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IRAN, *THE BLACK LIST* AND RUSSIA'S UPCOMING FATF PRESIDENCY

Recent events—including the investigation of HSBC's links to the financing of terrorism, the discovery that Standard Chartered concealed numerous transactions with the Iranian government in circumvention of economic sanctions, etc.—indicate that the situation with financial crime is becoming very serious. This affects the international security situation, since one of the most dangerous uses illegal financial flows are being put to is WMD proliferation and terrorism.

What are Russia's priorities in countering money laundering? What is the state of Russia's cooperation with the Financial Action Task Force on Money Laundering (FATF) and FATF-style regional bodies (FSRBs)? And what will the Russian priorities be when the country assumes the rotating FATF presidency?

We have put these questions to Dmitry Feoktistov, Deputy Director of the Department on New Challenges and Threats of the Russian Foreign Ministry.¹

SECURITY INDEX: Why is it important for Russia to be a member of FATF? And what are the objectives of the FSRBs?

FEOKTISTOV: The Financial Action Task Force is an intergovernmental organization set up by the G7 in 1989. Later on the G7 was replaced by the G8 as the FATF parent organization, and now the FATF mandate derives from the G20.

Russia is one of the 36 FATF members. There are two reasons why it is important for us to participate. First, Russia is currently facing the threat of terrorism, and terrorism cannot be effectively suppressed without cutting off its financial underpinnings. That requires greater multilateral cooperation.

Second, in recent years FATF has turned into a powerful organization, whose clout is in some respects comparable to the power and influence of the UN Security Council.

Of course, Russia proceeds from the notion that the main responsibility for upholding peace and international security, in accordance with the UN Charter, lies with the Security Council. International sanctions can only be legitimate if they have been imposed by the Security Council. But I am sure you are aware of the existing FATF grey lists or black lists of countries which have serious shortcomings as far as countering money laundering and the financing of terrorism (MLFT) is concerned. For any individual country, being put on the FATF Black List is not just a blow to its international reputation. If a country remains on the Black List for a long period, other countries are asked to take financial countermeasures against the offender. It means that all banking operations with such a country will be meticulously X-rayed for anything suspicious. Strictly speaking, this does not amount to sanctions, but in practice such a situation makes life for the country in question very difficult. Russia has first-hand experience of such difficulties—the country itself was put on the Black List in the early 2000s because it did not have a law on countering the financing of terrorism; such a law is a must-have for every nation. In the past 8 or 10 years, however, Russia has not only got itself removed from the list after adopting the



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necessary legislation—it has in fact begun to play a leading role in the international arena in countering MLFT.

In further recognition of our country's growing reputation in this area, FATF has unanimously voted to pass the rotating presidency of the group to Russia in 2013–2014. We already have the name of the future FATF president. In line with an established tradition, he will serve as vice-president for a year before assuming the rotating presidency. I am talking about Vladimir Nechayev, who currently serves as head of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). This is one of the nine FSRBs.

Such organizations have a combined membership of some 180 countries. Working under the FATF umbrella, they are helping FATF to conduct effective analysis of the MLFT situation in individual countries and to facilitate the necessary cooperation in this area.

Several years ago Russia initiated the establishment of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG). In addition to Russia itself, the group's membership includes all the Central Asian states, Belarus, China, and India. It is chaired by the head of the Russian Financial Monitoring Service (Rosfinmonitoring), Yury Chikhanchin. Russia is also an observer at the Asia-Pacific Group, the largest FSRBs. The group has 41 members.

In recent years FATF has been expanding beyond its traditional MLFT remit. It is now also focusing on countering other illegal financial flows which can threaten the integrity of the international financial system, such as the flows generated by corruption, WMD proliferation, piracy, and drug trafficking. Russia supported the adoption of an updated mandate of the group, under which FATF is also tasked with dealing with new challenges and threats. Therefore it would probably make sense to focus in greater detail on two issues: countering the financing of WMD proliferation, and the priorities of the Russian FATF presidency, which, in my personal opinion, could include the identification of illicit financial flows.

