

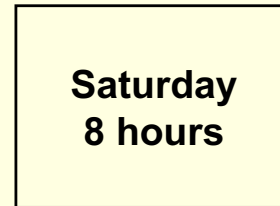


FINANCIAL LAW

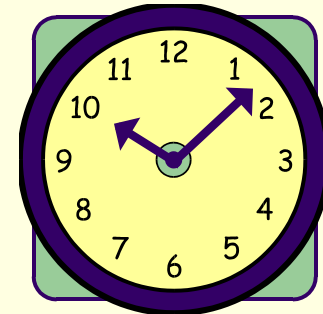
Our Rules



**Please, switch off
mobile phones**



Our time



**Do not be late
after the break**



Questions are welcome



**Positive and
mutual consideration**

Anna Shashkova



Do not be bored!

Lecturer's Introduction

Anna Shashkova

- Education – High Legal
- Academic Supervisor EMBA, MBA “Corporate Director”, HR, Docent MGIMO
- Ph.D in Law
- Honorary Consul for SVG
- Lawyer (Moscow Region Bar Association) specialized in:
 - Arbitrazh Disputes
- E-mail: a.shashkova@inno.mgimo.ru

Our Goals – Main Capabilities

Pass the exam

Recognise the nature and legal control over activities that may destabilise securities markets

Recognise the nature and legal control over money laundering

Legislation

The Criminal Code of the RF No.63-FZ, dated 13 June 1996.

The Code for Administrative Violations of the RF No.195-FZ, dated 30 December 2001.

The Federal Law No.39-FZ “On the Securities Market”, dated 22 April 1996.

The Federal Law No.46-FZ “On the Protection of the Rights of Investors in the Securities Market”, dated 5 March 1999.

The Federal Law No.224-FZ “On Counteracting the Illegitimate Use of Inside Information...”

Insider Information and Market Manipulation and on Amendments to Certain Laws of the Russian Federation”, dated 27 July 2010.

The Federal Law No.273-FZ “On Combating Corruption”, dated 25 December 2008

Our Plan

Overview of the Russian Financial System Fraudulent Behaviour at Securities Market

- Insider Dealing
- Price Manipulation & other Offences

The Nature and Legal Control over Money Laundering

- The Offence of Money Laundering
- Instruments to Control Money Laundering

Securities

Exam

- Max – 50 marks
- Exam = MCQ + Written Paper + Work in Class
- Work in Class – 20 marks
- MCQ1 – each 1 mark – max 8 marks
- MCQ2 – each 1 mark - max 7 marks
- Written Paper – max 15 marks

<http://ed.mgimo.ru>

- Financial Law
- Room 328 or
- Alexander neme_zis@mail.ru
- Password 123

Overview of the Russian Financial System

FINANCIAL LAW

www.jamesaltucher.com



"Well, in our country," said Alice, "you'd generally get to somewhere else — if you run very fast for a long time, as we've been doing."



"A slow sort of country!" said the Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

Market Challenges

Russia is a geographically vast market, spanning nine time zones and encompassing over 17 million square miles

Seriously underdeveloped infrastructure

An incomplete transition from central planning

Recent reforms make it easier for companies to hire expatriate employees



Market Overview

Over 140 million consumers, a growing middle class, and almost unlimited infrastructure needs

Russia is the world's 11th largest economy by nominal GDP, 6th largest by PPP and has the highest per capita GDP of the BRIC countries.

Russian sources list the country's leading trade partners- ?

Russia joined the WTO in August 2012.

Problems – Local Business

- Infrastructure
- Quality of Personnel
- Corruption / Bureaucratic Procedures / Anti-Corruption Procedures
- Quality of Regional Management
- Courts

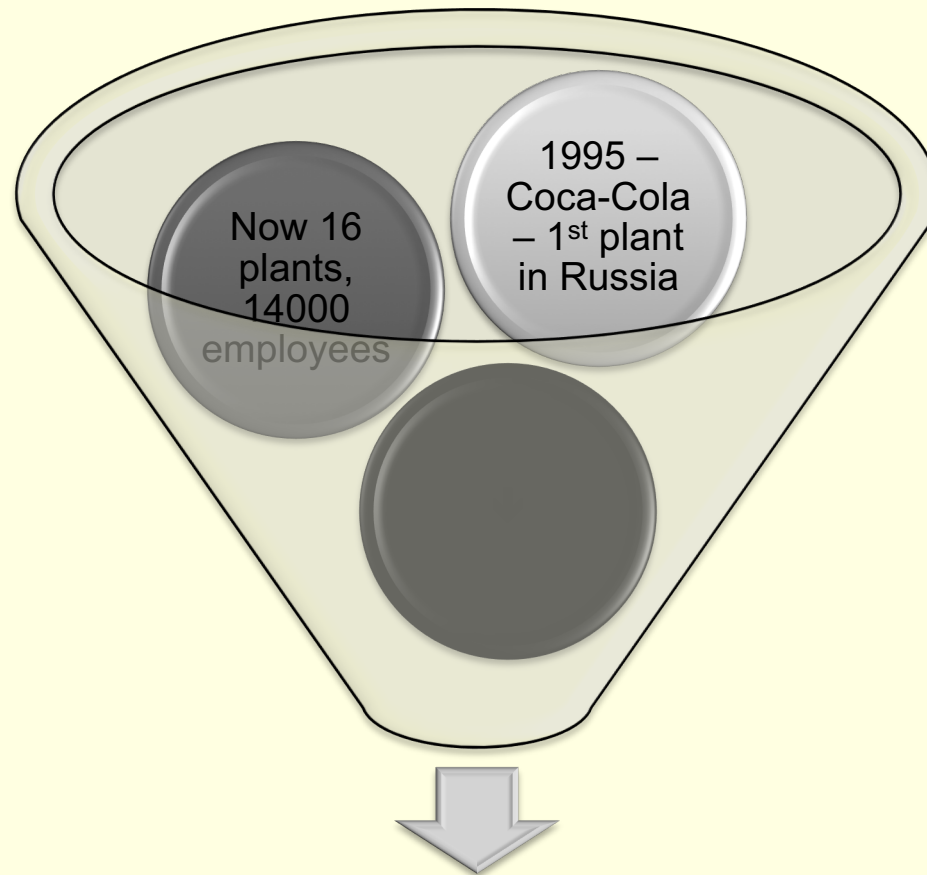


Problems – Local Business

- LEGISLATION – not stimulating, but permitting
- Lack of transparency
- State-owned enterprises
- Visa
- Language
- Local Time, Business Hours and Holidays



Global Perspective



Ranking is nothing

Anna Shashkova

Investment

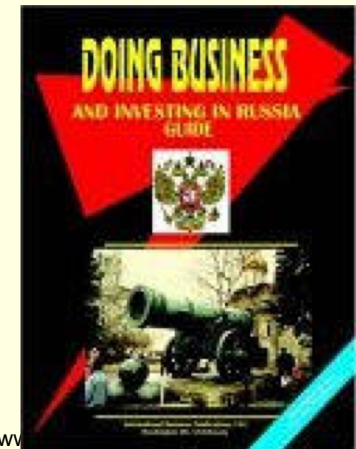
- Openness to Foreign Investment
- Conversion and Transfer Policies
- Expropriation and Compensation
- Dispute Settlement
 - Foreign Arbitration Awards
 - Commercial courts state & private (e.g. Gazprom Tribunal of Arbitrators)



cisarbitration.com

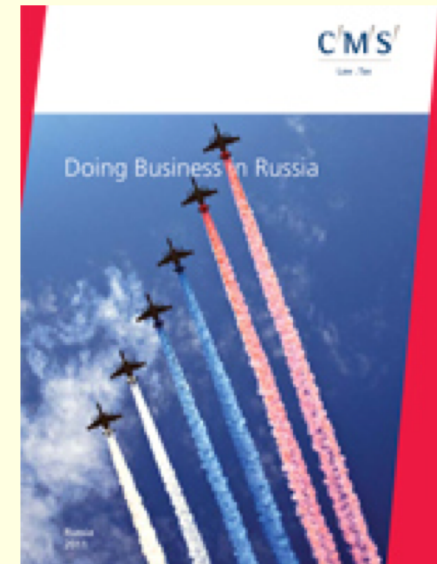
Investment

- Performance Requirements and Incentives
- Right to Private Ownership and Establishment
- Protection of Property Rights
 - Copyright violations
 - Personal bankruptcy
- Transparency of Regulatory System



Investment

- Efficient Capital Markets and Portfolio Investment
- Competition from State Owned Enterprises
- Corporate Social Responsibility
 - Corporate Governance Code
- Political Violence

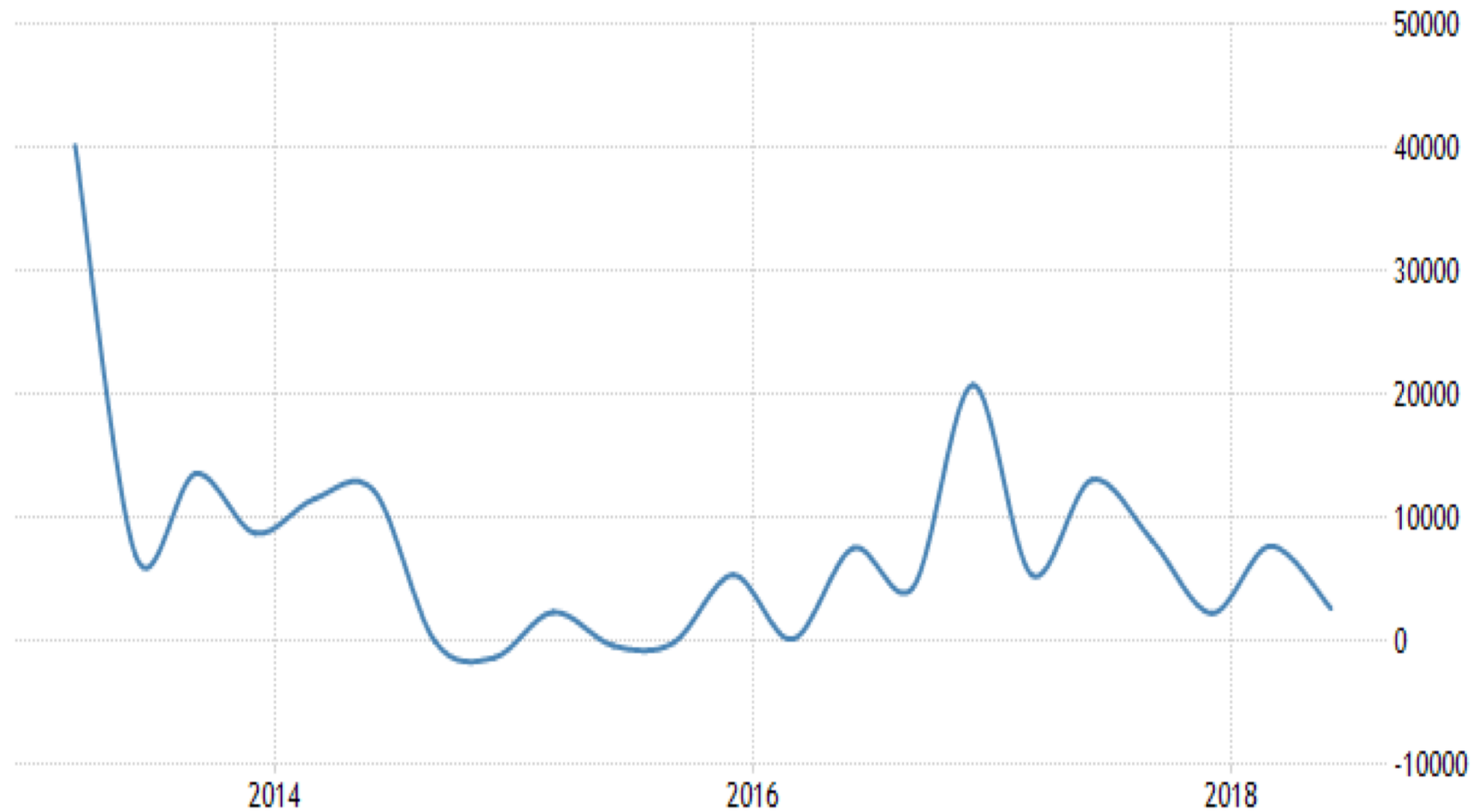


Investment



- Corruption
 - TI – 2008 – 147 out of 180
 - 2013 – the Presidential Anti-Corruption Directorate
 - 2017 – 135 out of 180
- Investment Insurance Programs
- Labor
 - Unemployment 2018 – 4,8%
- Foreign-Trade Zones/Free Ports
- Foreign Direct Investment
 - 2018 – Decreasing 392% compared with 2013

Foreign Direct Investment

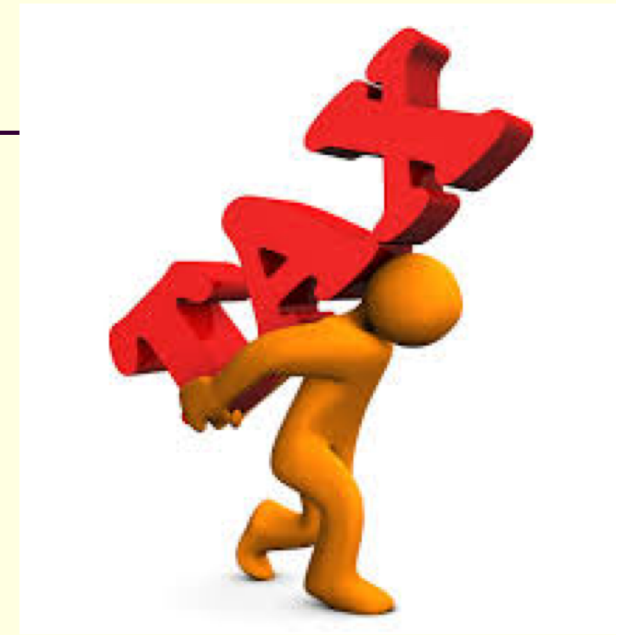


SOURCE: TRADINGECONOMICS.COM | THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Russia Trade	Last	Previous	Highest	Lowest	Unit	
<u>Balance of Trade</u>	19697.00	18485.00	20356.00	-203.00	USD Million	[+]
<u>Current Account</u>	26400.00	19064.00	39286.00	-3774.00	USD Million	[+]
<u>Current Account to GDP</u>	2.20	1.90	18.00	-1.40	percent	[+]
<u>Imports</u>	21618.00	19954.00	32481.00	2525.00	USD Million	[+]
<u>Exports</u>	41315.00	38439.00	50248.00	4100.00	USD Million	[+]
<u>External Debt</u>	467.10	485.50	732.80	151.30	USD Billion	[+]
<u>Capital Flows</u>	20971.51	32135.75	32845.00	-47722.55	USD Million	[+]
<u>Gold Reserves</u>	1998.50	1909.80	1998.50	343.41	Tonnes	[+]
<u>Crude Oil Production</u>	10964.00	10811.00	10964.00	5707.00	BBL/D/1K	[+]
<u>Terrorism Index</u>	5.33	5.43	7.21	5.33		[+]
<u>Weapons Sales</u>	6148.00	6937.00	8658.00	1478.00	USD Million	[+]
<u>Remittances</u>	408.00	368.00	436.00	44.00	USD Million	[+]
<u>Foreign Direct Investment</u>	2583.00	7641.00	40140.00	-3922.00	USD Million	

Taxation

- Federal
 - Profits Tax – 20%
 - VAT 20% / 10% / 0%
 - Import Duties
 - Social Welfare Taxes
 - Pension Fund – 22%
 - Social Security Fund – 2,9%
 - Medical Insurance Fund – 5,1%
 - Injury payment from 0,2% to 8,5%



somalilandmedia.com

Taxation



- Federal

- Personal Income Tax 13% / 30%

www.123rf.com

- Withholding on Dividends – 9% / 15%

http://eng.nalog.ru/taxation_in_russia/np/

E.g. Austria - Withholding Tax Rate on Dividends – 5% (in case of min. 10% participation in Russian company min. 100 000 USD) / other cases - 15%

Taxation

- Regional
 - Corporate Property Tax – max. 2,2%
 - Transport Tax (e.g. Audi Q5 – 13715 RUR (≈200€))

www.toptenz.net

Anna Shashkova



24

Taxation



- Municipal
 - Land Tax – max. 1,5%
 - Individual Property Tax – max. 2,0% (e.g. Moscow 0,5%)
 - drastically increased from 2016
 - 01.01.2013 - 1 173 917 руб. 03 коп.
 - 01.01.2015 - **19** 014 115 руб. 44 коп.

