
Financial Monitoring as the Key Element of the Mechanism for Ensuring Economic Security

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Abstract:

This article deals with the theoretical and legal fundamentals of forming the Russian system of financial monitoring and introduces the analysis of efficiency in the functioning of the Federal Financial Monitoring Service by separate dynamics.

It also considers approaches to define indicators being threshold values by nature and which are lower than money transactions regarded as suspicious. It was proposed to establish a position of a commissioner for anti-money laundering.

It was proved that, in accordance with the new procedures for assessing the effectiveness of national systems for combating money laundering and terrorist financing, it became necessary to train observers.

Observers in their turn should conduct ongoing analysis and the preparation of a draft report on the changes with conclusions and recommendations.

Keywords: *Russian system of financial monitoring, efficiency, suspicious transactions, thresholds, estimation procedures, recommendations, cash flows.*

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1. Introduction

At present, many states are taking measures to strengthen the fiscal policy for reducing the share of the shadow economy and the scale of organized crime. One of the directions of this policy is the creation and the improvement of the system of anti-money laundering and the financing of terrorism. The main task of the international system of anti-money laundering and the financing of terrorism is accumulation and analysis of information on these operations and transactions, their participants, as well as limiting the use of these revenues, and the creation of an international financial monitoring system.

The development of the modern, democratic system is impossible without the constant improvement of the mechanisms of public administration and ensuring the activities of government bodies in a single coherent mechanism (Fetai, 2015; Theriou, 2015; Gubin *et al.*, 2017). An important role in public administration belongs to the development and improvement of the financial monitoring system (Grima and Caruana, 2017; Anureev, 2017). The Financial Monitoring Committee of the Russian Federation (FMC of the RF) was established by the Decree of the President of the Russian Federation dated 1 November 2001 № 1263 *“On the authorized body to counteract the legalization (laundering) of proceeds of crime and terrorist financing”*.

Until September 2007, the Federal Financial Monitoring Service was under the jurisdiction of the Ministry of Finance of the Russian Federation. According to the Decree of the President of the Russian Federation dated 21 May 2012 № 636 *“On the structure of federal executive bodies”*, the President of the Russian Federation administers the activities of the Federal Financial Monitoring Service. Financial monitoring is the monitoring of various financial transactions, in addition, financial monitoring should be understood as the activities of organizations that conduct financial transactions, to identify actions that require mandatory control, or actions related to money laundering (legalization).

The Federal Financial Monitoring Service has Interregional Offices. The financial monitoring system has two levels:

- primary - involves monitoring of financial transactions at the enterprise level;
- secondary - monitoring at the state level.

The Federal Financial Monitoring Service at the executive level is engaged in the development of public policy and the organization of legal regulation in this area. We believe that there was a need for expanding powers and introducing legislative changes in the field of anti-money laundering and terrorist financing in connection with instances of duplication and overlap in the sphere of budgetary control; absence of unified conceptual bases for the organization of state financial control; integrity and clarity of its conceptual apparatus, as well as inadequate level of control of

