cooperation mechanisms worked out within the network Institute provide for high quality of specialist training, since the member universities have well-established and actively operating special financial monitoring units (departments, faculties, centers, laboratories) responsible for AML/CFT staff training. Four members of the network Institute are among the



leading universities, participating in implementation of the international competitiveness enhancement program. The fact that the network Institute includes not only educational but also scientific institutions, promotes and ensures the leadership of our country in economic security. Such forms of interaction as they pertain to establishment of common research and educational environment help universities to develop joint projects.

Launch of such initiatives and multilateral collaboration of universities has positive impact on the Russian higher education and strengthens relationships and cooperation between educational and scientific institutions.

The network Institute is a multinational project, intended for training staff for anti-money laundering systems of different countries. Over 100 students from the neighbouring and other foreign countries undergo training under the AML/CFT programs. Today, as a result of coordinated efforts of the national ministries and agencies and due to strengthening and enhancement of relationships between the university communities of Russia and its partner countries, the global education dialogue rises to a brand new level.

The important outcome of the network Institute's efforts is harmonization and development of common approaches to the staff training and implementation of joint techniques and programs which are based on the principles of quality, openness and equality.

Modern economy entails substantial changes in the requirements for university-trained specialists. The labour efficiency is increasing, technologies are changing which, in its turn, triggers alterations in the education content. Successful implementation of social and economic development programs directly depends on the level of human capital evolution. The global experience shows that successful development of education is based on close cooperation between higher education institutions and companies operating in the real sector of economy.

In summary, it has to be noted that modern education should take into consideration current and future demand in the labour market. It is important for university graduates to have a range of competencies and skills that would be demanded and would help them in the future professional activities. In this context, the network AML/CFT Institute, implementing the networking format of education, fully meets today's challenges.

## EDUCATION IN BRICS COUNTRIES

## LINK ABBS – AML/CFT NETWORK IS CRUCIAL FOR ENHANCING INTERNATIONAL COOPERATION

*Professor Joseph Philip is one of the founders of the Association of BRICS Business Schools and its first President. He was reelected, succeeding to the representative of the Russian Federation Vladimir Godin. In his interview to the “Financial Security” magazine Joseph Philip talked on the history and eventual evolution of the organization*



*Inessa A. Lisina,  
Deputy editor in chief*

**FS:** *Mr. Philip, could you speak about the history and participants of establishment of the Association of BRICS business schools?*

**D.F.:** I am privileged to have been a founder member and the first President of ABBS. What inspired the idea of ABBS was the sentiment that management education is an important domain for cooperation among BRICS. It was first voiced at an international conference on management education hosted by XIME, Bangalore in January 2008.

The idea made further headway through discussions among the College of International Business & Management and Global Management Education Institute (China) State University of Management (Russia), organized by XIME in Shanghai later in the year. The meeting resulted in the adoption of a memorandum on creation of an association that was

signed in Moscow in October 2008. This was followed in January 2009 by a meeting of the 11 founder member institutions who signed the agreement on establishment of ABBS with the aim of promoting and strengthening cooperation among business schools in BRICS.

All five BRICS countries are represented in ABBS which has a current membership of 25.

**FS:** *Would you tell about India's interest for projects in the field of management education?*

**D.F.:** The background for India's keen interest in global management education is the fact that the country has been the pioneer of management education in Asia, having set up the renowned Indian Institutes of Management way back in 1961 and 1962. India has the largest number of business schools among countries of the world, the number currently exceeds 3500.

**FS:** Which key goals were set at the moment of ABBS establishment?

**D.F.:** The aims and envisaged activities of ABBS are as follows. To promote and strengthen cooperation among member institutions of ABBS through various measures including;

- a) exchange of academic faculties;
- b) exchange of students;
- c) joint academic programmes;
- d) exchange of publications, teaching material, case studies and research material;
- e) organization of seminars, workshops and conferences;
- f) joint research and publications;
- g) generating resources through fees, subscriptions, contributions, donations, grants, subsidies, endowments, publications etc.
- h) undertaking any other measures which would further the main objectives of the Association.

These aims are of perennial significance to the Association and they continue to inspire and guide the activities of ABBS.

**FS:** What is the ABBS activity aimed at the moment? Who are the key partners?

**D.F.:** The main activities of ABBS at the present moment are faculty and student exchanges, exchanges of publications, efforts to evolve joint program and case studies and, notably, organization of BRICS Students Meet annually by turn in venues of different member countries. The last BRICS Students Meet was held in Moscow and this year will be held in India.

Our principal focus through the various activities that we have been pursuing is promotion of cooperation and exchanges among member institutions. We do not have any specific partners among international organizations other than the AML/CFT ones, but we reach out to other countries and organizations within opportunities of conferences and gatherings arise.



*Joseph Philip*

**FS:** In your opinion, what is the ABBS future like? What will be in its focus?

**D.F.:** ABBS through its several activities over the years has been able to promote and sustain BRICS-wide solidarity as well as academic cooperation and exchanges. We believe that the prospects for development of partnership among management schools in BRICS are enormous and such partnership will yield rich dividends in terms of value addition to management education in our respective countries.

We are making efforts to increase the membership of ABBS. With such increase and more activities in diverse areas, we hope to have a larger measure of international interaction.

The ABBS link with the AML/CFT Network is a highly significant one as it offers the Association opportunities of partnership in the area of international cooperation so crucial for the global financial order.

We envisage a bright future for ABBS in terms of larger membership in the organization and growing and diverse activity in pursuit of cooperation in management education, a critically important field for national development in BRICS.



## NETWORK INSTITUTE

# PERSONNEL TRAINING AT THE PREMISES OF THE NETWORK AML/CFT INSTITUTE: OUTCOMES AND PROSPECTS

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*Yekaterina V. Butkeyeva,  
Executive Secretary of the network  
AML/CFT Institute*

**T**he network Institute in the field of anti-money laundering and countering the financing of terrorism (AML/CFT) exists for 2 years now. In this period the network Institute has become a research and educational centre for training personnel for national AML/CFT systems of Russia and partner states.

The Institute is evolving rapidly. To date, over 20 joint events, dedicated to the relevant issues of AML/CFT and personnel training, were held. During the events important strategic and scientific decisions were taken.

The key outcomes of joint work of its participants, supported by the public authorities and structures (Rosfinmonitoring, Ministry of Education and Science, Russian Ministry of Labour, Russian Ministry of Foreign Affairs, Rossotrudnichestvo, etc.), were as follows:

- elaboration and approval of professional standard "Expert in Financial Monitoring (in AML/CFT)", which is used for working out teaching materials and educational process in the network Institute's universities;
- accomplishment of over 25 training programs in various areas of this field and elaboration of 5 specialized AML/CFT courses (Financial Monitoring, Countering Illegal Financial Transactions, Data-Processing Support of Financial Monitoring, Economic Security Management, Risk Analysis and Economic Security) under which training of Russian and foreign students has been held since 2015;
- establishment of specialized units in each university (departments, academic departments, centres and laboratories) responsible for the experts' preparation in the AML/CFT and economic security fields;
- agreements between field-specific universities' structures and Interagency departments of Rosfinmonitoring aimed at organizing internships and preparing students for the future job;
- Memorandum of understanding between network AML/CFT Institute and Association



of BRICS Business Schools with purpose of developing academic mobility, creating unified educational environment and enhancing integrational processes;

- universities of the network AML/CFT Institute in 2015 enrolled over 70 students from Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and other countries. In 2016 applications have been filed by more than 200 people from foreign countries (CIS, Argentina, Brazil, India, Mongolia, Serbia, etc.);
- around 50 teachers from member universities of Russia, Kazakhstan, Kyrgyzstan underwent advanced AML/CFT training;
- on November 10-12, 2015 a joint conference of the network Institute and the Association of BRICS Business Schools was held. It was titled "Threats and Risks to BRICS Economies" and united more than 150 AML/CFT experts, scientists, researchers.

Top areas of work were defined at the meeting of the network AML/CFT Institute's Council on May 20, 2016 in Rosfinmonitoring, chaired by Yury A. Chikhanchin. The meeting was attended by Deputy Minister of Education and Science of the Russian Federation Alexander A. Klimov, Head of the Federal Agency for Scientific Organizations Mikhail M. Kotyukov, Head of the Education and Science Cooperation Department at Rossotrudnichestvo Vadim V. Chekha and other heads and representatives

of educational and scientific organizations in Russia, Kazakhstan and Kyrgyzstan.

The Council Chairman Yury A. Chikhanchin emphasized the importance of countering corruption, taking measures for effective use of budgetary funds and implementation of the President's directives. He also highlighted the relevance of providing well-trained personnel for international and national AML/CFT systems and, therefore, a particular role of the network Institute, aimed at meeting this challenge.

Heads of educational organizations talked about the training of experts and scientific research in the field of financial monitoring, shared their experience and drafted the areas of further joint work, including:

- high-quality and consistent personnel training for AML/CFT systems of Russia and partner states;
- evolution of scientific backup, research in the field of financial monitoring and AML/CFT in order to work out new practical solutions and improve the anti-money laundering system;
- elaboration and launch of common informational resource – the network AML/CFT Institute's website;
- integration of elaborated programs, profiles and specializations into academic process;

- updating of educational programs in line with the relevant AML/CFT professional standard;
- elaboration of unified educational environment and approaches to personnel training;
- elaboration and integration of new joint up-to-date approaches, technologies and forms of videoconferencing system (VCS);
- raising students', teachers' and scientists' academic mobility;
- strengthening and expanding of the international cooperation and partnership in AML/CFT educational and scientific areas;
- participants' joint use of material and technical, research, intellectual, human and other resources.

To wrap up, we can figure out the trend of Institute's evolution as follows:



In this way back in 2013 the participants took an unanimous decision to join forces by signing the Agreement on establishment of the network AML/CFT Institute and took action on elaboration of programs, teaching materials, professional standard, etc. and teaching students at their premises. Now when the most difficult steps have been taken, it is time for the most important step, incorporated in the basis of the network Institute – **cooperation**.

Terrorist financing and money laundering pose a threat to financial system, prevent economic growth and create risks for the national security. High-skilled staff is to face these challenges by elaborating and pursuing effective state policies in the field of ML/TF countering.

**INTERNATIONAL SCIENTIFIC AND RESEARCH CONFERENCE  
"RISKS AND THREATS TO BRICS ECONOMIES" NOVEMBER  
10-12, 2015, MOSCOW, RUSSIA**

# **BRICS AND CHINA: CHALLENGES AND OPPORTUNITIES**

*Authors: Zhou Hong, Li Xiaohui, Huang Feng, Luo Ying, Liu Jianwei and Guo Wencheng under the supervision of Professor Yuan Denghua and Dr. Huang Lei,  
MBA Education Center, Guangdong University of Foreign Studies, China*

## **1. INTRODUCTION**

For many years, the world has been trapped in a unipolar economic system. Until today, a great number of challenges and questions are still dominating the current world, especially in developing countries. These include queries such as whether the World Bank and IMF alone are adequately supporting a sustained global economic growth? Whether the Euro, US dollar and Yen are powerful enough to facilitate the global economic development needs? Is there any Emergency Mechanism to overcome global economic crisis? And how will the BRICS countries be in 2020 and onwards?

world economic development, there are still some critical pitfalls in the system. Some are listed and discussed below:

As estimated, the required infrastructure investment for Pan-Asian connectivity in the transport, communications, and energy sectors during 2010–2020 would produce a substantial real income gain of about \$13 trillion for developing Asia during this period and beyond. Thus, a total of around \$8 trillion in overall national infrastructure and additional \$287 billion in specific regional infrastructure projects—an average overall infrastructure investment of \$750 billion per year will be demanded in Asia during this period.

## **2. CHALLENGES**

### **2.1. Unsound Financial System**

The World Bank and IMF are the two largest financial institutions in the world; they have a direct impact on the international finance. Though these two organizations have been actively facilitating the

Asia is home to more than half of the world's population, with a wide variety of cultures. Its landmass is vast, with abundant natural resources, large and diverse energy reserves. It is dotted with factories, plants, and businesses, both small and large that produce a range of goods and services. Above all, it has enormous potential—but unfortunately, much of it goes untapped. Obviously, the World Bank can't afford this loan.





The problems above are also potential sources of financial crisis. United States, Europe, Japan and other developed countries to get rid of the crisis and to prevent the collapse of the global financial system, have raised the debt ceiling, implemented the quantitative easing of monetary policy and other measures, but these are based on damaging the interests of developing countries. For instance, the quantitative easing of monetary policy in the USA has led to the devaluation of the dollar, which directly caused substantial losses to the developing countries that held the US assets such as Treasury Bonds. At the same time, the liquidity surplus of US dollar has caused a price rise from the international energy resources to the products themselves, thus pushed up the costs of imports of the developing countries, which has also induced unexpected inflations. Consequently, the financial systems of many developing countries were damaged. Since the 1980's, over 100 developing countries have suffered from collapses of their banking systems with more than 4% declines in the overall GDP level.

## 2.2. Unipolar Currency System

### *Consequence of an unstable exchange rate system*

Economic outlook of many developing countries such as China have heavily relied upon their exportation advantage based on their low labour cost and resource abundance. However, with the appreciation of RMB in recent years, those countries have lost such advantages. Since the exchange rate

is much lower than ever before, the buyers have to spend much more money to purchase the same product, the enterprises have to reduce their profit in order to maintain their business. Such an unstable exchange rate system will undoubtedly harm the economic development in the long run.

## 2.3. Absence of emergency mechanism to solve financial crisis

How does the IMF respond to the global financial crisis?

### 2.3.1. IMF measures to tackle with the financial crisis

The IMF is used to tackle with financial crisis through three common approaches: loan allocation, sanctions on the target country and imposing financial structure reform on the target countries aimed at two goals: in short term, to relief the crisis and to prevent its escalation; In the long run to enhance the economic recovery of these countries through effective economic reforms and structural adjustments.

### 2.3.2. IMF response to global financial crisis

The IMF's role in tackling the financial crisis is to provide financial assistance, during 1980's economic crisis, Brazil, Argentina and Mexico were

on the verge of bankruptcy, the IMF funding of these countries positively reacted to such downturns. However, its role deteriorated substantially during the world financial crisis in 2008.

### 2.3.3. IMF role in the global financial crisis

The IMF rescue package demands specific performance of recipient countries such as shutting down their solvency of financial institutions and having them transferred to powerful institutions, strengthening the construction of financial supervision, loan classification, capital adequacy standards, internationally accepted accounting procedures and information disclosure rules, deposit insurance system, and restriction of foreign currency exposure position. At the same time, regulations on corporate governance structure, financial transparency, market exit mechanism and strengthening of bankruptcy law, are also fundamentally required. In a volatile market, these radical measures will only result in psychological panic of the public. Such rescue plan will cause the interest rate increase and the output fall. But in reality, such policy does not seem to promote too much to the balance of payments of the recipients.