Obtaining Credit Sberbank

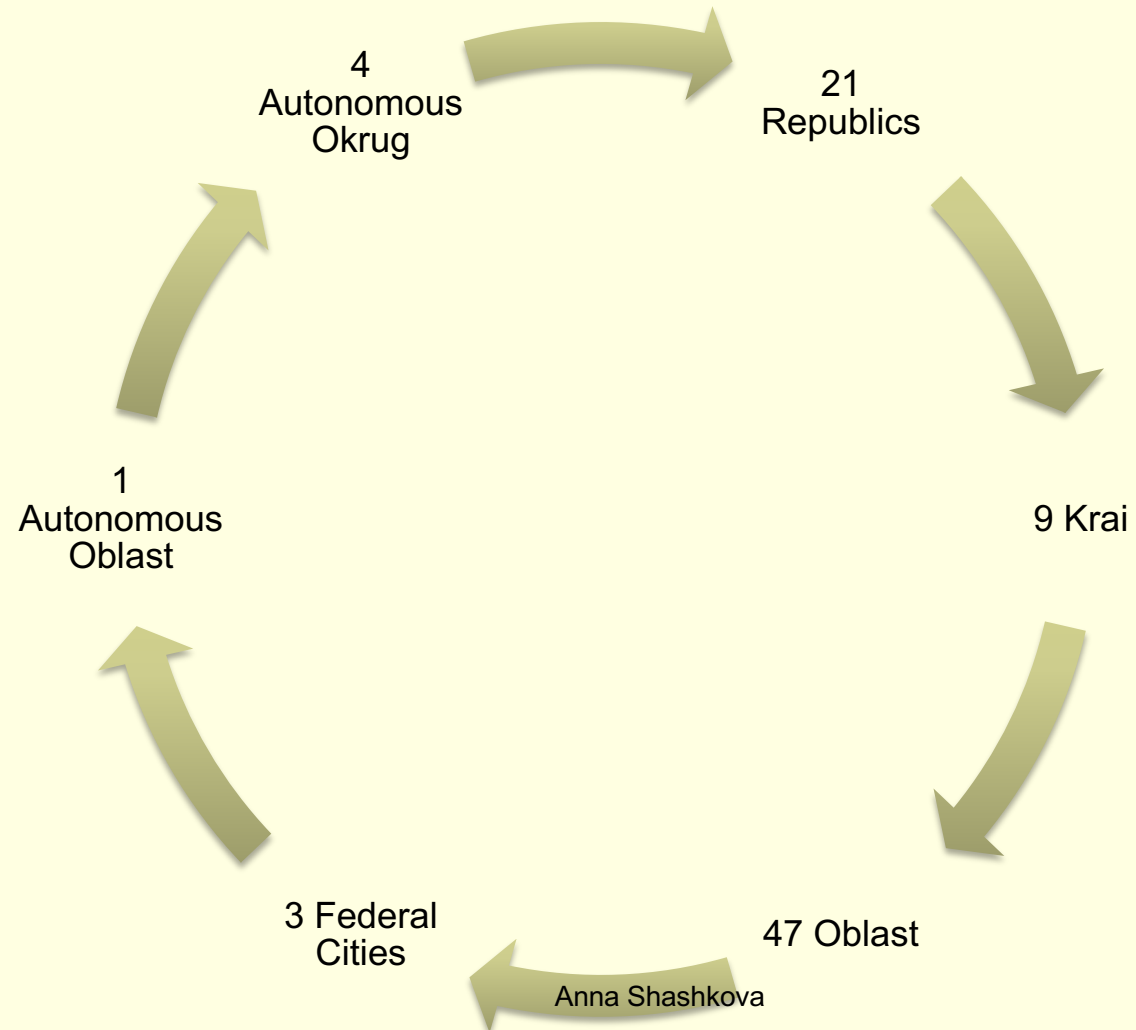
Any aims –
10,9% - max. 1
year - max. 3
000 000 RUR

Mortgage –
6,5% - max. 7
years – max. 10
000 000 RUR

Auto – 9,5 –
16% - max. 5
years – max. 5
000 000 RUR

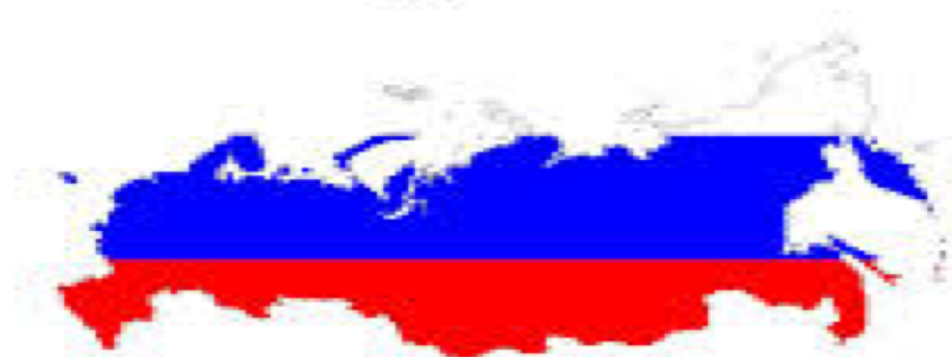
For legal entities
average rate –
11%

Regions – 85 Subjects



Regions – 85 Subjects

До



ПОСЛЕ





- | | | |
|----------------------|---------------------------|----------------------------|
| - Oblasta | - Republics | - Autonomous okrugs |
| 1 - Astrakhan | 1 - Adygeya | |
| 2 - Chelyabinsk | 2 - Bashkortostan | |
| 3 - Ivanovo | 3 - Chechnya | |
| 4 - Kaluga | 4 - Chuvashia | |
| 5 - Kemerovo | 5 - Ingushetia | |
| 6 - Kostroma | 6 - Kabardino-Balkaria | |
| 7 - Leningrad | 7 - Khakassia | |
| 8 - Lipetsk | | |
| 9 - Moscow | 8 - Kalmykia | |
| 10 - Nizhny Novgorod | 9 - Karachay-Cherkessia | |
| 11 - Novgorod | 10 - Mari El | |
| 12 - Oryol | 11 - Mordovia | |
| 13 - Penza | 12 - North Ossetia-Alania | |
| 14 - Ryazan | 13 - Tatarstan | |
| 15 - Samara | 14 - Udmurtia | |
| 16 - Sverdlovsk | | |
| 17 - Tambov | | |
| 18 - Tula | | |
| 19 - Ulyanovsk | | |
| 20 - Vladimir | | |
| 21 - Volgograd | | |
| 22 - Voronezh | | |
| 23 - Yaroslavl | | |
| | | - Kraia |
| | | 1 - Stavropol |
| | | - Federal cities |
| | | 1 - Moscow |
| | | - Autonomous oblast |

Levels

- Federal
- Regional
- Municipal



- But: Court system - on Federal Level

Regions



- Changes in Russia start from Moscow (WB ranking not appropriate for Moscow)

- Industrial parks – Kaluga Region

<http://invest.kaluga.ru/en/projects/objects/ksouth/>

- Republic Tatarstan – 2 IT parks

<http://tida.tatarstan.ru/eng>

- Ulyanovsk Oblast – *tax vacations (not yet)*

<http://ulgov.com/investment/>

www.america-russia.net

Regions - Special Economic Zones

- Special administrative regime
- Ready infrastructure for business
- Land plots can be acquired at special prices
- Special tax regime
- Special customs regime
- Legal guarantees to protect investors' rights



Special Economic Zones

- 16 zones:
 - Technical/Innovational Zones, e.g. Zelenograd
 - Industrial Zones, e.g. “Titanium Valley”
 - Tourist Zones, e.g. Krasnodar Krai



<http://www.titanium-valley.com>

Anna Shashkova

33

Fraudulent Behaviour at Securities Market

FINANCIAL LAW

www.jamesaltucher.com



Violations at Securities Market

Insider dealing

Price manipulation

Illegal emission of securities

Illegal transactions with securities

Breach of legislation on public information on issue of securities

Breach of rules on holding the register of shareholders

Breach of currency legislation, legislation on banks and banking activity and money laundering

Fraudulent Behavior UK

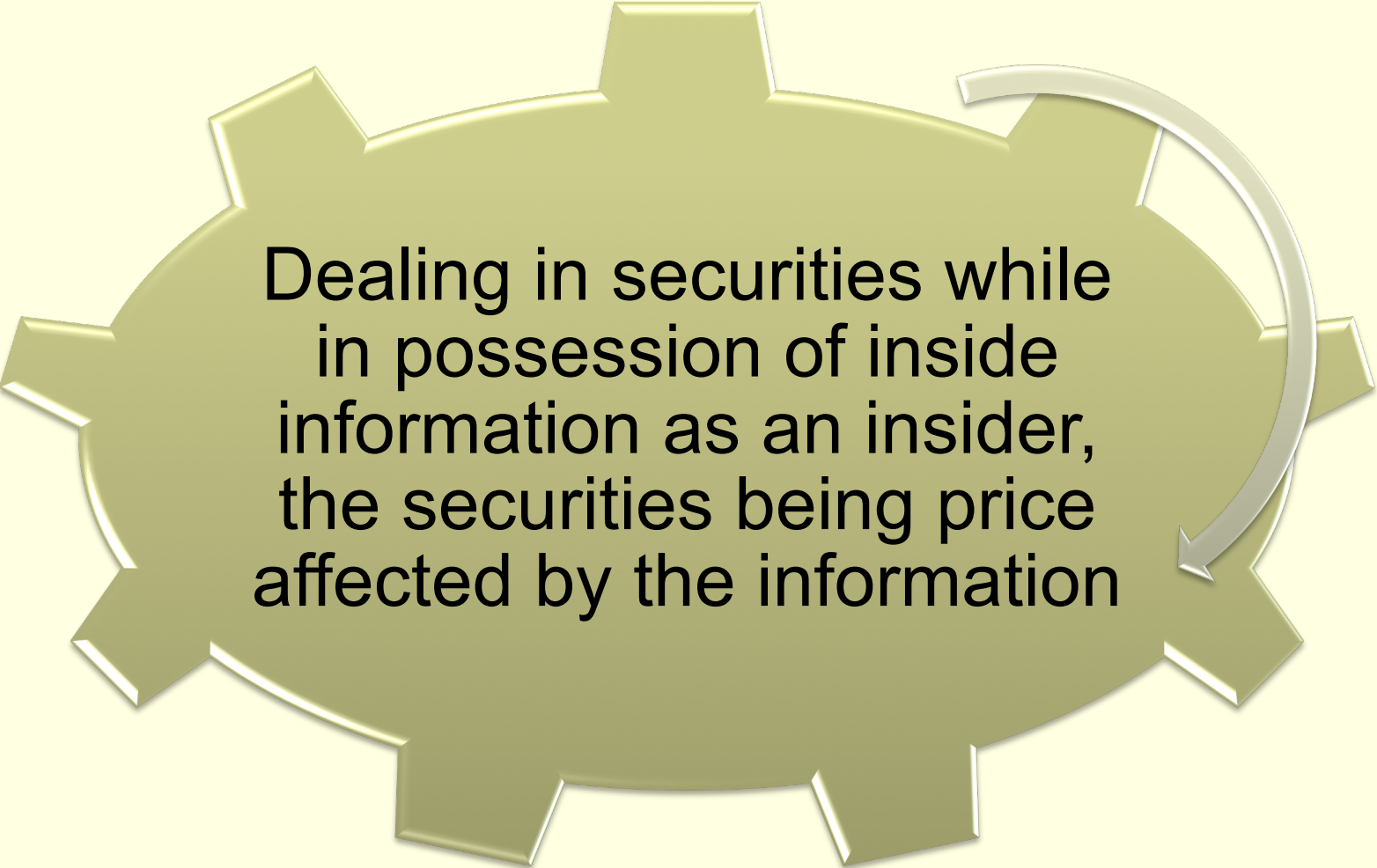
Insider dealing

Money laundering

Fraudulent trading - **R v Grantham**

Wrongful trading

Insider Dealing



Dealing in securities while in possession of inside information as an insider, the securities being price affected by the information

Insider Dealing

Dealing in
price-affected
securities

Encouraging
another to
deal

Disclosing
information

Inside Information

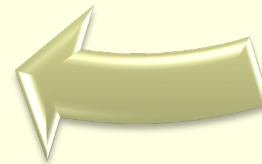
If made public
would be
likely to have
a significant
effect on the
price



Relates to
particular
securities



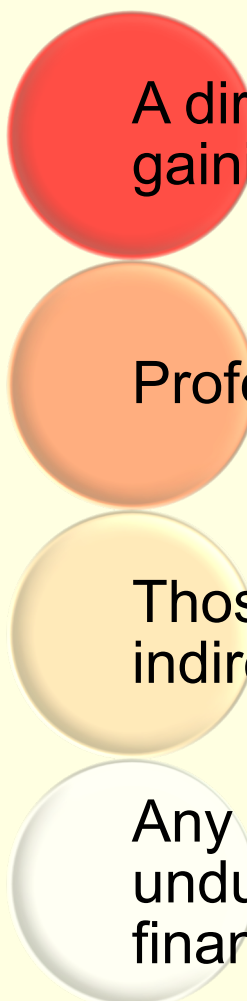
Is specific or
precise



Has not been
made public



Insiders



A director, employee, shareholder or debt-holder gaining direct access to the information

Professional advisers

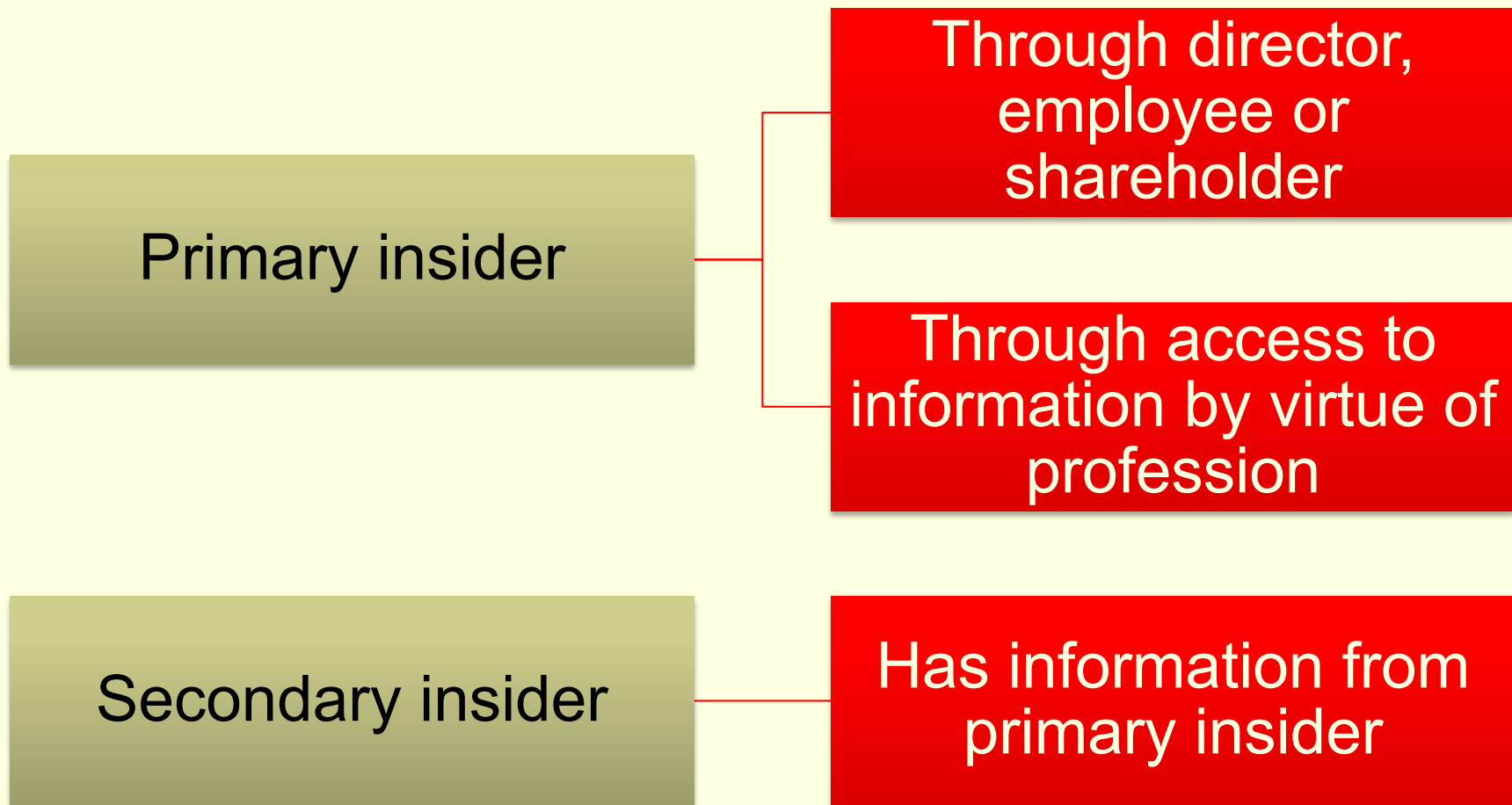
Those who obtained the information directly or indirectly from the one above

Any person who is aware of the closed information, undue disclosure of which can influence prices of financial instruments, currency or goods