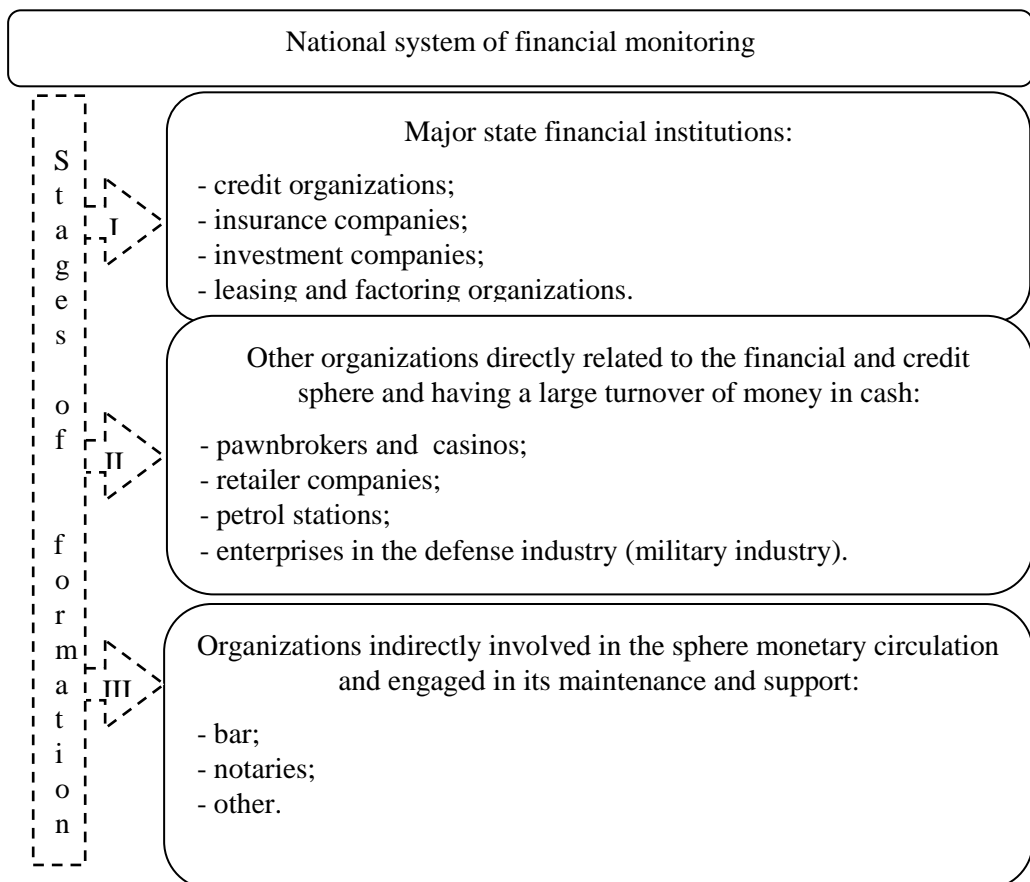
extrabudgetary public funds, imperfection of the methodology of control activity of legal norms. This imbalance is a consequence of the absence of a single harmonious control and audit system at the state level.

Time requires a critical rethinking of the principles of the organization of the financial monitoring system in public administration, including changes in the structure, forms and methods of activity of its participants.

2. Theoretical, information, empirical and methodological fundamentals of the research

All stages of building a financial monitoring system will be presented schematically (see Figure 1). It should be noted that this model is the most common in the world practice.

Figure 1. Stages of the development of the system of anti-money laundering and combating the financing of terrorism (AML/CFT).



The Intergovernmental Organization Financial Action Task Force on Money Laundering (FATF) develops international standards in the field of anti-money laundering and terrorist financing (AML/CFT) and assesses the compliance of national AML/CFT systems with these standards. The main instrument of the FATF in the implementation of the goal is the developed 40 recommendations in the field of AML/CFT, which are revised every five years.

Recommendations developed by the FATF define functional tasks which include identifying a financial transaction participant, recording information on suspicious transactions and their participants, and providing information about them to a special organization. However, international standards do not regulate the procedure and methods for implementing recommendations taking into account the specifics of a specific country. In this regard, different countries have developed their own approaches to the implementation of each standard. Conditions for the effective functioning of the international system for anti-money laundering and terrorist financing are the harmonious implementation of national components in the system. Table 1 presents a specific system of financial monitoring in the national system.

Table 1. *Functional approaches in the system of financial monitoring*

Functions	Approach		
Identification organization	Single	Selective	
Identification of client's identity.	Identification of all participants of financial transactions. Disadvantages: the time of monitoring of financial transactions increases.	Subjective approach ("Know your client") Identification of individuals and organizations, whose behavior and/or operations cause suspicion. Disadvantages: uncertainty of criteria of suspicion, difficulties in the control over execution.	Formal approach A list of information participants in financial monitoring having to accumulate about their clients is established. Disadvantages: increase in the duration of financial transactions and the profitability of the financial system of financial institutions' performance.

In many countries, the criteria include both general indicators for the detection of money laundering, and the specific features of certain types of financial transactions or operations a client made. Although many approaches to decision-making on defining transactions are used in practice, there is a single set of procedures that includes the identification of customers, the storage of information about them, and its constant updating.