SECURITY INDEX: What can you say about the expansion of the FATF group's remit? In recent years it has come to include new problems, such as countering WMD financing. Do you believe FATF should get involved in WMD nonproliferation efforts?

FEOKTISTOV: The UN Security Council has declared that WMD proliferation and terrorism pose a grave threat to peace and international security. WMD nonproliferation is a separate item of the UN Security Council agenda. The council's nonproliferation resolutions can be divided into three categories: country resolutions (Iran, North Korea); resolutions on preventing WMD from falling into the hands of non-state actors (Resolution 1540); and resolutions on the overall subject of disarmament and nonproliferation (such as Resolution 1887).

Several years ago we were also asking ourselves the same question. When some of our partners said that perhaps FATF should get involved in these issues, we said no to such proposals, believing that FATF should stick to its own business. But over the past two or three years the situation has changed in a very radical way. In the broader sense, the problem is that the UN Security Council cannot always keep track of the implementation of its own resolutions. And when gaps are identified, it often turns out that the UN Security Council has neither the time nor the energy to change the situation. Article 25 of the UN Charter says that every UN member has an obligation to abide by the Security Council resolutions. But the actual statistics which describe the state of affairs with compliance in the area of nonproliferation resolutions are very worrying for Russia and for other countries. Only about 40 percent of the states have submitted their compliance reports to the UN Security Council with regard to these resolutions. Nothing is known about the remaining 60 percent. Such a situation is a blow for the reputation of the Security Council, and Russia is not happy with it.

When FATF said it wanted to get into these issues in 2008, there was a debate as to whether this was necessary. In the end, members decided in favor of such a step because it enabled FATF, using the Grey List and Black List instruments, to try and approach this problem from the other end, and prod governments towards compliance with at least the financial part of the UNSC nonproliferation resolutions. Russia, China, and several others managed to convince the rest of our partners that the role of FATF in these issues should be auxiliary. It should be limited to monitoring, and to providing countries with assistance in achieving compliance with the financial

requirements of the UNSC nonproliferation resolutions. The only thing the new FATF recommendation stipulates is that countries must freeze assets and prevent the transfer of funding to individuals and entities who have been put on the UNSC sanctions list under the nonproliferation resolutions—nothing more. In actual fact, that is nothing new; FATF is merely drawing governments' attention to their own obligations. But failure to take action can now lead to inclusion on the FATF lists.

We are aware that the United States and several other countries which initiated this debate at FATF had other objectives in mind; first and foremost, they wanted to put additional pressure on Iran and North Korea. But the Russian objective was to defend the prerogatives of the United Nations Security Council, to take additional steps so as to avoid any damage to the council's reputation, and to make sure that FATF decisions remain within the scope of the decisions made by the UNSC.

A new round of assessments in the FATF framework will begin in 2013. This means that FATF experts will visit different countries so as to assess their compliance with FATF standards, including the standards for countering the financing of WMD proliferation. The new standards do not make it compulsory for governments to criminalize the financing of WMD proliferation. For example, the Russian Penal Code does not contain any separate penalties for individuals or entities who finance proliferation. The situation is similar in the vast majority of other countries. Only Australia and France have such clauses. Russia is committed to full compliance with all the UN Security Council resolutions. After the adoption of each resolution, the Russian Foreign Ministry drafts a presidential decree, which is usually entitled "On compliance with the UN Security Council sanctions Resolution Number. . . ." Two or three months later the president signs the decree, and we inform the relevant sanctions committee of the Security Council.

SECURITY INDEX: What does Russia intend to do in order to ensure full compliance with the UN Security Council resolutions?

FEOKTISTOV: Russia has an inter-agency commission, chaired by the head of Rosfinmonitoring, to deal with the problem of money laundering and the financing of terrorism. It includes representatives from 17 government agencies. You can see from the name of the commission that its remit currently does not include measures against the financing of WMD proliferation. But after the adoption of the new recommendation the government will discuss their inclusion on the commission of those agencies which are directly responsible for that particular area.