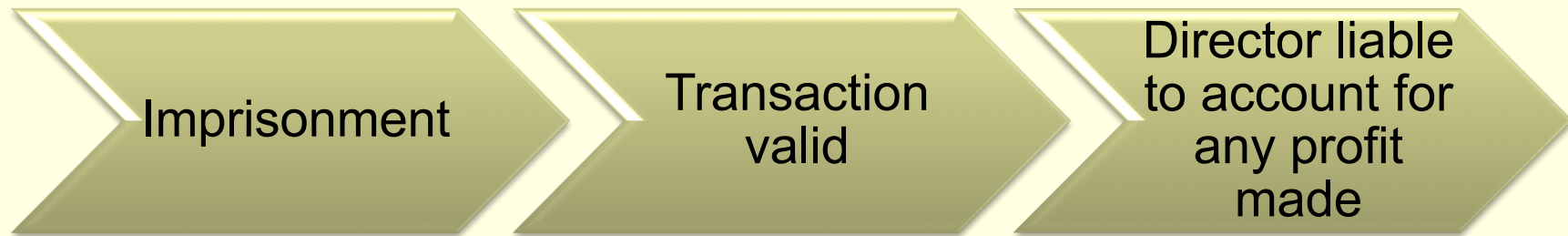
Types of Insiders



Insider Source



Insider Dealing Consequences



Market Abuse

Insider dealing

Improper disclosure

Misuse of information

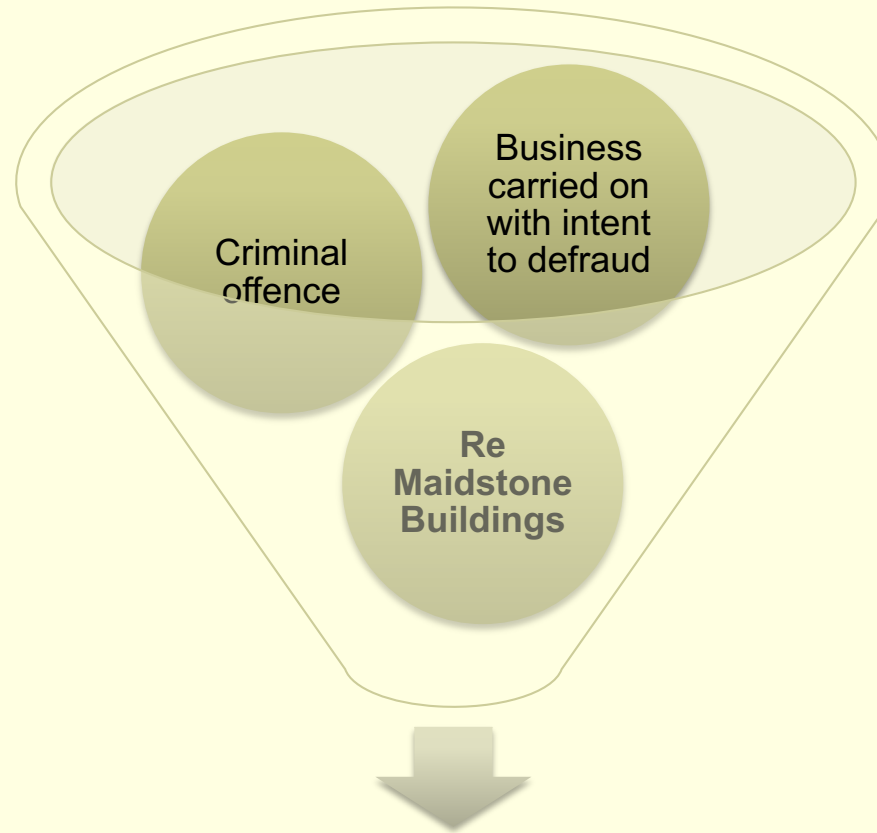
Manipulating transactions

Manipulating devices

Dissemination

Distortion and misleading behaviour

Fraudulent Trading



R v Grantham

Fraud

By false or misleading
representation

By failing to disclose info

By abuse of position

The Bank of Russia



- Suspend further placement of securities
- Publish in mass media the information on unfair issuance of securities
- Inform in written form on elimination of violations
- Give written permission on further placement of securities in case of elimination of violations
- Suspend activity without license, in case the license is needed
- File an action to the Arbitrazh court on recovering of profits obtained on the activity without license
- File an action to the Arbitrazh court on liquidation of the participant of the securities market in case of non-obtaining of the license within stipulated period

- X is a director of XYZ plc, a company whose shares are listed on the Stock Exchange. On his return from a board meeting where the main item on the agenda was the first draft of a press release announcing an agreed take-over bid by PQR plc:
- (a) X buys some XYZ plc shares from an acquaintance.
- **Has X committed a criminal offence? YES/NO**
- (b) X buys some XYZ plc shares on the Stock Exchange.
- **Has X committed a criminal offence? YES/NO**
- (c) X telephones his son and says "I can't tell you why, but I advise you to buy, today, as many shares in my company as you can afford".
- **Has X committed a criminal offence? YES/NO**
- (d) X telephones his daughter (whom he knows of an ~~double~~ on the Stock Exchange) and says "PQR plc is about to make an attractive bid for us".
- **Has X committed a criminal offence? YES/NO**



- In January the board of directors of Huge plc decided to make a take over bid for Large plc. After the decision was taken, but before it is announced the following chain of events occurs:

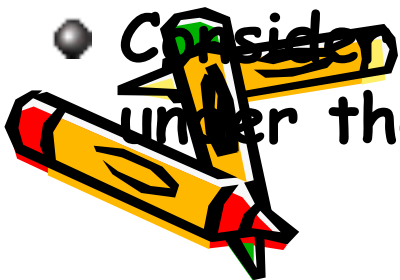
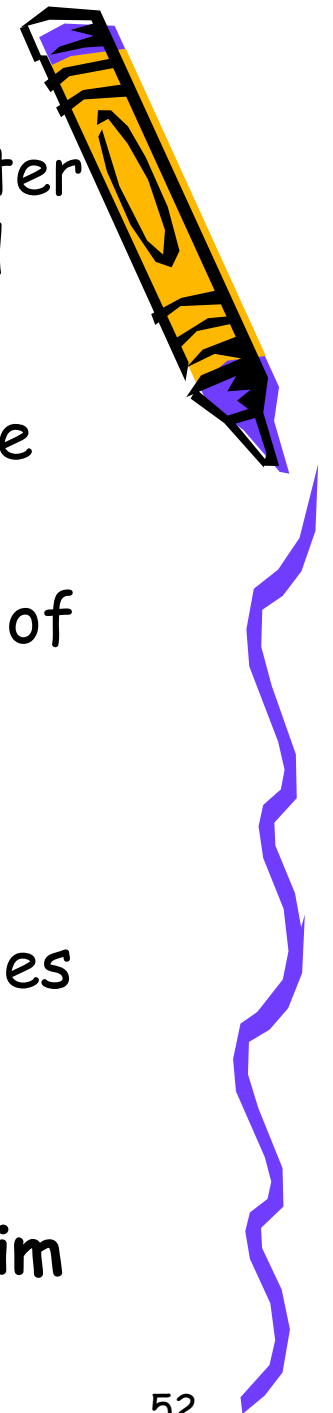
(i) Slye a director of Huge plc buys shares in Large plc;

(ii) Slye tells his friend Mate about the likelihood of the take-over and Mate buys shares in Large plc;

(iii) at a dinner party Slye, without actually telling him about the take-over proposal, advises his brother Tim to buy shares in Large plc and Tim does so.

Required:

- ~~Consider~~ the legal position of Slye, Mate and Tim under the law relating to insider dealing.

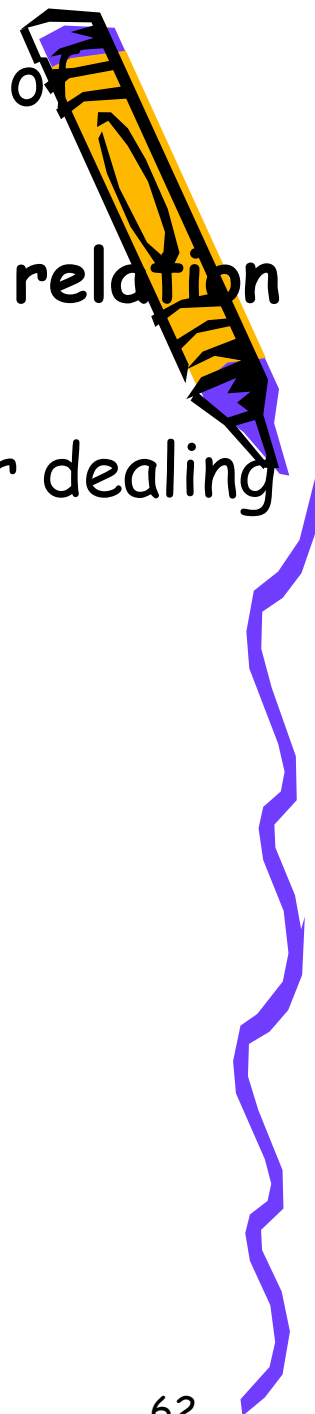


- In 2015 Ger was disqualified from acting as a company director for a period of 10 years under the Company Directors Disqualification Act 1986 for engaging in fraudulent trading.
- However, he decided to continue to pursue his fraudulent business and, in order to avoid the consequences of the disqualification order, he arranged for his sons, Ham and Ive to register a new company, Just Ltd, with them as the only shareholders and directors of the company. As neither Ham nor Ive have any business experience Ger arranged for his accountant Kim to run the business on his instructions. Although Kim took no shares in the company, and was never officially appointed as a director, he nonetheless assumed the title of managing director.
- Lyn, a customer of Just Ltd, suffered considerable loss on account of its fraudulent activity.

Required:

- **Advise Lyn as to:**
 - (a) the status of Ham, Ive, Ger and Kim as directors in Just Ltd; and
 - (b) the potential liability of Ham, Ive, Ger and Kim under company legislation.





- The term insider dealing relates to a number of potential criminal offences.
- **Which TWO of the following are crimes in relation to insider dealing?**
 - (1) Encouraging someone to engage in insider dealing
 - (2) Failing to report insider dealing
 - (3) Concealing insider dealing
 - (4) Passing on inside information

A 1and2

B 1and4

C 2and3

D 2and4



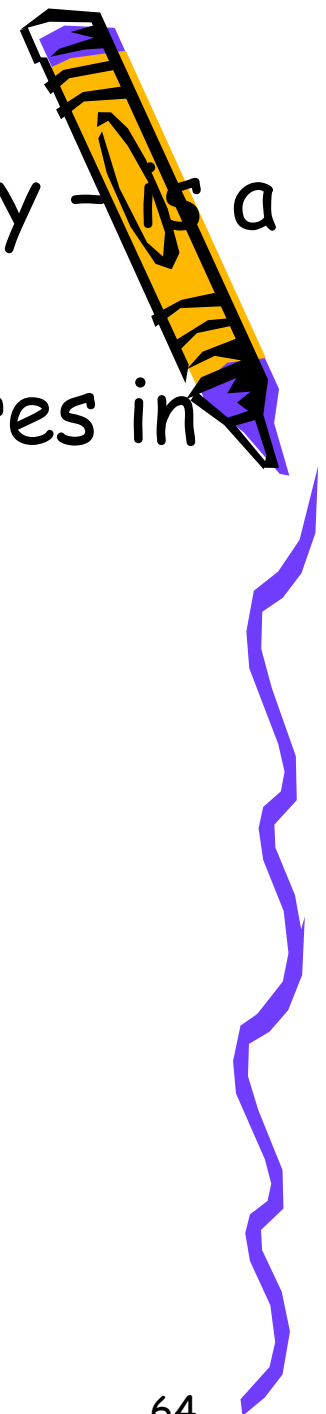
Andrey is employed by OOO Asset Management. One of his clients - Yuriy - is a director of PAO Voshod. Andrey is instructed by Yuriy to sell Yuriy's shares in PAO Voshod. Who may be charged for insider dealing?

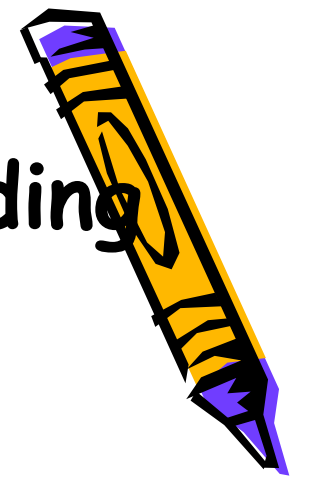
A. Only Andrey

B. Only Yuriy

C. Both Andrey & Yuriy

D. Neither Andrey nor Yuriy





● Which one of the following must a prosecution prove in an insider trading case?

A The insider knew somebody within the company

B The insider researched price-affected securities

C The insider provided confidential information to someone else



In relation to insider trading, which of the following uses of inside information are prohibited?

- (1) Dealing at the expense of a third party
- (2) Dealing at one's expense
- (3) Disclosure to federal authorities
- (4) Recommending a third person to make deals

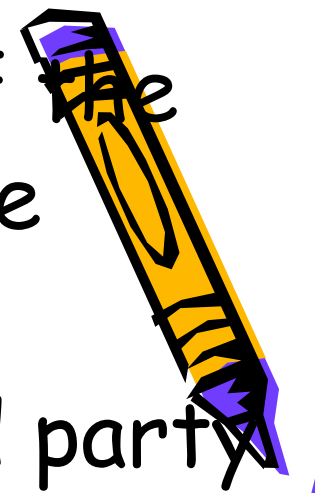
A.(1) and (2)

B.(1), (2) and (3)

C.(1), (2) and (4)

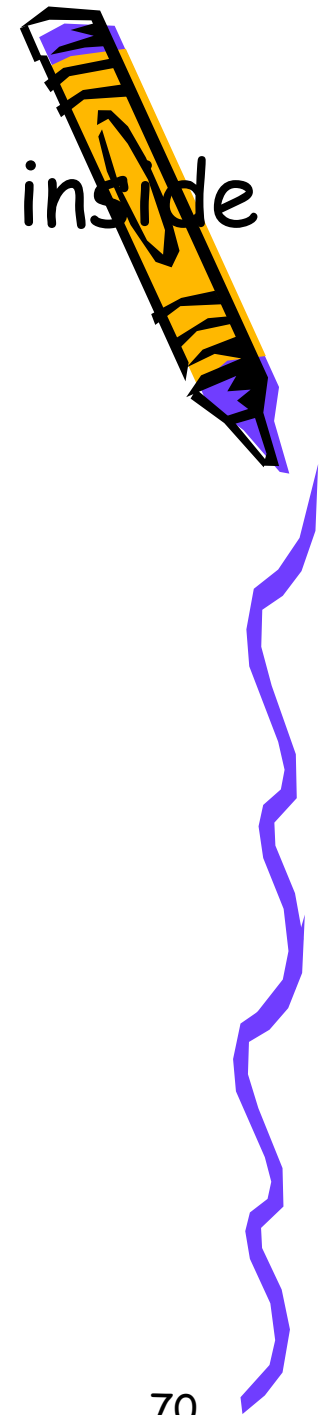
D. (1), (2), (3) and (4)

Anna Shashkova



Which of the following describes a transaction that is accomplished using inside information is true?

- A. It is illegal & invalid
- B. It is illegal, but valid
- C. It is legal, but invalid
- D. It is legal & valid





- Natasha has been accused of insider dealing on information she received from a friend, who is an employee of the company
- Which one of the following is true?

- A. A defence is that she thought the information received was already public
- B. A defence is that she did not know the friend would be considered an insider
- C. A defence is that she was not knowledgeable of insider trading



The directors of a public company have been found guilty of manipulating the price of the company's shares. Which of the following sanctions may be imposed by the Bank of Russia?



- (1) Suspension of trading
- (2) Administrative liability
- (3) Criminal liability

A.(1) and (2)

B.(1) and (3)

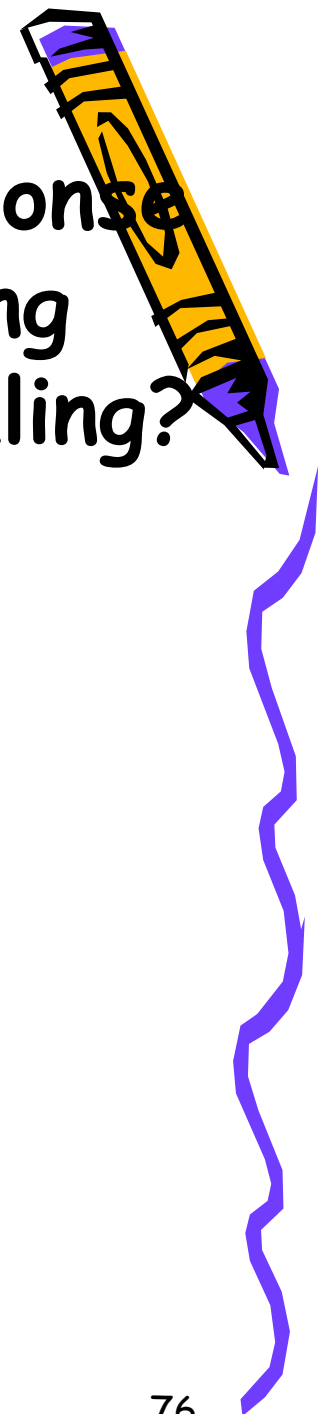
C.(1) and (3)

D.(2) and (3)



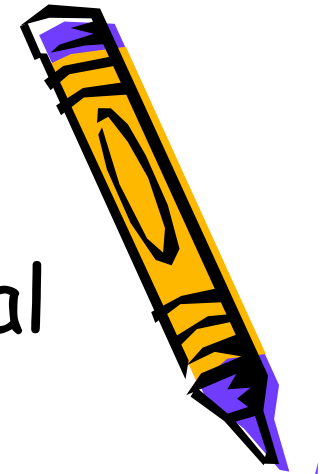
● What types of regimes have been introduced in some countries in response to the perceived ineffective existing legislation in countering insider dealing?

- A Insider abuse
- B Securities abuse
- C Market abuse



In case of violations of the securities' market by a bank. Which is a possible punishment for the bank by the Central Bank?

- A. Closure of the bank
- B. Insolvency
- C. Revocation of a banking license
- D. Fine



● Which of the following best describes improper conduct which manipulates the marketplace to the detriment of other investors?

A Misuse of information

B Misleading statements and impressions

C Market distortion



A shareholder of company limited by shares X decided to sell his shares at a gain and posted an untrue message to social media hoping that it will increase the share price. Which of the following best describes his behavior?

- A. Insider abuse
- B. Money laundering
- C. Misuse of information
- D. Misleading statements and impressions

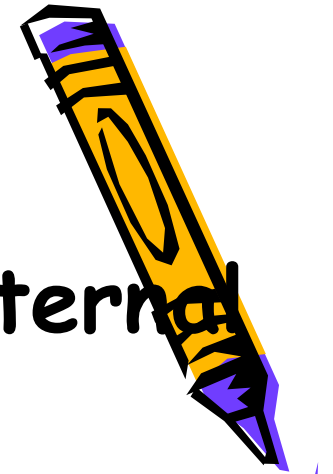


● Which one of the following best describes those people who receive confidential information from an internal source?