This is also a serious challenge for the economic sovereignty of a country. This is clearly demonstrated by the financial crisis in Greece, which has been rescued by the IMF. However, the bailout money mainly goes toward paying off Greece's international loans, rather than making its way into the economy. And the government still has a staggering debt load that it cannot begin to pay down unless a recovery takes hold.

## 3. SOLUTIONS

### 3.1. Establish a new regional banking system

As we have elaborated that IMF has its shortcomings when it comes to fairness, and the World Bank is unable to provide sufficient loans to the developing countries and furthermore, its loans always offered with strict political conditions. Therefore, we propose to initiate a more proper approach, which involves building up new regional banking systems for particular regions.

Currently, two exemplary banks such as the BRICS Development Bank (DB BRICS) and Asian

Infrastructure Investment Bank (AIIB) have been constructed to achieve many targets for these regions. AIIB can provide more sufficient loans to Asian developing countries with no political or other subsidiary conditions. Furthermore, such Regional banks can also propel the World Bank and IMF to facilitate their reforms on their shortcomings and enhance the power of discourse of China and other developing countries. On top of that, it can also guarantee a healthy competition environment among the World Bank, IMF and other regional banking systems. To emphasize, regional banking systems do not work against the World Bank or IMF, they are just completing missing functions of the World Bank and the IMF.

### 3.2. Flexible international financial system

It is quite dangerous that only several currencies are employed as the major world settlement facilities. For example, US dollar is a national currency but it is used as the key settlement currency in international trades and other global financial conducts. This will lead to potential world financial crisis for sure. The 2007 financial crisis is a good example.

To solve this contradiction, we would suggest the following solutions.

First of all, impose more flexible Capital control, which includes taxes, tariffs, outright legislation and volume restrictions, as well as market-based forces. Capital controls can affect many asset classes such as equities, bonds and foreign exchange trades. Tight capital controls are most often found in developing economies, where the capital reserves are lower and more susceptible to volatility. As members of BRICS countries, more flexible capital control is definitely inevitable. For example, when the Fed raises its interest rate, which will cause a lot of money outflow to the US, thus will lead to a more vulnerable economy, and at that moment we must adopt tight capital control to curb domestic capitals from out-flowing.

Secondly, adopt multiple international currency system in order to encourage the use of local currency as settlement currency within mutual organizations.

Thirdly, build up offshore currency market or sign up more currency reciprocal agreements among governments.

### 3.3. Build up effective emergency mechanism to avoid financial crisis

Right after the 1997 Asian financial crisis, the Chiang Mai Initiative was signed. The Chiang Mai Initiative (CMI) is a multilateral currency swap arrangement among the ten members of the Association of Southeast Asian Nations (ASEAN), People's Republic of China (including Hong Kong), Japan, and South Korea. It draws from a foreign exchange reserves pool worth US\$120 billion and was launched on March 24, 2010. That pool was expanded to \$240 billion in 2012.

Therefore, we would suggest the following:

First, take full advantage of current existing Initiatives and regional Banks, and encourage countries to sign up more initiatives and set up more regional projects similar to Chiang Mai Initiative, BRICS Development Bank or Asian Infrastructure Investment Bank.

Second, hold up financial summit across borders periodically to raise alert in advance and exchange information more frequently among nations.

Again, the purpose of these organizations is not to compete with IMF or World Bank, they are just completing their missing functions.

## 4. CHINA'S COMPREHENSIVELY DEEPENING REFORM

By the end of 2013, President Xi has brought up the idea of comprehensively deepening reforms. The major point of this idea is to help China eliminate all barriers in developing its economy, including optimization of its own financial system. Globally, China will firmly support the principles of WTO in leading a worldwide free, fair and open trade. The Belt and Road Initiative is a good example of how China will play by following the WTO spirit.

As shown on the picture (p.20) regions covered within the B&R Initiative are with a total population of around 4.6 billion, and an aggregate economic output of US\$ 21 trillion, accounting for 63% and 29% of the world's total amount respectively. The countries along the road are mainly developing economies with poor infrastructure and cash bottlenecks, which denotes enormous opportunities for development.



However, it should be well understood that when bringing up this Initiative, China is not trying to build up any protective organizations as everything within this project is open and transparent and any countries are welcome to join.

Through this Initiative, China and all countries and regions within the scheme will be able to share lots of benefits. For instance, we can improve the infrastructure and living conditions; and better infrastructures come with more business opportunities and it can also upgrade the tourist conditions of these regions that results in discovering more buried old civilizations that should be treasured and preserved.

It is believed that the B&R Initiative is a very good example to share with all the BRICS members and hopefully it will benefit more countries and create a better future for all of us.

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# ESTABLISHING COMPREHENSIVE, ECONOMIC AND LEGAL APPROACH TO RISKS AND THREATS IN ANTI – MONEY LAUNDERING REGIME

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## BACKDROP

Money Laundering (ML) as an expression is one of fairly recent origin. It was spotted as a crime in the 1980s within a drug trafficking context, later extended its brackets to crimes like arms smuggling and human trafficking. In India, this term was commonly referred as 'Hawala transactions' during the 1990s. Money laundering disadvantageously affects any economy through rise in tax rates, fluctuations in exchange rates and people losing faith in the financial system and above all sending wrong signals to FDI and many more.

## CONCEPT

Money Laundering refers to the Conversion or "Laundering of money which is illegally obtained, so as to make it appear to originate from a legitimate

source (Sec.2 (1) (p) of Prevention of Money Laundering Act, 2002.

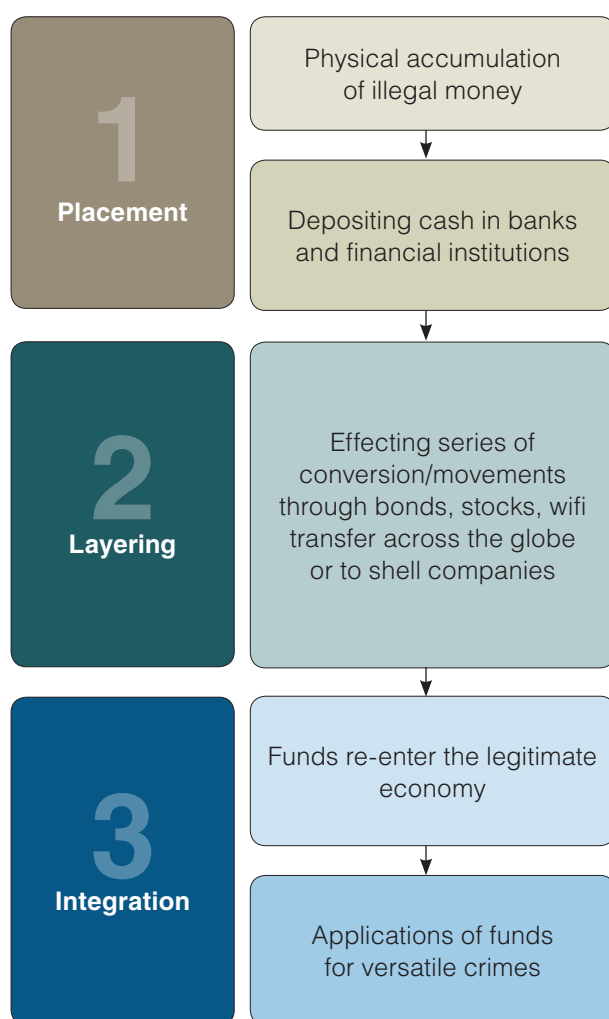
Article 1 of EC Directive defines the term "money laundering" as "the conversion of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the committing such an offence or offences to evade the legal consequences, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime".

A Money Launderer, according to the Prevention of Money Laundering Act 2002 is defined as "whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property is guilty of offence of money-laundering".

The term “Money Laundering activities” covers not only the criminals who try to launder their ill-gotten gains, but also the banking/financial institutions and their employees who participate in their transactions and have knowledge that the property is criminally derived. Thus, employees of a bank branch who deliberately fail to make further inquiries or report the suspicion to higher authorities, are also considered to be conscious of the crime and termed as ‘money laundering activities’.

### MODUS OPERANDI

Legitimizing illegal funds by concealing the true source of financial assets vary in complexity and sophistication, the following are common



### BANKING INDUSTRY AND MECHANISM OF ANTI-MONEY LAUNDERING

Banks predominantly engage themselves with direct interaction with customers for serving, processing and making available all products offered therein. Above all, continuous monitoring, reporting and controlling the exposure to various risks like credits, fraud etc., have almost become a regular work at the branch level.

All these processes have inherent risks of money laundering and every officer from the chief risk officer to client interaction desk should be thoroughly trained on the KYC norms to collect all true information, threshold limits, dubious identity of business are to be vigilantly handled following the directions of the directives by the regulatory authorities and government and report immediately to the authorities without any delay.

Laws specified by the Indian Government oblige to know your customer (KYC) and report of suspicious activity and cash transactions. These norms are to be followed by all banks irrespective of the sector they are in. KYC makes it mandatory for banks to ask for the identify proof of all customers who are requesting for any services/products of the banks. The banks also are mandated to report suspicious transactions, like customer declining to reveal source of money, cross border payments etc.,

Money laundering offences include among other things, all transactions in proceeds of offences against the state and those involving narcotics or other crimes. India is clear in its vision to curb laundering of the proceeds from a number of crimes with a help of enactment of various laws effected by the Parliament of India. The following enactments are relevant in the context of anti-money laundering front. The Indian Penal Code 1860, Immoral Traffic (Preventions) Act 1956, Arms Act 1959, Narcotic Drugs and Psychotropic Substances Act, 1985, Prevention of Corruption Act, 1988, Wild Life (Protection) Act, 1972, Foreign Exchange Management Act, Prevention of Money Laundering Act 2002 and the list continues with many directives issued by the competent authorities to prevent the menace of money laundering in the Asian subcontinent.

The Act of Money Laundering is seen across the globe. However, it is felt that the offenders commit

the crime in a nation that has weak legislations. Therefore, it's imperative to the BRICS countries to come together to address with utmost cooperation and consider it to be a mutually beneficial exercise.

The International Monetary Fund and The World Bank have already triggered several initiatives to counter and eliminate money laundering activities through increased awareness among the countries, evolving a common platform to address the preparedness in combating, through capacity building programs for the staff of the financial intermediaries, deliver technical support for nations etc.

Besides, Financial Action Task Force (FATF), International Money Laundering Information Network (IMoLIN), United Nations Office of Drugs and Crimes (UNODC), INTERPOL are among other things which have evolved as the anti-money laundering bodies to curb the menace globally.

## RECENT DEVELOPMENTS IN BRICS COUNTRIES ON ANTI – MONEY LAUNDERING

Money Laundering's effects are felt all over the world and BRICS is no exception. Its governments and agencies have geared up towards the responsibility of fighting money laundering by establishing the required regulations. Moreover, each has been known for significant corruption problems in the past that have obstacles for investing and doing business in them. Increasingly, the BRICS and other countries have realized that effective anti-corruption measures have to be in place which drives the global business conglomerate becoming attracted to foreign direct investment.

Delegations from BRICS countries, participating in the work of the Financial Action Task Force, discussed topical problems regarding preparations for the next round of mutual assessments of the national systems, focused on anti-money laundering and countering financing of terrorism. It is worth highlighting here that a Memorandum of understanding between the network AML/CFT Institute and the Association of BRICS Business Schools (ABBS) was signed during the FATF Plenary session in Paris, France in February 2014

The report of Transparency International identified corruption and money laundering as major problems for the BRICS.

"Grand corruption in big economies not only blocks basic human rights for the poorest but also creates governance problems and instability. Fast-growing economies whose governments refuse to be transparent and tolerate corruption, create a culture of impunity in which corruption thrives," said José Ugaz, the Chair of Transparency International.

South Africa ranked 67<sup>th</sup>, the best among the BRICS countries in addressing corruption this year, graft watchdog Transparency International said in its latest report. Brazil ranked 69<sup>th</sup>, India 85<sup>th</sup>, China had a ranking of 100 while Russia was 136<sup>th</sup>.

China's score fell to 36 in 2014 from 40 in 2013, despite the fact that the Chinese government launched an anti-corruption campaign targeting corrupt public officials. The government has recognized the need to follow officials who hide ill-gotten gains overseas. This January (2014), leaked documents revealed 22,000 offshore clients from China and Hong Kong, including many of the country's leaders.

India marginally improved its standing from being ranked 94<sup>th</sup> in 2013. The CPI score for India increased by 2 points in 2014 from its 2013 score, helping India's rank move up to 85 in 2014 from 94 in 2013.

## Best Practices to Monitor Potential Money Laundering – Indian Model

- 1) Implementation of Know Your Customer as mandated requirements for both existing and new customers.
- 2) Filtering, Monitoring and Reviewing of;
  - a) high value cash transactions above Rs.10 lakhs through monthly check. Compulsory matching the profile of the customers, income declaration with transaction details. Cross verification with RBI block listed persons while opening accounts;

- b) term deposits above Rs.2 lakhs are reported to Income Tax department;
  - c) frequent transaction of small value ranging from Rs. 50000 & above compulsory PAN card;
  - d) monitoring of newly opened accounts up to 6 months for any abnormal transactions with specific asks of customer geographical dislocation;
  - e) monitoring of customers having multiple accounts in the same name;
  - f) monitoring of accounts that have unusual credits or debits;
  - g) monitoring of High Net worth Individuals (HNI) regularly;
- 3) COSMOS alert accounts for visible abnormality.
  - 4) Frequent usage of Form 60 in lieu of PAN Card or Form 61 for agricultural income.
  - 5) Asking for source of funds in writing, over the counter for high values.
  - 6) Through OFAC in respect of remittance of foreign currency.
  - 7) Through professional training on AML to all the staffs of the banks.

### **Establishing Comprehensive, Economic and Legal Approach to Risks and Threats in the Anti-Money Laundering Regime**

Though the Indian laws are available to handle the crime, the following Anti-Money Laundering initiatives are worth being implemented and established:

#### *Economic (Cost Effective) Approach*

- 1) Adequate advanced training, provided at the bottom level on AML initiatives and on the technology front, as new entrants are not equipped properly to identify the frauds.

- 2) Minimize documentation
- 3) Evolving and strengthening the reporting system to the Central Office, on the reasons for bulk transactions in accounts, to be simultaneously reported to RBI and AML wing for closer follow up.
- 4) The concept of speedy disposal or clearance through single window is a great disadvantage as it handicaps the team to apply logic behind any transactions.
- 5) Staff Vigilance should be strengthened as regular and period reports on bulk transactions should not be viewed as a ritual rather looked seriously on the possibility of committing the fraud.
- 6) Linking of accounts with Pan Card/Aaadhar ID for every customer.
- 7) Insisting on digital payments for all transactions like RTGS/NEFT and reduce physical currency transactions and avoid third party cash deposits in banks.
- 8) Single customer ID for single customer, thus Consolidating Customer IDs.

