METHODOLOGICAL BASIS OF THE FIGHT AGAINST CORRUPTION RELATED TO COMBATING MONEY LAUNDERING AND FINANCING OF TERRORISM

(edited by the EAG Chairman O.Markov)

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METHODOLOGICAL BASIS
OF THE FIGHT AGAINST CORRUPTION
RELATED TO COMBATING MONEY LAUNDERING AND
FINANCING OF TERRORISM

Edited by the Chairman of the Eurasian Group on combating
money laundering and financing of terrorism (EAG) O. Markov

This volume was prepared based on ITMCFM research mate-
rials with the input from leading experts of the Federal Service for
Financial Monitoring. It contains the analysis of the typology of fi-
nancial schemes for making corruption profits and its legalization,
and the specifics on how the financial investigation is organized and
carried out by Financial Intelligence Units (FIUs). This volume also
contains the Methodology for anti-corruption examination of legal
acts in the field of AML / CFT developed in the framework of the
Eurasian Group.

The work is of interest to specialists in the field of combating
money laundering and terrorism financing (AML / CFT), includ-
ing law enforcement and supervisory authorities, as well as to the
wide range of readers.

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Introduction

Currently, the issues of combating money laundering and financing of terrorism (AML/CFT), and the fight against corruption are considered the priorities of the international community. In order to ensure the long-term economic stability and transparency of the Global Financial System, the Pittsburgh Group of Twenty Summits in September 2009 has set the task for leading international organizations to combine efforts and make the greater use of AML/CFT instruments to fight corruption. Financial action task force against money laundering (FATF), together with the UN, IMF, the World Bank and other organizations began to develop an action plan for the implementation of practical measures.

This trend has become a major activity of the Eurasian group on combating money laundering and financing of terrorism (EAG), which has conducted a series of research of methodological and legal character.

It provisions of the basic international legal instruments were analyzed, especially the UN Convention against Corruption, in terms of using the Financial Intelligence Unit (FIU) and financial monitoring mechanisms to fight corruption.

Methods for identifying and investigations of corrupt income schemes were developed as a support instrument for FIU.

However, effective application of AML / CFT instrument for anti-corruption purposes is impossible in case of corruption penetrating anti-money laundering institutions and mechanisms. A comprehensive approach to combating corruption also involves overcoming corruption and the area of law, regulating a relationship between government, private sector and citizens in order to prevent, detect and deter crimes related to money laundering and terrorism financing. The methodology for anti-corruption examination of legal acts in the field of AML / CFT developed in the framework of the Eurasian Group will help to identify and eliminate corruption factors and areas of corruption risk in the legislative support for the national AML / CFT systems in general.

EAG Chairman O.A. Markov
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Part 1. Analysis of UN Convention provisions against corruption applicable to competency of Financial Intelligence Units

1.1. UN Convention against corruption

The UN Convention against Corruption, adopted October 31, 2003 Resolution 58 / 4 of the General Assembly, came into force in December 2005 and currently is the most comprehensive intergovernmental act for combating corruption.

It covers different areas of combating corruption, which include:

1. Law enforcement providing for:
   a) impartiality and independence of investigative, prosecutorial and judicial authorities playing the key role in effective detection and prosecution of corruption at the state level;
   b) creating and using effective national legislative, security and institutional measures to detect and prevent bribery and other corrupt practices.

2. Preventing corruption in the public sector:
   a) establishing and maintaining high standards of conduct for public officials;
   b) creation and development of transparent systems for public procurement and public financial management;
   c) avoiding conflicts of interest in public service;
   d) request for public officials to disclose information on personal assets;
   e) protection of individuals reporting on corruption;

Corruption is no longer just a local problem; it became a transnational phenomenon affecting society and economics of all countries. Therefore, international cooperation for preventing and combating corruption becomes of great significance.

*Extract from UN Convention against corruption*
f) developing effective systems and reporting procedures of public authorities;
g) providing public access to information.

3. Preventing corruption in private sector:
a) implementing effective management systems to prevent concealment of illicit payments or bribes to companies’ accounts;
b) prevent fraud on the part of corporations;
c) ban benefits for bribery payments at the international level.

4. Establishment of monitoring mechanisms based on evaluation of carrying out multilateral anti-corruption acts adopted for purpose of international cooperation, and technical assistance for identifying, seizure and return of assets obtained through a corruption crime pattern.

Thus, the UN Convention against corruption is a global international agreement on combating corruption and mechanisms of such combat based on multilateral and bilateral cooperation, which were previously dealt with using local efforts only.

It combines experience of previous international and national acts, as well as new ideas for combating corruption, and establishes mandatory requirements for all countries, which included the convention in its’ national legislation; for the countries which must respect and enforce its laws on corruption liability, considering the cross-border nature of corruption crimes.

1.2. Definition of corruption and its negative manifestations

According to the World Bank’s definition “corruption is abuse of public power for private gain.” In this case, the term “power” should be understood as empowerment of officials of both central and regional authorities and municipalities in various countries, in accordance with their political systems and government systems.

Corruption can take many forms: it may appear in top echelons of power, linking them by self-serving interests and personal interdependent relationships; or it may take a form of providing services to individuals not holding high positions. In any case, whatever the scale of corruption is, it undermines the development of social order and exacerbates
poverty, especially when public resources that could be used for socially significant tasks are used by officials for their personal gain.

Thus, the exercise of power by special (elected or appointed) officials is connected with the possibility of their misuse of power against the interests of the state and to detriment of society. While there is a state and, consequently, the power and its institutions, there will always be an opportunity for corruption.

A broad array of views on corruption and its “colors” prevails, depending on what areas of public life are attacked by criminally corrupt officials, who with their actions and behavior destroy such universal values as honesty, equality and justice, negate the rule of law, bring to naught guarantees of protection of rights and legitimate interests of the people.

The international community has recognized that the greatest threat to stability and security of society are close links between corruption and organized crime, especially financial crime, including money laundering, which follows directly the Preamble of the UN Convention against Corruption (hereinafter - the Convention). In this regard, if we view the corruption from a criminological standpoint as a socio-economic problem, all the enormous costs that it brings to modern society become clear, which in turn forces us to combat corruption at the global level.

The examples of negative manifestations of corruption with the description of corruption costs are listed below:

<table>
<thead>
<tr>
<th>Negative manifestations of corruption</th>
<th>Description of corruption costs</th>
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<tbody>
<tr>
<td>Undermines the rule of law</td>
<td>Corruption creates an environment in which corrupt officials, managers and employees of non-state entities empowered to make managerial decisions, have the opportunity to avoid responsibility for their criminal actions, provided there is a basis for imperfections in legislation and violations of law enforcement practices.</td>
</tr>
<tr>
<td><strong>Negative manifestations of corruption</strong></td>
<td><strong>Description of corruption costs</strong></td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>Contributes to higher crime rates</td>
<td>Corruption distorts the work of the law enforcement agencies and judicial system when fraudsters and other criminals bribe employees of these bodies, including judges, and thus avoid legal liability.</td>
</tr>
<tr>
<td></td>
<td>Corruption not only leads to white-collar crime, but also leads to the formation and widespread of organized crime.</td>
</tr>
<tr>
<td>Increases political instability</td>
<td>Widespread of corruption eventually leads to political instability, since it discredits power.</td>
</tr>
<tr>
<td>Leads to inaccuracy and inflexibility of rules and regulating procedures</td>
<td>Leads to the adoption of procedures and rules for lawmakers, which impede the efficient development of controlled areas of activity (industries), and benefit a narrow group of people lobbying their own interests or the interests of certain sectors.</td>
</tr>
<tr>
<td>Blocks economic growth and sustainable development</td>
<td>Corruption impedes the development of market relations and competitive environment, particularly for small and medium-size businesses, creates undue advantages for certain business entities, and diverts resources of public and private sectors that could be aimed at economic development.</td>
</tr>
<tr>
<td>Promotes illegal redistribution of resources</td>
<td>Financial resources which should be used for production of goods and services are spent to bribe officials, and to keep them the “right” connections. Financial resources may not be used in the most effective manner, since government contracts do not employ the most effective companies but the companies and firms which have the “right” contacts.</td>
</tr>
<tr>
<td>Decreases investment level</td>
<td>Investors (both internal and external) will avoid corruption conditions, because they make their business less effective, slowing economic growth, limits the competitive environment.</td>
</tr>
<tr>
<td><strong>Negative manifestations of corruption</strong></td>
<td><strong>Description of corruption costs</strong></td>
</tr>
<tr>
<td>-------------------------------------------</td>
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</tr>
<tr>
<td>Weakens competition and effectiveness</td>
<td>Officials who demand bribes for licenses and permits, limiting the number of firms able to enter the market and force them to leave into the shadow economy.</td>
</tr>
<tr>
<td></td>
<td>The restriction of competition contributes to inefficient and uncompetitive production, unjustified increase in prices and tariffs, monopoly and stagnation of the economy.</td>
</tr>
<tr>
<td>Decreases the level of state income</td>
<td>Tax evasion (as one of the major threats to the State budget revenues) is common for that part of informal economy, which exists due to unjustified administrative pressure.</td>
</tr>
<tr>
<td></td>
<td>Organizations operating within the formal economy can bribe officials in order to obtain tax privileges and preferences.</td>
</tr>
<tr>
<td></td>
<td>Non-payment of taxes may be achieved by bribing employees of controlling authorities.</td>
</tr>
<tr>
<td>Increases state costs</td>
<td>Organizations “controlled” by officials, being not the most effective performers, may overstate the value of the public contract and delay contract deadlines, which leads to additional government funding.</td>
</tr>
<tr>
<td></td>
<td>Investment projects funded by the state budget provide an opportunity for officials to receive bribes and “kickbacks”, by concluding public contracts with organizations under their control.</td>
</tr>
<tr>
<td>Reduces productivity and impedes innovation</td>
<td>Unjustified diversion in time, effort and resources required to overcome administrative barriers make honest players of the economy to spend their otherwise productive efforts on bribery, establishment of “right” relationships etc., as opposed to activities that promote economic growth.</td>
</tr>
<tr>
<td></td>
<td>The weakness of the rule of law, law enforcement and judicial systems that protect property rights from tyranny of bureaucrats and (or) raids are forcing innovative hi-tech projects to flee the country.</td>
</tr>
<tr>
<td>Negative manifestations of corruption</td>
<td>Description of corruption costs</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Decreases quality of public services</td>
<td>Receiving income from corruption or direct theft from the state budget, officials are not interested in improving the efficiency of public administration and public services.</td>
</tr>
<tr>
<td>Increases business operational costs</td>
<td>Material and other resources are spent on bribery to bypass unnecessarily complex regulations, which contributes both to higher prices for goods and services and lower quality of products.</td>
</tr>
<tr>
<td>Reduces the employment level in private sector</td>
<td>Corruption force’s business to go into an informal sector of the economy creates obstacles for entering the market and increases costs of doing business, by doing so it inhibits growth of employment rate.</td>
</tr>
<tr>
<td>Exacerbating poverty and inequality due to illicit enrichment of corrupt officials utilizing funds, which could be directed to social needs.</td>
<td>Corruption reduces the ability of the poor in earn income from employment, as job opportunities in the private sector are decreased. Limiting costs for services rendered by the state, corruption reduces access to such important resources as health and education.</td>
</tr>
<tr>
<td>Prevents democratic and market reforms</td>
<td>Contrary to society’s desire to develop institutions that enforce laws and ensure transparent political and economic structure, corrupt officials do not support changes potentially limiting their opportunities for personal gain.</td>
</tr>
<tr>
<td>Increases image and reputational risks</td>
<td>Corruption hindered integration into the global economy, limits access to international high-tech and innovative projects that restricts participation in international cooperation.</td>
</tr>
</tbody>
</table>