A Insiders

B Market abusers

C Corporate offenders



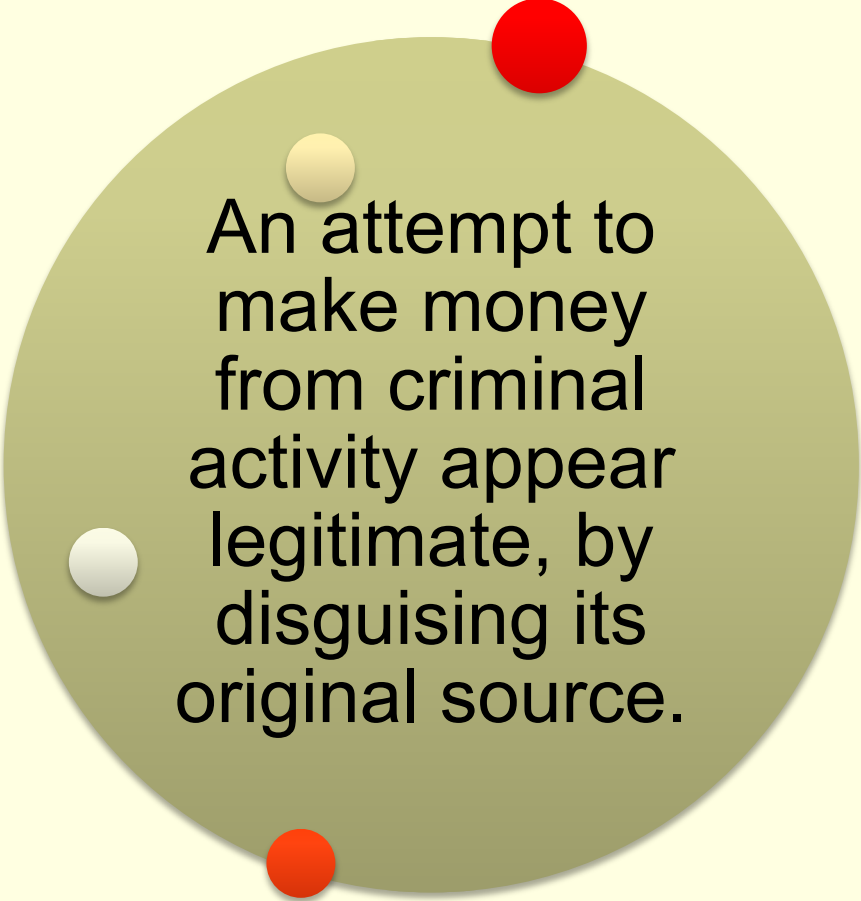
The Nature and Legal Control over Money Laundering

FINANCIAL LAW

www.emirates247.com



Money Laundering



An attempt to make money from criminal activity appear legitimate, by disguising its original source.

Legislation

Proceeds of Crime Act 2002

Drug Trafficking Act 1986

Prevention of Terrorism Act 2005

~~ML Regulations 2007~~

FL #115-FZ





What is Money Laundering?

“Working definition” from FATF:

- The **conversion or transfer** of property, knowing it is derived from a criminal offense, for the purpose of concealing or disguising its illicit origin or of assisting any person who is involved in the commission of the crime to evade the legal consequences of his actions.

What is Money Laundering?



- The **concealment or disguising** of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property knowing that it is derived from a criminal offense.
- The **acquisition, possession or use** of property, knowing at the time of its receipt that it was derived from a criminal offense or from participation in a crime.

Knowledge

- Mental state that accompanies the money laundering act
- Exact definition varies per country
- Willful blindness concept

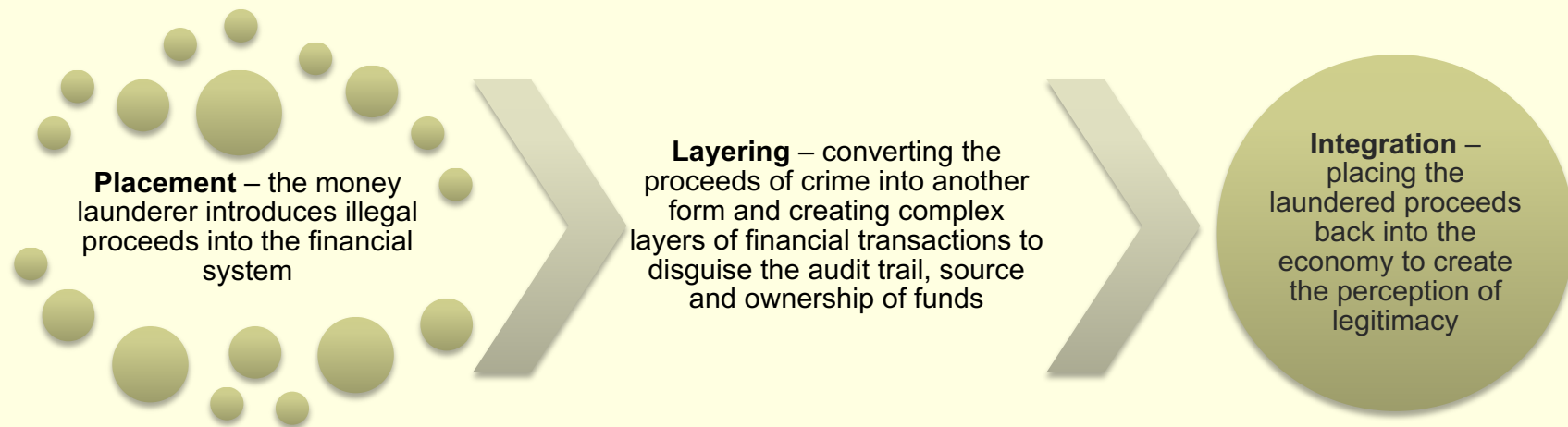


Willful Blindness

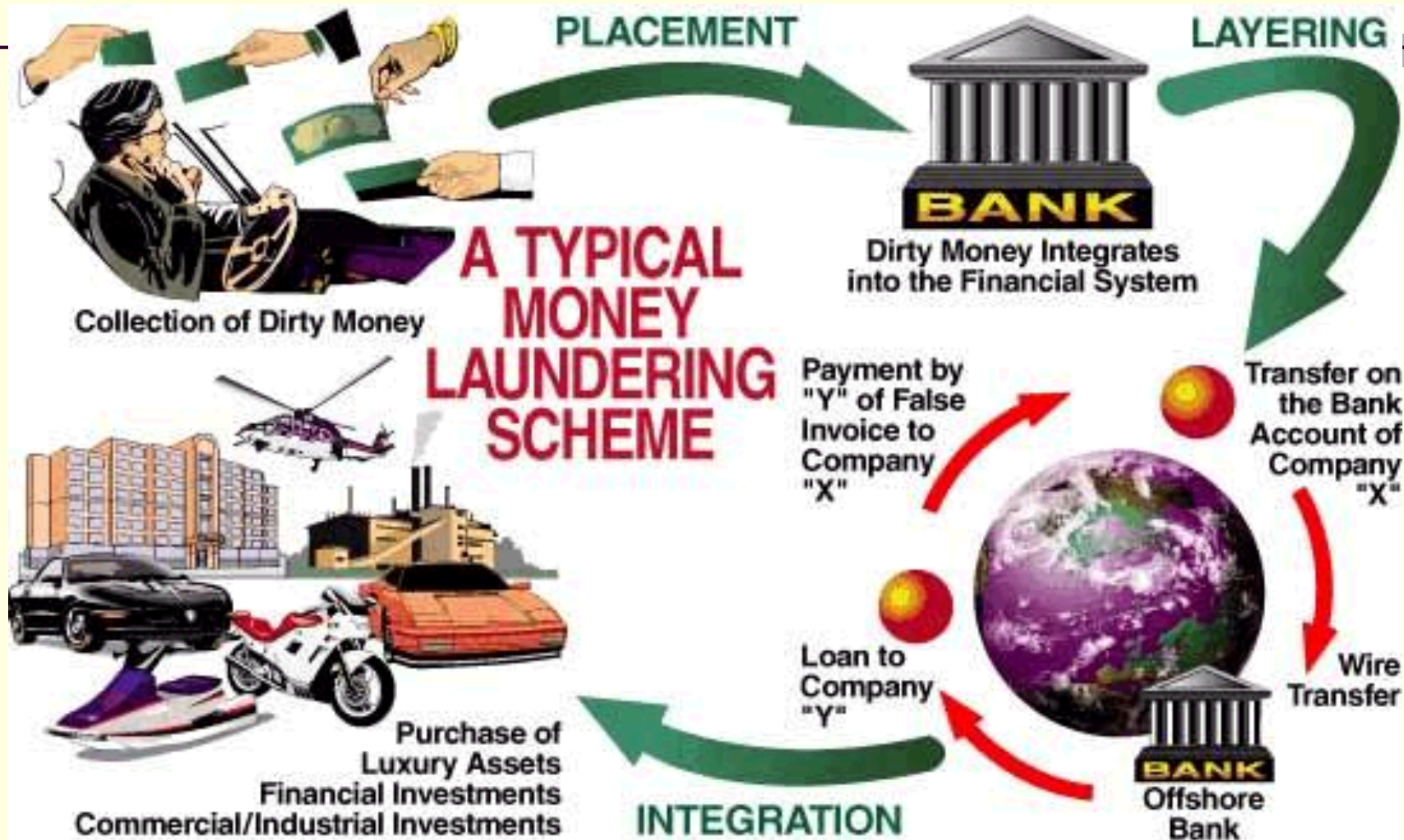


- Defined by courts as the "**deliberate avoidance of knowledge of the facts**" or "**purposeful indifference.**"
- Courts have held that willful blindness is the equivalent of actual knowledge of the illegal source of funds or of the intentions of a customer in a money laundering transaction.
- IT IS THE OPPOSITE OF “WHAT’S HAPPENING, WHAT’S GOING ON AND WHY”?

Stages of Money-Laundering



Stages of Money Laundering



Source: The United Nations, Office of Drugs and Crime
Visit their website at www.undcp.org/odccp/money_laundering_cycle.html

Anna Shashkova

Social and Economic Effects

- Increased crime and corruption
- Undermining of legitimate sector
- Weakening financial institutions
- Effects in economic policy
- Economic distortion and instability



Social and Economic Effects

(Cont.)

- Loss of tax revenue
- Risks to privatization efforts
- Reputation risk for the country
- Social costs



Private Banking

Factors creating money laundering vulnerabilities:

1. Client Advocates
2. Powerful Clients
3. Culture of Secrecy
4. Secrecy Jurisdictions
5. Culture of lack AML controls



Gatekeepers

- Notaries
- Lawyers
- Accountants
- Auditors
- Investment advisors
- Trust & Company Service Providers (TCSP)



Provide advice to minimize suspicion surrounding money launderers criminal activities.

Real Estate

- Popular medium through which criminals filter their ill-gotten gains
- Can absorb huge amounts of money



Casinos

- Buying tokens with cash, minimal betting, request payment by check
- Using a chain of casinos with establishment in different countries, gained amounts held in credit, withdrawal in form of check in other country
- Winner's checks in name of third party



Securities Products

- Easy to trade globally
- Commission-based compensation
- Pump and dump schemes
- Offsetting transactions



Insurance Products

- Total premiums range in about \$2.5 trillion
- Vulnerabilities:
 - ✓ Agents
 - ✓ Payment methods
 - ✓ Single premium annuities
- Examples:
 - ✓ Early redemption
 - ✓ Submitting false claims

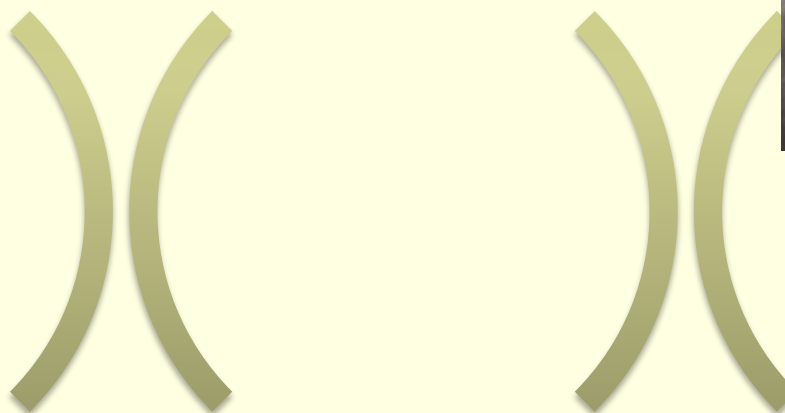
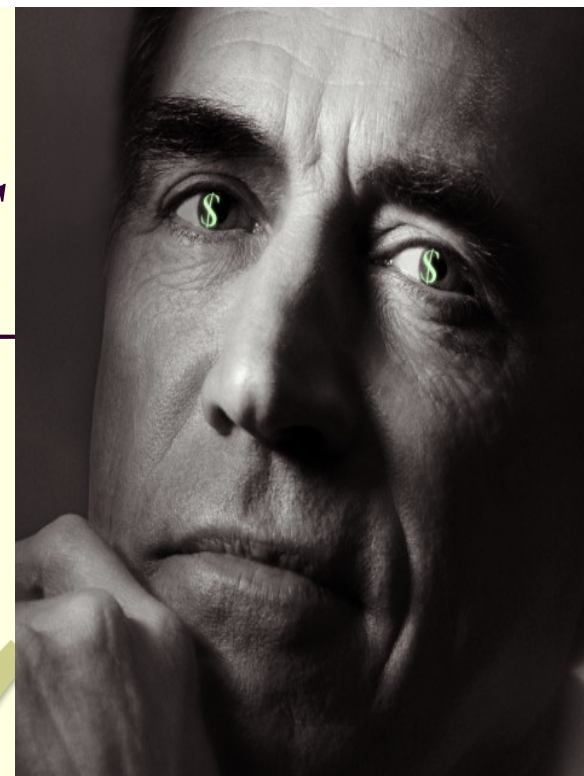


Other Money Laundering Methods

- Smurfing/Structuring
- Assets purchase with bulk cash (e.g. cars, boats, real estate)
- Loanback
- Refining (change small bills into large bills)
- Exchange cash for travel tickets, money orders



Money-Laundering Offences



Laundering

Failure to report

Tipping off

AML Programs

3 Key Goals:



To prevent money laundering and terrorist financing

To report suspicious activity to the proper authorities if the law or regulations require it

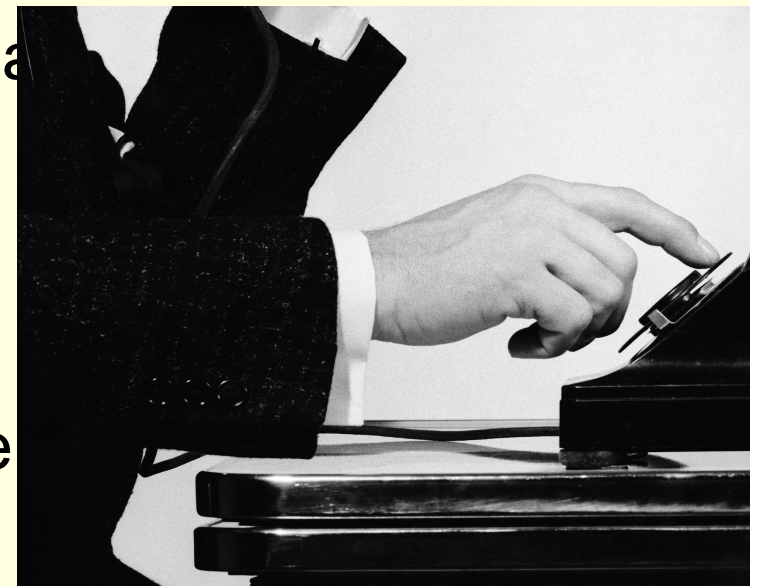
To train all employees on the legal and internal procedures that must be followed

International AML/CFT Standards

- Financial Action Task Force (FATF)
- The Basel Committee on Banking Supervision
- The Wolfsberg AML Principles
- European Union Directives on Money Laundering
- USA Patriot Act
- Egmont Group of Financial Intelligence

Units

Anna Shashkova



Goals of FATF

- Spreading AML message
- Monitoring members progress in adopting recommendations:
 - Annual self assessment
 - Peer or mutual evaluations
- Reviewing money laundering trends



Financial Action Task Force



- **1989** - Established at the G-7 economic summit in Paris
- **1990** - FATF issued its 40 Recommendations
- **1996** - 1st time Revision of 40 Recommendations
- **2000** - FATF published its first list of NCCT
- **2001** - FATF adopted 8 Special Recommendations on Terrorist Financing
- **2003** - 2nd Revision of 40 Recommendations
- **2012** – Drastic Revision of FATF Recommendations

Financial Action Task Force

Group 1	Subject	Recommendations
I	Legal Systems Scope of the criminal offense Provisional measures and confiscation	1 - 3
II	Measures to be taken by Fin. & Non. Fin. Inst. CDD and recordkeeping STR reporting/compliance Other measures Measures for non-compliant countries Regulation and supervision	4 - 25
III	Institutional and other measures Competent authorities Powers/resources Transparency of legal persons	26 - 34
IV	International Cooperation Mutual legal assistance and extradition Other forms of cooperation	35 - 40

FATF Recommendations

Definition of a Financial Institution:

- Accepts deposits
- Lending services
- Financial leasing
- Transfer of value or money
- Issue and manage means of payments
- Financial guarantees
- Trade in money market instruments, foreign exchange, securities, commodities futures



FATF Recommendations



Definition of a Financial Institution:

- Participates in securities issues, provision of financial services related to such issues
- Portfolio management
- Safekeeping, administration of cash or liquid securities
- Invest, manage or administer funds
- Underwrite and place life insurance and other investment related insurance
- Money and currency changing

FATF Recommendations

Designated non-financial businesses and Professions:

- Casinos
- Real estate agents
- Dealers in precious metals and stones
- Lawyers, notaries and accountants
- Trust & company service providers



FATF Recommendations

Designated categories of offenses:

- Participation in an organized criminal group and racketeering
- Terrorism, including terrorist financing
- Trafficking in human beings and migrant smuggling
- Sexual exploitation, including that of children
- Illicit trafficking in narcotic drugs
- Illicit arms trafficking



FATF Recommendations



Designated categories of offenses:

- Illicit trafficking in stolen or other goods
- Corruption and bribery
- Fraud
- Counterfeiting currency
- Counterfeiting and piracy of products
- Environmental crimes
- Murder, grievous bodily injury

FATF Recommendations

(Cont.)