It will be important to strengthen comprehensive exchange of information between the relevant agencies (Rosfinmonitoring, export control, intelligence, law-enforcement, the Foreign Ministry, the Justice Ministry, the Ministry of Finance, and other financial agencies). Without such exchange it will be very difficult to catch the proliferators red-handed, as the UNSC urges us to do.

It will also be necessary to ensure a more responsible attitude to this problem on the part of the banking sector, because nobody likes restrictive measures. I am talking about proper checks on the clients, increasing the transparency of electronic transfers, proper controls over suspicious operations, and other measures which banks will have to use on a systemic basis in order to ensure Russian compliance with FATF standards.

Of course, we must also remember that there are non-state actors, such as terrorists, who can also be involved in illegal trade in WMD or their components and delivery systems. UN Security Council Resolution 1540, which was passed in 2004 at the initiative of Russia and the United States, aims to prevent WMD from falling into the hands of terrorists. If at some point FATF begins to discuss the possibility of becoming involved in dealing with this problem—the financial aspects of it, of course—Russia will back such a proposal.

SECURITY INDEX: What will be the Russian priorities during its FATF presidency? What will be the main emphasis?

FEOKTISTOV: Russia assumes the rotating FATF presidency on July 1, 2013, so it is a bit too early to speak about the priorities. I believe, however, that these priorities could include one issue which Russia has always focused on at FATF. I am talking about our proposal to involve FATF



experts in a comprehensive study of illegal financial flows generated by the trafficking in Afghan drugs.

At present, 90 percent of the world supply of heroin and morphine originates in Afghanistan. About 17 million people in countries all over the world, including Russia, take drugs produced in Afghanistan. In 2011 revenues generated by illegal circulation of Afghan drugs stood at \$60 billion; the figure is expected to reach \$70 billion this year. Only about 10–15 percent of the global drugs supply is intercepted—but that percentage is even lower for the drugs money. According to various estimates, only about 0.5–1 percent of dirty money is intercepted; the rest becomes part of international financial flows.

Resolution 1943, which the UN Security Council passed in 2010 on the initiative of Russia, describes the trafficking in drugs from Afghanistan as a threat to international peace and stability. In 2012 we proposed the idea of involving FATF in studying this problem. That proposal has been backed by a number of key delegations, including the United States, China, India, and South Africa. No one has spoken against it.

The main objective will be to determine the main routes of the financial flows generated by Afghan drug trafficking. We already have some idea as to what countries the billions of dollars of Afghan drug money is being channeled through—but we need to know for certain. Russia would like its EAG partners to join this initiative. For most of the EAG members, consumption and trafficking in drugs from Afghanistan represent a national security threat. It is encouraging that at the recent EAG meeting in Moscow the member states agreed to set up a working group on financial countermeasures against the drugs trade, crime, and terrorism.

Another problem we are facing is illegal financial flows generated by maritime piracy. This is a colossal business, which has spread its tentacles all over the world. Russian navy ships are patrolling the Gulf of Aden. The problem of piracy is the focus of our attention. The Russian delegation at the UNSC has proposed an initiative to create court mechanisms with international participation to prosecute pirates, who are now acting with total impunity in the vast majority of cases. The mechanism of studying this issue at FATF can be the same as with Afghan drugs because piracy and the drugs trade are both actively using alternative, non-banking financial systems.

FATF will continue to pay attention to other issues related to effective controls over cash circulation. For Russia, the problem of cash and papers payable to the bearer being moved across borders by individuals is especially pressing. In essence, it is a black hole, because nobody knows for sure how much cash is being moved (and we're talking about billions of dollars), or to what purposes, including criminal purposes, this cash is being put to.