#### *Legal Approach*

- 1) Create awareness about the various laws governing AML and their consequences.
- 2) Implement warning messages everywhere possible.
- 3) Real Estate laws need to be streamlined.
- 4) Cooperative banks also should come under close monitoring of RBI guidelines.
- 5) Scrutiny hierarchy of suspicious transactions be revised and made into a centralized monitoring.
- 6) Government, Law Professionals and Bankers along with Information Technology Professionals should work in tandem to develop an environment that ensures specialized training to the manpower that are engaged in this process, undertake standalone



investigations, foster a proactive enforcement culture and drive internal accountability of higher standards.

- 7) Uniform laws on anti-money laundering at the global level, giving a blended perspective of all countries through treaties or pact.
- 8) Repartition of funds, 15CA, 15CB to be monitored compulsorily.
- 9) Stringent regulations for foreign customers and limited to open only two.

#### *General Aspects*

- 1) Working together with transparency across nations to share and learn best practices globally.
- 2) Use the common data base of people, involved in money laundering, by updating it, reviewing

it and sharing the data across borders and using it to prevent money laundering.

- 3) Nonresidents should have Non Resident External a/c and not savings a/c.
- 4) Declaration by the customers when funds are brought in and taken out of the country on the sources of fund.

#### **CONCLUSION**

The tripod of effective countering of money laundering is transparency, honesty, and integrity exercised simultaneously by the Government and Banking sector through show casing heavily on high level of their ethical standards and remain governed by the aspect of functionality. In other words, the Government, the Banker and the Law Professionals public remain connected as it is understood that they do not exist in isolation.

# ***BUILDING UP BUSINESS SCHOOL IN BRICS: INDIAN EXPERIENCE***

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**"D**reaming with BRICs" of Goldman Sachs is by no means dead. There may be some slowdown in the growth rate in Brazil, South Africa and Russia; but India and China are doing relatively well with 7,5 % growth rate expected. Russia, in spite of the western sanctions, is holding its own and all signs are that it will only do better in future.

But BRICS nevertheless face risks and threats on several fronts in their drive for rapid and sustained growth of their economies.

For those of us in the academic discipline of management, the tasks for BRICS are for the most part those of management in government, business and in what is called the third sector of social and non-governmental institutions. Developing and training our vast human resources in these sectors, building up our national capacities, running our economies and financial system efficiently and sustaining our economic growth – all these are certainly the challenges of management for BRICS countries today.

Now, the question we may ask is how we ensure continued growth of our economies and the role that management education could play in fostering such growth. The US and the West had certain advantages in technology and management. Our countries are catching up on these advantages and are today responding to the challenge that Peter Drucker posed years ago: how to create an adequate managerial base, critical to economic development in BRICS. To our credit, Bangalore educational systems, particularly in science and technology and management are surging ahead in quality, relevance and even spawning large numbers of start-ups.

After having spent nearly half a century in management education, I am convinced that economic growth, competitiveness and sustainability in management education play a vital role for all our countries. India alone can boast of almost 30% production of world MBAs. That was an investment in the future of the country, and it seems to pay off.

India has about 3600 B-Schools, it produces about 350 000 MBA graduates and even supplies to the western world at least 10 000 of them every year which is bound to grow in the years to come. It is our prediction that by 2025 India will become the No.1 destination for global recruitment of MBAs.

With this information, I propose to share with you my own experiment in building a first-rate B-School in India from ground zero, and I believe that it will have some resonance with educational entrepreneurship across BRICS.

The year was 1991 and I was about to complete my contract employment as the Director of Indian Institute of Management, Bangalore (one of the top B-Schools of the country's governmental sector). I was just about 55 years in age. Dr. Manmohan Singh, the then Finance Minister, had declared a slew of economic reforms which were aimed at opening up the country. It occurred to me that India was in a fair way to embark on a period of accelerated growth which would demand increased supply of well trained and rightly oriented managers. Of the nine million jobs that had to be created in the country every year, nearly one million had to be managers. It was this reading of the situation that led me to take the initiative in establishing XIME in Bangalore. In doing so, I had the support of a group of the leading educationists and public spirited men. But I must hasten to add that we had no money to build a B-School. As a Professor, I did not have much of a wealth to speak about. The same was applicable to my associates. Nevertheless, I was not deterred by this handicap however serious. I knew that money would come. And it came, mostly from industry. Ideas are indeed more valuable than money!

On May 28, 1991 we founded XIME with a capital of Rs.60 000 which is about \$4000 at the then existing exchange value. Our Institute building was a rented one with an area of 3000 sq.ft. We thought our first efforts should be in mid-stream management development and organization-based executive development programs. The next year, we started a one-year part-time Diploma Program in Business Administration. In 1993 we added another one-year Diploma Program in Sales & Marketing. Both program were well received.

Emboldened by the continued success of our various academic programs and management

development programs, we decided to offer our own full-time graduate program in management. This needed the approval of the country's HRD Ministry. It came through in good time. On August 14, 1995 we launched our full-time graduate program in management. It was an instant success. We had put together a core faculty of senior professionals. We moved to a bigger and better campus facility. The program was designated as Postgraduate Diploma Program in Management (PGDM). This is a special feature of India in that almost all its leading B-Schools. The PGDM started with the Indian Institute of Management (IIMs) and, therefore, had a good image. We also decided to follow that route instead of becoming part of a government university. The PGDM route gave these institutions a lot of freedom and flexibility. Therefore, we grew in size and stature and changed rather fast.



We were keen to lay down clearly our Vision and Mission. They are reproduced below:

#### **XIME's Mission**

*To contribute to nation building by providing a steady stream of competent, value-driven and globally oriented managers.*

#### **XIME's Vision**

*To be a globally oriented Business School that is counted among the leading Business Schools of India as well as abroad with high levels of international accreditation. Competence, dedication and contribution to society will be the watchwords of XIME. The Institute envisages its future development with four units on stream by 2020.*



In 2002, we built our permanent campus in Electronics City [the Silicon Valley of Bangalore]. Our admission capacity was also raised to 120 students that year, and later to 180 in 2009. We continue to grow in terms of industry acceptance, in number of students' applications and faculty availability.

Our natural inclination was to grow so as to be able to enrol annually 240 or 250 students with the approval of the HRD Ministry. But some in our policy making group were not in favour of further physical growth in Bangalore. They agreed with Schumpeter that small is beautiful and our hallmark of "personalised attention" to students' development should not be watered down. And then, we decided to stay with 180 admissions in Bangalore. We built a beautiful campus in Kochi in 2010 and the PGDM program with 50 candidates started there in August 2013. The Kochi campus now takes 80 students which is to be raised to 120 in 2016.

Driven by market demand and our own quest to keep on growing, the third campus of XIME is under construction in Chennai, Tamil Nadu. It should be ready for launch in April 2016. So, we will soon have 3 campuses with an annual production of 400 PGDMs (MBAs).

XIME's story is in a way an unusual story.

A Business School started by an academician with virtually no capital or infrastructure.

- Moved up from nowhere to one in the top 1% of the Indian Business Schools system.

- Achieved 100% placement all through the years.
- From a hired building to 3 excellent campuses with all students staying in the campus residences.
- From a faculty strength of 5 to a number of 45.

Based on the unusual growth story of XIME, some generalisations may be in order.

#### 1. Performance culture

- 1.1. Create a strong performance culture in our institutions from the very beginning.
- 1.2. To achieve the above objective, develop an effective performance evaluation system.

#### 2. Talking about performance culture, a few key issues come to my mind:

##### 2.1. *Meticulous attention to selection of Faculty.*

On this crucial issue, Business Schools in India are seriously handicapped by the shortage of good faculty members.

##### 2.2. *No cap fits all*

Indian regulatory system has driven into the psyche of Indian education the central place of salary levels and grades. It seems that everything in most educational institutions is centred on this element. Payment has to be based on the worth of the person and the contribution that he/she makes.

##### 2.3. *That takes me to a third aspect:*

##### *How does one measure performance?*

As we say in industry, it is obvious that performance measurement cannot be unidimensional. The normal University system of measurement has brought in the debilitating practice of looking at performance from the point of view of the number of classes taken in a week. Often the quality of those classes leaves much to be desired. If you build in a regular students' feedback system, it can be corrected to some extent.



3. I am a strong believer in having a good blend of faculty from academia, industry and administration. Based on my long and fairly satisfactory career in management education, I have always felt that merely having a number of PhDs is not going to give us the best results. It is our task to make our students into good managers for which they need both theory and practice.
4. Diversity is not just for student composition or employee composition, but also must reflect in faculty composition. Many of the western B-Schools are good in this aspect. But most of our own institutions are beginners when it comes to faculty diversity. This needs to be corrected.
5. I have learnt through these years the need to have a clear vision of what one wants to achieve and pursue it vigorously and diligently. However, what one achieves even with hard labour will only survive if it is institutionalized.

Institutional excellence is not just one big thing well done. It also means hundreds of small things which need careful attention.

In this context, I have also learnt the value and power of the principle 'one thing at a time and first things first'. One really cannot succeed unless one manages his time effectively. I have tried to keep in mind Peter

Drucker's admonition to managers on this aspect:

*"Unless one manages his time effectively, no amount of skill, experience or knowledge will make an executive effective."*

## CONCLUSION

Business Schools in India are rather well linked with industry and, therefore, pretty well connected to the economy.

As most of you would know, Bangalore is a global city with a large number of multinational corporations from the knowledge industry being present. While we discuss various aspects of 'risks and threats' to BRICS economies, I would like to affirm that our true strength lies in quality education, particularly in technology and management. I am confident that such high quality education will be some sort of a guarantee against the feared 'risks and threats' to our economics.

India has done well on this score by establishing nearly twenty Indian Institutes of Management, Indian Institutes of Technology and half a dozen Indian Institutes of Science and Research. They are truly world class and have served Indian industry, government and the start-up system very well. We are quite confident in India of the future awaiting us.

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# ***BUILDING SUSTAINABLE COMPETITIVENESS OF BRICS COUNTRIES: BUSINESS SCHOOLS' ROLE***

*The globe has become a common market place, where the most competitive nations are vying with each other for expanding businesses beyond boundaries. The World Economic Forum every year ranks the nations across the globe on an index called Global Competitiveness Index (GCI). This paper attempts to identify the areas of concern for the BRICS nations in terms of the GCI components, highlights the factors that hinder the promotion and growth of business in BRICS economies and the role of Business Schools (B-Schools) in helping the BRICS nations to improve their competitiveness*



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## **MEASURING COMPETITIVENESS OF NATIONS**

The Global Competitiveness Index (GCI) defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity is the base which determines the level of prosperity that can be achieved by an economy. The productivity level influences the rates of return possible for

investments in an economy, which in turn affects the growth rates. In a nutshell, a more competitive economy is likely to grow faster over a period of time.

The GCI adopts a weighted average of many different components, each of which measures a different aspect of competitiveness.

The GCI components are grouped into 12 pillars of competitiveness as given in Table 1 below:

Table 1.

Factor-driven (Stage 1)	Efficiency-driven (Stage 2)	Innovation-driven (Stage 3)
<b>India</b>	<b>Brazil, Russia, China &amp; South Africa</b>	
<ol style="list-style-type: none"> <li>1. Institutions</li> <li>2. Infrastructure</li> <li>3. Macroeconomic environment</li> <li>4. Health and primary education</li> </ol>	<ol style="list-style-type: none"> <li>5. Higher education &amp; training</li> <li>6. Goods market efficiency</li> <li>7. Labour market efficiency</li> <li>8. Financial market development</li> <li>9. Technological readiness</li> <li>10. Market size</li> </ol>	<ol style="list-style-type: none"> <li>11. Business sophistication</li> <li>12. Innovation</li> </ol>
How they compete?		
Price	Efficient production processes & increased product quality	New and different goods through new technologies

The above table presents the stages of transition which the economies undergo in their development process. The respective GCI pillars which matter the most in each stage are grouped accordingly. Also the basis on which the respective economies compete is presented against each category.

*Factor-driven Stage.* In an economy which is factor-driven, the countries compete basing on their factor endowments – primarily unskilled labour and natural resources. The focus for maintaining competitiveness at this stage of development depends primarily on presented in the pillar Factor-driven areas (Institution and so on).

*Efficiency-driven Stage.* When countries enter this stage of development, they must begin to develop more efficient production processes and increase product quality because the increase in wages cannot be met with increased prices. Hence competitiveness is increasingly driven by higher education and training (pillar 5), efficient goods markets (pillar 6), and so on.

*Innovation-driven Stage.* In these economies, due to high cost of wages, in order to sustain

those higher wages and the associated standard of living, the businesses shall be able to compete only when they develop new and unique products using the most sophisticated production processes (pillar 11) and by innovating new ones (pillar 12).

The GCI considers the stages of development by allocating higher relative weights to those pillars that are more relevant for an economy with reference to its stage of development.

The following table summarizes the scores of BRICS economies on the twelve different pillars of the GCI.

It could be observed that while India has to concentrate on basic requirements and efficiency enhancers, Russia should concentrate on building innovation and sophistication factors.

Having discussed the overall GCI rankings and the summary of factors impeding businesses across BRICS economies, the following section focuses on five selected individual pillars among the 12 pillars of GCI, the areas of concern for the BRICS economies and the role that B-Schools have to play in strengthening these pillars.

Table 2. GCI scores of BRICS economies

	Brazil		Russia		India		China		South Africa	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
<b>GCI 2014–2015</b>	57	4.3	53	4.4	71	4.2	28	4.9	56	4.4
<b>Basic Requirements</b>	83	4.4	44	4.9	92	4.2	28	5.3	89	4.3
Institutions	94	3.5	97	3.5	70	3.8	47	4.2	36	4.5
Infrastructure	76	4	39	4.8	87	3.6	46	4.7	60	4.3
Macro-economic environment	85	4.5	31	5.5	101	4.2	10	6.4	89	4.5
Health and primary education	77	5.7	56	6	98	5.4	46	6.1	132	4
<b>Efficiency Enhancers</b>	42	4.5	41	4.5	61	4.2	30	4.7	43	4.4
Higher education and training	41	4.9	39	5	93	3.9	65	4.4	86	4
Goods market efficiency	123	3.8	99	4.1	95	4.1	56	4.4	32	4.7
Labour market efficiency	109	3.8	45	4.4	112	3.8	37	4.6	113	3.8
Financial market development	53	4.3	110	3.5	51	4.3	54	4.3	7	5.4
Technological readiness	58	4.2	59	4.2	121	2.7	83	3.5	66	3.9
Market size	9	5.7	7	5.8	3	6.3	2	6.9	25	4.9
<b>Innovation and Sophistication factors</b>	56	3.8	75	3.5	52	3.9	33	4.1	37	4.1
Business Sophistication	47	4.3	86	3.8	57	4.2	43	4.4	31	4.5
Innovation	62	3.3	65	3.3	49	3.5	32	3.9	43	3.6

Source: GCI Report 2014-15

## INSTITUTIONS

The institutional environment comprises of the legal and administrative framework within which individuals, firms, and governments interact to generate wealth. The quality of institutions has a strong bearing on competitiveness and growth.