Identification of a client is often a problem, since the founder or shareholder of a company may be another firm or individual, and in this case, customer identification

is a formal approach. Requirements for the retention of information by participants of financial monitoring, obtained as a result of customer identification, are determined in accordance with the laws of the country. In Russia, this period is five years after the client's relations with the participants of financial monitoring are not limited in the form of information storage.

The following approaches are used to recognize suspicious transactions: the first approach is based on the development of the formal system of indicators representing threshold values, above which the operation is classified as suspicious; the second approach assumes that to identify suspicious transactions in organizations that are participants in financial monitoring, a position of a commissioner for money laundering is introduced, and for financial intelligence purposes, all transactions should not be monitored, but only transactions that resulted in suspicion. To determine them based on the criteria of suspicious transactions, commissioners for anti-money laundering analyze the transactions with customers. In Russia, participants in financial monitoring independently determine the criteria for suspicious transactions.

After providing information to financial intelligence units, financial institutions are eligible to refuse a client to conduct suspicious transactions or open a bank account and unilaterally terminate the agreement to open a bank account.

The procedure and terms for the transfer of information on suspicious transactions by a participant in financial monitoring are outlined in general terms in the International Rules. According to Russian law, creditors are obliged to provide information to the authorized body in electronic form no later than the next working day after the discovery of a transaction that does not meet the criteria established by law.

3. Results

The analysis of national and foreign financial monitoring systems allows making a conclusion that the identification of suspicious transactions is formal in a country with a low level of centralized management and control of self-discipline of financial institutions. Financial intelligence units analyze reports of individual financial transactions that are in doubt to identify criminal schemes and the sequence of the entire chain of participants. Given a reason justified enough for the criminal case, financial intelligence informs the relevant authorities.

The uniqueness of the Federal Financial Monitoring Service is that it is closely connected with the activities of credit financial institutions and law enforcement agencies. Financial institutions generally reflect ongoing financial operations and transactions for suspicious transactions that fall within the definition of the parameters of the Law [and provide information to the Federal Financial Monitoring Service]. The Federal Financial Monitoring Service processes and analyzes

information on suspicious financial transactions and operations requested from credit institutions in case additional information is needed. The result of this activity is the conclusion which lies in the fact if operations have or do not have the signs of laundering of proceeds of crime. In addition, on the basis of the information provided by the Federal Financial Monitoring Service, law enforcement agencies decide on the opening of a criminal case resulted from laundering of proceeds of criminal activities.

Until 1 January 2017, 320 thousand financial institutions engaged in financial transactions and operations with monetary funds or other assets were included in the Russian financial monitoring system. The Federal Financial Monitoring Service has registered more than 40 thousand organizations that do not have supervisory authorities.

4. Outcomes and recommendations

The main objective of the national financial monitoring system is to increase the efficiency of financial intelligence, the Bank of Russia, government agencies and the private sector. Financial investigations are one of the main activities of the Federal Financial Monitoring Service. In 2017, the main priorities of the Federal Financial Monitoring Service were aimed at housing and communal services, as well as military-industrial complexes, government contracts of corporations, credit organizations. Improvement of the efficiency of financial investigations was achieved by focusing on priority areas of activity, participation in the detection of economic crimes related to corruption to identify financial schemes.

In 2017, the Federal Financial Monitoring Service and the Bank of Russia, the Ministry of Internal Affairs of the Russian Federation and other law enforcement agencies initiated the revocation of licenses from several banks. Legal entities involved in criminal schemes had obvious signs of fictitious entities. Thousands of bank cards were used to conduct illegal financial transactions that were opened for this purpose, as well as thousands of people were involved in shadow schemes.

A special advantage of the Federal Financial Monitoring Service in 2018 is the monitoring of activities of groups of people involved in creating financial “pyramids” at the interregional level. This activity covers 56 regions of Russia and is dedicated to investing in high-yield projects. They have been created for attracting citizens’ funds and envisage paying high interest rates of 30% per month or more. As a result of the strengthening of international cooperation with financial intelligence services of foreign countries, the facts of a threat to the Russian well-being of citizens were revealed.