Designated categories of offenses:

- Kidnapping, illegal restraint and hostage-taking
- Robbery or theft
- Smuggling
- Extortion
- Forgery
- Piracy
- Insider trading and market manipulation



FATF Recommendations

(Cont.)

Designated thresholds for transactions:

- Financial institutions = **US/EUR \$15,000**
- Casinos (including internet casinos) = **US/EUR \$3,000**
- Dealers in precious metals and stones (when engaged in any cash transaction) = **US/EUR \$15,000**



FATF Recommendations

Reporting of suspicious transactions and compliance:

- Must report to Financial Intelligence Unit (AUSTRAC, FinCEN, FINTRAC, etc.)
- Report all suspicious activity regardless of amount
- Also, report when they are thought to involve tax matters



FATF Recommendations

AML Programs should include:

- The development of internal policies, procedures and controls, including appropriate compliance management arrangement, and adequate screening procedures
- An ongoing employee training program
- An audit function to test the system



FATF Recommendations

Shell Banks:

- No shell banks
- No correspondent relationships with shell banks

Shell bank: a bank incorporated in a jurisdiction where it has no physical presence and which is unaffiliated with a regulated financial group.

Anna Sha



FATF Recommendations

Regulation and Supervision:

- Financial institutions should be subject to adequate regulation and supervision and shareholders should be controlled from an FATF point of view.
- **MSBs:** Should be licensed or registered, and subject to monitoring and compliance.



FATF Recommendations

Financial Intelligence Units:

- National center for receiving, requesting, analysis and dissemination of Suspicious Transaction Reports (STRs) and other information regarding money laundering or terrorist financing



FATF Recommendations

Transparency of legal persons and arrangements:

- Information should be available on the beneficial ownership and control of legal persons, that can be obtained in a timely fashion by authorities
- Bearer shares forbidden

Anna Shashkova



FATF Recommendations

Mutual legal assistance and extradition:

- Not prohibit or place unreasonable or unduly restrictive conditions on the provision of mutual legal assistance
- Ensure that they have clear and efficient processes for the execution of mutual legal assistance requests
- Not refuse to execute a request for mutual legal assistance



Group	Members	Important Document	Topic	Mandatory?
FATF	Group countries and international organizations	40 Recommendations	Criminalization, role of financial system, international cooperation	No
		9 Special Recommendations	Terrorist financing	No
		NCCT	List of Non-Cooperative Countries and Territories	No
Basel Committee	Central bank governors of the G-10	Customer Due Diligence for Banks, Consolidated KYC	KYC	No
EU	EU member countries	3rd Directive 2005	CDD Risk-based Gatekeepers Knowledge	Yes
Wolfsberg	Large international banks	AML Principles on private and correspondent banking, etc.	Customer acceptance, EDD	No
Regional FATF bodies	Caribbean, Asian-Pacific, etc. countries	Recommendations	Focus on regional AML problems	No



High Risk Business

- Money Changers, Money Remitters, Casinos, Betting Houses
- Offshore Corporations/Banks, Tax Havens
- Car, Boats, Used Car Dealerships
- Travel Agents, Brokers/Dealers
- Precious Metals, Precious Stone Dealers
- Cash Intensive Businesses
- Import /Export Corporations
- Transactions with High Risk/NCCT countries
- Bank Secrecy Havens

NCCT Initiative



Non-Cooperative Countries and Territories

Assessment of the jurisdiction against 25 distinct criteria covering the following four broad areas:

1. Loopholes in financial regulations
2. Obstacles raised by other regulatory requirements
3. Obstacles to international cooperation
4. Inadequate resources for preventing and detecting money laundering activities

NCCT 2018

<http://www.fatf-gafi.org/countries/#high-risk>

- Call for action
- Democratic People's Republic of Korea (DPRK)
- Iran

- Other monitored jurisdictions
- Ethiopia
- Iraq
- Serbia
- Sri Lanka
- Syria
- Trinidad and Tobago
- Tunisia
- Vanuatu
- Yemen

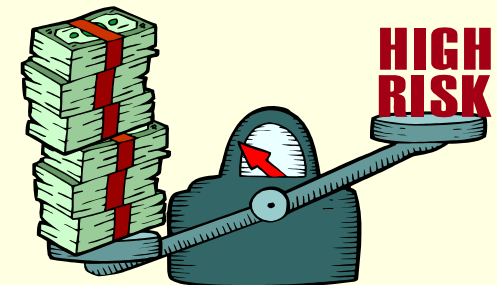


NCCT Initiative

(Cont.)

Non-Cooperative Countries and Territories

- Used to identify weaknesses in AML
- Consistency with FATF Recommendations
- Annual “name and shame”
- Countries can be removed if laws are passed





NCCT Initiative

(Cont.)

Non-Cooperative Countries and Territories

Once the FATF has determined that a jurisdiction on the list has enacted all or most of legal and regulatory reforms, the FATF asks

the

jurisdiction to submit an implementation plan;

~~when~~ the FATF is satisfied that significant implementation has taken place, the FATF plenary removes the jurisdiction from NCCT list.

Organizations to Control



Credit
organizations

Professional
participants of
the securities
market

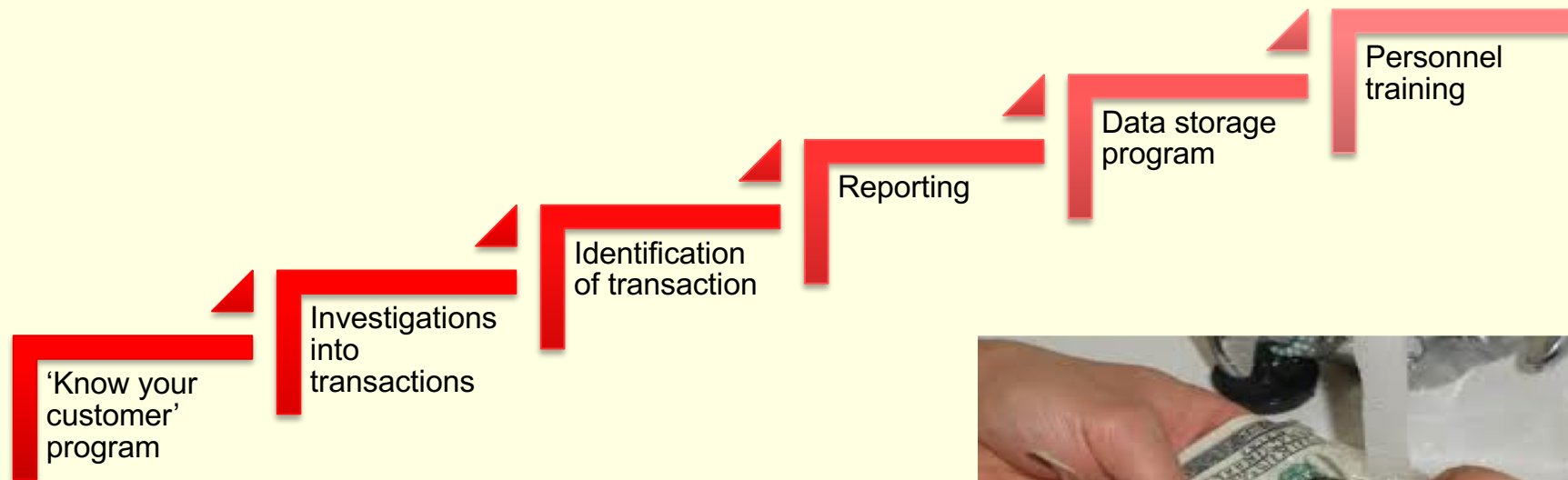
Insurance and
leasing
companies

Federal postal
service
organizations

Pawn-shops

Mediators in
sale and
purchase
operations, etc.

Instruments to Fight Money Laundering



Know Your Employee

- A criminally co-opted bank employee might facilitate money laundering
- Knowing the “**enemy within**” is as crucial as knowing customers and other outsiders



Know Your Employee

Here are some **RED** Flags:

- Employee exaggerates their credentials, background or financial ability
- Employee frequently is involved in unresolved exceptions
- Employee lives a lavish lifestyle that could not be supported by his or her salary
- Employee avoids taking vacations

Anna Shashkova





Know Your Employee

(Cont.)

Here are some **RED** Flags:

- Employee frequently overrides internal controls
- Employee uses company resources to further private interests
- Employee assists transactions where the identity of the ultimate beneficiary or counter party is undisclosed

Suspicious Activity Red Flags

1. Customer behavior
2. Customer ID circumstances
3. Cash transactions
4. Non-cash deposits
5. Wire transfer transactions
6. Safe deposit box activity
7. Credit transactions
8. Trade financing transactions
9. Investment activity



Note: There are other categories that involve suspicious indicators related to money laundering and terrorist financing

CDD for Banks Paper

4 “Key Elements” of a KYC program:

1. Customer acceptance policy
2. Customer identification
3. Monitoring
4. Risk management





CDD for Banks Paper

Customer identification is essential to KYC. Must know:

- Person or entity that maintains an account with bank or those on whose behalf account is maintained
- Beneficiaries of transactions conducted by professional intermediaries
- Any person/entity connected with financial transaction who can pose significant reputational or other risk to bank

CDD for Banks Paper

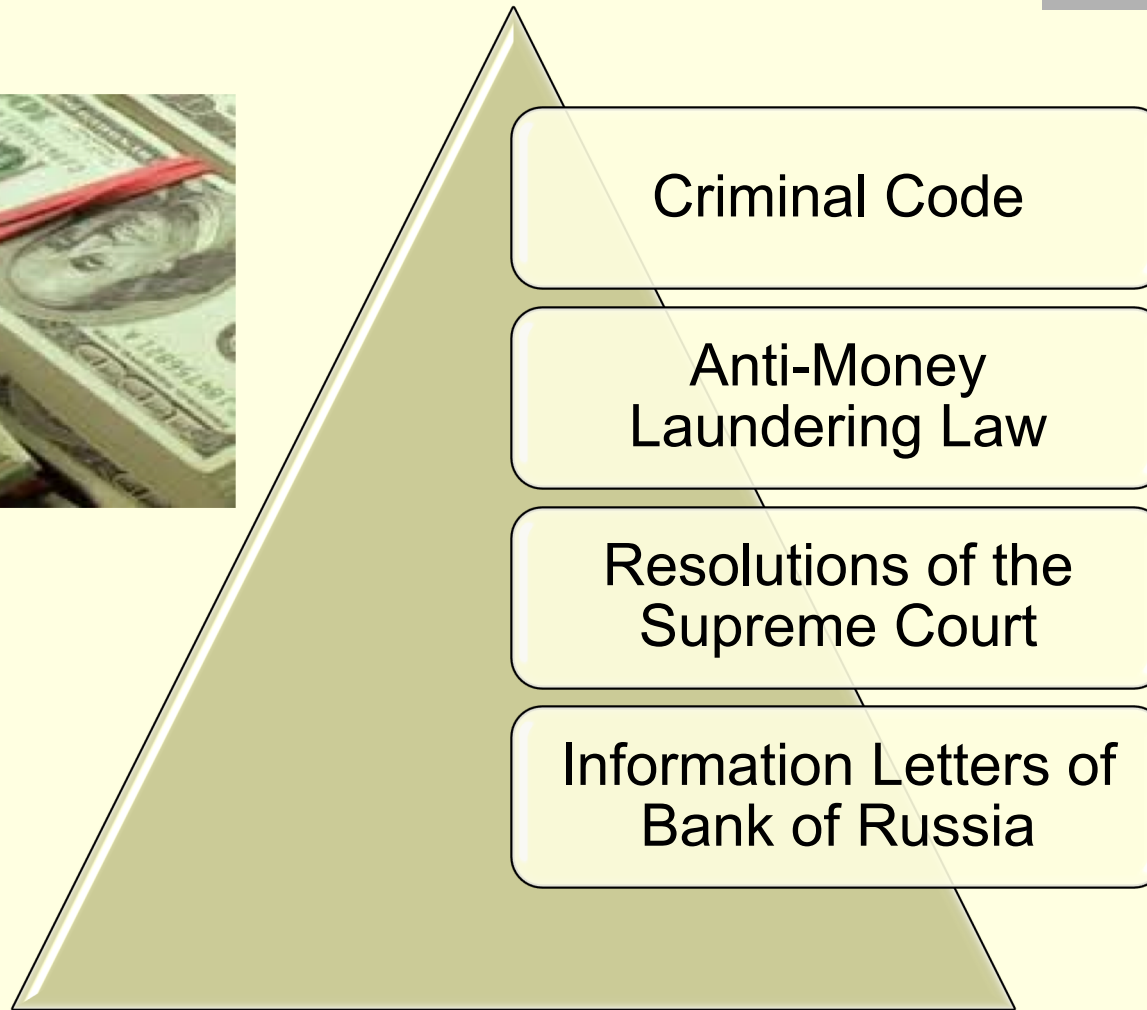
Risk Management –

Effective KYC procedures embrace:

- Routines for proper management oversight
- Systems and controls
- Segregation of duties
- Training and policies



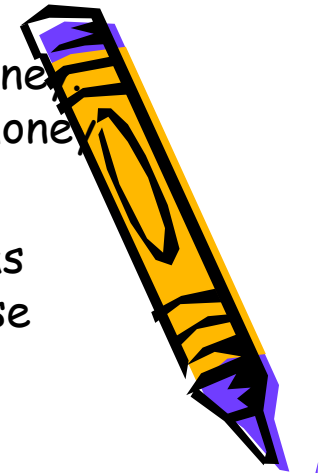
Regulatory Framework on Money Laundering



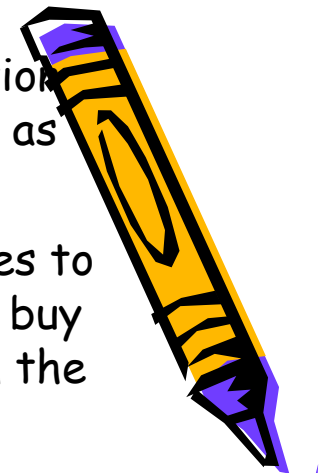
- Leo runs a private company in which he owns all of the shares. In addition to carrying out legitimate trade, Leo sells illegal goods and deposits the proceeds of these sales in his company's bank accounts alongside his lawful earnings. Leo then invests funds in several different long-term single premium insurance policies, located in tax-friendly jurisdictions. When these policies mature, the funds are invested in a private bank.
- Maxim is Leo's accountant and handles all deposits and money transfers on Leo's behalf. Maxim has suspected for a long time that Leo's business is suspicious, but is highly paid and raises no questions about the nature of the funds.
- **Required:**
 - (a) Explain the specific features of Leo's activities which would be regarded as money laundering by the enforcement authorities.
 - (b) Explain the offences which have been committed by Leo and Maxim.



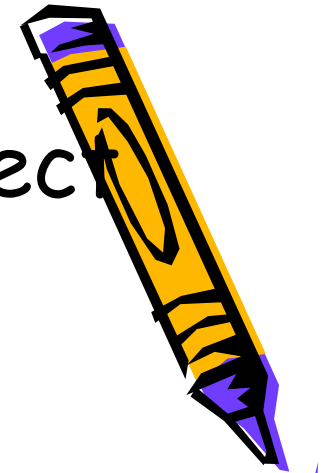
- Nit is involved in illegal activity, from which he makes a large amount of money. He also owns a legitimate taxi company and passes off his illegally gained money as profits of that business.
- Nit employs Owen, who is aware of the illegal source of the money, to act as the manager of the taxi company, and Pat as his accountant to produce false business accounts for the taxi business.
- Required:
 - In the context of the law relating to money laundering:
 - (a) Explain the meaning of layering.
 - (b) Explain whether any criminal offences relating to money laundering may have been committed by Nit, Owen and Pat.



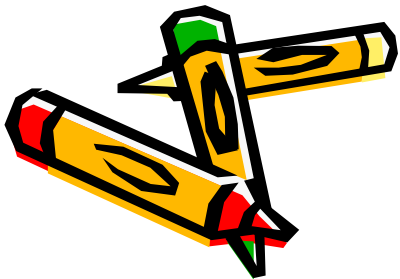
- Ian is an accountant and one of his clients is Jet, who runs an illegal operation as well as some other legitimate businesses. Jet approached Ian for advice as to how he should deal with the gains he makes from the illegal operation.
- Ian suggested that, rather than try to use his existing legitimate businesses to disguise the source of the money, Jet should use his legally made money to buy the local football club, Kickers, with the intention of passing his gains from the illegal operation through its accounts.
- Ian's reasoning was that as there was a lot of cash going through the football club on a weekly basis, and as there appeared to be very little control exercised over the finances of football clubs, it would be easy to mingle the illegal money with the football club's legitimate receipts.
- Jet accepted the proposal, bought the club, appointed Ian as its finance director and together they passed the illegal money through the football club. Lol, the long-term team manager of Kickers, has noticed the increase in the club's income, but is concerned that the extra money is going to Jet as the owner, and not being used to finance the club.
- **Required:**
- **Analyse the scenario from the perspective of the law relating to money laundering, advising Lol as to the legality of the above situation and what action can be taken against Ian and/or Jet.**



Which of the following is the correct definition of money laundering?