It is quite evident from the component-wise scores in the table above that while India has to concentrate on handling terrorism, Brazil and Russia will have to focus on strengthening the legal and administrative framework within which individuals, firms, and governments interact to generate wealth.

The B-Schools can play a major role by taking up policy research and advocacy to help Brazil and Russia

to build a strong legal and administrative framework. Especially in the areas of financial monitoring, building efficacy of corporate boards and protection of minority shareholders' interest, B-Schools should play a pro-active role by taking up active research and consultancy assignments. Centers of Research have to be set up in B-Schools to work towards this objective. The model of the network AML/CFT Institute in the Russian Federation should be emulated across BRICS economies.

## HIGHER EDUCATION AND TRAINING

Quality higher education and training is pivotal for economies which aspire to progress in the value chain beyond simple production processes and products. The globalizing economy requires

Table 3. Institutions: component-wise score of BRICS economies

1st pillar: Institutions	Brazil	Russia	India	China	South Africa
Score among 144 countries					
1.01 Property rights	77	120	73	50	20
1.02 Intellectual property protection	92	107	65	53	22
1.03 Diversion of public funds	135	102	60	45	96
1.04 Public trust in politicians	140	74	50	26	90
1.05 Irregular payments and bribes	89	102	93	66	48
1.13 Business costs of terrorism	23	104	125	85	30

Source: GCI Report 2014-15

countries to build well-educated work force, which is able to handle complex tasks and adapt rapidly to its changing environment. The extent of staff training is also taken into consideration.

It could be observed from the table that while India lags in the area of Secondary education enrollment, internet access in schools and availability of research and training services, the Russian Federation lags behind in the quality of management schools. Building a strong academic partnership between Russian and Indian B-Schools shall be of great use in synergizing the strengths of both the nations. It is also important that B-Schools must work towards elaborating networks to build the capacity of the school teachers, which in turn will improve the quality of education system as a whole.

## LABOUR MARKET EFFICIENCY

In terms of building professional management, capacity to attract and retain talent, building a strong academic partnership between Russian and Indian B-Schools shall be of great use in synergizing the strengths of both the nations. The Indian experiences in formulating pro-active Human Resources policies to attract and retain talent can be of use to Russian federation. It is also to be noted that India has to learn from other BRICS nations in terms of promoting women participation in labour force.

## FINANCIAL MARKET DEVELOPMENT

The financial and economic crisis experienced recently across the globe, has highlighted the

Table 4. Higher education and training: component-wise score of BRICS economies

5th pillar: Higher education and training	Brazil	Russia	India	China	South Africa
Score among 144 countries					
5.01 Secondary education enrollment, gross %*	37	56	106	72	24
5.02 Tertiary education enrollment, gross %*	n/a	19	87	85	93
5.03 Quality of the education system	126	84	45	52	140
5.04 Quality of math and science education	131	59	67	56	144
5.05 Quality of management schools	53	104	56	85	24

Source: GCI Report 2014-15





importance of a sound and well-functioning financial sector. An efficient financial sector shall help to channelize resources to entrepreneurial or investment projects with the highest expected rates of return rather than those of vested interests.

From the above table, it is clear that there is a need for policy research and advocacy by B-Schools in the areas of improving the soundness of banks, regulation of securities exchanges and legal rights index.

In fact, improvement in this area requires considerable improvement in the legal and administrative framework of a country, which is a component of the *institutions* pillar.

## INNOVATION

Innovation can emerge from new technological and non-technological knowledge. BRICS nations must design and develop cutting-edge products and processes to maintain a competitive edge and move toward even higher value-added activities.

From the above comparison, it could be observed that there is a high possibility and need for a combined initiative among BRICS nations.

By analyzing the different components of GCI, it could be concluded that there is an immense scope for B-Schools to take up the leadership in strengthening and promoting the competitiveness of BRICS economies. Considering the immense scope for cross learning, vibrant academic partnerships have to be initiated, student exchange, faculty exchange and research collaboration must be promoted and facilitated by ABBS and RABE among the BRICS B-Schools. Specific work groups, which are focused on strengthening particular areas highlighted above, can be made to present their research findings in the annual ABBS-BRICS conference.

**Table 5. Financial market development: component-wise score of BRICS economies**

8th pillar: Financial market development	Brazil	Russia	India	China	South Africa
Score among 144 countries					
8.01 Availability of financial services	33	71	83	63	6
8.02 Affordability of financial services	36	69	73	50	21
8.03 Financing through local equity market	55	86	39	34	3

Source: GCI Report 2014-15

**Table 6. Innovation: component-wise score of BRICS economies**

12th pillar: Innovation	Brazil	Russia	India	China	South Africa
Score among 144 countries					
12.01 Capacity for innovation	44	66	48	40	35
12.02 Quality of scientific research institutions	50	56	52	39	34
12.03 Company spending on R&D	43	62	30	23	48

Source: GCI Report 2014-15

# CHINESE HARMONIOUS CULTURE IMPACT ON CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY MANAGEMENT IN CHINA

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## INTRODUCTION

Corporate Social Responsibility (social responsibility of business) and business sustainability management have been widely recognised as a key approach toward gaining business competitiveness. These two concepts were introduced in China during the 1990's.

Wang and Juslin (2009) assert that the general Corporate Social Responsibility (CSR) concepts imported from the West are unable to match well with the Chinese environment. To make corporate social responsibility more current in China and to be better understood by Chinese business firms and society, CSR concepts must take Chinese cultural, political and economic contexts into consideration.

However, Jensen observes that the leadership in China seems to pursue an agenda of conceptualising CSR by reference to a blend of an eclectic interpretation of Western European welfare

models and CSR conceptions with an eclectic interpretation of Chinese tradition and political culture (Jensen, 2006). As a result, CSR in China lacks the element of multi-stakeholder dialogue, which is commonly recognised as the core element of CSR in western countries.

## CONTEXT-BASED CSR AND SUSTAINABILITY

Science and technology has made substantial advances since the 1970s. There has been rapid growth in the knowledge-based economy, economic globalization, industrialization, urbanization and population. Consequently, a series of new development theories and concepts has been designed. New outlooks attach more emphasis on comprehensive development and progress. Economic globalization imposes an even bigger challenge towards the management of business sustainability.

Since the 1990s, many business firms have embraced CSR as a core concept in their business practices as they faced various critical issues, such as environmental protection, sustainable development, human rights (Hopkins, 2004). In practice, CSR was introduced in China in the mid-1990s, when multinationals brought western CSR into the Chinese market.

Nevertheless, as an emerging world economic power fond of seeking efficient approaches to satisfy its harmonious growth pattern, China has sought to adopt development concepts such as CSR and sustainability. It, therefore, becomes critical to find an appropriate approach to implement these strategies in a Chinese context.

### CHINESE HARMONIOUS CULTURE IMPACT ON CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY IN CHINA

Harmonious culture is the fundamental principle of traditional Chinese culture. It initially focused on the harmonized coexistence of human beings and nature (Zhang Dainian, 1998). The Chinese culture closely relates to contemporary tenets of sustainable development, therefore, it is useful to enhance and guide our understanding and formulation of sustainable development strategies (Mi Jiangxia, 2004).

#### *Confucianism*

The core value of Harmonization, along with its related principles of “Rectifying and Cultivating Oneself, Regulating One’s Family, Governing the States, Making the Whole Empire Happy” (Confucius et al., 1971) formulates the entire system of Confucianism.

Confucianism states that humans should not look down on or destroy other living forms in order to meet their own needs. Although Confucianism contends that all beings are equal, human beings may be superior because they are able to treat each other in more ethical, humane ways (Yue Aiguo, 2003). For instance, the Confucian concept of leading a virtuous life and adhering to the performance of your duties are also prevailing in the Chinese corporate culture.



In relation to social relationships within the family, workplace and society, Confucianism posits the category of the “mean”. The “mean” refers to the harmonious balance of all existing beings in the universe, essential to sustainability. It is important to recognise that in the Confucian classic, the pursuit of social harmony does not mean the absence of conflicts and disagreements, and there is even room for loyal opposition (Delury, 2008).

#### *Daoism*

The philosophy of Lao Tzu concerns the universe, human social life as well as politics. Daoism is based on the concept of “Nature-Man Oneness” and views heaven and earth as one whole. It believes that human beings and all other lives share some common laws and origins. This is regarded as a prominent contribution of Daoism to sustainability.

With regard to human relations, Daoism advocates governing by non-action and addressing and reconciling social struggle. In Lao Tzu, descriptions about the ideal human world are presented as a world of “non-desire”, “non-action” and “non-struggle”. Lao Tzu advocates that we should aim to live in a peaceful environment with a generous spirit. The objective of Lao Tzu is to raise people’s awareness of the Ways of Nature as a means of achieving happiness and the good life.

#### *Buddhism*

Buddhism has always coexisted with Confucianism and Daoism in China as a religion that tried to

encourage the spread of peace and harmony in society, and placed an emphasis on the importance of living in harmony with nature and respect for all forms of life. Human beings are not dominated by any sort of almighty forces and they are fully capable of determining their own destinies (David, 2005). Buddhism advocates that human life is equal to other lives in the world.

#### *Annals of Lü Buwei*

The “three elements theory” of *The Annals of Lü Buwei* comes out of agricultural practice, accurately revealing the relationship between human beings and nature, and becoming the guiding principle of agricultural practice.

### THE HARMONIOUS DEVELOPMENT PATTERN IN CHINA

Currently, the People’s Republic of China is implementing the construction of a harmonious society, and has integrated the traditional Chinese harmonious culture into its strategic philosophy.

The trend towards an increasing focus on sustainable development by the Chinese government from 2000 is clearly evident.

According to the Chinese government’s stated objective, its new industry focus includes innovation, restructuring, merging and integrating, rather than simply assembling or processing. Thus, the industrial intent has gradually shifted from secondary industry (manufacturing) to tertiary industry (services). In the first half of 2010, tertiary industry’s share of GDP rose by 1.3% while the secondary industry share fell 0.4 percentage points, to 49.7 % (RIETI 2010).

As a follow-up to the “all-around well-off society” concept, the “Scientific Outlook on Development” concept was advanced in 2003. The essence of this philosophy can be summarised as follows:

- development is a top priority;
- putting people first;
- comprehensive, balanced and sustainable development as its basic requirement;

- overall consideration as its fundamental approach.

In addition to stressing economic development, the Scientific Outlook on Development, for the first time, emphasized the importance of social development (Guangxia, 2007). Since 2003, China has proposed advanced concepts such as a “resource-saving and environmentally friendly society”, an “innovation-oriented country”, “ecological civilization and green development”, and it has been continuously putting them into practice (Jianguo, 2010).

### CONCLUSION

Chinese harmonious culture emanates from the traditional Chinese philosophical beliefs and ideologies such as Confucianism, Daoism and Buddhism. The Chinese harmonious culture integrates various values, ideologies, beliefs, customs, and norms into a holistic system to offer guidance on the ways of thinking and behaving in Chinese society.

Arguably, the majority of business firms in mainland China have not embraced Confucian or other traditional Chinese philosophies. The author suggests that this cultural heritage should be embraced for the successful implementation of CSR and sustainability with traditional Chinese harmonious characteristics because there are still some fundamental differences between these western and Chinese cultures.

It is concluded that the principles of CSR and sustainability are embedded in the ideas, values and practices of Chinese thinkers and leaders throughout China’s history. Indeed, traditional Chinese harmonious culture represented by Confucianism, which attached great importance to business ethics, had a significant influence upon ancient Chinese business ethics.

This demonstrates that CSR and sustainability shared similar roots in both the West and China. It also denotes that the harmonious approach to CSR and sustainability is supported by a long historical tradition. Accordingly, the conceptualization and implementation of CSR and sustainability in China are characterized by obvious salience of Chinese culture.

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# ECONOMIC AND FINANCIAL SECURITY OF ECONOMIC AGENTS: EVOLUTIONARY SIMULATION MODEL OF INDICATORS

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**E**conomic agents are participants of economic activities, such as production, distribution, exchange and consumption of economic goods. The definition of economic agents is associated with the division of the economy into sectors: public and private sectors are distinct in the form of ownership, while real and financial sectors – in the type of activity. The four sector (open) model includes the following categories of economic agents:

- households (individuals and their families);
- companies (organizations aimed at the production and sale of goods and services);

- state (a set of institutions providing the economy management);
- foreign sector (all other states).

In accordance with Article 1 of the Law of the Russian Federation On Security, "Security is the situation of protection of vital interests of an individual, society and the state from internal and external threats."<sup>1</sup> This definition can also be extended to economic agents. Article 3 of the same Federal Law states that: "A security threat is a set of conditions and factors that endanger vital interests of an individual, society and the state."

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<sup>1</sup> <http://base.garant.ru/10136200/#ixzz3evO1Z4mM>

It is worth emphasizing that threats are usually of a complex nature in the sense that any incident often triggers other varied incidents. The following concept of comprehensive security is derived from these obvious facts: "The country's security is ensured not only by high quality armed forces, capable to repulse an aggressor, there is also information, economic, energy, and food security... This is a comprehensive national security of the country"<sup>2</sup> and of any other economic agent.

A great number of indicators of security threats to economic agents have been developed by now. There is a variety of diagnostic tests of economic security.<sup>3</sup>

The use of indicators and tests faces a large number of methodological problems. The most obvious problem is that in trying to practice their use, it is found out that indicators and tests overlook many threats including the most dangerous ones.

Tests are able to depict a more complete and detailed situation with regard to threats than individual indicators, but they are insufficiently sensitive to the dynamics and do not allow investigating scenarios that mathematical models of economic agents are capable of. However, the models themselves do not eliminate errors.

Subjective risks control the behavior of economic agents. The assessment of these risks in conjunction with traditions and customs may reverse the behavior.

Let us refer to financial bubbles and money laundering. They result mainly in offset errors of economic indicators' estimates. An economic bubble (sometimes referred to as a speculative bubble, a market bubble, a price bubble or a financial bubble) is trade in large volumes of an asset or – more often – in securities at a price that strongly deviates from the corresponding asset's fair value. As a rule, the situation is characterized by an excessive demand for certain assets, with the result that their prices grow significantly, which in turn causes a further increase in demand.



Various business entities, such as banks, shareholders, and punters, receive a significant portion of their dividends from inflating bubbles, and take necessary measures to prevent stopping inflation. This process supports corruption and money laundering.

Since indicators and associated tests do not take account of the offset errors introduced by financial bubbles and money laundering, they become a poor guidance for economic agents. Moreover, the offset indicators are misleading, and this is a major source of security threats in itself.

In this context, the tool's complexity is of crucial importance. We propose in this article a technology of creating instruments intended for measuring indicators of security threats to economic agents. The main question is how to obtain the correct information for the calculation of indicators?