At that, the Convention has given a broader interpretation of the term corruption (than the World Bank), defined as misuse of official powers in order to gain personal or other property interests.

Achieving of an official of such interest or personal gain can be expressed in tangible, intangible, movable or immovable assets, including cash, goods, works, services or rights, legal documents or in-
struments evidencing ownership of the assets that were purchased or received by a public official\textsuperscript{1} of any country using the official powers, including:

— in the sphere of public administration, which is associated mainly with the relationship between citizens and state agencies and local authorities;
— in commercial activities of various companies, enterprises and entrepreneurs;
— in the «high» sphere, that is at the level of financial, political and administrative authorities, international financial and political relations.

1.3. National centers in the system of anti-corruption measures

Let us review the provisions of the Convention containing requirements and recommendations for organizations fighting corruption in application to FIU.

As already noted, the costs caused by corruption, require the state and society to implement coordinated system of corruption prevention and control, which were stated in the Convention.

\begin{center}

\begin{minipage}{\textwidth}
\begin{quote}
Article 58. Financial intelligence units. “Countries - members shall cooperate with each other in order to prevent the transfer of income from crimes recognized in accordance with this Convention and to combat it, as well as promote ways and means of recovering such as proceeds and, for this purpose, shall consider establishing a financial intelligence unit, which will be responsible for receiving, analyzing and disclosing reports of suspicious financial transactions to competent authorities.”
\end{quote}
\end{minipage}
\end{center}

One of the main elements in this system identifies measures to prevent money laundering (Article 14 of the Convention), under which each country shall establish a comprehensive domestic regulatory and supervisory regime for banks and non-bank financial institutions (including individuals and legal entities, which provide formal or informal services in connection with the transfer of funds) in

\textsuperscript{1} Public official - any person who performs a public function, or provides a public service (Article 2 of the Convention).
order to deter and detect all forms of money-laundering, received as a result of corruption crimes.

Such a regime should be based primarily on the requirements for customer identification and where appropriate, a beneficial owner, truthful reporting, and providing information on suspicious transactions. In order to collaborate and share information on corruption at the national and international level, Article 14 of the Convention encourages the member states to establish special bodies - financial intelligence units of urgent information that should serve as national centers for collecting, analyzing and disclosure of information on possible cases of money laundering.

Obviously, these conditions are met by FIU of the countries participating in the Financial action task force against money laundering (FATF) and the Eurasian group (EAG)\(^2\) established by the FATF. An article of the Convention also indicates that when establishing an internal regime of regulation and supervision, the State should be guided by relevant initiatives of regional, interregional and multilateral organizations against money-laundering.

The purpose of such national center is to provide competent assistance to administrative, law enforcement and other bodies engaged in combating money laundering, and elimination of causes and conditions leading to corruption. For this, the tasks of units’ operation specified in the article 58 of the Convention must be carried out.

A combination of preventive and repressive the procedures set forth in the above article of the Convention, stimulates FIU to achieve the following results:

— detection of criminal corrupt activity (recognized as such in accordance with the Convention), before legalization of such corrupt income, signs of which could be detected based on the analysis of suspicious financial transactions and other information;
— prevention or blockage of transaction of the proceeds from corrupt activities, based on information obtained by FIU on revealed suspicious financial transactions;
— with FIU efforts and means, to identify ways of concealment of proceeds from corruption and related crimes, including the detection of the final beneficiaries, as well as places and ways to further use of these revenues in the civil circulation or to fund other crimes;

\(^2\) EAG is a FATF-style regional body uniting Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan.
— timely referral to competent authority’s information about the signs of crime in the manner determined by national law, so that the evidence is admissible in court³;

A special role in a complex of measures aimed at achieving these and other significant results, is played the procedure for returning the assets, including the prevention and detection of transfers of the proceeds of crime⁴, namely:

<table>
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<tr>
<th>Implementation of more stringent internal control procedures, including:</th>
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<tr>
<td>Inspection of clients serviced at financial institutions clients (individuals and legal entities)</td>
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<tr>
<td>Take reasonable steps to identify the owners of financial resources deposited in accounts with large amounts of funds</td>
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</table>

In order to facilitate the implementation of the above requirements, FIU of the countries participating in the Convention, in accordance with its internal law and guided by initiatives of regional, interregional and multilateral organizations against money laundering can:

<table>
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<tr>
<th>Draw the attention of financial institutions under their jurisdiction, the list of individuals and legal entities whose accounts are subject to tighter control</th>
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<tr>
<td>Issue recommendations to financial institutions to develop more stringent control of all individuals in question, including:</td>
</tr>
<tr>
<td>those ones, who require special attention to their accounts and transactions</td>
</tr>
<tr>
<td>introducing adequate verifying procedures on opening and servicing accounts, and on reporting.</td>
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³Accept evidence in court, the issue on legality of information obtained by FIU should be established by internal legislation of each country (article 50 of the Convention).

⁴According to the article 52 of the Convention.
With the aim of preventing and detecting transfers of the proceeds of crime, the countries — participants of the Convention based on their domestic laws, should:

<table>
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<tr>
<th>Precedent</th>
<th>Development</th>
<th>Requirement</th>
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<tbody>
<tr>
<td>Prevent the foundation or suppress activities of banks that have no physical presence in the country nor affiliated with a regulated financial group in the country:</td>
<td>Develop an effective system and liability for failure to comply with it, providing for disclosure of financial information by public officials</td>
<td>Establish a requirement for public officials to report to FIU on their foreign financial accounts, as well as on other accounts in which they have an interest or signature or other authorization (e.g., power of attorney) keep reporting on them with liability for non-compliance</td>
</tr>
<tr>
<td>prohibition of opening and operating of correspondent accounts in such banks</td>
<td>attention to individuals working with such banks</td>
<td>Mutual exchange of information between FIU in order to: 1) conduct investigations; 2) exercise legitimate rights; 3) return of funds</td>
</tr>
</tbody>
</table>

Due to everything stated above, according to the meaning of the Article 52 of the Convention, financial institutions and other organizations performing operations with monetary funds, in the process of internal control should:

a) Take steps to identify public officials and (or) their connections which they service;

b) determine the origins of funds or other property of public officials and (or) their connections;

c) update the information on public officials and (or) their connections serviced by them;

d) to focus special attention on financial transactions that have been or may have been done by public officials, their relatives and other parties under the Convention.

In order to operational the recommendations for assets recovery, including preventing and detecting transfers of crime proceeds, members of the Convention (as represented by its FIU) could have:

— implement and periodically update adapted to FIU systems the electronic version of the register of individuals holding positions at public and municipal services that meet the definition of «public official» and individuals deputizing these positions, as well as individuals released (discharged) from governmental and municipal positions;

— require current and former public officials to report necessary data, in addition to mandatory information on income and property,
about themselves, their close relatives and other persons under the Convention and national legislation on combating corruption;

— on the regular basis submit the register of current and former public officials to the attention of financial institutions and organizations performing operations with monetary funds or other property;

— monitor financial transactions (transactions) of current and former public officials, as well as their close relatives and other persons, by setting limits on inspection procedures, and by establishing the procedure of processing of obtained results;

— identify other measures that are in accordance with the Convention, strengthen the fight against corruption.

No less important in the fight against corruption should be measures aimed at identifying the proceeds from corruption, as well as places and ways to further use of these revenues, which under the Convention, shall be confiscated⁵, namely:

| Countries participating in the Convention, to the maximum extent possible within their domestic legal system, take measures that may be necessary to enable possible confiscation |
|---|---|
| profits from crimes recognized as such by the convention | Property, equipment or other instruments used or intended for use for committing a crime recognized as such by the Convention |
| property which value corresponds to the value of such proceeds | |

With a view to confiscation, the members of the Convention shall, in respect to specified property and profits received from the management of this property, take measures necessary to provide them with the possibility to:

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<th>identify</th>
<th>track</th>
<th>freeze</th>
<th>arrest</th>
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Since the forfeiture, measures are mostly the competence of judiciary and law enforcement agencies, FIUs of countries – members of the Convention may develop their own system of measures aimed primarily at identifying and tracing of proceeds or other assets from corruption and related crimes, as well as profits from processing of income and assets in public circulation.