- A Tax evasion
- B Black wages
- C Legitimizing illegal cash flows
- D Paying bribes to government officials



Anti-Money laundering legislation has 3 main objectives. Which of the following is not one of the objectives?



- A The control of foreign currency cash flows
- B To prevent involvement of banks and other institutions in the illegal legitimization of cash flows
- C Timely identification of suspicious movements of cash
- D Collecting information on suspicious movements of cash



● Money laundering involves a number of phases in the overall procedure.

(1) Relocation

(2) Layering

(3) Integration

(4) Distribution

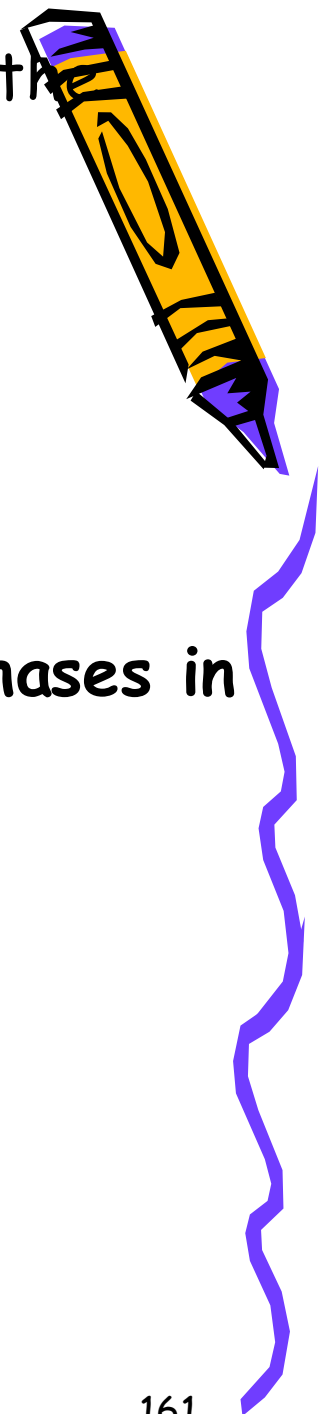
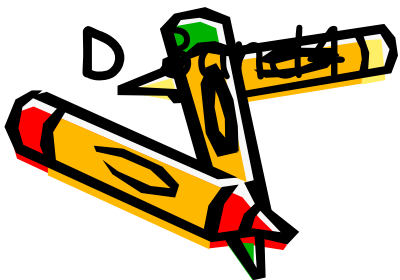
● Which TWO of the following are recognised phases in money laundering?

A 1 and 2

B 1 and 4

C 2 and 3

D 3 and 4



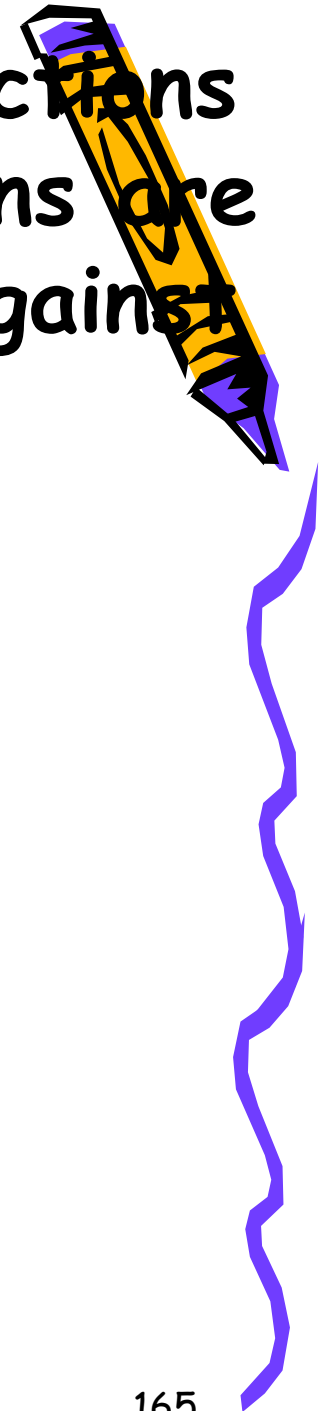


- Misha sells illegal weapons and reports the income through a small restaurant that he owns.
- Which of the following best describes this activity?
 - A Insider dealing
 - B Money laundering
 - C Tax evasion
 - D Market abuse



● Due diligence procedures and inspections into suspicious customer transactions are preventative measures for banks against which one of the following?

- A Money laundering
- B Bribery
- C Insider dealing
- D Market abuse





● In relation to bribery, which of the following statements is true?

- A. The offence only applies to giving bribes to public officials
- B. Non-monetary bribes are not offences under Russian law
- C. Acts of bribery committed outside Russia are not offences under Russian law
- D. A company that fails to take measure aimed at preventing bribery and corruption is committing a bribery offence



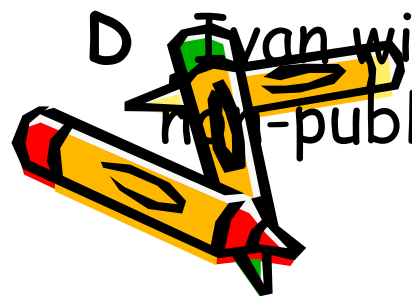
Nikita sells illegal drugs and reports the income through a small restaurant that he owns. Which of the following best describes his activity?

- A. Insider abuse
- B. Money laundering
- C. Tax evasion
- D. Misleading statements and impressions





- Ivan is hosting a dinner party at his home and has invited several people, some but not all of whom are public officials. All the guests are served the same meal and the food and drink, although appetising, are not considered to be extravagant.
- **If Ivan is charged with bribing his guests, what will be the likely result of the case?**
 - A Ivan will be convicted because the guests were public officials
 - B Ivan will be convicted because he served all the guests the same meal
 - C Ivan will be acquitted because he served all guests the same meal that would not be regarded as extravagant
 - D Ivan will be acquitted because he had both public and non-public officials in attendance at the party



● Olga, a businesswoman in the Russian Federation, engages in a series of financial transactions intended to hide portions of her income with the goal of reducing her taxes. Olga is arrested and charged with several crimes, including money laundering.

● **What will be the likely outcome of the case against Olga on the charge of money laundering?**

A Olga will be convicted, because her dealings with the money were intended to conceal the true ownership and origin of some of her income

B Olga will be convicted, because she used a series of transactions to hide portions of her income

C Olga will not be convicted, because she has a right to deal with her own money as she pleases, so long as she did not obtain the money illegally

D Olga will not be convicted, because in the Russian Federation, tax-related offences do not constitute money laundering



In relation to bribery, on which of the following do sanctions depend?

●(1) Whether the person giving it acted alone or conspired with others

●(2) Whether it was given to commit a lawful or unlawful act


●(3) The amount of the bribe

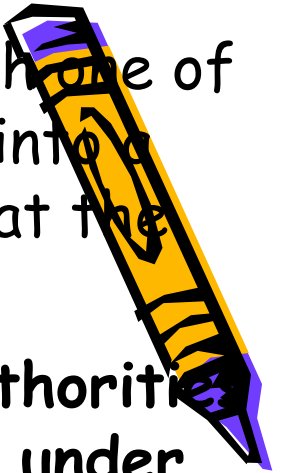
A.(1) and (2)

B.(1) and (3)

C.(2) and (3)

D.(1), (2) and (3)



- 
- Oleg, a banker, has become aware of a pattern in which one of his banking customers has been making cash deposits into a variety of accounts. The pattern seems to indicate that the customer could be engaged in money laundering.
 - **If Oleg does not report his suspicions to proper authorities and is later charged with criminal money laundering under an "all crimes" regime, what will be the likely outcome of the case?**
 - A. Oleg will be convicted, because as a member of a regulated industry he has a duty to report suspicious activity if he becomes aware of it
 - B. Oleg will be convicted, because bank officers are strictly liable for the misdeeds of their customers
 - C. Oleg will not be convicted, because he was not directly involved in the money laundering activities
 - D. Oleg will not be convicted because confidentiality rules required him not to disclose his customer's activities to the authorities

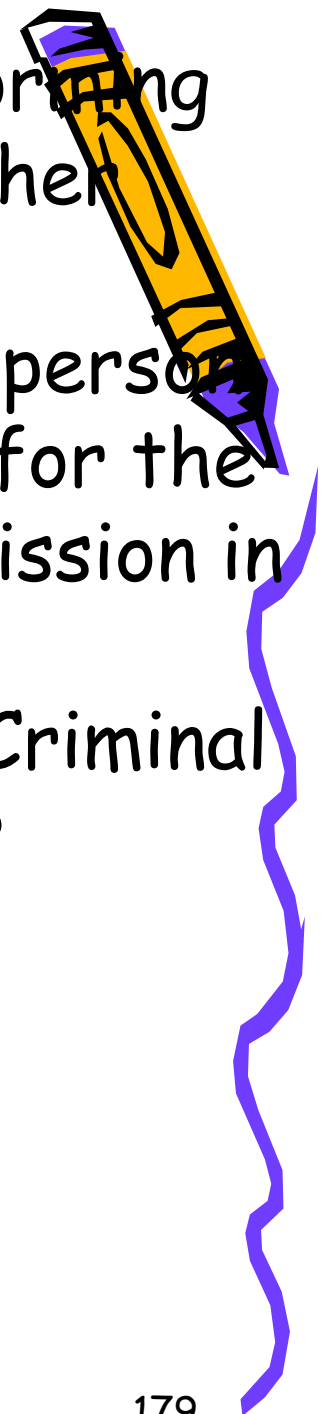
'The unlawful transfer to an individual performing management functions in a commercial or other organisation of money, securities or other property, or the unlawful rendering to such person of services with a monetary value in return for the performance by this individual of an act/omission in the interests of the giver by virtue of that person's authority.' This extract from the Criminal Code defines which of the following crimes?

A. Bribery

B. Money laundering

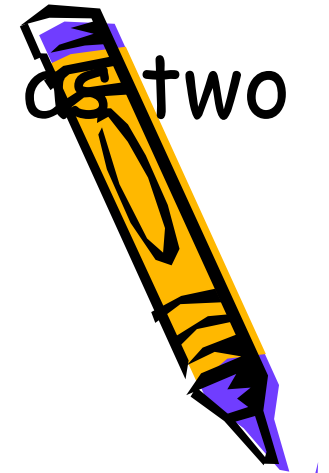
C. Fraud

D. Ungrounded enrichment



Which of the following are recognized as two of the stages in the money laundering process?

- A. Layering and integration
- B. Placement and distribution
- C. Dissemination and integration
- D. Placement and consolidation



In relation to money laundering which of the following is regarded as criminal property?

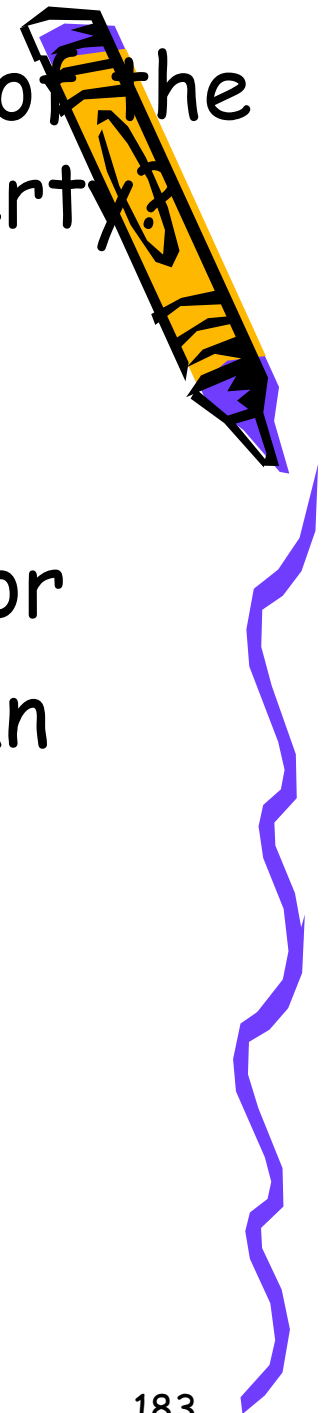
- (1) Proceeds from tax evasion
- (2) Proceeds from drug dealing
- (3) Presents from an unknown sponsor
- (4) Items bought in a market from an unlicensed vendor

A.(1) and (2)

B.(1) and (4)

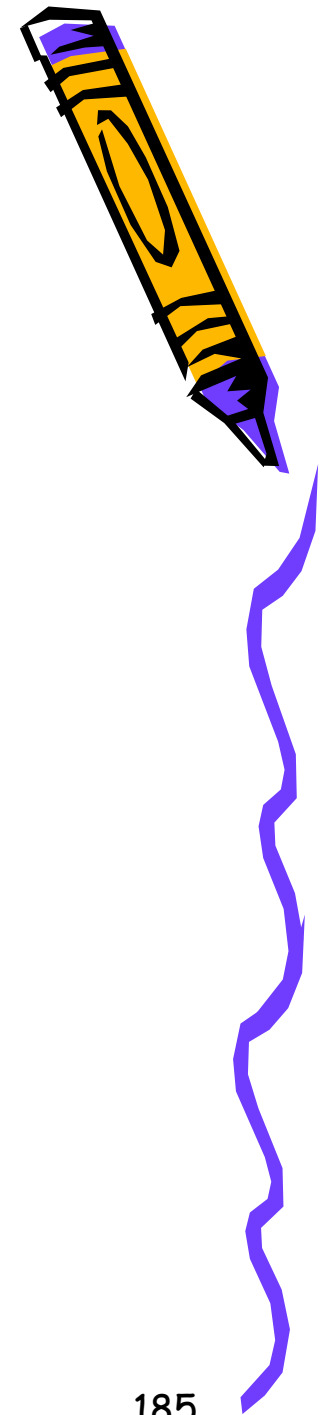
C.(2) and (3)

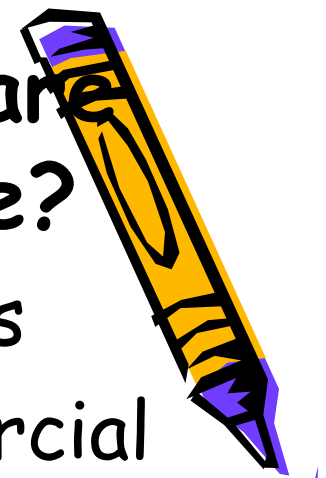
D.(3) and (4)



Which of the following is one of the offences in money laundering?

- A. Borrowing money
- B. Placement
- C. Layering
- D. Tipping off





● Which of the following statements are true according to the Criminal Code?

(1) No gifts are allowed to state officials

(2) No gifts are allowed between commercial organisations

(3) Corporate hospitality is not permitted

(4) An individual who is guilty of bribery can never be absolved of criminal liability

A 1 only

B 1 and 2 only

C 1, 2 and 3 only

D 1, 2, 3 and 4





Securities

FINANCIAL LAW

www.jamesaltucher.com



SECURITIES

UK

SHARE CAPITAL seodjo.ru



Share

The interest of shareholders measured by a sum of money, for the purpose of a liability in the first place, & of interest in the second, but also consisting of a series of mutual covenants entered into by all the shareholders

Minority protection

Most Fundamental Shareholders' Rights

Rights

To Dividend

To Attend and Vote at Company's Meetings

To Participate in Surplus of Assets at Liquidation after All Creditors Are Paid

To Notices

To Claim Winding Up

Functions of Statutory Capital

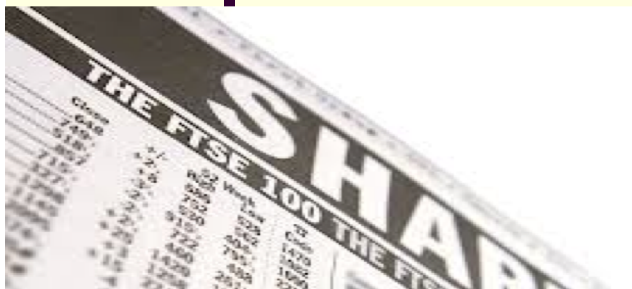
Material
Ground

Determination
of Stake of
Participant

Creditors'
Guarantee

Preference shares vs. Equity

- No or restricted voting rights
- Fixed dividend
- Prior return of capital
- Cannot participate in surplus
- Full voting rights
- Not fixed dividend.
- Dividend paid after preference
- Entitled to share surplus



Issued

Paid up

Terminology

Called up

Uncalled

Statutory pre-emption rights

Bonus issue

Rights issue - **Greenhalgh v Ardene Cinemas Ltd**

Authority

Allotment of Shares

Issue at discount

Issue at premium

Paying for shares – public companies

Capital Maintenance

No discount rule

Share premium rule

Capital may not be reduced

Not acquire its own shares

Dividends to be paid from profits

Limited companies should not be allowed to make payments out of capital to the detriment of company creditors

Treasury shares

One-quarter rule

Subscribers' shares *Additional Rules for Plcs*

Payment for shares not in form of work or services

Non-cash consideration to be received within 5 years

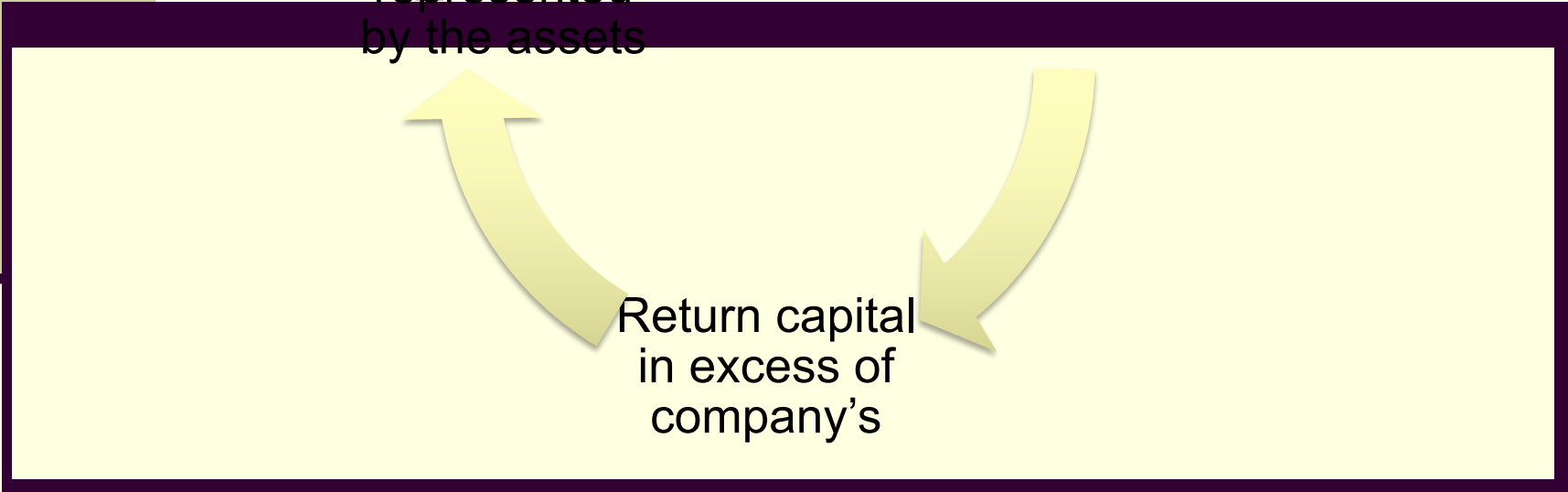
Non-cash consideration to be independently valued & reported on



*Capital Maintenance –
Exceptions - Reduction*

Cancel the paid-up capital that is no longer represented by the assets

Reduce or cancel liabilities



Return capital
in excess of
company's

Reducing Capital for Public Companies

Pass a
special
resolution

Apply to
court

Settle a list
of creditors

Filing
documents
with
Registrar

Reducing Capital for Private Companies

Pass a special resolution

Solvency statement

Filing copies of resolution, solvency statement & statement of capital with Registrar

Capital

Profit / loss

Accumulated

Realised

Dis

Accumulated
realised profits less
accumulated
realised losses.