However, the questions themselves will not sound properly as long as we have not decided on what we mean by "unbiased information", "fair price" and "fair economy". The answers are given by the theory of equilibrium random processes (ERP). We will build on very exact interpretations of these terms following from theorems proved in the ERP theory<sup>4</sup> and on public administration purposes.<sup>5</sup> As we are unable to discuss this subject in detail here, we will only note that one

<sup>2</sup> Abdullayev B. \Comprehensive National Security. Federal Journal. 1/June-August/2015, p.1.

<sup>3</sup> Vechkanov G.S. Economic Security, Publishing House, "Peter", 2013 [https://books.google.ru/books/about/Экономическая\\_безопасность/http://simplehomebusinesssystem.com/pokazateli-ocenki-urovnya-ekonomicheskoy-bezopasnosti-gosudarstva/](https://books.google.ru/books/about/Экономическая_безопасность/http://simplehomebusinesssystem.com/pokazateli-ocenki-urovnya-ekonomicheskoy-bezopasnosti-gosudarstva/)

<sup>4</sup> Liechtenstein V.E., Ross G.V. The Equilibrium Stochastic Processes: Theory, Practice, Infobusiness. - M.: Finance and Statistics, 2015, Chapter 3.

<sup>5</sup> Ibid, § 2.5.

of the fundamental and essential conditions for economic justice that follows from the proved theorems is an approximate equality of levels of an average profitability allowing for risk in all areas of activity of all economic agents.

The aggravation of the economy problems and the escalation of economic, social and political instability are associated, in particular, with an increase in the number and size of financial bubbles that produce economic injustice on a mass basis.

Adapting the ERP theory as a basis for the proposed approach is possible due to the fact that economic agents in their activities take decisions, plan their behavior and try to implement their

decisions in a random environment. This means that the functioning of economic agents is ERP.

The ERP theory enables the use of mathematical methods for solving the tasks covered through the development of mathematical models of threats, which comprehensively take into account the totality of reasons falsifying information, including psychology of economic agents' behavior, double counting, financial bubbles, falsification of figures and other conscious corrupt practices of the data misrepresentation for the purpose of money laundering. On the basis of the approach as proposed in the report, methodical and mathematical support, software, and information systems for evaluation activity can be developed.

# UNIVERSITIES' RELEVANT CHALLENGES IN DEVELOPING RUSSIAN FINANCIAL MONITORING SYSTEM

*Financial monitoring system literally includes all the spheres and types of activities and requires participation of numerous professionals, elaboration of theoretical and methodological basis, financial monitoring theory reflecting modern era's reality. The necessity of the mentioned goals' achievement is determined by the system's initial phase, which is proved by numerous amendments and annexes to the legislation, introduced almost annually*



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**ON** the basis of the abovementioned, the universities' goals in the field of national monitoring system development may be subdivided into two groups – experts training and research activities.

Employees engaged in money transactions should meet certain qualification criteria, designed

by the Russian Government State Decree № 492 of 29.05.2014 “On qualification requirements to officials responsible for implementation of internal regulations and requirements to staff training, clients identification, beneficiary parties for the purposes of combating money laundering and the financing of terrorism”.<sup>1</sup>

<sup>1</sup> [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_163815/](http://www.consultant.ru/document/cons_doc_LAW_163815/)

## ITMCFM

In the field of financial monitoring staff training compliant with the designated qualification requirements a significant and leading role belongs to the International Training and Methodological Centre for Financial Monitoring (ITMCFM), established by the Federal Financial Monitoring Service. One of the ITMCFM main objectives is establishment of multilevel staff training system for public authorities and organizations, partaking in anti-money laundering and combating the financing of terrorism (AML/CFT).<sup>2</sup>

The key ITMCFM staff training field is design and implementation of education courses for experts of financial intelligence units, law enforcement and supervision authorities of the EAG member states. Educational activities are implemented through training courses based on a series of syllabus, in particular:

- financial intelligence as a part of anti-money laundering and combating the financing of terrorism system;
- anti-money laundering and combating the financing of terrorism;
- personnel training in the field of anti-money laundering and combating the financing of terrorism.

A significant role of special workshops held by the ITMCFM in three dozens of courses is noteworthy.

## ROSTOV STATE UNIVERSITY OF ECONOMICS (RSUE)

The Rostov State University of Economics (RSUE)<sup>3</sup> experience is challenging because of the establishment of Financial Monitoring Department with a cognominal master's program (the main employer is Southern Federal University). The program is aimed at personnel training and advanced training for the following organizations:

- financial institutions (banks, insurance companies, securities markets participants,

leasing and factoring companies, loan cooperatives, pawnshops, microfinance organizations);

- Russian post, mobile operators;
- series of non-financial organizations (real estate agents, payment processors, book-makers, jewelry companies);
- lawyers, notaries, legal and accounting services providers;
- business entities of strategical importance for Russian defense and security.

The program includes the following courses:

- financial security;
- global system of anti-money laundering and combating the financing of terrorism;
- organization of primary financial monitoring;
- risk management assessment in the subjects of financial monitoring;
- information and analytical support for financial monitoring;
- strategic analysis and financial markets monitoring.

Under the master's program participants acquire essential work-related analytical and organizational skills. Analytical skills imply capacity of analyzing the input on transactions with money or other property; capacity of distinguishing money laundering flags and formulating criteria for suspicious activity; revealing financial frauds and shadow schemes on the basis of formal typologies. Organizational skills intend capacity of managing work of a financial monitoring subject's internal control department, designating internal regulations and other instructional and administrative papers, organizing effective cooperation with public authorities.

<sup>2</sup> <http://www.mumcfm.ru/index.php/ru/training/trainingeag>

<sup>3</sup> <http://magistratura.rsue.ru/napravleniya.php>



## FINANCIAL UNIVERSITY

The Department of Financial and Tax Law in Financial University under the Government of the Russian Federation has a master's program "Legal Background of Financial Control and Supervision"<sup>4</sup>. The course is aimed at experts training with modern qualifications in financial, tax and banking law and intended for employees of law enforcement authorities; federal ministries, services and agencies; local regional financial authorities; international financial organizations; research centres; Russian and foreign entities; consulting companies.

The program includes the following courses:

- modern tax law;
- legal regulation of financial control and supervision;
- tax and duty legal theory;
- international tax law;
- tax responsibility;
- tax consulting;
- EAEC tax law;
- legal regulation of non-government financial control;
- legal regulation of audit activity.

The graduate will be capable of:

- designing regulatory acts in the field of financial and tax control;
- understanding rapidly changing legislation, providing doctrinal interpretation of financial law regulations, distinguishing and adopting key trends of emerging law enforcement practice;
- organizing and carrying out events in the field of financial and tax law enforcement;

- assuring compliance of obligations by subjects of financial law, procedure and sanctions to the violators of financial law regulations;
- participating in expert and consulting work in the field of legal assistance to public authorities' financial activities.

## LOBACHEVSKY UNIVERSITY

In The Lobachevsky State University of Nizhny Novgorod the master's program in financial monitoring is held by the Financial Department<sup>5</sup>.

Its main goal is experts training for financial intelligence units, law enforcement and supervision authorities operating in the AML/CFT field, specific banking and business structures responsible for providing a range of internal control services pursuant to the AML/CFT legislation.

The program includes the following core courses:

- relevant issues of economics legal regulations;
- relevant issues of financial control theory and practice;
- Russian system of countering money laundering and financing of terrorism;
- state financial monitoring;
- state financial management;
- methodology of white-collar crimes investigations;
- analysis in financial intelligence system;
- international standards for countering money laundering and financing of terrorism;
- internal control and audit in organizations providing transactions with money and other assets;
- internal control and audit in credit institutions;

<sup>4</sup> <http://www.fa.ru/priemka/magistr/list/Documents/2015-pofkin.pdf>

<sup>5</sup> <http://www.iee.unn.ru/postupayushchim/magistratura/>

- short-term financial decisions;
- tax policy in foreign countries;
- long-term financial decisions.

Universities' financial monitoring experts training syllabus comparison uncovers differences in approaches to the training. Programs are designed by different departments, and courses included are variable. Time has come to design a program (unified in structure and contents), that would reflect needs and prospects of financial monitoring in Russia, take into account experience of the universities-designers of previous programs. The ITMCFM could assume the role of proponent and coordinator of the joint project while a group of universities' representatives would be executors. Participation of university lecturers and scientists with a solid background in syllabus elaboration and implementation will raise its quality and feature not only regulatory and practical aspects but modern theoretical research in the field as well.

Relevant educational materials are important for organization of financial monitoring experts training. Unfortunately, we should admit the absence of textbooks on financial monitoring. There are just publications dedicated to its certain areas: financial and tax controls, financial and tax law; state finance management, etc. To date, a financial monitoring textbook, featuring at any extent a full range of financial monitoring issues, is required. University scientists jointly with the ITMCFM experts could contribute to this textbook elaboration, coordinated by the latest. According to the authors of the present article, the text book could and should feature the key issues of "Educational program as a targeted briefing for employees of entities operating with money and other assets" (Annex to the Federal Financial Monitoring Decree № 3 250, of 19.07.2011)<sup>6</sup>.

Regarding the challenge, first it is necessary to design "Financial Monitoring Basics" book as a background and then an advanced course, comprising all financial monitoring areas, should follow. "Financial Monitoring Basics" will be fundamental for making it necessary and viable



to include the subject in study plans not only for Economics but other bachelor's programs (Management, State and Municipal Administration, Business, etc.) and specialist's degree programs (for example, Customs). The second level textbook should aim at master's programs.

Research should be the key working area for universities in developing financial monitoring system. At date, there are few PhD theses and scientific articles, featuring the research outcomes in financial monitoring. We suppose that it is linked to the first phase of financial monitoring evolution in Russia and absence of proper departments in the universities (apart from The Rostov State University of Economics).

Key areas of research works have been determined for the nearest future by the International Training and Methodology Centre for Financial Monitoring (ITMCFM) and include: national risk assessment, assets freezing and seizure, transparency of legal persons, beneficial owners identification paths, tax crimes disclosure<sup>7</sup>.

Interesting research fields are featured in the ITMCFM workshops:

- analytical methods and specific technologies of AML/CFT investigations;
- risk and threat exposing in the financial field and state countermeasures;
- national cooperation and coordination;

<sup>6</sup> <http://www.fedsfm.ru/documents/rfm/98>

<sup>7</sup> <http://www.mumcfm.ru/index.php/ru/science/research>

- modern approaches to establishment and development of information and analytical financial monitoring systems;
- shadow finance in global and Russian economics.

In our opinion, the following areas require a detailed theoretical attention: development of national institutions and legal base for financial monitoring; supervision methodology improvement; justification of evolution paths of internal control systems for entities engaged in money transactions; relevant issues of AML/CFT legislation application in various economic sectors and fields of professional activities.

Research activities are possible within the framework of both master's and PhD students'

scientific work. The leading university scientists should be more engaged in posing challenges (regarding relevant financial monitoring issues) for young researches, in assisting research activities in this field. Research work should include identification and studies of current financial monitoring problems, drafting of plans and programs, methods and instruments of their realization, theoretical patterns of monitoring with account of world and national experience.

Overall, the eventual solutions of these challenges will contribute to the further cooperation between the International Training and Methodology Centre for Financial Monitoring and the universities, and ultimately to the development of the national financial monitoring system, improvement of its quality and effectiveness.

# EURASIAN ECONOMIC UNION'S ROLE IN ENSURING ECONOMIC SECURITY OF ITS MEMBER STATES: RUSSIA AND KAZAKHSTAN'S EXPERIENCE

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**T**he establishment of the EAEU was a logical follow-up of the integration processes taking place in Eurasia. The EAEU is viewed as an organization that could, in the short-term, unlike the long-term benefits offered by the EU, help to solve the economic problems of the countries. The decline in foreign direct investment, heavy tax burden on small businesses, large size of the shadow economy, monopolies in various import and export sectors of the economy, dependence on the export of certain goods and challenging foreign economic conditions have all contributed to the weakening of Russia and Kazakhstan's economies, forcing their governments to seek a quick way to stabilize them. The choice was made in favour of the establishment of the Eurasian Economic Union on the basis of the existing Customs Union.

The Eurasian Economic Union (EAEU) is an international organization for regional economic integration. The treaty on its establishment was signed on May 29, 2014 and entered into force on January 1, 2015. A list of its members includes Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. The purpose of the EAEU based on the Customs Union is to strengthen the economies of the participating countries, facilitate economic development and improve competitiveness in the world market. The EAEU member countries intend to continue the process of economic integration in the coming years.

The EAEU founding members pledged to ensure free movement of goods, services, capital and labour across their borders, as well as to work out standard

regulations in the 19 economic sectors and coordinate their policies in such key areas of the economy as energy, industry, agriculture and transport.

According to experts, the overall macroeconomic impact of deeper integration among the EAEU member states can be summarized in the following bullet points:

- reduction in commodity prices due to the fall in the cost of transportation of the necessary raw materials/export of finished goods;
- creation of a healthy competitive environment in the common EAEU market through equal economic development;
- greater competition in the common market of the Customs Union member states due to the entry of new players from the common space;
- rise in average wages due to cost reduction and productivity gain;
- increase in production volumes due to higher demand for goods;
- increase in the wealth of the EAEU residents due to lower product prices and higher employment in import and export companies;
- increase in the payback period of new technologies and goods due to the market growth [1].

The integration is expected to generate Russia and Kazakhstan a GDP growth of 25% by 2030. Far from shutting themselves off from the outside world, the EAEU member states plan to continue and even expand active cooperation with foreign partners, potentially entering into preferential trade agreements with other countries.

The overall effect from deeper integration is estimated at over \$900 billion by 2030. The EAEU member countries are currently home to nearly 1,000 banking institutions with overall capital of about \$250 billion and assets of about \$2 trillion. The total value of their stock market is estimated at about \$1 trillion. Experts note that the effect of integration may become truly tangible, if it is to be accompanied by concrete steps towards opening up markets and harmonizing regulations [2].



In the future, Russia and Kazakhstan will need to pursue common macroeconomic, antimonopoly, monetary and financial policies. In this regard, integration of financial markets is inseparable from the task of creating a competitive segment of the global financial market within the boundaries of the Eurasian Economic Union.

At the moment, the two countries largely rely on a highly diverse set of policy documents regulating the development of the banking and insurance sectors and the securities market. These documents, adopted at different times and at different levels, are mainly focused on internal development and do not fully take into account the integration objectives. A common strategy for the development of financial markets will help the EAEU member states set the goals for the future integration processes and agree on the long-term policy for such development.

Section XVII "Taxes and Taxation" of the EAEU Treaty sets out a strategy of the member countries of the Customs Union (CU) and the Eurasian Economic Union for improving the competitiveness of businesses and eliminating tax barriers. In particular, it envisages that the EAEU member states should determine the areas of cooperation in taxation with the scope of facilitating harmonization and improving tax legislation, including the mechanism for collection of indirect taxes on works and services and alignment of tax rates for the most sensitive categories of excisable goods.