⁵ According to the Article 31 of the Convention
In connection to this we should note the following Convention rule:

“The countries-members may consider establishing the mandatory requirement, that an offender should prove the lawful origin of an alleged proceeds from a crime or other property subject to confiscation, provided such a requirement is consistent with fundamental principles of internal legislation and the nature of judicial and other investigations” (paragraph 8 of Article 31 of the Convention).

An important work aspect of FIUs as participants in national systems to fight corruption should be practical staff training and provision of technical assistance.

Each country-member of the Convention, as a part of FIU anti-corruption measures, must develop and implement specific training programs for employees who will be responsible for this area of work.

Such programs of staff training could include the following aspects:

a) development of effective measures to prevent, detect and investigate signs of corruption, including the use of special methods of data collection;

b) prevention and detection of transfers of the proceeds from corruption and related crimes;

c) identification and tracking of income or other assets generated from corrupt activity, as well as the profits from processing of such income and assets in public circulation;

d) methods used to transfer, conceal or disguise the proceeds from crimes recognized as such in accordance with the Convention.

In order to successfully implement programs and plans of cooperation between FIUs participating in the Convention, the countries should provide one another with the widest scope of technical assistance, including organizational and methodological support in national personnel training, and exchange of relevant experience and expertise.

To develop strategies and action plans to combat corruption and its effects, the FIUs of the member states of the Convention, may assist each

6 According to the Article 60 of the Convention.
other within the scope of their competence in conducting evaluations, studies and research of reasons, consequences and costs of corruption in their countries. In addition, they can communicate to each other the names of experts.

Countries participating in the Convention, should take advantage of regional and international conferences to promote cooperation and technical assistance, as well as stimulate discussions on problems of mutual interest.

National Institutes on anti-corruption measures, in accordance with Article 61 of the Convention, as well as the FIUs in the established field of activities (competence) should also:

— in collaboration with expert community analyze trends of corruption, as well as conditions under which corruption actions are committed;

— develop common definitions, standards and methodologies of financial counteraction to corruption;

— maintain and expand the statistical data base, analytical expertise and other information, including best practices to prevent and combat corruption;

— exchange information locally and through international and regional organizations.

In addition, each State (member of the Convention), in accordance with its national law, may allow other countries and international organizations to monitor policies and actual measures to combat corruption, including work of national centers, as well as to assess their effectiveness.

The analysis of the Convention provisions may be used by the FIUs of a member of the EAG to develop directions in combating corruption.
1.4. Special part or criminalization of corruption

Let us review the Convention provisions, detailing criminalization of corruption.

It is important to emphasize that the FIUs engaged in the Convention may only act within their capacity and delegated power, when identifying financial transactions, which sufficiently indicate elements of corruption crimes recognized as such under the Convention; FIUs may also record methodology and results of their work in relevant typologies. As far as giving the procedural assessment and criminal law classification to facts and actions of individuals and legal entities, established with the help of FIU investigation, this should be done by law enforcement and judicial authorities based on domestic (national) criminal and criminal procedural law.

The Convention recognizes the following types of corrupt practices, in regard to which FIUs of participating countries could use the full range of anti-corruption measures, including identification, seizure and return of assets:

1. Bribery of domestic public officials, where the subjects of crimes are:\(^7\):

   a) any appointed or elected individuals holding any position in legislative, executive, administrative or judicial organs of the country-member of the Convention:
   — on a permanent or temporary basis;
   — paid or volunteer position;
   — independent of an official level;
   b) any other persons performing any public functions for public agencies or enterprises of a country;
   c) any other persons defined as public officials by the internal legislation of a country-member.

\(^7\) According to paragraph «a» of the Article 2 of the Convention.
Therefore, a public official is an individual who:

<table>
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<th>National public official:</th>
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<tr>
<td>performs functions of a government representative</td>
<td>performs organizational and managerial and (or) administrative functions</td>
</tr>
<tr>
<td>permanently</td>
<td>temporarily</td>
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<table>
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<tr>
<th>National public officials are not:</th>
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<tbody>
<tr>
<td>persons performing purely profes-sional or technical services at state or municipal agencies</td>
<td>executives (management) of non-state enterprises</td>
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Why they cannot be classified as national public officials?

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<td>they perform administrative functions in commercial organizations (irrespective of the form of property), thus working in the private sector</td>
<td>these individuals will be liable if they have committed crimes in private sector, including commercial bribery and other corrupt actions</td>
</tr>
<tr>
<td>they do not have management or administrative functions; if these workers will be assigned to perform organizational and managerial or administrative functions (special powers), they shall be liable as officials</td>
<td></td>
</tr>
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</table>

Bribery of national public officials (Article 15 of the Convention) represents a deliberate:

<table>
<thead>
<tr>
<th>promise</th>
<th>offer</th>
<th>provision</th>
<th>blackmail</th>
<th>acceptance</th>
</tr>
</thead>
</table>

Of undue advantages (tangible or intangible) directly or indirectly:

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<th>by a public official personally</th>
<th>by other individuals or legal entities</th>
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<tbody>
<tr>
<td>so that a public official has committed any action or inaction while performing his/her official duties</td>
<td></td>
</tr>
</tbody>
</table>
2. Bribery of foreign public officials and officials of public international organizations, where the subjects are:
   a) any appointed or elected person holding any official position in a legislative, executive, administrative or judicial authority in a foreign country;
   b) any person performing any public function for a foreign country, including for public agencies or public entities;
   c) international civil officials of public international organizations, or any other person authorized by these organizations to act on their behalf.

<table>
<thead>
<tr>
<th>Bribery of foreign public officials and officials of public international organizations (paragraph 1 of the Article 16 of the Convention) is the deliberate:</th>
</tr>
</thead>
<tbody>
<tr>
<td>promise</td>
</tr>
<tr>
<td>Of undue advantages (tangible or intangible) directly or indirectly:</td>
</tr>
<tr>
<td>to a foreign public official or for an official of a public international organization personally</td>
</tr>
<tr>
<td>so that a foreign public official or an official of a public international organization has committed any action or inaction while performing his/her official duties in order to:</td>
</tr>
<tr>
<td>obtain</td>
</tr>
<tr>
<td>business or other undue advantage in relation to the conduct of international affairs</td>
</tr>
</tbody>
</table>

3. Embezzlement, misappropriation or other diversion of property by a public official, where a complex of white collar and property misconduct is involved:
   a) theft is a lucrative, unlawful, and uncompensated seizure and (or) sale of another’s property in favor of the guilty person or other parties, which caused damages to the owner of the property;
   b) embezzlement is a theft of property, entrusted to the guilty party;

Hereinafter the definitions are given by implication of criminal legislation of the Russian Federation.
c) improper use that is spending funds for purposes not complying with conditions defined by law and other legal acts.

Embezzlement, misappropriation or other improper use of property by a public official (Article 17 of the Convention) is the deliberate:

<table>
<thead>
<tr>
<th>theft</th>
<th>misappropriation</th>
<th>other improper use</th>
</tr>
</thead>
</table>

of any property held by a public official by virtue of his/her official position, including public or private:

<table>
<thead>
<tr>
<th>finances</th>
<th>securities</th>
<th>other valuables</th>
</tr>
</thead>
</table>

Committed to profit:

<table>
<thead>
<tr>
<th>the public official personally</th>
<th>other individual or legal entity</th>
</tr>
</thead>
</table>

4. Abuse of power for selfish purposes, namely:

Abuse of power for selfish purposes (Article 18 of the Convention) is the deliberate:

<table>
<thead>
<tr>
<th>promise</th>
<th>offer</th>
<th>provision</th>
<th>blackmail</th>
<th>acceptance</th>
</tr>
</thead>
</table>

Of undue advantages (tangible or intangible) directly or indirectly:

<table>
<thead>
<tr>
<th>by a public official personally</th>
<th>by other individuals or legal entities</th>
</tr>
</thead>
</table>

so that the public official or another person would abuse his/her real or supposed influence with a view to obtain an undue advantage from an administration or a public body for:

<table>
<thead>
<tr>
<th>initiator of such actions</th>
<th>any other party</th>
</tr>
</thead>
</table>
5. Abuse of official power, namely:

Abuse of official power (article 19 of the Convention) is the deliberate:

<table>
<thead>
<tr>
<th>abuse of official authority</th>
<th>abuse of official position</th>
</tr>
</thead>
<tbody>
<tr>
<td>public official has committed any action or inaction while performing his/her official duties in violation of the in order to obtain an undue advantage for</td>
<td></td>
</tr>
<tr>
<td>the public official personally</td>
<td>other individual or legal entity</td>
</tr>
</tbody>
</table>

6. Bribery in a private sector, namely:

Bribery in a private sector (the article 21 of the Convention) is deliberate action committed during economic, financial or business activity:

<table>
<thead>
<tr>
<th>promise</th>
<th>offer</th>
<th>provision</th>
<th>blackmail</th>
<th>acceptance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of undue advantages (tangible or intangible) directly or indirectly:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for any individual who:</td>
<td>by any individual who:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>directs the work of a private sector organization</td>
<td>works (at any position) at a private sector organization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for the individual personally</td>
<td>for any other party</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>so that person will take action or inaction breaching his/her job responsibilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Property theft in private sector, namely:

Property theft in private sector (the article 22 of the Convention) is deliberate theft committed during economic, financial or business activity:

<table>
<thead>
<tr>
<th>private funds</th>
<th>securities</th>
<th>other valuables</th>
</tr>
</thead>
<tbody>
<tr>
<td>being held in trust of the person due to his/her job responsibility, who</td>
<td></td>
<td></td>
</tr>
<tr>
<td>directs the work of a private sector organization</td>
<td>works (at any position) at a private sector organization</td>
<td></td>
</tr>
</tbody>
</table>
The analysis of the Conventions provisions reveals the mechanism of corruption criminalization required to study typologies of corruption crimes.