Net Assets

Undistributable reserves

Audited accounts

Public Companies

Share premium account

Capital redemption reserve

Unrealised profits

Reserves that the company is forbidden to distribute

Purchase of Own Shares

Market
Purchase

Off-market
purchase

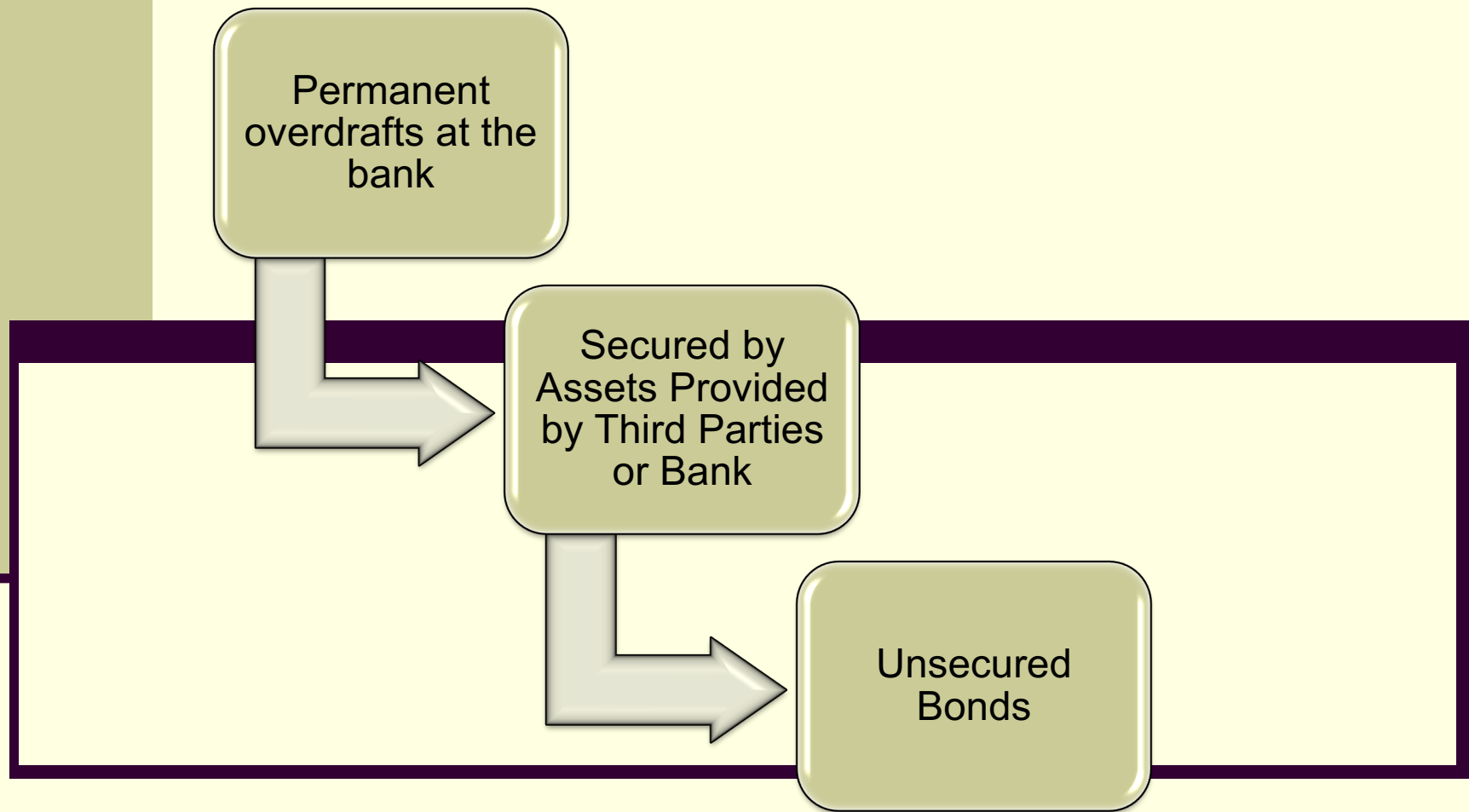
SECURITIES

UK

LOAN CAPITAL www.myrouble.ru



Types of Loans



A single debenture

Types of Debentures

Debentures issued as
a series and usually
registered

The issue of debenture
stock subscribed to by
large number of lenders

Convertible

Types of Bonds

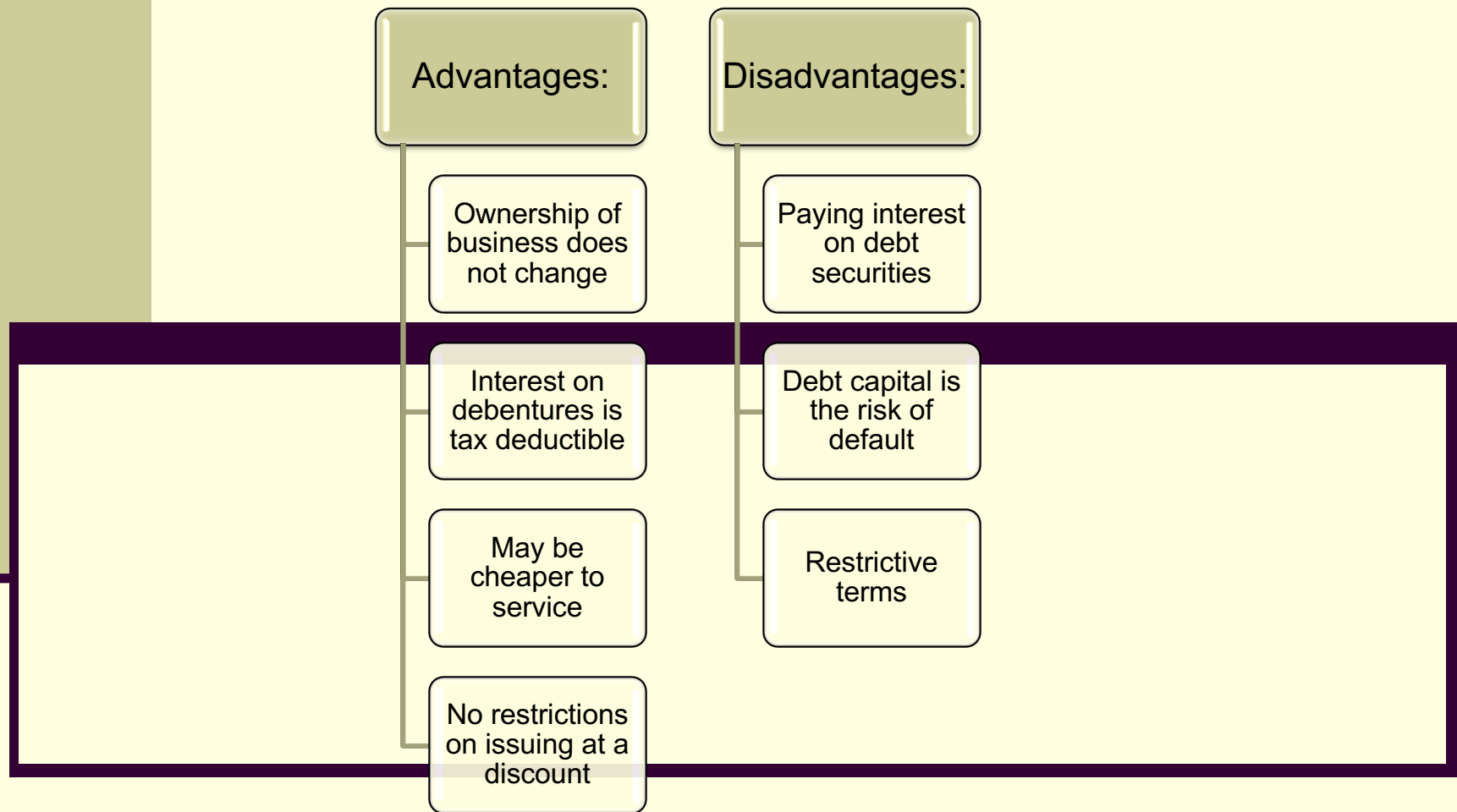
Exchangeable

Hybrid

Fixed dividend

Floating dividend

Advantages and Disadvantages of Issuing Debentures



Right to attend general meeting

Right to vote at general meeting

No right to an income from investment

No right to a return of capital

Right to participate in extra profit

Position in liquidation lowest

■ No right to attend general meeting

■ No right to vote at general meeting

■ Right to an income from investment

■ Right to a return of capital

■ No right to participate in extra profit

■ Position in liquidation above equity

Equity vs.

Debentures

Fixed vs. Floating Charges

- It is on identified asset
- Asset is intended to be retained permanently in business
- Company has no general freedom to deal with asset
- It is on class of assets, present & future - Crystallisation
- Asset within class will change from time to time
- Company has freedom to deal with the charged assets

Re Yorkshire Woolcombers Association



Advantages

Free to use
assets in the
ordinary course
of business

Wider class of
assets can be
charged

Value of
security
uncertain until
crystallisation

Is invalid if
created within
12 months
immediately
preceding
commencement
of winding up

Priorities

Certain
unsecured
claims to be
paid out of
floating charge
assets prior to
floating charge

Disadvantages



Equal charges – first created has priority

Fixed charge – has priority over floating charge

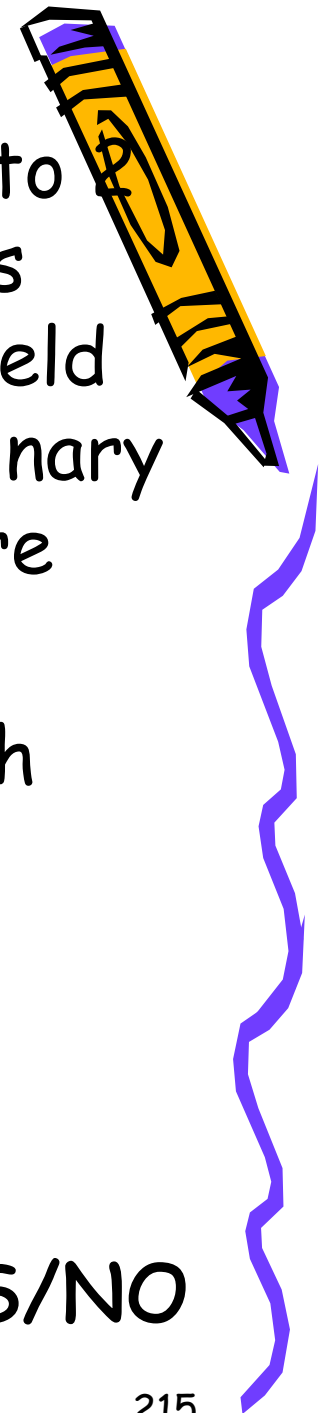
Unregistered registerable charge has no priority over registered charge

Chargeholder can prohibit creation of a later charge with priority

Greenhalgh v Ardene Cinemas Ltd

- The company's shares were divided into classes: 50p shares and 10p. All shares carried 1 vote. The 50p shares were held by the Mallard family and carried ordinary resolution control. The 10p shares were held by Greenhalgh.
- There was a proposal to subdivide each 50p share into 5 x 10p shares.
- Can G object on the basis that the proposal varies his voting rights?

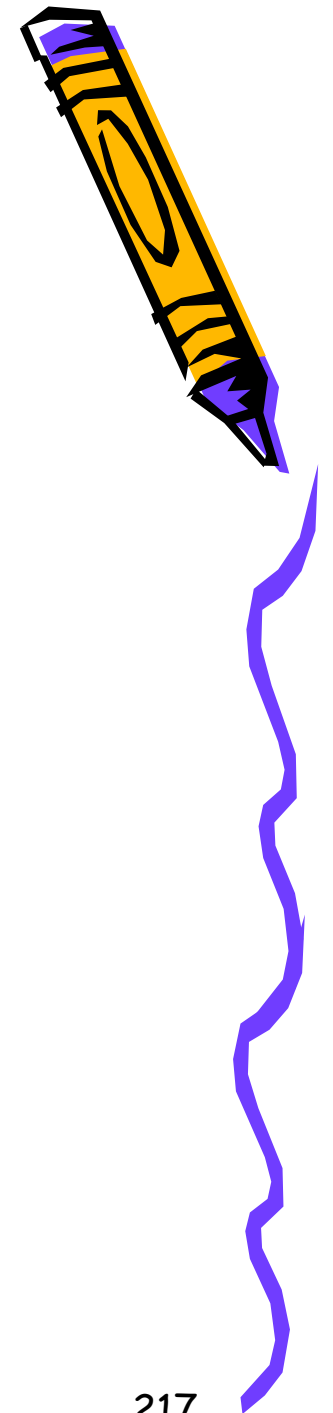
YES/NO



- The company issued a £1 share, credited as fully paid, for 75p.

- Has the share been issued at a discount?

YES/NO





- DEF Ltd issues 50,000 £1 shares, fully paid, in return for an asset valued at £40,000.

- (i) Have the shares been issued at a discount?

YES/NO

- (ii) What if the asset is valued at £50,000?

YES/NO



- s830 CA 2006 defines profit available for distribution as:

a..... r.....

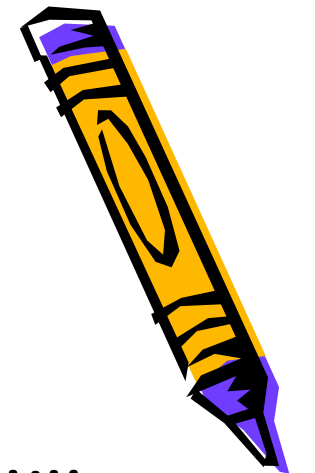
p..... (so far as not previously utilised by distribution or capitalisation)

- less

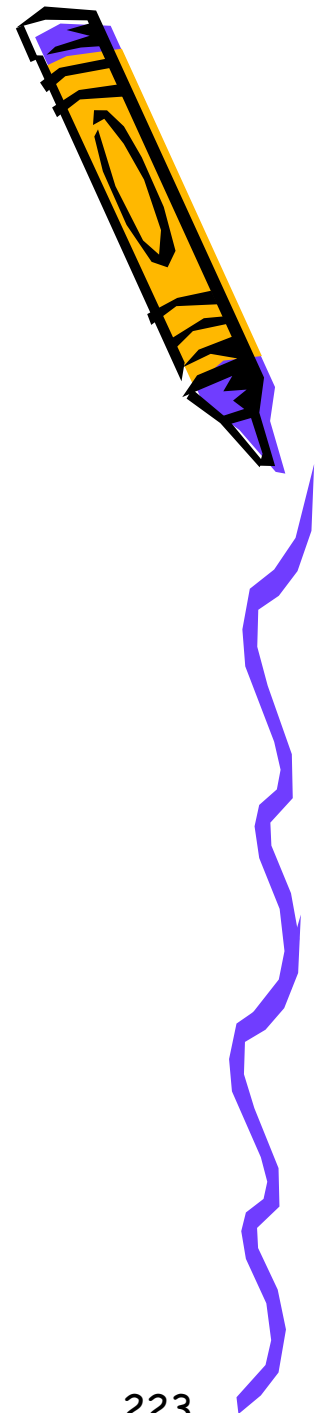
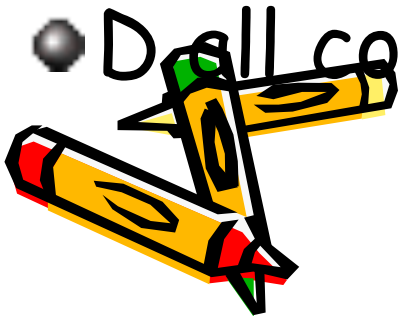
- a..... r.....

l..... (so far as not previously

written off in reduction of capital).