When it comes to the common monetary policy, the focus is currently on improving its coordination and harmonization in order to strengthen confidence



in the national currencies of member countries both in the domestic foreign exchange market of each state and in the international currency markets. To this end, a codification of international treaties constituting the contractual-legal framework of the CU and CES in the area of monetary policy has been carried out.



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In addition, the formation of an economic union has brought changes to the agricultural field, including the establishment of a common methodological framework for forecasting the supply of and demand for agricultural products that will be used to generate consolidated forecasts for EAEU member states. To date, the EAEU members have already agreed a list of sensitive agricultural products to feature in the recommendations drafted in the course of consultations and aimed, inter alia, at ensuring food supply security.

Two draft international treaties on circulation of agricultural crop seed and pedigree livestock, which are designed to contribute to the growth of mutual trade in high-tech products and reducing dependence on imports, are very close to their completion.

Among other high-profile initiatives intended to boost agricultural potential of the EAEU countries a concept plan for a Eurasian Coordination and Analytical Centre of Genomic Selection and a draft list of promising research projects capable of contributing to the development of the agricultural sector, with the latter being ready for final approval [3].

Due to the assignment of the treaty, amendments to the EAEU Customs Code are planned. They introduce a number of new provisions previously not found in the Customs Union regulations,

particularly on mutual recognition of designated economic operators.

The EAEU countries should follow the path of fiscal policy liberalization in order to avert the risk of an even higher inflation, whose prospects are more than realistic given the current state of the customs regulations. Another issue of concern is the administration of VAT. As things stand now, VAT rate in Kazakhstan is currently 12%, in Russia - 18%, and in the EAEU it is expected to be 20%. This diverse mix of VAT rates, if left unchanged, may severely curtail the business activities, including those involved in manufacturing. Given how totally different the VAT administration systems of Russia and Kazakhstan are, it is clear that the focus needs to be on harmonization and finding common approaches rather than on higher taxes. Another urgent problem is connected with goods certification at the border, which could become yet another area of expenditure for businesses [4].

The EAEU's impact on the economies of its member states is both positive and negative. While the level of trade among the EAEU countries increased significantly in 2010-2011, including by more than 46% in 2010 and 23% in 2011, largely due to the abolition of customs controls and elimination of administrative barriers at the borders, in the later years, starting in 2012, its growth was much more subdued. In 2014 the volume of trade with the EAEU countries began to decline due not so much to the problems within the economic block as to the global changes in the prices for the key export products in 2013. Despite this, there was no significant reduction in physical volumes of goods.

Among the main negative aspects of the EAEU membership for Russia were a decline in the value of the ruble and a 23.6% fall in imports in 2014 (from \$17.9 billion in 2013 to \$13.7 billion), caused in the latter case, as was pointed out before, by the global rout in prices of many exported goods. At the same time, the problems associated with the devaluation of the ruble exist only in certain, particularly vulnerable sectors of the economy.

Meanwhile, Kazakhstan's total exports to other EAEU countries rose in 2014 by 44.5% compared to 2009, with the share of processed goods increasing from 45% to 51%, and finished products by a whopping 400% from \$92.3 million to \$359 million, highlighting the country's export potential in the EAEU market.

In addition, Kazakhstan saw a 290% spike in investment in its manufacturing industry since the establishment of the Customs Union.

Another important benefit of closer integration is the decline in transportation costs. Given that about 44% of Kazakhstan's total exports go to the European Union, the country's success in pushing through a proposal that allowed its producers to apply Russian domestic railway tariffs to transit goods destined for third countries is hard to underestimate. The preferential regime is estimated to generate Kazakhstan's exporters about \$240-250 million in transportation savings annually.

In the future, the EAEU members also intend to create common gas, oil, electricity and pharmaceutical markets [5].

Another key future objective is to create a common financial market, as the lifting of barriers to capital flows will help diversify risks and improve quality, availability and reliability of financial services. A gradual harmonization of monetary policy, on the other hand, will improve stability of the financial

systems of the EAEU member states, enhance their sovereignty and render the domestic currency markets more predictable and better protected against currency fluctuations.

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# MEMBERSHIP IN NEW ORIENTAL BANKS AS POSSIBLE WAY OF RUSSIAN ECONOMIC SECURITY SUPPORT IN GLOBAL FINANCIAL SYSTEM

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**F**or the global community last year was marked by many political and economic events. These events gave rise to a wide range of problems, looming international conflicts and contradictions in the existing international relations.

While being undoubtedly dramatic in the context of individual countries, these events also triggered a chain of important facts in the international scene. In particular, a number of international financial projects were launched, and last year witnessed impressive progress in their implementation. These projects involved the establishment of the New Development Bank BRICS and the Asian Infrastructure Investment Bank. Emergence of new banks is a result of a number of disadvantages of the supranational financial institutions which indeed experience much tension due to the lack of necessary reforms.

Some openly criticize the way in which the World Bank operates, since it is inconsistent with the image of a politically neutral element of the economic system. Loans are granted only in case of implementation of

certain reforms, i.e. the WB in fact is meddling into the internal affairs of sovereign states.

The IMF is also criticized for providing loans for reforms. Required reforms are always aimed at modification of the economic system, privatization of government-owned companies, implementation of market pricing system and liberalization of external economic activities.

Drawbacks of the policies pursued by these financial institutions certainly do not mean that they are completely useless, but lead to the conclusion that their policy is not always fully consistent with the national interests of individual countries in the context of their unique structure and development specificities.

Another disadvantage of this framework is the existing quota system which does not allow countries that are not members of the Western alliance to influence the policy pursued by these institutions. Of all the IMF members, only the United States have the power to veto decisions made by this institution, which does affect the IMF policy. Similar situation is observed in the World Bank.

As we can see, Russia's capability to influence the development of the global financial system is certainly limited, and concentration of power over this undoubtedly important process in the hands of one country can only give rise to concerns. The IMF and World Bank quotas are reviewed every five years, however, the BRICS countries do not succeed in increasing their voting weight in the decision-making process. Such situation logically led to creation of additional institutions.

The AIIB was established in Beijing in October 2014. The main goals pursued by the AIIB include fostering regional financial cooperation and financing infrastructure projects in Asia. The Bank will start with \$50 billion capital (with the Chinese share of 34.4%). As new countries join the AIIB, its authorized capital will be increased up to \$100 billion. The AIIB budget is composed of the contributions made by its member countries pro rata to their GDP size. Russia has the third largest voting power - 5.92%, after India and China who have 7.5% and 20.06% respectively. This allows Russia to claim for certain positions in the Bank governance structure.<sup>1</sup>

Membership in the AIIB facilitates mutual beneficial cooperation between Russia and China. The latter has already announced its investments in the construction of the Russian first high-speed rail (HSR) link from Moscow to Kazan. It is reported that the Chinese partners plan to invest about RUR 300 billion into this project.<sup>2</sup> Besides, we have a chance to join another Chinese project called the New Silk Road which will connect the Eastern and Western markets. The Bank's popularity in the global community is rising, as more countries wish to join it. At present, the list of such countries includes the United Kingdom, France, Germany, Italy, Switzerland, Brazil, Australia, South Korea and Russia.

It is also noteworthy to mention the New Development Bank BRICS. It will have the initial capital of \$50 billion, including paid-in capital of \$10 billion. Within seven years, the founders will contribute \$2 billion each. In the \$100 billion capital China committed to contribute \$41 billion, Russia, Brazil and India - \$18 billion each and South Africa - \$5 billion.<sup>3</sup> The BRICS reserve currency pool is being set up to address possible emergency situations if countries experience difficulties with the



balance of payments, which may include sharp drop in the national currency exchange rate, lack of short-term liquidity and significant capital outflow. In his speech at the BRICS Industry Ministers meeting, Denis Manturov said that the Russian Federation developed a roadmap for trade, economic and investment cooperation with all BRICS member countries until 2020. It includes projects in processing, manufacturing, mining, engineering, power engineering and other industries.

Thus, the investment cooperation among the BRICS countries will grow, however, gaps still remain in other areas of cooperation. There is a potential for increasing trade volume among the countries as well as the ample room for cooperation in the agricultural sector. Russia is ready to attract large investments into its agricultural industry, and the new banks may contribute substantially to implementation of these initiatives.

Many consider the NDB and AIIB as the competitors of the World Bank and IMF. However, at present phase that's a complicated issue, since the new banks only prepare to launch their operations and are still establishing their quota systems and refining their administrative structures in order to meet the international standards.

Being a co-founder of these new financial institutions, Russia, first of all, gets an opportunity to influence the international financial policy and become more active player in this arena. Secondly, Russia's membership in the new Banks is objectively driven by the need for economic development of the promising Eastern Region. And, thirdly, Russia may indirectly mitigate its currency risks by participating in large-scale investment projects where payments and settlements are made in Chinese yuan.

<sup>1</sup> [http://wingi.ru/content\\_articles\\_view/id-6171/](http://wingi.ru/content_articles_view/id-6171/)

<sup>2</sup> <http://analitik24.ru/v-mire/zaoblachnye-perspektivy-aziatskogo-banka-infrastrukturnykh-investitsiy-abii-2173>

<sup>3</sup> [http://www.ng.ru/world/2014-07-16/1\\_briks.html](http://www.ng.ru/world/2014-07-16/1_briks.html)



# BRICS STUDENTS SPORT COMPETITIONS

*Within the framework of the International Scientific and Research Conference "Threats and Risks to BRICS Economies" (November 10-12, 2015), at the National Research Nuclear University MEPhI, VII BRICS Student Forum was held. One of the most interesting moments of the event was sport competitions among students*

▼ Sports performance



MEPhI's Department of Physical Education unarmed combat workshop

▲ Table tennis competitions





Over 70 BRICS students took part in sport competitions ▶



▲ Participants – BRICS students

The initiative to hold a tournament during the Forum came from the Federal Financial Monitoring Service, while Dynamo № 33, Central Sports Club of the Russian Financial authorities and MEPhI's Department of Physical Education backed the idea and put it into practice.

Over 70 people competed in streetball, arm-wrestling, kettlebell lifting, table tennis and darts. For everybody concerned the MEPhI's Department of Physical Education organized an unarmed combat workshop.

The first prize among the streetball players was awarded to China, while in arm-wrestling, kettlebell lifting and table tennis competitions India was the winner. First place in darts among men was given to Russia and among women to China. However, as the students put it, "friendship has won"!

The most outstanding moments of the competition follow in our pictures.

The welcome speech was delivered by Rosfinmonitoring Deputy Director Vladimir I. Glotov ▶





## INTERNATIONAL AML/CFT SYSTEM

## RISK ASSESSMENT: ANALYSIS AND EXPERIENCE SHARING

*A workshop on ML/TF risk assessment experience sharing and analysis was held on June 18, 2016 during the FATF Plenary week in Busan (Republic of Korea). The workshop was the first in a string of events and activities organized as part of the studies conducted by the FATF's Risks, Trends and Methods Working Group (RTMG). The key issue was national risk assessment (NRA) as well as the search for new opportunities and ways of organizing this review process in the countries set to undergo mutual evaluations*



*Boris V. Toropov,  
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Co-Chair, RTMG FATF*

**T**his initiative attracted the attention of a large number of FATF member states, as confirmed by a wide range of participants: the Plenary week was attended by 43 delegations comprising a total of 240 participants. Participants welcomed the accessibility of some of the previously published NRA reports, which represent a valuable experience for all states. Delegates were particularly keen to hear the reports presented by countries with practical experience in risk assessment: Australia, Belgium, Israel, Italy, Korea, New Zealand and the UK. Representatives of some countries noted certain challenges associated with this process given the sensitive character of the information on anti-

terrorist financing measures contained in these documents – hence the decision to publish only abbreviated versions of the reports.

The order of discussion items on the agenda reflected the stages of the NRA process: preparations for the assessment, assessment, and a review of findings and related issues. In their speeches participants noted that, despite the fact that the global FATF standards do not set any specific methodology or format for NRAs, this work is particularly important for understanding the risks and conducting the subsequent assessment of the overall state of the national AML/CFT system, as well as for communicating this information to the private sector.

## KEY CONCLUSIONS

First of all, participants concluded that the biggest incentive for NRA conducting was the operational and policy needs of each specific country, rather than the requirement of the FATF Recommendations. Each country conducting a NRA seeks to obtain maximum benefit from this procedure, given that the identification of the existing risks will allow to reduce their negative impact in the future.

As noted by many meeting participants, one of the central issues of the NRA is a clear coordination between all stakeholders. Operational engagement between NRA participants is strategically important as it will add greater detail to the progress and results of the work itself. First of all it is necessary to solve the following tasks: to develop a clear plan of action, set strict deadlines for conducting the assessment and determine the areas of responsibility for all participants. It should be remembered that the key findings of the assessment should reflect the consolidated position of the country as a whole, rather than individual authorities or other participants.

Delegates agreed that the existence of a coordinating body is likely to have a positive effect on the conduct of the NRA. Meanwhile, the responsibility for other tasks such as information collecting can be shared among all the stakeholders. It is also desirable that the issues of money laundering and terrorist financing are reviewed separately in each report, with the lead roles in any of these studies allocated to different assessment process participants. The main reason for such separation lies in various nature and scale of these illegal activities. Determining the ML/TF risk ratio tends to be a very challenging task, which may become the subject of a separate study.

A key requirement of any high quality NRA process is the availability and reliability of the data used. According to the participants, the lack of a unified data submission format is a major impediment to this process, as it makes the task of comparing and analyzing data difficult. At the same time it would be wrong to rely exclusively on quantitative or qualitative data, rather they should complement each other dialectically. It is equally wrong to underestimate the value of expert assessments, studies and surveys, given that they often help fill in the gaps left due to the lack or unavailability of statistical information. It is important to remember that problems in the gathering of statistics and other data may be indicative of the existence of certain risk zones.

Attendees also noted the importance of using the adequate terminology in conducting NRAs, since it will help standardize the texts of the reports and facilitate their understanding.

Involvement of the private sector may help its representatives acquire experience of participation in NRAs. Although the views held by representatives of the public sector and businesses participating in the assessment may differ on certain issues, their constructive cooperation will undoubtedly benefit both sides. Such discussions help reveal new aspects of the challenge and create opportunities for the parties to articulate their objectives and establish a clear framework for interaction. Cooperation with the private sector may take the forms of joint meetings and research projects. These mechanisms may be combined or used separately. Meanwhile, feedback provided by the private sector after the publication of the NRA may also have its relevance. Participants separately highlighted the need to take into account the possible input from the representatives of scientific and analytical centres.

According to some participants, it is rather difficult to identify and assess cross-border risks, such as those related to predicate offences in other jurisdictions. Such information can be collected within international cooperation and analysis of socio-economic interaction with foreign countries. This can be achieved, inter alia, through the study of open publications (reports published by foreign partners, international organizations, media, etc.). In any case, the information obtained should be verified with the help of independent sources. Another important source of data for detecting cross-border risks are regional or intergovernmental risk assessments.