**Part 2. Analysis of the typologies of financial schemes for legalizing illegally obtained income as a result of corruption**

**2.1. General features on corruption schemes in various fields**

The majority of possible methods used to obtain income through corruption can be divided into two main financial schemes:

- an organization official illegally obtaining income by abusing their access to the company’s assets (see appendix 1.);
- an official illegally obtaining income by influencing the various activities of other individuals, affecting their financial interests, rights or freedom (see appendix 2.).

In the first scheme, the organization’s assets are the source of illicitly obtained funds for the official breaking the law for their own financial gain. The official could be a director of a state or private organization, a department manager, a tender commission member, or any other employee in a position of authority in a given organization.

In the second scheme, the official uses their official dealings with other individuals to extort income. This official could be an employee of a law enforcement agency, a monitoring, supervisory or judicial authority, as well as a representative of a legislative body.

The following is a more detailed analysis of both schemes.

**Generalized financial scheme for obtaining corrupt income by officials authorized to manage assets.**

The following example illustrates the main principle of the scheme. The organization official uses their position of authority unlawfully to relieve the organization of assets to the benefit of a contractor, with whom the official has dealings. In turn, a representative of the contractor gives the aforementioned official, or an associate, some form
of payment, which constitutes the corrupt income. Furthermore, both the official and contractor (or representative) act according to a set of informal arrangements previously agreed upon.

This method comprises the following key components:
— an organization, which provides the main source of corrupt income (hereafter - CI source);
— the possible recipients of corrupt income, which may include:
  • CORRUPT OFFICIAL – a person in authority at the given organization, abusing their position to dispose of company assets for their own personal gain;
  • Organizations under the control of the CORRUPT OFFICIAL;
  • Relatives or other individuals close to the CORRUPT OFFICIAL and the organizations they control;
— corrupt income;
— additional sources of corrupt income include:
  • a legal entity having official dealings with the CI Source (hereafter – CI Source contractor);
  • BRIBER – an official or owner of the CI Source contractor or a representative thereof, who has an informal agreement with the CORRUPT OFFICIAL regarding certain illegal activities (or inactivity/ turning a blind eye) and payment for these activities (inactivity)
    • organizations controlled by the BRIBER;
— an official relationship between the CI Source and its contractor establishing the nature of the corrupt income.

The following outlines the features of the components listed above and their interrelationships.

Possible recipients of corrupt income.
The CORRUPT OFFICIAL is the most likely recipient of corrupt income, especially if it is in cash form. The recipients of corrupt income are also quite frequently relatives or other associates of the CORRUPT OFFICIAL. All the aforementioned parties may receive corrupt income through organizations they control.

Corrupt income.
Corrupt income is the result of crimes stipulated in Articles 15-19 and 21-22 of the UN Convention against Corruption.
The contractor and the CI Source exchange assets by virtue of their official relationship. Furthermore, the market value of the assets lost by the CI Source is always higher than that of the assets received by the CI Source. The difference in asset value is divided into two parts. The BRIBER receives one part, while the second (the corrupt income) is given to the CORRUPT OFFICIAL.

Corrupt income can take the form of any assets, tangible or intangible, movable or immovable property, material or immaterial, as well as legal documents or deeds confirming rights to such assets.

Corrupt income payments most frequently comprise the following asset types:

- cash funds;
- non-cash funds;
- various items of material worth or rights to them (property, vehicles);
- rights to securities;
- (payment for) various services (tourist and business trips, courses, events, etc.);
- rights to a stake in the charter capital of organization’s;
- intellectual property rights (trade marks and patents among others).

It is also important to note that online payment methods have developed rapidly in recent years, many of which lack sufficient regulation in a large number of countries. The use of electronic money as a method of transferring corrupt income can create a break in the anti-corruption chain for the FIU, not dissimilar to cash payments, if the operators of electronic payment systems are not integrated into the national AML/CFT systems. In this way, electronic money can be used to transfer corrupt income.

As a rule, the exchange of corrupt incomes is performed in a way that masks its source, as well as its transfer and receipt.

Several ways of transferring (receiving) corrupt income are employed, the most widespread of which is cash bribes, which prevent the FIU from identifying the corruption chain. However, this does not deprive the FIU of the opportunity to identify signs of corruption exhibited by the official receiving the cash bribe.

Suspect financial services are another widespread means of covering sources of corrupt income. This method makes it significantly more difficult to identify the corruption chain. It is important to note
here that transactions connected with the payment (receipt) of corrupt income may contain information identifying specific assets constituting that income.

For example, a government contractor gives the funds it receives to a suspect financial service. A front company then transfers several million dollars to the address of a foreign real estate agency in payment for ten flats. This provides the opportunity for the contractor to send a request to that country’s FIU to become the legitimate owner of the flats. The possibility that the government official becomes the owner cannot be ruled out.

**Official relationship between the CI Source and its contractor.**

This element is particularly important as the different areas of activity of the CI Source and contractor affect how the official relationship is reflected in various documents and other information resources, each of which have their own specific characteristics.

For example, in government purchases, the relationships between the legal entities revolve around holding tenders, agreeing and fulfilling government contracts, including the receipt of products/services and payments for them.

In the credit industry, reviewing credit applications, closing loan and credit agreements and fulfilling them characterize the relationships of legal entities.

In the insurance sector, these relationships are based on insurance agreements and their fulfillment, including payments, arranging an insurance claim and issuing insurance pay outs.

Official relationships in government property management involve holding tenders or auctions for the sale or lease of state property, as well as transferring it into asset management.

The other components of this general scheme vary little in each field.

Therefore, in order to develop practical recommendations on how to identify and analyze corruption schemes, in addition to examining a generalized financial scheme, the corrupt traits of the official relationships between legal entities in various fields must be defined.

It is also important to note the myriad interrelationships between the components listed above.

In addition to the informal agreement, the CORRUPT OFFICIAL and the BRIBER may be linked in two other ways:
— firstly, the CORRUPT OFFICIAL may extort the bribe from the BRIBER. Signs of this extortion may be recognized in some cases;
— secondly, the CORRUPT OFFICIAL and BRIBER may be associated with each other. This association may reveal conflict of interests on the part of the CORRUPT OFFICIAL, which may be a strong indicator of this scheme.

It may be possible to establish the association between the CORRUPT OFFICIAL and BRIBER by analyzing the various sources of available information.

The following table outlines the main types of affiliation between individuals.

<table>
<thead>
<tr>
<th>№</th>
<th>Type of affiliation</th>
<th>Comments</th>
<th>Information resources used to identify affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Relatives</td>
<td>Relationships based on shared parents or relatives, blood relations or marriage.</td>
<td>Registry office databases, any information resource containing information about individuals’ addresses, transaction databases, ticket reservation databases (flight and train), the state register of legal entities etc., Sequence of actions: surname and address or surname and event matches (a co-founded company, participants in the same transaction, participants in the same ticket reservations).</td>
</tr>
<tr>
<td>2</td>
<td>Cohabitants</td>
<td>Two individuals with different surnames but with the same registered or actual address.</td>
<td>All informational resources containing information about individuals’ addresses.</td>
</tr>
<tr>
<td>№</td>
<td>Type of affiliation</td>
<td>Comments</td>
<td>Information resources used to identify affiliation</td>
</tr>
<tr>
<td>---</td>
<td>------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>3</td>
<td>Manager-subordinate relations</td>
<td>Two individuals who work (or worked) in the same organization <strong>bound</strong> by a superior/subordinate relationship.</td>
<td>Pension fund database, The websites of organizations where the founders, management or employees work, Other internet resources.</td>
</tr>
<tr>
<td>4</td>
<td>Colleagues</td>
<td>Two individuals who work (worked) in the same organization <strong>not bound</strong> by a superior/subordinate relationship.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Friendship</td>
<td>Two individuals, who studied, served in the army, went on holiday, played sport etc. together.</td>
<td>Internet resources.</td>
</tr>
<tr>
<td>6</td>
<td>Compatriot relations</td>
<td>Two individuals born in the same village, settlement or hamlet.</td>
<td>Passport database or other informational resources containing birth place information.</td>
</tr>
<tr>
<td>7</td>
<td>Communal</td>
<td>Two individuals who live (lived) close to each other in the private sector, in the same block of flats.</td>
<td>All informational resources containing information about individuals’ addresses, geographical information systems (for example, Google Earth).</td>
</tr>
<tr>
<td>No</td>
<td>Type of affiliation</td>
<td>Comments</td>
<td>Information resources used to identify affiliation</td>
</tr>
<tr>
<td>----</td>
<td>-------------------</td>
<td>----------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>8</td>
<td>Partnership</td>
<td>Two individuals (or their relatives) with a joint business.</td>
<td>The state register of legal entities, database of securities issuers, internet resources.</td>
</tr>
<tr>
<td>9</td>
<td>Criminal</td>
<td>Two individuals committing a crime or part of a criminal organization.</td>
<td>Databases and information from law enforcement agencies, internet resources.</td>
</tr>
<tr>
<td>10</td>
<td>Business</td>
<td>Two individuals or their businesses dealing with each other (performing transactions). The nature of the deals (transactions), their value, quantity and frequency all help evaluate the importance of the business relationship in each situation.</td>
<td>Transaction database, the state register of legal entities, the register for property, land and vehicles, database of securities issuers, database of securities registrars, the patent and trademark database.</td>
</tr>
</tbody>
</table>