SECURITY INDEX: Russia, which was once on the Black List, has now become one of the leading members of FATF. Although Russia has many common interests with its Collective Security Treaty Organization (CSTO) allies and provides assistance to them, there are several CIS states which have been less successful on this path. What are the dynamics, and what are the main problems being faced by these countries as they try to implement FATF recommendations?

FEOKTISTOV: Russia is helping its Central Asian partners to bring their national laws on MLFT into compliance with the international standards. Rosfinmonitoring, the Russian financial intelligence agency, constantly keeps in touch with similar agencies in the EAG states. We are providing these countries with technical assistance and share our expertise with them. We have often visited these countries as part of FATF missions in order to assess their national systems.

The analysis system used by FATF is fairly complicated. The essence of it is to determine how well the countries comply with the 40 FATF recommendations (there used to be 49 of them) which have become an international standard in countering MLFT. Our joint efforts are already yielding results. As of today, there is not a single EAG member on the FATF Black List. Only two countries, Tajikistan and Kyrgyzstan, remain on the Grey List. Turkmenistan was dropped from the Grey List, with Russian support, at the latest FATF meeting in June 2012.

In other words, the MLFT situation in the EAG area has seen a clear improvement. It looks fairly optimistic compared with the situation in other regions. For example, in the most problematic ASEAN region, seven countries out of 10 are on the Black List. The trends in the EAG and ASEAN

are opposite; three large ASEAN countries—Indonesia, Thailand, and Vietnam—were recently put on the Black List. Our own priority, of course, is the EAG; the region will remain at the center of our attention.

SECURITY INDEX: In the world of finance there are ways of monitoring budget spending, banks, etc.—the so-called white mechanisms. From the technological point of view, are there enough traditional instruments for monitoring grey or black mechanisms? Or do we need to develop some radically new and different instruments and methods? In every sector, both legitimate and illegal, there are incoming and outgoing financial flows. Are these flows being monitored in different ways? What are the most effective approaches? What is easier to control? And what is the current focus of FATF?

FEOKTISTOV: The job of monitoring financial transactions—white as well as black—requires instruments operated by the financial intelligence agencies and banks. It is very difficult to monitor operations which bypass the official financial systems. That is why we need to continue improving the relevant mechanisms. And that is exactly why Russia wants FATF to conduct case studies of these pressing issues so that the experts who represent the various institutions—i.e. intelligence agencies, financial intelligence, banks, and other state institutions—could make progress on resolving these difficult problems. The new FATF Recommendation 1 effectively says that governments must figure out the origins of the main MLFT threats they are facing, and prioritize their efforts accordingly. Russia intends to do just that. Only then can our efforts against financial crime become more effective.

As for the incoming or outgoing financial flows, given the globalized nature of the world financial system, there is no great difference between the two as far as technical monitoring is concerned. Every year, Russian financial intelligence receives thousands of reports from banks about suspicious operations. At the initial stage we employ special automatic screening mechanisms—in other words, not all of these thousands of reports are being scrutinized. After that natural screening, the remaining reports are studied individually. Now that FATF has issued updated recommendations, financial intelligence agencies will have even more work on their hands.

Rosfinmonitoring is not a very large organization, so checking such a huge volume of operations is a serious challenge for its specialists.² But there are plans to strengthen that organization, which has been designated as the national center for assessing and countering MLFT threats—in May 2012 the Russian government made a decision to that effect. Let us hope that thanks to that strengthening Russia will be able to allocate additional resources to fighting money laundering and the financing of terrorism.



NOTES

¹ The text of this interview is based on the non-confidential parts of remarks by Dmitry Feoktistov at a meeting of the Trialogue Club International held by the PIR Center on July 10, 2012 in Moscow. The text was edited by the author in September 2012.

² See: Interview by the Deputy Head of the Russian Federal Financial Monitoring Service (Rosfinmonitoring) Alexander Spiridonov for *Security Index* journal: "Electronic Payment Systems Make Money Laundering Much Easier," *Security Index* No. 2 (99), Spring 2012, pp. 7–10.