A key indicator of a successful NRA process is the development of a national strategy for reducing risks, including approval of a priority AML/CFT action plan and updating of the state anti-money laundering policy and activities of the competent authorities. The findings of the assessment may draw attention of the competent authorities to the problem areas, as well as ensuring the allocation of the resources needed to address them.

Given the significant interest generated by the previous workshop, participants proposed to hold such events in the future on a regular basis. Meanwhile, expert discussions dedicated to NRA and other related subjects can be carried out not only on the side-lines of the FATF regular meetings, but also during the now-traditional FATF-sponsored joint expert meetings.

## 7<sup>TH</sup> MEETING OF BRICS AML/CFT COUNCIL

*BRICS delegations have been holding regular consultations on the side-lines of the FATF plenaries since 2014. The agendas for these meetings include the most topical issues of mutual cooperation, experience sharing and coordination of joint activities in improving national anti-money laundering systems*



*Djamilya V. Sadikova,  
Coordinator, ITMCFM*

During the Russian presidency in BRICS, the heads of states attending the Ufa Summit decided to establish within the FATF structure a BRICS Council on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT). By this time, representatives of BRICS member states have come up with several consolidated approaches to the institutionalization of this international body. The cooperation within the BRICS Council AML/CFT provides the member countries with additional benefits in their work within such international organizations as FATF and FATF-style regional bodies.

Development of cooperation takes place within the framework of parallel BRICS events. For example, last year saw the Diplomatic Academy of the Russian Foreign Ministry (September 2015), network AML/CFT Institute and the Association of BRICS Business Schools (November 2015) host two international scientific and research conferences attended by BRICS experts. The 7<sup>th</sup>

BRICS AML/CFT Council meeting was held under the Indian presidency in Busan, South Korea, during the last FATF Plenary week. The meeting was attended by the heads of delegations of the participating countries. Its key working area was the alignment of the positions of the BRICS member states' delegations on issues discussed at the FATF. In addition, participants considered the possibility of boosting the FATF's status along with several Russian initiatives, in particular the work to further strengthen the Group's cooperation with the United Nations through the provision of regular reports and engagement in joint activities. Another important issue concerns a more clear designation of the FATF-G20 relationship to enable the FATF's official presence at the G20 meetings devoted to AML/CFT matters. Delegates confirmed that the focus of the BRICS Council's efforts within FATF should be on the alignment of their positions on the topical issues of this international organization's concern, including the consolidation of efforts to amend the current version of the Interpretive

Notes to Recommendations 5 and 8, continuation of the FATF study into ISIL funding sources, and provision of expert support for Brazil's report on progress in improving the national anti-money laundering system.

The Council decided to continue its work on the draft BRICS convention on the establishment of an international mechanism for criminal assets confiscation, distribution and recovery, as well as to intensify efforts to set up a closed financial intelligence sharing network for use by the FIUs. Delegates confirmed their interest in further work on the draft agreement on cooperation in the field of personnel training for national AML/CFT systems.

The next BRICS delegations meeting will be held next October during the FATF Plenary in Paris.



## TREIN – FATF TRAINING AND RESEARCH INSTITUTE

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*One of the most remarkable initiatives of the Korean presidency in FATF, terminated at the end of this June, was the project of establishing The FATF Training and Research Institute (TREIN) within the Global Anti-Money Laundering Network*

Boris V. Toropov,  
First Deputy Director General, ITMCFM  
Co-Chair, RTMG FATF

**F**ATF has been promoting this initiative during one year. In particular, in 2015 the TREIN concept was approved, which suggested establishment of an organization in charge of personnel training for the field of anti-money laundering and counter terrorist financing; research projects within FATF and FATF-style regional bodies (FSRBs); assistance in institutional evolution of all the anti-money laundering system levels. Last year the basic principles, in line with which the Institute will function, were defined as follows: compliance of targeted programs and new institution's activity with the decisions of FATF plenary meetings, design of reporting and coordination mechanisms, management principles.

This June the FATF Plenary meeting, held in Korea, approved the Memorandum of understanding, establishment and activity of TREIN. It is supposed that the document will have been signed by OECD,

FATF, Korean FIU and the city administration of Busan by the end of July and will enter in force on August 1, 2016.

The June FATF Plenary meeting confirmed the members of the TREIN Steering committee: Head of the Korean FIU (Chairman), representative of Busan administration, two representatives of FATF member states (Russia and China) and an FSRB representative. Term of office is 2 years. The abovementioned Memorandum of understanding regulates the Committee's role and functions. It will take decisions on the basis of consensus including on the following key issues that regard activities of the new institution: TREIN Director appointment and his supervision, TREIN budget, design and accomplishment of Institute's programs and other administrative matters. To perform its functions the Committee is expected to gather at least twice a year.

The TREIN budget 2016 is allocated by the Republic of Korea; institution's costs estimation for 2017 is under discussion at the moment. The main source of finance of the new structure will be Korea's dues. However, the Institute is free to accept extra voluntary contributions from other FATF and FSRBs member states and observers.

The most part of the staff will be hired on the competitive basis through FATF channels, they will perform their duties in line with the OECD Staff Regulation in the territory of Korea. To date, the FATF Institute is being located in the building of financial complex Munhyeon, Busan.

The Director, appointed by the Steering Committee, is responsible for production, economic and administrative activity of the organization, inter alia coordination of permanent and loaned employees in Korea. For support of the institution's activity, it is supposed that the FATF Secretariat, based in Paris, will include a project manager. He will coordinate, control and provide accomplishment of targeted TREIN work field with FATF and OECD.

The Work plan of the anti-money laundering system's new structure is a part of the general FATF Work plan. It will be realized in compliance with relevant FATF and OECD regulations and practices.



*Busan, Republic of Korea*

The Institute's Work program is approved by the Steering Committee and the FATF Plenary meeting. FATF itself will control subject aspects of training and research programs, and Korea will be in charge of operative and administrative aspects, including assistance in accomplishment of targeted fields of activities.



## ROSFINMONITORING – UIF: EXPANDING COOPERATION

*Meeting between Argentina's FIU (UIF) officers and heads of Rosfinmonitoring was held on June 2, 2016 in Moscow. The participants focused on risk assessment of money laundering and terrorist financing, coordination of joint work on the FATF and Egmont Group platforms*

Inessa A. Lisina,  
Deputy editor in chief

**I**n his welcome speech the Director of Rosfinmonitoring Yury A. Chikhanchin noted that the Republic of Argentina was always known for its proactive position in discussion of the key AML/CFT issues on the international platforms. Our countries prioritize the prevention of financial crimes, countering the financing of terrorist organizations and laundering proceeds of drug trafficking, financial investigations.

Both financial intelligence units apply risk-based approach in their work, which facilitates identification of potential “weaknesses” and prevent illegal activities. Mr. Yury Chikhanchin shared Russian experience in establishing National risk assessment centre. Basing on the results of its work Rosfinmonitoring annually prepares a report for the President, enlisting the eventual high risk areas in Russian financial system.

The Rosfinmonitoring executive board especially highlighted the importance of the work held by the

### Backdrop



**Unidad de Información  
Financiera  
ARGENTINA**

UIF (Unidad de Información Financiera) is an FIU of Argentina established in 2000 and employing about 200 people. Its structure comprises 7 departments. Over 53 000 of reporting legal and physical persons are registered in the country.

Republic of Argentina is a proactive participant of the key international and regional organizations in the field of anti-money laundering and countering the financing of terrorism: FATF, Egmont Group, GAFILAT.

Argentina's FIU within GAFILAT and cooperation with other countries in the region. The EAG and GAFILAT activities are mostly similar as both pay special attention to preparation for the national risk assessment in the countries and the next round of FATF mutual evaluations, personnel training, and cooperation with the private sector. To date, Russia is chairing the EAG and Argentina – GAFILAT. Experience and best practices exchange within the framework of two FSRBs is of great importance to our countries.

According to the representatives of the Argentinian FIU's delegation, the strategic goal is to reduce the proceeds of crime, which makes it necessary to develop cooperation with as many financial intelligence units as possible. This work today is held by FATF and the Egmont group. Key ways of evolution of two organizations, their future prospects become an important issue of joint work.

In conclusion, the representatives of financial units of Russia and Argentina expressed their enthusiasm about expanding cooperation, in



particular, taking part in the events held both by the EAG and GAFILAT. Development of collaboration within the abovementioned FSRBs and with member states may be another priority area of work. In its turn it will contribute to the strengthening of the global system of countering money laundering and financing of terrorism.

From May 30 to June 2 the delegation of the Argentina's FIU (UIF) participated in a training, held by the International Training and Methodology Centre for Financial Monitoring. The course for the UIF representatives was dedicated to the following subjects:

- international AML/CFT cooperation;
- experience of preparation and accomplishment of FATF and FSRB mutual evaluation;
- national risk assessment;
- specific features of ML/TF and other financial investigations.

As the course was concluded the ITMCFM Director Oleg Ivanov handed over certificates to the UIF officers.



## AML/CFT EDUCATION AND SCIENCE

## GRADUATES

*The defence of theses by graduates of the Institute of Financial and Economic Security (IFES), National Nuclear Research University MEPhI, took place at the Federal Financial Monitoring Service on June 29, 2016. Among the graduates were over 40 students from Russia, Ukraine, Kyrgyzstan, Tajikistan and Moldova, including 32 specialists of the newly formed Economic Security Department (first graduates of this faculty) and 9 in masters in Information Security with specialization in Information Analysis Support of Financial Monitoring*



Yevgenia N. Kalikhova,  
Editor-columnist

**IN** his opening statement, **Yury A. Chikhanchin, Rosfinmonitoring Director**, head of IFES Financial Monitoring Department and a member of the State Examination Committee, wished all the students success in their thesis defence, highlighting the

relevance of the chosen subjects and importance of the application and implementation of AML/CFT practical solutions.

*"I would like to congratulate you on a worthy conclusion of one of the most important stages*



*of your life. In your study and research activities, graduation works and practical training you developed and proposed practical solutions to the most relevant problems affecting the fight against money laundering and terrorist financing. And I would also like to emphasize the value and importance of the Institute of Financial and Economic Security MEPhI, which serves as a training base for AML/CFT experts not only from Russia but also other countries of the Eurasian region."*



**Vladimir I. Glotov, Rosfinmonitoring Deputy Director**, reminded participants of the high status of IFES graduates, confirmed by the high number – about 100 – of its students undergoing internship at Rosfinmonitoring each year, with many ending up among its permanent staff.

A list of members of the State Examination Committee also included Vladimir V. Ovchinnikov, MEPhI Vice Rector, Pavel Y. Leonov, Deputy Head of

IFES Financial Monitoring Department, and several representatives of MEPhI's teaching staff.

The Examination Committee appreciated the quality of the theses presented as well as their relevance: 34 thesis defendants were awarded "excellent" and "good" grades.

### Backdrop

The Institute of Financial and Economic Security was established in 2006 at the National Nuclear Research University MEPhI and specializes in the training of AML/CFT experts. The IFES has conducted trainings since 2006 in the fields of «Integrated Information Security of Automated Systems» («Information and Analytical Security Systems»), «Security of Information Technology in Law Enforcement» and «Economic Security». Starting 2009, the institute began to enrol students from the countries members or observers of the Eurasian Group on Combating Money Laundering and Terrorist Financing to the courses relevant for their financial intelligence units.

The Institute of Financial and Economic Security MEPhI is the leading AML/CFT university in the structure of the network AML/CFT Institute.



# TEACHING FINANCIAL AND LEGAL LITERACY TO AML/CFT EXPERTS (IN LIGHT OF THE INTEGRATION PROCESSES WITHIN THE EAEU)

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## FINANCIAL AND LEGAL LITERACY AS IDEOLOGICAL FOUNDATION OF THE EURASIAN INTEGRATION

The legal and economic aspects of the functioning of social institutions become more and more intertwined in today's world. Therefore, a modern state faces increasingly sophisticated financial crimes that exploit legal and regulatory loopholes and target the most vulnerable in terms of financial and legal literacy citizens.

We believe that promotion of legal awareness and legal culture, alongside financial culture and financial literacy, should lie at the heart of a modern effective governance, as well as of humanitarian education.

Meanwhile the focus in the work to promote financial and legal literacy should be on the integration processes occurring within the Eurasian region. Given the complexity of any integration process, its economic prerequisites should be articulated with the help of the appropriate legal acts,

including adequate legal instruments and regimes. In light of the on-going intensification of integration processes within the Eurasian Economic Union (EAEU) since its establishment in 2015, the need to monitor the development of public legal awareness required to ensure the forging of the EAEU citizens' common understanding of the objectives, directions and outcomes of interstate integration within the Eurasian space.

In this regard, one of the most important challenges of interstate integration lies not only in the training of appropriately qualified personnel, but also individuals with integration-focused legal awareness and culture. The new generation of professionals must be aware of their responsibility as officials acting within their remit to facilitate the development of integration processes between countries and their state authorities. In particular, to fight the illicit financial schemes designed to exploit vulnerabilities in integration legislation, or, at the very least, reduce member states citizens' involvement in such schemes.

The adoption of the EAEU Treaty (as a product of the codification of the Customs Union and Eurasian Economic Space contractual framework) exposed a lack of focus on AML/CFT and a low level of the Eurasian Economic Commission's preparedness for a joint fight against illegal financial transactions. In particular, the Treaty completely ignores the AML/CFT-related issues and fails to integrate in its text the previous AML/CFT agreements concluded in the framework of the Customs Union<sup>1</sup>. In addition, the Commission lacks the designated units tasked with the alignment of regulations in this area. Thus recently a number of steps has been taken to eliminate these gaps.<sup>2</sup>

Today the issue of increasing financial awareness of the public (coupled with the related questions of financial inclusion and the protection of the rights of financial services consumers) has become the subject of active inter-agency cooperation between Rosfinmonitoring, Ministry of Finance, Bank of Russia, Rospotrebnadzor and other organizations and agencies of our country. At the same time these topics attract more attention in other countries of the Union. In particular, one can recall the following achievements:

1. A section on the protection of consumers of financial services on Kazakhstan National Bank's website<sup>3</sup> can be an example of a *special column*, dedicated to financial awareness.
2. Armenia, meanwhile, has set up a unified *website* for consumers of different financial services containing a variety of useful materials (news, teaching aids on financial services, financial calculators, tests, puzzles, etc.) catering to the needs of various target groups such as school pupils, teachers, young people, students, journalists, etc.

3. In line with the latest trend towards the migration of *financial literacy centres* to the periphery, Kazakhstan has set up and is operating public information and educational centres in all its regions and large cities.
4. The introduction of the post of *financial ombudsman* is very important for the promotion of financial and legal literacy. In Kazakhstan, for example, issues of financial literacy are listed among the responsibilities of the country's banking ombudsman, as is evident from a special section devoted to this subject on his official website. Kazakhstan's insurance ombudsman, whose responsibilities include settlement of disputes between policyholders and insurers, also assists in improving financial literacy of the population.