It is important to note that the BRIBER is not a mandatory element of this financial scheme. If the BRIBER is not present, then the CORRUPT OFFICIAL becomes the organizer of the crime and illegally takes the organization’s assets for their own personal gain, or that of their relatives, subordinates or business interests. In this instance, the CORRUPT OFFICIAL controls the CI Source Contractor.
Generalized financial scheme for obtaining corrupt income by officials empowered to significantly impact activity of other parties

<table>
<thead>
<tr>
<th>№</th>
<th>Type</th>
<th>Comments</th>
<th>Information resources used to establish the individual-organization relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Direct management</td>
<td>The individual is the head of the organization’s executive body.</td>
<td>The state register of economic entities.</td>
</tr>
<tr>
<td>2</td>
<td>Direct ownership</td>
<td>The individual is the founder (majority shareholder) of the organization. They have a share of more than 50% in the company’s charter capital.</td>
<td>The state register of legal entities, databases of securities issuers.</td>
</tr>
<tr>
<td>3</td>
<td>Indirect ownership</td>
<td>The organization is founded (a share of more than 50%) by another business, the individual (with a share of over 50%) is the director or founder.</td>
<td>The state register of legal entities, database of securities issuers</td>
</tr>
</tbody>
</table>

Generalized corruption scheme for an organization official illegally obtaining income by exerting significant influence over the various activities of others (see appendix 2).
In contrast to the first scheme, the CORRUPT OFFICIAL in command uses their position and the administrative resources at their disposal to make or influence decisions that benefit the BRIBER or a third party (as part of the informal agreement with the BRIBER). In turn, the BRIBER either personally or through a representative (an individual or legal entity) pays the CORRUPT OFFICIAL or an affiliated party (individual or legal entity), which constitutes the corrupt income.

The main difference of this scheme lies in that fact that the official’s actions result in damage to government organization and management, and not material losses to a company. The CI Source in this case is the BRIBER, or individuals acting in on behalf of the BRIBER.

The main components of this scheme are as follows:

A) possible recipients of corrupt income include:
   — CORRUPT OFFICIAL – an individual who, in their temporary or permanent capacity, or by special authority, either performs organizational/managerial or administrative duties in government bodies, local government, state and municipal offices, or military organizations;
   — commercial organizations controlled by the CORRUPT OFFICIAL;
   — relatives or other individuals close to the CORRUPT OFFICIAL and the organizations they control;

B) corrupt income;

C) corrupt income sources, including:
   — BRIBER – an individual who has an informal agreement with the CORRUPT OFFICIAL regarding certain illegal activities (inactivity) in the interests of the BRIBER and payment for these activities.
   — A third party (individual or legal entity) acting on behalf of the BRIBER;
   — Organizations controlled by the BRIBER;

D) an official relationship creating the foundation for paying/receiving corrupt income.

The elements listed above are all interconnected and have their own specific features.

**Possible recipients of corrupt income.**

The recipients of the corrupt income may be the same in this scheme as those outlined in appendix 1: the CORRUPT OFFICIAL
profiting from the company’s assets, organizations, relatives or other associates of the official and any businesses they control. The CORRUPT OFFICIAL’s position is the main difference in this scheme, the fact that they represent the government or someone performing organizational or administrative duties.

Government representatives include individuals who have been directly vested with government authority, as well as employees of monitoring or supervisory agencies legally endowed with administrative powers, distinguished from other individuals of the same organization by the right to make decisions that must be carried out by citizens and organizations irrespective of their departmental affiliation. Such managerial duties may include, leading a group, organizing and hiring personnel, project management and delegating work, maintaining discipline, implementing incentive schemes and enforcing disciplinary action.

**Corrupt income**

Corrupt income is the result of crimes stipulated in Articles 15-19 and 21-22 of the UN Convention against Corruption.

Corrupt income can take the form of any assets, tangible or intangible, movable or immovable property, material or immaterial, as well as legal documents or deeds confirming rights to such assets. The main difference in this scheme is that the BRIBER’s assets, those of third parties acting on the BRIBER’s behalf, or assets of their organizations (the BRIBER’s or third parties), are the only source of corrupt income.

Corrupt income payments most frequently comprise the following asset types:

- cash funds;
- non-cash funds;
- various items of material worth or rights to them (property, vehicles);
- rights to securities;
- (third-party payments for) various service’s;
- rights to a stake in the charter capital of organization’s;
- intellectual property rights (trade marks and patents among others).
The methods used to transfer and receive illicit funds, and to disguise their source, are the same as those described in the corruption scheme for an official illegally obtaining income by abusing their access to a company’s assets.

**Official relations providing the foundation for the payment/receipt of corrupt income.**

The official relations between the BRIBER and CORRUPT OFFICIAL bind them as well as with the corrupt income. Identifying this link (informed speculation as to the emergence of these relations) is crucial to uncovering the corruption scheme as a whole.

These official relations are consolidated by a range of documents issued by the government (regulations, orders, decisions, etc.) or other organizations (contracts, agreement’s etc.), information about, which can be obtained from different information resources both public for available upon request. The issue or signing of these documents can be both directly or indirectly dependent on the CORRUPT OFFICIAL, that is to say. The latter must either have sufficient authority to perform certain actions (inactions) for the benefit of the BRIBER or representatives thereof, or their position must afford them the opportunity to perform (or not) such an action. The nature of the relationship between the BRIBER and the CORRUPT OFFICIAL is always aimed at improving the BRIBER’s standing, but may affect various spheres of activity.

The relationship between the two may come in various guises:

- Arising out of the need for some sort of authorization: the need for a license, work contract, building permit, approval of documents for subsidies, quotas, etc.;
- Procedural decisions by representatives of law enforcement or legal bodies, for example, rulings on criminal, civic, arbitration, or administrative proceedings, and acquittals for violations of the law, etc.;
- They may arise during sham investigations conducted with the aim of extorting money or to the benefit of third parties
- Seeking to influence legal rulings for the benefit of third parties;
— Arising as a result of international organizations’ decisions to render assistance to third-world countries, or certain individuals, etc.;

In these instances, the FIU must investigate to establish the real degree of influence the official has over the decision-making process, which requires in-depth knowledge of the competencies and authority of the state bodies, international organizations and individual officials.

The links between the CORRUPT OFFICIAL and BRIBER, as well as the informal agreements, affiliation and signs of extortion do not differ greatly from those in the corruption scheme above for an organization official illegally obtaining income by abusing their access to a company’s assets.

In conclusion, this analysis of generalized financial corruption schemes has shown that a detailed analysis of the official relations between the CORRUPT OFFICIAL and BRIBER in their various areas of activity must be conducted to reveal signs of corruption that can be used in practice by FIU analysts.

To this end, an analysis of the various means of obtaining income illegally in the following spheres has been included:

— government purchase’s;
— management of state property;
— credit industry;
— activities of monitoring and supervisory bodies.

The following analyses of the methods of obtaining illicit income are by no means exhaustive. However, they are considered to be some of the most important.

2.2. Methods of acquiring corrupt income in the sphere of government purchases

It is no secret that the government purchases sector is widely exposed to various risks of corruption. Tackling corruption in this area and the subsequent legalization (laundering) of illegally obtained funds is one of the priorities of the FIU, especially because it involves government funds (taxpayers’ money).

The nature of the relations between government organizations and other legal entities must first be established, and the indications
of corruption in these relationships identified, for a generalized fi-
nancial analysis of organization officials illegally obtaining income
from government assets to be drawn up.

Appendix 3 contains a simplified financial scheme depicting how
officials typically generate income corruptly in the government pro-
curement sector.

In contrast to the previous generalized schemes, this one contains
the precise roles of its key participants: Client organizations and gov-
ernment Contractors, and the nature of the official relations between
them.

The main purpose of this scheme is to identify the key components
and their interrelationships, and how the FIU’s informational re-
sources can be used to establish key signs of corruption.

It is wise to include government-owned corporations and busines-
ses in which the government has a stake, as well as organizations of-
fnicially listed as government customers, among Clients when devel-
oping methods to identify corruption in the state purchasing sector.

Government purchasing procedures can be split into these main
stages: drawing up the order, placing the order and fulfilling the rel-
evant contracts. The following is a more detailed look at each of these
stages.

The following steps may present risks when drawing up a govern-
ment purchase order:
— determining the priority of government purchase applications;
— market research;
— selecting the order placement procedures;
— setting a timeline for the purchases.

However, this stage is not particularly useful when trying to iden-
tify dubious government contracts, as the outcome of this stage tends
to be fixed in internal Client documentation that is not available to
FIU analysts.

The following steps may present risks when placing the order:
— drawing up of tender documentation;
— announcement of procurement;
— the period of preparing participant applications;
— reviewing of applications;
— concluding the contract.

The following steps may pose risks of corruption when fulfilling
the contract:
— contract administration;
— accepting the purchase;
— guarantee period.

The last two stages are of most interest as the tender process and results of the order placement are stored in databases that can be accessed by the FIU: the register of government contracts and websites containing government purchase notifications and tender results.

The register of government contracts contains public information about all federal government contracts: the identities of the Client and Contractor, object of the contract, the quantity of goods, price per unit and total price, the planned and actual timelines and other information. There are many ways of searching government contracts: by Client or Contractor information, contract details (timelines, value, goods purchased). A single government purchase portal is used to publish all purchase announcements and tender results. This resource contains the following information and documents:

— information about purchases (cancelling purchases) (goods, starting price, Client);
— tender documentation including purchase terms, the application evaluation procedure and government contract projects;
— the tender commission protocol for deciding whether or not to allow an organization to take part in the tender, evaluating bids and selecting a winner.

Specifically, these documents contain reasons for refusing entry to tendering process, information about members of the tender commission making the decisions, their personal evaluations of bids, and voting results.

In addition, the FIU has information on financial transactions (deals) that may be linked with the financing of participation in tenders, and the execution of government contracts.