An important activity of the Federal Financial Monitoring Service in combating terrorist financing is the permanent publication of a list of organizations and individuals with respect to which information is available on their involvement in

extremist activities or terrorism on the official website of the Federal Financial Monitoring Service. This need arose in connection with the need to bring this information to organizations that carry out financial operations with organizations from the list.

In accordance with the Presidential Decree dated 25 June 2012 № 808, the Federal Financial Monitoring Service organized the National Center for the Assessment of Risks and Threats to National Security resulting from the laundering of proceeds of crime and the financing of terrorism. The main goal of the Center is to take timely measures to localize money laundering and risks of terrorist financing, define the concept of developing long-term international cooperation, and provide information and analytical support for resources at the tactical and strategic levels.

In 2017, activity of the Federal Financial Monitoring Service at the interbank international level focused on further intensifying of training, Russia's participation in the functioning of international platforms and expanding mutual cooperation in various formats, such as bilateral and multilateral.

Evaluation of the effectiveness of Russia's participation in the FATF and FATF-Style Regional Bodies (FSRBs) depends on the influence of a large number of factors, such as the professional experience of specialists in informing the correspondence of analytical data, the development of an approach that differs from those on which the internal legal system of their country is based. This is very important in the process of evaluating the effectiveness of new trends in the external environment of the information field.

In accordance with the new procedures for assessing the effectiveness of national systems of AML/CFT, observers should be trained apart from assessment. Observers' functions include analysis, a draft assessment report and recommendations and conclusions. Russia began training such specialists and organized their interaction. In December 2013, Network AML/CFT Institute was created under the Federal Financial Monitoring Service, which brought together over 40 universities and research organizations both in our country and foreign participants.

Our country owns a coordination resource, like the videoconference system, so it would be sensible to organize a training program for evaluators and reviewers, as well as officials of the structures who will directly interact with members of the FATF visiting mission. The implementation of these approaches will improve their effectiveness, as participants will be able to share the necessary information.

An important activity is preparing qualified guidelines, workshops on priority areas, new ways of paying for the national payment system, international standards for anti-money laundering and financing of terrorism for law enforcement officers and the private sector, as well as oversight activities. Much work has been done on the

development of a unified information system and the provision of functional blocks using modern IT technologies. “In 2017, more than one million reports on transactions with cash or other assets were made and the dynamics of this indicator increased by 5%. Quite a serious growth – 4.2% – is observed in 2017 compared to 2016 in the index “the number of messages received by the Federal Financial Monitoring Service in electronic form”. This growth was achieved by the development of a specialized software AWS “Organization” and a personal account on the website of the Pension Fund of the Russian Federation (PFR). These measures allowed non-credit institutions to impact by means of information in real time, and develop an action plan to increase the Federal Financial Monitoring Service’s access to external information resources”.

The Central Bank of Russia publishes a list of Russian companies engaged in foreign trade and suspected of illegal export of funds abroad, as well as money laundering. In 2017, the volume of suspicious transactions amounted to 150 billion rubles and exceeded the level of the same period last year by one and a half times. According to experts of the Central Bank of Russia, cases where transaction passports of foreign trade and loan agreements were closed to domestic companies due to a change in the authorized bank and the license for foreign currency operations was extended. However, credit organizations were not informed on these changes.

The Central Bank of Russia has compiled a list of Russian companies, which will allow determining the name, main state registration number, taxpayer identification number. All participants in the list are divided into two groups:

- ▶ the first includes companies in which foreign participants must have 80% of payments under contracts;
- ▶ the second group includes companies in which the proportion of non-residents is 20–80% of the contract amount.

This list is sent to the credit institutions of the Bank of Russia regional branches and banks have the right to refuse service companies included in the first group to open a bank account and make transactions. The companies belonging to the second group should be taken under special control by the bank and all information about the company’s financial operations should be sent to the Federal Financial Monitoring Service.

The Central Bank of Russia systematically identifies the facts of large-scale withdrawals from the use of fictitious contracts between Russian, Kazakh and Belarusian colleagues, as well as cash sent by Russian companies to offshore territories through Russian, Kazakh and Belarusian banks.

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