A close link between financial and legal literacy is clearly visible from the perspective of *protection of the rights of financial services consumers*. We believe that an extensive *alternative dispute resolution (ADR) system*, comprising specialized financial courts, credit mediators, financial ombudsmen, etc., will contribute to its development. As regards the introduction of the aforementioned post of financial ombudsman, Kazakhstan<sup>4</sup> and Armenia<sup>5</sup> may offer some really useful insights. Alongside the experience of non-CIS countries (Germany, China and Singapore) may turn out useful.

**Considering the abovementioned, we distinguish** two main *prerequisites* for the synthesis of legal and financial literacy in the process of training AML/CFT experts:

1. The requirements of the labour market.  
Today, more than ever, the market demands professionals situated at the confluence of several specialities: financial, foreign trade and tax consultants, compliance experts, etc.

<sup>1</sup> Agreement on Combating Money Laundering and Terrorist Financing during the Movement of Cash and (or) Monetary Instruments across the Customs Border of the Customs Union of December 19, 2011; Agreement on the Procedure for the Movement of Cash and (or) Monetary Instruments by Individuals across the Customs Border of the Customs Union of July 5, 2010.

<sup>2</sup> See, for example: Relevant areas of financial integration in the EAEU: legal analysis: monograph/ edited by V.E. Ponomorenko - Moscow: RuScience 2016; Relevant issues of national anti-money laundering and counter-terrorism financing systems in the states members of EurAsEC: monograph/ edited by V.E. Ponomorenko and K.G. Sorokin - Moscow: Yustizinform, 2014 - 230p.

<sup>3</sup> Kazakhstan National Bank's official website: <http://www.nationalbank.kz/?docid=1354&switch=russian>

<sup>4</sup> Kazakhstan's experience relating to the establishment of the post of ombudsman in certain sectors of the financial market may prove to be very insightful. For example, the country has banking and insurance ombudsmen (banking ombudsman's official website: <http://bank-ombudsman.kz/>; insurance ombudsman's official website: <http://insurance-ombudsman.kz/>).

<sup>5</sup> Armenia's Central Bank set up the Office of Financial System Mediator to protect the rights of consumers of financial services and strengthen public confidence in the financial system (Armenia Office of Financial System Mediator's official website: <http://fsm.am>).



2. The convergence of economic and legal sciences under the economic crisis. This process manifests itself, inter alia, in the following:

- 1) growing popularity of the “regulatory policy” concept focused on the successful fusion of legal and non-legal regulations (corporate and ethical standards, customs and business practices);
- 2) increasing anti-crisis state regulation of the financial market and the economy as a whole;
- 3) popularity of complex practices for evaluating the effectiveness of regulatory policies (e.g., regulatory and actual impact assessment, effectiveness audit);
- 4) establishment of an anti-crisis framework in the form of new international financial standards capable of transcending integration and national legislation.
- 5) evolution of theoretical and methodological approaches of “economic law” or “juridical economics” (Austrian school of Economics, institutional economics, economic law, etc.); in Russia a similar “complex” methodology is only developing.

Among the main *difficulties* experienced by the lecturers of complex (economic and legal) subjects and training courses, including those dedicated to AML/CFT, are:

- contradictions between legal and economic terms;
- difference in the description of the structure of economic systems; fragmentation, specificity and narrowness of their legal meaning;
- low level of juridification of economic concepts and categories (distorted juridification of some of them).

The concepts of money, money circulation, money emission and other related and very important, including for understanding the nature of illicit money flows, constructs tend to be particularly resistant to complex analysis.

The terminology supporting monetary theory is complex and contradictory. It includes such multiple related concepts as “money”, “cash”, “cashless money”, “credit money”, “deposit money”, “quasi-money”, “money substitutes”, “currency”, “virtual currency”, “electronic money”, “digital currency”, “cryptocurrency”, “monetary instruments”, “private money”, etc. At the same time, the range of terms whose legal definitions can be found in the Russian legislation is limited to “cash”, “monetary instruments” and “electronic money”.

Matters concerning evolution of forms and types of money mostly remain confined to the field of economic thought and are yet to be fully adopted for the legal discourse. In general, the legal theory of money is as fragmented today (although one should not oversee some significant progress in its development) as it is far from the actual functioning of money in the economy. This demonstrates the absence in Russian science, in contrast to the western one, of a complex economic and legal methodology for analysing such complex multifactorial phenomena and institutions<sup>6</sup>.

Notably, the anti-money laundering legislation further complicates the legal terminology by adopting such unconventional for Russian jurisprudence terms as “suspicious transactions”, “confusing or unusual nature of a transaction”, as well as such specific concepts as “politically exposed persons”, “beneficial owner”, “non-incorporated foreign entity”, etc.

This term base must be subject to a systematic interpretation within the framework of the traditional legal vocabulary and considered in the context of the terminology used in existing civil, criminal and financial legislation, and as such calls for the possession of a certain set of legal skills.

In view of the above, we propose the use of the following methodological approaches designed

<sup>6</sup> See V E. Ponomorenko. On the Transformation of the Subject and System of Financial Law in the Global Financial Crisis // Financial Law. – 2014. No. 9 – pp. 3-6.

to combine the elements of financial and legal literacy in the curriculum for AML/CFT experts:

- 1) focused and conscious work at the confluence (conflict) of economic and legal terminology aimed at overcoming or at least explaining it;
- 2) combination of legal and economic approaches to the structure of economic systems (financial, credit, banking, payment, currency, etc.);
- 3) increased attention to institutions (forms of market participants' incorporation, differences between them and their economic motivation); specifics of the regulators' status, the scope of their competence and power;
- 4) economic and legal analysis of international financial standards and their impact on the national financial (credit, banking, etc.) system; analysis of the mechanism, challenges, opportunities and constraints of implementation of these standards into a national legal system;
- 5) analysis of related standards convergence (e.g., FATF Recommendations, Basel Accords and IAIS and IOSCO standards); analysis of the impact of the regionalization processes on the implementation of international financial standards.

The importance of legal literacy in the field of AML/CFT is due to the following:

- existence of international standards (FATF Recommendations) that are mandatory for implementation by all the UN member states, as well as the specific mechanism for assessment of the level of these standards implementation (mutual evaluations);
- expected adoption of the AML/CFT Concept as a public policy framework in this area, as well as its alignment with other strategic planning regulations;
- development and growing complexity of the AML/CFT legal framework;

- the growing role of a supervisory unit in AML/CFT;
- the importance of prosecution for violations of the AML/CFT law.



The importance of economic literacy in the field of AML/CFT is due to the following factors:

- nature, methods and types of money laundering and terrorist financing;
- nature and specifics of ML/TF risks and the ways to manage them, as well as the implementation of a risk-based approach in order to counter them.

Therefore, an AML/CFT specialist should be in possession of such important legal, financial and organizational competences as:

- ability to put in practice the requirements of the Russian AML/CFT legislation applicable to reporting entities;
- ability to identify, evaluate and manage ML/TF risks in conducting transactions with monetary funds and other assets;
- ability to organize, implement and improve internal AML/CFT controls in the organization;
- ability to build effective communication within the organization on issues related to AML/CFT.

The adopted in 2015 professional standard of a "Financial Monitoring in the field of Anti-Money Laundering and Countering the Financing of Terrorism

(AML/CFT) Specialist"<sup>6</sup> fully reflects the complexity of the AML/CFT training curriculum. There can be no doubt that this complexity will also be reflected in the educational standard.

We can conclude by saying that legal and financial awareness act as the most important factors contributing to the intensification of integration processes in the Eurasian region, including in the fight against illicit financial transactions. Our ability to take them into account will lead to the synchronization of the integration movement in

the economic, political, legal and cultural spheres, whereas their underestimation could significantly hinder it.

The purpose of AML/CFT trainings should be to combine (backed by an integrated methodology) legal and financial competencies that are based primarily on the sufficient for the performance of one's professional duties level of financial and legal literacy. In addition, these competencies should, if possible, also have an integration vector, given the largely supranational nature of the considered topic.

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<sup>6</sup> Approved by the Russian Ministry of Labour Decree No. 512n dated July 24, 2015

## SPORT

## SPORT. HEALTH. GTO<sup>1</sup>

*On May 29, 2016 the 2d Day of the XII Physical Culture and Sport Forum titled “Ready for Labour and Defence”- Dynamo Day - took place. The event was organized by the Russian Ministry of Sport, Department of Physical Culture and Sport of the Moscow City and non-profit organization “Military Sport Foundation”*

*Inessa A. Lisina,  
Deputy editor in chief*

The GTO tests were taken by the officers of federal public authorities, representatives of number organizations participants of the Dynamo movement, young Dynamo members from Moscow, Moscow area, Smolensk, Tambov, Astrakhan and other cities.

The honoured guests of the 2d Day were the Dynamo Chairman Vladimir E. Pronichev, Director of the Federal Financial Monitoring Service

Yury A. Chikhanchin, Deputy Minister of Sport Natalya V. Parshikova, Deputy Minister of Justice Ali D. Alkhanov, representatives of federal public authorities, sport veterans.



Dynamo № 33 was established in 2014 and brought together officers of the Russian financial authorities such as Rosfinmonitoring, Central



<sup>1</sup> Ready for Labour and Defence, abbreviated as GTO, is a physical culture training program

Bank, Ministry of Finance, Federal Treasury, and Deposit Insurance Agency. The organization holds large-scale sport and health events on a regular basis. Therefore, on May 30, 2015 the I Spartakiade of the financial authorities of the Russian Federation took place.



The active member of Dynamo № 33 is the Federal Financial Monitoring Service, celebrating its 15<sup>th</sup> anniversary this year. Officers of the Service alongside with their professional activities also improve their physical skills; inter alia take part in GTO tests. Regarding the upcoming anniversary the Head of Rosfinmonitoring was rewarded for the contribution to the Dynamo movement development with badge “For Strengthening Sports Community”.

Famous athlete and three-times Olympic champion Alexander Karelin offered congratulations to the Federal Financial Monitoring Service on its future anniversary. In the greeting address he noted

that the Service celebrates in pure Dynamo manner, by organizing a large-scale sport event. The popular athlete is sure that sports activities help the Rosfinmonitoring officers to enjoy good health and be successful.

Within the 2d Day of the Forum any person could pass compulsory (running, pull-ups, long jumps) and additional GTO tests. Moreover, officers of the Russian financial authorities demonstrated their achievements during futsal, volleyball, table tennis Dynamo championships. Together with adults children of Rosfinmonitoring employees took part in the competitions. For their first sports achievements they were given memorable bowls and gifts.

**All-Russian sport and physical culture complex “Ready for Labour and Defence” (GTO)** is a physical culture training program of the state, aimed at development of mass sport.

**GTO goals** are health improvement, harmonious and comprehensive personal enhancement and patriotic education.

A crucial part of the GTO complex is patriotic work with the population. In addition to the sport competitions the officers of Russian financial authorities visited the Central Museum of the Great Patriotic War, where the wreath-laying ceremony on the Monument to Warrior-the-Winner was held. Participants honoured memory of all the victims by a moment of silence. Later an excursion to the Museum’s permanent exposition was held.



## NEWSBLOCK

*Innovative Look on Economy*

**ON** June 23-24, 2016 in Nizhny Novgorod, Russia, the X International Scientific and Practical Conference “Innovative Economy: Regulation and Competition” was held. The event has been hosted by the Lobachevsky State University of Nizhny Novgorod since 1997.

Traditionally the agenda of the conference comprises methods and mechanisms of economical processes' regulation. Workshops were dedicated to economic security, competitiveness in education in the context of crisis, state – business relationship in modern society and other issues.

This year the program also included events and topics related to anti-money laundering and countering the financing of terrorism (AML/CFT). UNN is a network AML/CFT Institute member (hereafter - Institute) and is engaged in personnel training for anti-money laundering system of Russia and other partner states. The conference was also attended by other universities members of the Institute: Academician E. A. Buketov Karaganda State University (Kazakhstan), Sevastopol State University,

V.I. Vernadsky Crimean Federal University, Peter the Great St. Petersburg Polytechnic University.

The representatives of the International Training and Methodology Centre for Financial Monitoring (ITMCFM) also participated in the event and reported on the elaboration of the professional standard for the financial monitoring specialist and educational programs on its basis; integration of educational institutions in the case of the network AML/CFT Institute; problems in identification and prosecution for laundering of criminal proceeds or other illegal assets.

The relevance of the conference may be proved by a wide range of participants: approximately 350 representatives of public authorities, scientific and educational institutions from 16 Russian regions and 12 foreign states.

*XXV International Financial Congress*

**XXV** International Financial Congress, organized by the Central Bank of the Russian Federation, was held from June 29 to July 1, 2016 in Saint Petersburg. Its topical issue was the discussion of the financial market perspectives for development.

The event traditionally brings together the banking sector representatives. However, this year the format has been altered and the development



**XXV Международный финансовый конгресс**

проводится Центральным банком Российской Федерации  
29 июня – 1 июля 2016 г., Санкт-Петербург

issues of the entire financial sector were in focus. Therefore, the range of participants – over 1000 people from 34 countries – was wide and included federal authorities' officers (the Federal Financial





Monitoring Service as well), representatives of Russian and foreign banks, entities-participants of the financial market, international organizations and institutions.

The Forum was attended by the FATF Executive Secretary David Lewis – he was a speaker at the

“Financial Inclusion: Challenges and Opportunities for Development” session. The key subjects he touched upon were the FATF activities (inter alia, efforts in countering the financing of terrorism), financial transparency and identification of beneficial ownership, financial inclusion of the population.

Financial technologies (Fintech) – technological solutions in the field of financial services - play an important role in improving the level of financial inclusion. FATF is aware of both opportunities and risks that they perform. Therefore, in the nearest future the FATF will interact with the Fintech community as well as with the Regtech community. Development of their cooperation will allow for detecting and mitigating the risks. It will contribute to meeting the main goal – provide financial transparency and counter illegal financial flows.

## *Spain Takes Over the FATF Presidency in July 2016*



**M**r. Juan Manuel Vega-Serrano from Spain assumed the position of President of FATF on July 1, 2016. He succeeded Mr. Je-Yoon Shin of Korea.

Mr. Vega-Serrano is the Director and CEO of SEPBLAC, Spain's Financial Intelligence Unit and AML/CFT Supervisory Authority.

Mr. Vega-Serrano joined the senior civil service in 1992. In 2001 he became Assistant Deputy Director General of the Treasury and began attending FATF meetings. In 2005, he was appointed Secretary of the Commission for the Prevention of Money Laundering, from which he promoted a comprehensive revision of Spain's AML/CFT legal framework.

Mr. Vega-Serrano holds a Doctorate of Laws (PhD) and a Diploma of Advanced Studies in Economics. He has published several books and articles on financial regulation.

### **Objectives for FATF-XXVIII (2016-2017)**

1. Counter Terrorist Financing
2. Enhancing transparency
3. Outreach to the FinTech community
4. Effective implementation of the FATF Standards
5. Increased operational focus
6. Enhanced international standing

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