Finally, by using all the information resources available, the FIU can identify potential links between the Client and the Contractor, evaluate the legitimacy of such links; detect suspicious movements of money, and uncover potential corrupt links connected with the payment (receipt) of corrupt income.

The following table contains a summary of the characteristics of corruption in the government purchases sector, which may be identified by the FIU using the various information resources mentioned above, as well as transactions and other available information.
## Signs of corruption in government purchasing

<table>
<thead>
<tr>
<th>№</th>
<th>Signs of corruption</th>
<th>Information resources</th>
<th>Comments / Recommendations on identifying signs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Replacement of some Russian letters in procurement announcement (description of contract object) with identical Cyrillic letters</td>
<td>Websites containing public information on government purchases</td>
<td>This replacement makes it impossible for potential Contractors to monitor published announcements effectively (as searches for the item do not generate results). This is done intentionally to limit competition. How to check an announcement: The word “tomograph” contains hidden Cyrillic letters. Select the word, change the font to “Times New Roman” then “Albertus Extra Bold” which should result in “tomograph” (the Cyrillic letters highlighted in bold)</td>
</tr>
<tr>
<td>№</td>
<td>Signs of corruption</td>
<td>Information resources</td>
<td>Comments / Recommendations on identifying signs</td>
</tr>
<tr>
<td>---</td>
<td>---------------------</td>
<td>-----------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>2</td>
<td>Including superfluous Contractor requirements in tender documentation</td>
<td>Websites containing public information on government purchases</td>
<td>For example, the requirement to possess various licenses when, in fact, they’re not necessary. This is done intentionally to limit competition</td>
</tr>
<tr>
<td>3</td>
<td>Including a wide range of products in one purchase order</td>
<td>Websites containing public information on government purchases</td>
<td>For example, if myriad complex medical equipment, specialist furniture and disposable medical products are included in the same order. These requirements are intended to restrict competition</td>
</tr>
<tr>
<td>4</td>
<td>Including technical specifications for a specific product model in the tender documentation, where similar models from other manufacturers are available</td>
<td>Websites containing public information on government purchases</td>
<td>For example, if the technical specifications of the tomograph to be purchased only match a specific tomograph manufactured for example, by Siemens</td>
</tr>
</tbody>
</table>

**Government contract**

<p>| 5 | Inflated contract price | The register of government contracts | One of the most effective ways of gauging the price of a contract is to compare it with similar purchases by other Clients |</p>
<table>
<thead>
<tr>
<th>№</th>
<th>Signs of corruption</th>
<th>Information resources</th>
<th>Comments / Recommendations on identifying signs</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Unusually short contract period</td>
<td>The register of government contracts</td>
<td>An usually short contract period is intended to limit competition. One potential Contractor is often informed of the conditions before the purchase is announced</td>
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<tr>
<td>7</td>
<td>Complaints from tender (auction) participants over unfair Client behavior</td>
<td>The internet, the website of the government purchase supervisory body (complaints and resolutions)</td>
<td>Experience in using complaints and resolutions has proven that such materials contain important details about specific violations of state purchase procedures</td>
</tr>
<tr>
<td>8</td>
<td>The Client has a large number of purchases from one Contractor</td>
<td>The register of government contracts, websites containing public information on government purchases</td>
<td>This situation may arise for one of the following reasons: - the tender documentation contains unjustifiably discriminatory requirements restricting competition; - the Client is violating application review and analysis procedures in favor of one participant; - potential Contractors are colluding in a certain market sector</td>
</tr>
<tr>
<td>9</td>
<td>Contractor appears to be fictitious</td>
<td>Database of transactions, the state register of legal entities; tax records etc.</td>
<td>In such instances, it is highly likely that the Client’s officials are behind the embezzlement operation</td>
</tr>
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</table>

Client and Contractor
<table>
<thead>
<tr>
<th>№</th>
<th>Signs of corruption</th>
<th>Information resources</th>
<th>Comments / Recommendations on identifying signs</th>
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<tbody>
<tr>
<td>10</td>
<td>Frequent transfers of money between the Contractor’s accounts</td>
<td></td>
<td>This indicates that the Contractor is an intermediary at the least</td>
</tr>
<tr>
<td>11</td>
<td>The Contractor deposits large sums of money with dubious financial services</td>
<td>Database of transaction data</td>
<td>This indication suggests that the contract price is inflated</td>
</tr>
<tr>
<td>12</td>
<td>The Contractor withdraws large sums of money in cash, which may seem unusual given their core activities</td>
<td></td>
<td>Withdrawing cash is an effective way covering up the origin of funds. Furthermore, payments of corrupt income are often made in cash. Corrupt income can also be sent abroad</td>
</tr>
<tr>
<td>13</td>
<td>The Contractor transfers large sums of money to offshore companies, which may seem unusual given their core activities</td>
<td></td>
<td>The possibility of corrupt income being sent abroad cannot be ruled out</td>
</tr>
<tr>
<td>14</td>
<td>The Contractor shows other signs of suspicious transactions (a large number of promissory note transactions, intricate transactions, deals that do not seem to make financial sense, etc.)</td>
<td>Database of transactions</td>
<td>Another clue that the Contractor is conducting dubious financial transactions</td>
</tr>
<tr>
<td>№</td>
<td>Signs of corruption</td>
<td>Information resources</td>
<td>Comments / Recommendations on identifying signs</td>
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<tr>
<td>15</td>
<td>The Contractor’s main area of activity is not consistent with the contract’s object</td>
<td>Database of transactions; the state register of legal entities; the internet</td>
<td>The Client is well aware of the Contractor’s dubious practices</td>
</tr>
<tr>
<td>16</td>
<td>The Contractor registered shortly before the start of the tender process (less than 3 months)</td>
<td>The state register of legal entities</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>The Contractor’s revenue from sales (work, services) over the year is comparable to the total value of government contracts for that period (if the Contractor does not hold a monopoly on the market)</td>
<td>The register of government contracts, annual tax records</td>
<td>In this case, it is highly likely that the Contractor is only participating in the deal in name, as its business model would be too risky</td>
</tr>
<tr>
<td>18</td>
<td>The Contractor is dissolved shortly after the contract period (up to several months)</td>
<td>The state register of legal entities</td>
<td>It is particularly suspicious if the Contractor’s liquidation involves the company being merged with another company, the tax records of which are based in another region. This means that the Contractor’s tax affairs will be sent to the tax authorities in another region. There have been cases where several mergers have taken place consecutively</td>
</tr>
<tr>
<td>№</td>
<td>Signs of corruption</td>
<td>Information resources</td>
<td>Comments / Recommendations on identifying signs</td>
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</tr>
<tr>
<td>19</td>
<td>The Contractor conducts a transaction related to the contract shortly before the official tender is held</td>
<td>Database of transactions</td>
<td>This indicates that the Contractor is using inside information to gain an advantage in the tender</td>
</tr>
<tr>
<td>20</td>
<td>The Contractor either does not have a website or the website is not informative</td>
<td>The internet</td>
<td>Sparse information or the complete lack of a website may point towards a front organization: the lack of a detailed description of the company’s history, no information about the company’s organizational structure, no information about the owners, management or staff (names, contact information, etc.) no links to partner organizations or subsidiaries information there is not updated regularly</td>
</tr>
<tr>
<td>21</td>
<td>The Contractor is somehow affiliated with the Client</td>
<td>All available information resources</td>
<td>An important sign where there is conflict of interests</td>
</tr>
<tr>
<td>№</td>
<td>Signs of corruption</td>
<td>Information resources</td>
<td>Comments / Recommendations on identifying signs</td>
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</tr>
<tr>
<td>22</td>
<td>The same Contractor or group of affiliate contractors (in a particular sector) remain prominent in government contracts for an extended period of time (as long as the purchases are not made in monopolized markets)</td>
<td>The register of government contracts, The state register of legal entities</td>
<td>An example of a group of affiliated Contractors: organizations with the same founder. Predominance: Contractors (groups) with a share of more than 50% of the total amount of government contracts</td>
</tr>
<tr>
<td>23</td>
<td>The Contractor is associated with a Client official through a series of corrupt income payments</td>
<td>All available information resources</td>
<td>This is the most important, but at the same time, the most difficult sign to identify</td>
</tr>
<tr>
<td>24</td>
<td>Client officials take short trips to world gambling zones (Las Vegas, USA, Macao) or countries that have been traditionally used to hide illegitimate funds (for example, Switzerland)</td>
<td>The ticket reservation and flight database</td>
<td>This indicates that the official has illegal income that may have been obtained through corruption</td>
</tr>
<tr>
<td>25</td>
<td>Client officials (or family members) conduct suspicious financial transactions involving sums greater than their confirmed income or property</td>
<td>Database of transactions; individual tax declarations; information about income and assets of civil servants</td>
<td></td>
</tr>
</tbody>
</table>
It is important to note that criminal proceeds from placing the order and fulfilling the government contract (including corrupt income) may result from any of the following circumstances (in any combination):

— on account of various legal violations, including unfairly selecting the winner of the tender with whom the government contract will be closed;
— an inflated contract price;
— the contract is only partially fulfilled, but the acceptance of goods (work or services) indicates that the terms of the contract have been met, and payment is made in full;
— the contract has been fulfilled, but the quality requirements and technical specifications have not been met (usage of low-grade materials, work or services), cutting costs for the Contractor. However, the deed of acceptance of goods (work or services) indicates that the conditions have been met, and payment is made in full.

In the majority of cases, the FIU is not able to identify which of the said circumstances apply to a particular government contract case or another. However, the absence of such information does not significantly affect the FIU’s ability to uncover signs of corruption in this sphere.

The following is a series of specific financial schemes used to generate illegal income through government contracts.