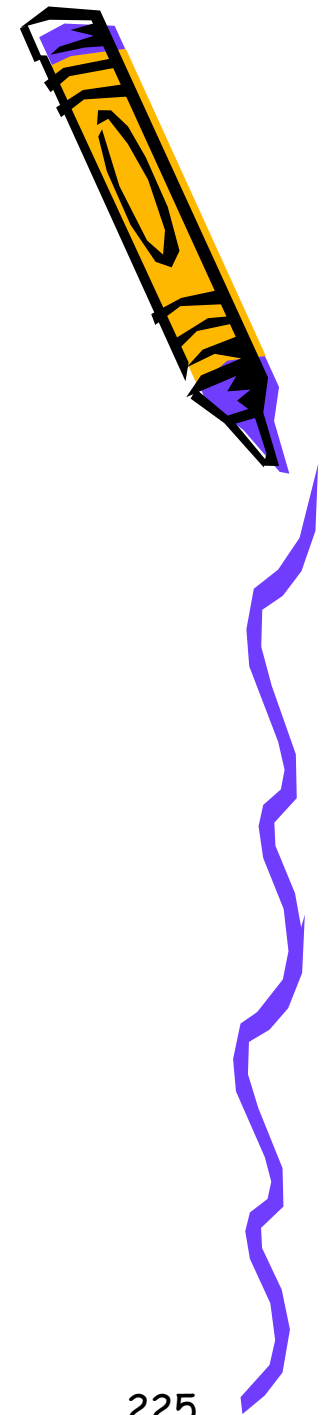


- s830 CA 2006 applies to
- A private companies only.
- B public companies only.
- C all limited companies, but not unlimited companies.
- D all companies.



- DEF was incorporated 11 years ago and made net losses of £10,000 for each of the first 10 years. This year it makes a net trading profit of £10,000 and manages to sell a piece of land at a net profit of £130,000.

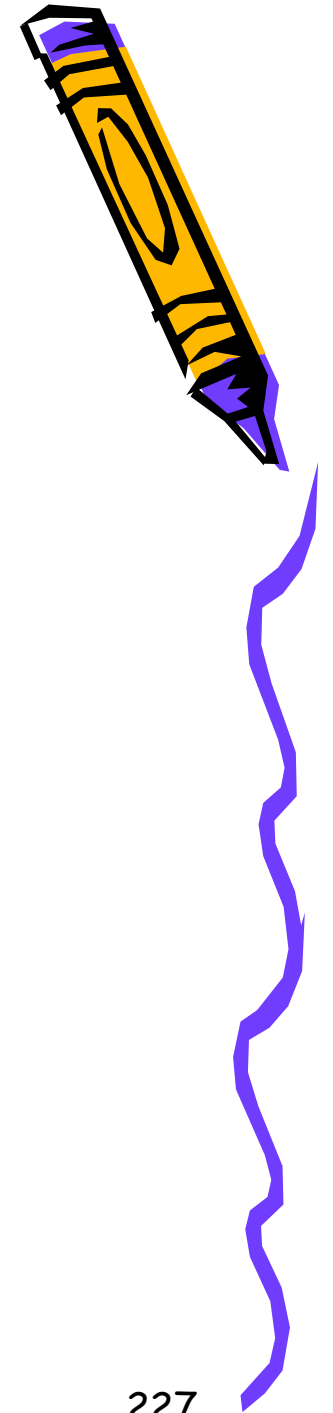
- How much, if anything, is available for distribution?



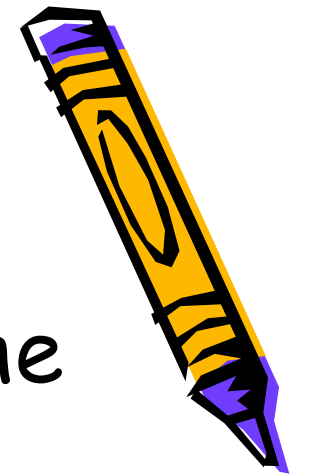
- GHI revalues an asset.

- Is an amount equal to the increase in value distributable?

YES/NO

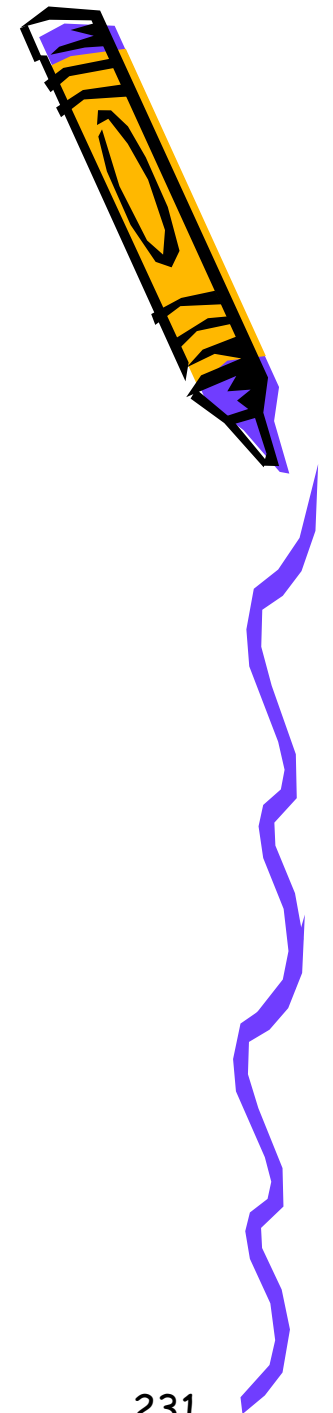


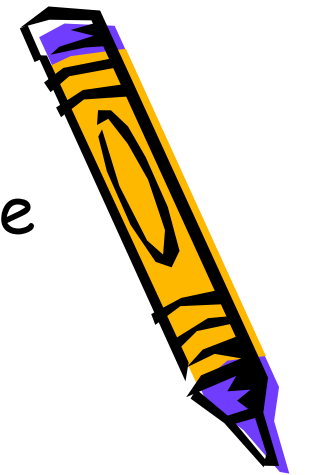
- CA 2006 puts an additional restriction on p..... companies. It is sometimes called the 'net assets' test or the 'full net worth' test.
- CA 2006 provides that both before and after the distribution the company's n..... a..... must be at least equal to the aggregate of its c..... share capital and undistributable reserves.



- The overall effect of s831 of CA 2006 is to force a plc to cover its unrealised losses before it can make a distribution.

TRUE/FALSE





- MNO has distributable profit but its directors recommend that no dividend should be paid. The shareholders in general meeting disagree with the directors and wish to compel payment of a dividend.

- (a) Can the general meeting force payment by passing a resolution to that effect?

YES/NO

- (b) Would your answer be any different if the company's share capital included 5% preference shares?

YES/NO



- JKL has £100,000 distributable profit as per its latest audited accounts, all of which it proposes to distribute as dividend. The auditors qualified the accounts.

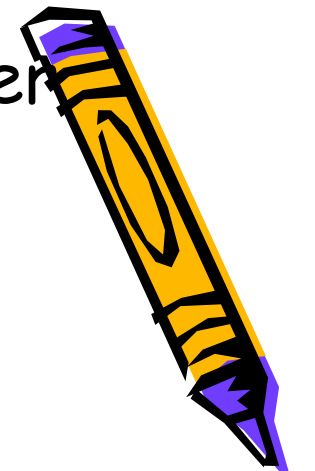
- **Which of the following is correct?**

- A The distribution can go ahead if sanctioned by the members in general meeting.

- B No distribution is permitted.

- C The distribution is lawful if the directors consider that the qualification is not material to the calculation of distributable profits.

- D The distribution is lawful if the auditors make a statement that the qualification is not material to the calculation of distributable profits.



- There are a number of ways in which investors can take an interest in a company and such different interests have different rights attached to them.

- Which of the following **NORMALLY** participate in surplus capital?

A Preference shares

B Ordinary shares

C Debentures secured by a fixed charge

D Debentures secured by a floating charge



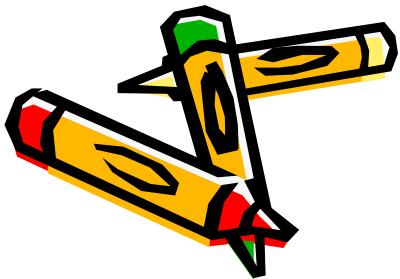
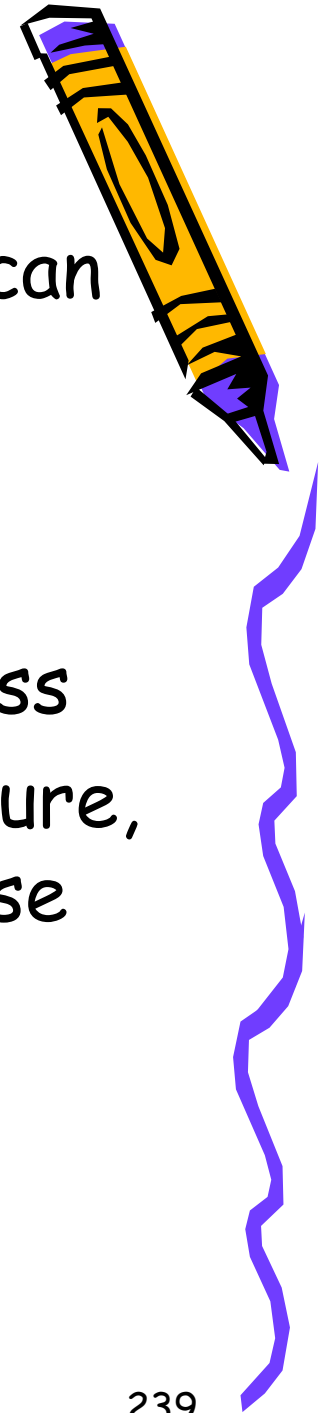
● A floating charge is a charge:

A On a class of current assets which can be identified

B On the undertaking of a company

C On a class of assets which will not change in the ordinary course of business

D On a class of assets, present or future, which may change in the ordinary course of business



● A floating charge is a charge:

A On a class of current assets which can be identified

B On the undertaking of a company

C On a class of assets which will not change in the ordinary course of business

D On a class of assets, present or future, which may change in the ordinary course of business



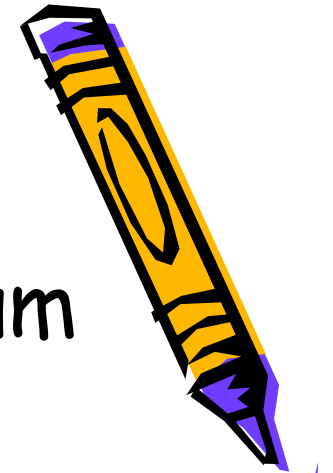
● Which of the following is not a legitimate use of the share premium account?

A Writing off a discount on the issue of shares

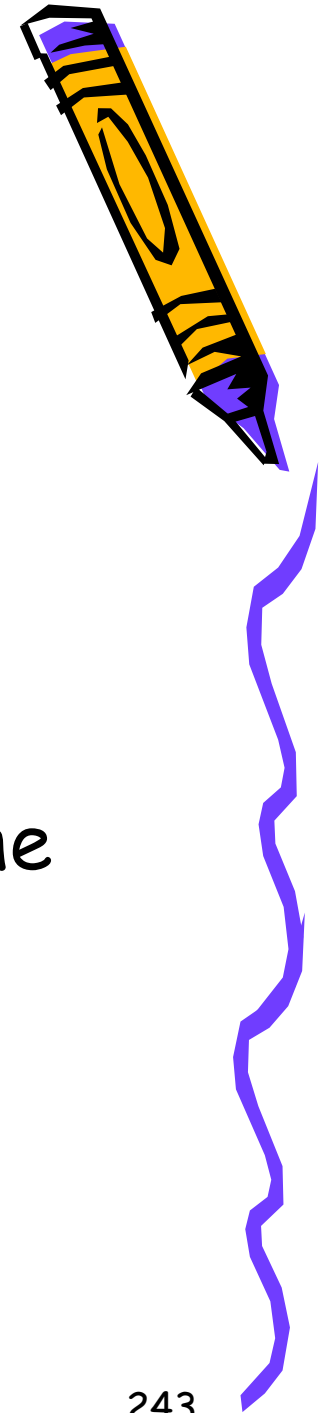
B Writing off underwriting commission

C Writing off preliminary expenses

D Issuing bonus shares



- If a company makes an unlawful dividend, who may be involved in making good the distribution?
 - A The company only
 - B The directors only
 - C The shareholders only
 - D The company, the directors and the shareholders



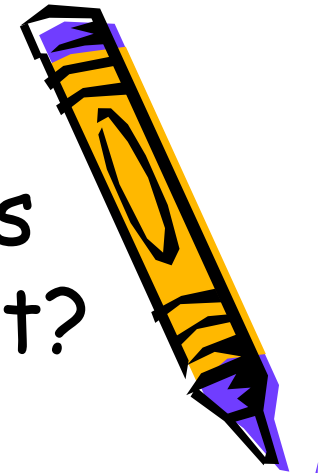
● Which of the following statements relating to class rights is incorrect?

A Class rights are rights that are attached to different classes of shares

B Class rights can be altered by the passing of a special resolution

C Class rights can include voting rights, dividends and return of capital

D Class rights can never be altered



● Which of the following statements is correct?

● A company is allowed to issue shares:

(i) at a premium

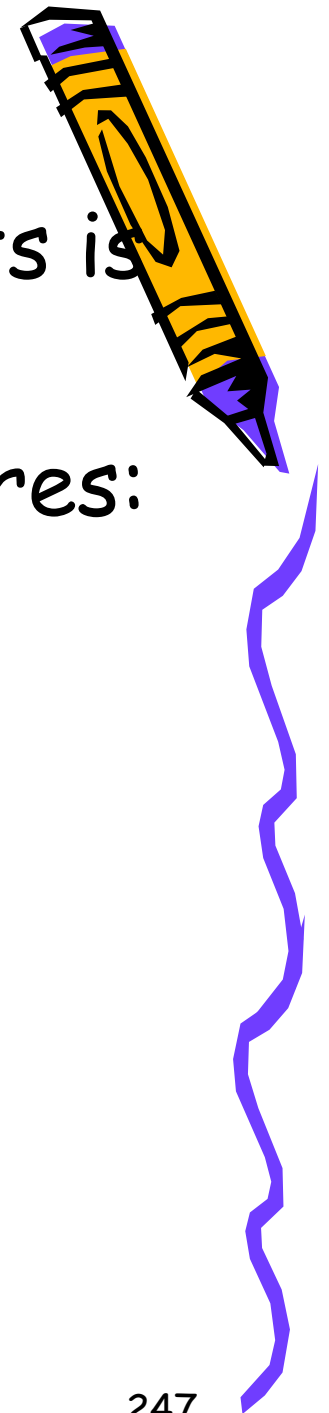
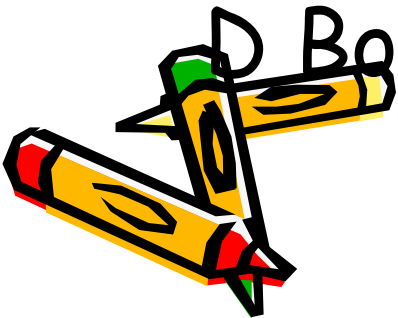
(ii) at a discount

A (i) only

B (ii) only

C Neither (i) or (ii)

D Both (i) and (ii)



- It is not unusual for some company investments to carry cumulative dividend rights.

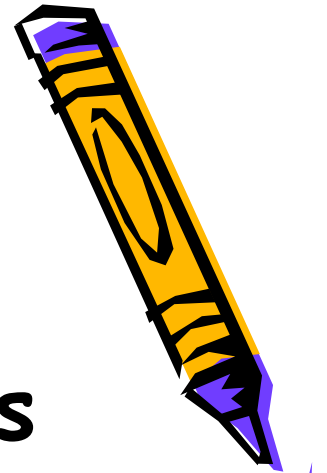
Which of the following statements about the declaration of cumulative dividends is correct?

A They are not paid until profits reach a certain percentage

B They are paid in the form of a bonus issue

C They are paid out of capital

D They are paid when profits are available for that purpose



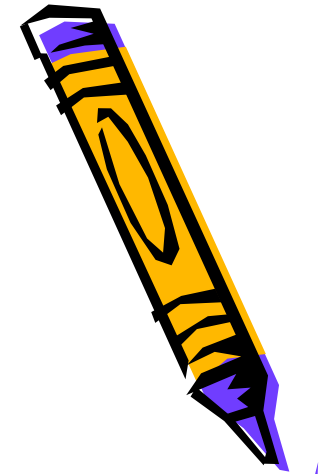
● In a public company any shares allotted must be paid:

A Immediately in full

B At least one-quarter of the nominal value

C At least one-half of the nominal value

D At least one-quarter of the nominal value together with all of the share premium



Subjects Studied

Overview of the Russian Financial System

Fraudulent Behaviour at Securities Market

- Insider Dealing
- Price Manipulation & other Offences

The Nature and Legal Control over Money Laundering

- The Offence of Money Laundering
- Instruments to Control Money Laundering

Securities



***THANK YOU SO MUCH
FOR YOUR ATTENTION!***