**Example 1. Using false participants in a tender to reduce the relative weight of price criteria in bids**

A government body announces an open tender to develop a complex IT system. The maximum price of the contract is set at 512 million rubles. The criteria by which bids will be evaluated, in addition to the price, include the product quality, participant qualifications, work timeframes and guarantees.

Three companies “A”, “B” and “C” take part in the tender. Company “A” offers to complete the work for 495 million rubles, company “B” for 197 million rubles and Company “C” for 15 million rubles. The latter company intentionally lowered the initial value of the contract by more than 33 times. This makes the contract cost criterion much less significant when evaluating bids. This criterion takes both the minimum and maximum offers out of all the applications into
account. This means that company “A’s” offer of 495 million rubles could beat company “B’s” offer of 197 million rubles.

Clearly that company “C” took part in the tender with the sole purpose of helping “A” win, and had no real intention of creating an IT system (which would not be possible for this price). Despite this ruse, the tender organizer still permitted company “C” to take part in the tender despite not submitting its qualifications with the application. Consequently, there is the reason to believe that the organizer of the tender has an informal agreement with company “A”. What is more, the organizer is looking for attaining the maximum possible contract price, which may allow them to siphon off some of the contract funds as corrupt income.

Example 2. Use of consulting companies to reduce the risk of failing to fulfill informal agreements between the Corrupt Official and Briber.

This scheme was included in a report by the FATF typologies working group presented at a meeting on February 21, 2011.

Informal agreements between the Corrupt Official (Client) and Briber (Contractor) carry considerable risks for the parties involved:

— for the Contractor (Briber): the contractor fails to receive payment for a contract in the event of nonfulfillment;

— for the Client (Corrupt Official): they do not receive the bribe.

The following solutions are used to reduce the risks presented by this scheme: each party employs a “consulting company” from another jurisdiction (for example, an offshore company).

The first consulting company (“Consultant A”) signs an agreement on the provision of consulting services with the Corrupt Official (Briber) with payment dependent on the outcome of the work performed (often in the form of the commission as a percentage of the total order value). A close relationship forms between the Contractor (Briber) and “Consultant A”. In addition, another consulting company (“Consultant B”) signs a “pay for performance contract” with “Consultant A”. “Consultant B” and its client reach an informal agreement about the monetization of funds (“legally” received for rendering consulting services) and subsequent transfer to the Client.

One of the advantages of this scheme over bribery, is that payments covered by the contract for consulting services may be recovered (subject to contract agreement).
Example 3. Use of patents to obtain illegal income

The manager of a state enterprise uses the scientific research results of their subordinates or colleagues in subsidiaries to acquire a patent for an invention, utility model or industrial prototype.

Simultaneously, the manager uses their position of authority to create a government purchase plan. The plan envisages a bulk purchase of the newly patented hardware (device).

There are now two possible options for using the patent to extract corrupt income:

— sell the patent to an equipment manufacturer for a one-off payment;
— the manager keeps the patent in their name to receive royalties for each unit sold by the equipment manufacturer.

It is advisable to use patent office databases to identify this type of scheme. It is worth mentioning that the author, applicant and patent owners are all named on patent applications. Patent applications therefore may contain important information on the people involved in the corruption scheme.

Example 4. Large foreign companies bribing state company officials to purchase large quantities of goods.

Several large-scale instances involving some of the world’s largest companies bribing state officials to make bulk purchases have been uncovered in recent years. In particular, industrial giants such as Siemens, DaimlerChrysler AG and Hewlett-Packard have all been plagued by corruption scandals. All were officially investigated by the US government, pleaded guilty to bribery and paid multi-million dollar fines.

Each of these cases share similar traits. Firstly, the purchases were made at an inflated price. Secondly, the foreign firms used special offshore companies to pay the bribes. As a rule, the bribery payments were made by wire transfer from the foreign company to an offshore account belonging to the Corrupt Official, or a company owned by the Corrupt Official. It was possible to conduct anti-corruption investigations and prosecute the foreign company (Briber) and the officials because the bribe payments were made electronically.

Example 5. Embezzlement of a government organization’s budget funds through the purchase of works (services) and subsequent completion of that work by employees of that organization.

The Corrupt Official organizes the crime in this corruption scheme. The Corrupt Official both initiates and conducts the pur-
chase; they also ensure that a front company under their control or an organization managed by their subordinates wins the tender. In addition, the Corrupt Official conspires with their subordinates to ensure the work is completed in the Contractor’s name.

The Contractor details and characteristics of the government contract, which could potentially be fulfilled by the Client’s employees, are the most important signs in this scheme.

For example, there have been instances where scientific research institutes have placed orders for Research and Development services. In actual fact, the documents ‘resulting’ from the work were fabricated by the Client’s employees. Furthermore, the price of the services was inflated, and the quality of the work poor, as the Client was accepting its own research.

It is worth noting the specifics of identifying the corrupt income in this scheme compared to the others. The Corrupt Official controls the Contractor and as a result. The monetary funds transferred to the Contractor by the Corrupt Official go straight into the pocket of the Corrupt Official.

Example 6. Embezzling budget funds in medical equipment purchases.

The clearest signs of this corruption scheme are a considerably inflated government contract price for the purchase of medical equipment and the Contractor depositing a significant amount of the money received from the Client with a suspicious financial service.

The following information resources should be used to analyze the validity of the prices in the contract:

— the equipment manufacturers’ and supplier’s websites;
— the register of government contracts (which allows the viewing of contracts for similar purchases made by other organizations, including those in different regions);
— the custom’s declaration database (enables the viewing of the custom’s declaration for imported equipment, including those of the manufacturer’s official dealers);

Inflated contract prices limit competition and are often a sign of a fixed tender. The following techniques are used to rig tenders:

— the tender documentation is prepared beforehand for a pre-selected equipment supplier. The lot includes a wide range of equip-
ment, and the requirements are specific to a brand of equipment that the supplier can deliver;
— the applications to participate in the tender from other suppliers are not accepted under various pretexts;

An analysis of the tender documentation, admission protocol, the review and evaluation of bids, complaints about the fairness of the tender sent to supervisory bodies, and their decisions can help reveal the clues listed above.

The Contractor, who came to an agreement with the Client beforehand, is usually confident about winning the tender, and the value of their bid is normally slightly less than the starting price.

The nature of the cash flow following the Contractor’s receipt of payment for the government contract must now be examined.

In many instances, the Contractor immediately (or via an intermediary) splits the contract payment into two streams:
— first stream: funds earmarked to purchase the equipment from the manufacturer or dealer for the lowest price possible;
— second stream: the remaining funds are then deposited with a dubious financial service, part of which the Briber will receive as payment once the money has been laundered.

A scheme using two affiliated intermediaries is also employed when supplying high-value foreign-made medical equipment: the first domestic company acts as the Contractor, the second party is an offshore company through which the purchase of equipment is made at the manufacturer’s actual price. Once the Contractor receives payment for the contract, the majority of funds are transferred to the offshore company’s account. The amount transferred to the offshore company, which is controlled by the Briber, is the difference between the contract price and the actual price of the equipment. A share of this amount constitutes the corrupt income. Specifically, funds may be transferred to foreign accounts belonging to the Corrupt Official, affiliated individuals and organizations under their control, or to other individuals connected to the acquired assets, but still to the benefit of the Corrupt Official, their associates and organizations (for example, purchases of property).

Therefore, acquiring and analyzing information about the transactions of the offshore company may reveal evidence of the receipt of corrupt income.
Where necessary, a more in-depth analysis using tax authority information about individuals’ income and property may be conducted.

2.3. Methods of acquiring corrupt income through government property management

In this context, the term government property is understood to mean any assets (excluding budget funds and extra-budgetary funds) belonging to the government. In particular, they include land, water and forest resources, movable or immovable property, organizations and stakes in their share capital, as well as company shares.

Corrupt management of government property often involves its sale, alternative use, (leasing, placing into trust management, concessional use, or as an investment deposit) or inclusion in creative accounting.

Risks of corruption mainly arise during:
— the drawing up of plans for the use of government property, including business privatization;
— the preparation of tender (auction) documentation for the sale or lease of government property;
— the tender process (auctions);
— the closure of a government property purchase agreement;
— the closure and fulfillment of government property lease agreements.

The following is two examples of fraud involving government property.

Example 1. The theft of state property through fraudulent organization and conducting of tenders.

The government property being sold by tender is the subject of criminal encroachment. The manager of the organization is both the CORRUPT OFFICIAL and organizer of the crime.

The competitive tendering is organized as follows:
— the value of the property is significantly reduced (for example, as a result of an unreasonably low reevaluation);
— the tender notification of sale is published in a little-known newspaper. Furthermore, the paper containing the notification is not in free circulation;
— associates of the government organization make use of several organizations under their control to take part in the tender (to create the appearance of a legitimate tender). The winner of the tender is one of these organizations.

Once the rights of the Buyer to the property have been registered, they then sell it at its full market value. The proceeds from the deal is divided between the members of the criminal group and comprise corrupt income.

Purchase agreements for the sale of property at a price lower than its market value can also constitute the corrupt income, as well as cash and non-cash funds.

The key factors of this corruption scheme are the low property prices and cover-up of tender information.

Therefore, if the FUI has access to the property rights database, it is possible to analyze deals involving the sale of government property. The quick resale of a property by the first buyer is also an indicator of a dubious deal.

**Example 2. Stealing government property through fraudulent disposal of government or municipal property**

In this example, government property is also the subject of criminal encroachment.

The following is based on an actual financial investigation into the director of a municipal food market.

**Event timeline:**

The director of the Food market contacts the municipality administration with a proposition to renovate the market by attracting a private investor to fund the renovation work. The administration accepts the proposal. A new venture is registered to attract a private investor, 50% of which belongs to the municipal enterprise and the remaining 50% belonging to the private investor, a limited liability company headed by someone with close ties to the director of the municipal enterprise. The founder of the latter is the director of the Food market municipal enterprise. The municipal enterprise injects its building and equipment into the charter capital of the newly founded organization. The second party pays for their share of the charter capital in monetary funds. The management of the municipal enterprise is transferred to the director of the new company.
After a while, the partners of the new organization decide to significantly increase its charter capital under the pretext of financing a project. The increase in capital is made at the expense of the second participant owing to the fact that the municipal enterprise has no cash funds. Furthermore, the municipal enterprise’s stake is reduced to a level where the second founder acquires control over the Food markets assets.

Payment for the charter capital can be staged; money injected into the charter capital as part payment is issued as a loan to the director of the organization, which injected it into the charter capital by the name of the founder. These transactions are repeated until payment for the increase in charter capital is made in full.

As a result, the director of the municipal enterprise becomes the majority owner of the new organization; the director is then free to dispose of the assets as seen fit.

2.4. Obtaining income illegally in the credit industry

The legal nature of credit agreements has a whole range of specific characteristics, which constitute the most important aspect of investigating means of extorting income from the credit industry. The detailed analysis of which is the best way of developing methods for tackling such crimes.

First of all, it is necessary to examine all available information about a credit agreement resulting from a suspected fraudulent deal, as well as the results of the transaction, which may lead to signs of self-interested parties, and their eventual identification.

Starting points for a financial investigation include the credit amount, the duration of the loan agreement, its cost to the borrower (interest rate), repayment terms (there have been cases where the credit repayment terms has not been included in the credit agreement, resulting in the loan not being repaid), the purpose of the credit (if applicable), as well as information about the loan collateral, guarantees and guarantors.

Special attention should be paid to the procedure used to close the credit agreement. The credit agreement should contain all the necessary details (according to national civil law). It should be signed by
all the participants of the agreement, have all the required appendices and go through certification and registration procedures (notary where necessary).

If a substantial amount of funds is available under a credit agreement, the credit organization may be required under national legislation to disclose information about the deal in its official banking reports. This may be used as an additional source of information during the financial investigation.

The process of deciding whether to issue a substantial sum in credit may include a meeting of the credit organization’s board of directors / credit committee (or another authorized body). Analyzing the information contained within the minutes of the meeting will help identify any members of the organization’s management, who would profit from making a corrupt decision (did all the members support the decision? Whose vote was decisive? Etc.).

The object of the criminal encroachment when closing a corrupt credit agreement may include:

— part or all the loan funds;
— credit agreement collateral (material assets, securities, property rights, etc.);
— credit agreement guarantees;

These crimes can lead to bankruptcy or material losses incurred by either of the credit agreement parties (the creditor, borrower, guarantor or guarantor) or such permanent consequences as a reduced credit rating, technical default, inability to settle the debt for other reasons, a damaged reputation (loss of goodwill) etc.

The Corrupt Official (Bribe-taker) in this scheme could be a person in authority (someone in the management of the credit organization) in command of the credit resources, including budget, municipal, the right to issue guarantees, or someone owning the assets used as collateral for the credit agreement.

The Briber may be an individual looking for receiving the credit funds, guarantees, collateral or someone looking for causing losses to one of the parties as the result of a previous unsuccessful endeavor.

Particular attention should be paid to the dual role of the credit organization in this typology. On the one hand, the credit organization may act as the initiator or party interested in receiving credit funds to pursue its own mercenary interests (as a briber or accom-
plice), on the other hand, the credit organization may use fraudsters as the source of illegal income, acting as a victim of fraud.

In any case, the credit organization will be an invaluable source of information during any financial investigation. Access to detailed information on money transfers between accounts, and to documents (credit agreements, appendices, guarantees agreements, etc.) involved in the crime, helps establish the circumstances surrounding the motive.

Determining the motive (fraudulent intent) behind the crime plays an important role during any financial investigation when drawing up theories. The motive in this scheme may be anything from the desire to own assets of some sort (credit funds, collateral, guarantees, etc.) or to cause another party to incur losses or damages (neutralizing or discrediting competitors).

The following is a series of factors, which when analyzed, help identify fraudulent actions in the credit industry:

Possible affiliation between all or some parties of the criminal group is similar to other financial schemes. This affiliation may be social, professional, national, informal, regional or being a member of a certain group.

Establishing this affiliation requires an extremely broad set of screening criteria, as the parties involved in the scheme could be relatives (including ex - partners, for example, divorcees), friends, neighbors, people studying, working, serving in the army or sentences in prison together.

A broad range of affiliation types requires an equally broad set of information sources: official national registration databases for places of residence, employment, citizenship, vehicle databases, etc. as well as the internet, which among other things includes information from blogs, resumes and social - networking sites, etc.

Data that can help uncover the possible fictitious nature of the borrower:

— the borrower’s financial situation, which can be gauged from an organization’s financial reports (minimum possible charter capital, significant liabilities, a consistently deteriorating financial situation, a small amount of assets). In addition, open information sources (such as the internet) can be useful in judging the borrower’s financial situation and include ex employees’ societies or complaints about unfair or dishonest employers;
— the borrower’s registration information: the state register of legal entities can be used to establish the registration period (it can look suspicious if the borrower has not been registered long), whether the borrower is located at an address where many other legal entities are registered (mass registration), using a lost passport or registration in another region, etc.;
— the borrower’s credit history can be accessed if the database is available under national legislation. In addition, it would be useful to look into any arbitration proceedings involving the borrower, in the interests of establishing their credit history (non-repayment of credit, collateral challenges, etc.);
— information about the borrower’s rights to various types of property according to the national registries database. In special circumstances, requests to the tax authorities can be made to obtain information about an organization’s property or financial situation as a whole;
— information about money transfers between the borrower’s accounts may point to the fictitious nature of their activities. As well as the fluid nature of account transactions, transferring credit funds to third-party credit organizations, converting the credit into cash through unofficial channels, transferring the funds abroad, etc. The financial transaction’s database of the financial intelligence department as well as the credit organization can be used to obtain this information.

Data on the possible involvement of the credit organization’s management or affiliated parties in the scheme:
— data publicly disclosed by the organization is a valuable source of information in this case. For example, changes in the size of the credit organization’s assets (loan amounts of part thereof), changes in the shareholder structure, information about important events or quarterly financial reports;
— special attention should be paid to changes in the financial situation of the bank’s shareholders. Individuals associated with the bank and its management. Changes in the asset structure of these parties, for example, the acquisition of real estate, shares or similar, for an amount similar to the credit, may indicate their involvement in fraud;
Information about the object of the loan should also be thoroughly verified. Firstly, it must be established whether the object of the loan actually exists. Depending on its material form, property, securities, right of claim, etc. the market value of the object must be established and compared with its valuation in the loan agreement. In addition, a check of arbitration court databases may reveal that the loan collateral is also subject to other credit agreements.

Information about the organization assessing the loan for affiliation between the parties involved in the potential fraud scheme should also be checked, to ensure the value of the collateral was fairly evaluated.

Data about the possible “fictitious” nature of the guarantee or guarantor. The guarantee/guarantor may only exist on paper, or their financial and property status may not correspond to reality. The methods of checking and identifying inconsistencies are similar to those described for the borrower above.

In conclusion to this description of methods employed to obtain income illegally in the credit industry, a number of examples have been included to examine the ability of financial intelligence departments to identify these fraudulent actions.

Example 1. Credit fraud during debt consolidation through affiliated companies.

This example is based on an actual investigation conducted into Group of Companies “A” (GC “A”) and Group of Companies “B” (GC “B”) regarding the possible use of corrupt ties with the management of the branch of a credit organization (Bank) to acquire credit for the businesses included in the Group, on favorable terms and without the proper collateral.

The operations of one group of companies were financed solely by credit funds taken out by the other group of companies, leading to high risks that the 5 billion rubles borrowed from the Bank would not be repaid.

The funds loaned to GC “A”, the assets of which included four factories that were subsequently declared insolvent. The operations of this group were also financed by loans issued by several dozen organizations included in GC “B”, who issued these funds to GC “A” through fly-by-night companies, whose accounts comprised around 3 billion rubles.
It was understood that GC “B” would take over the management of GC “A’s” assets (transferred to the Bank) and repay the company’s liabilities to the Bank through new loans, after which GB “B” would take possession of the factories.

However, GC “A” refused to transfer its assets, and there were no fund repayments to GC “B”.

Therefore, GC “B” fell into financial difficulties and was obliged to take out new loans from the Bank to continue operating. These deals were high risk because the group did not have adequate assets to secure the loans, but the management of the bank issued new loans to prevent the group from going under.

Suspicions that the Bank’s manager abused their position of authority and knowingly issued poor loans were confirmed by subsequent investigations conducted by the relevant law enforcement agencies.

The key trait of this typology is the cyclic nature of fund movements; credit funds issued to one organization are returned to the bank by another organization in repayment of the previous loan.

**Example 2. Credit fraud under the pretext of an investment project.**

This example of the large-scale theft of credit funds under the pretext of an investment project is based on a real fraud case.

LLC “A” submits an application to a commercial bank (Bank) for a loan of around U.S. $100 million for a period of five years. The purpose of the loan was an investment project, which envisaged and implementation of 2,500 railroad tank cars. The bank was to be a partner in the implementation of the project. According to the conditions of the credit agreement, the funds were to be issued in several tranches as payment for the tank cars received. One of the agreement conditions stipulated that the Bank remained the owner of the tank cars until the debt was repaid, until which point the borrower did not have the right to sell the tank cars.

To close the agreement, LLA “A” issued promissory notes to a “friendly bank”, which were bought back once all the legal procedures had been performed, this significantly increased its charter capital to 55 million rubles from 10 thousand rubles previously.

To defraud the bank and receive the total sum in one tranche, the management of LLC “A” created a subsidiary LLC “B”, a contract was closed with the latter on the supply of 2,500 railroad tank cars to LLC “A” if payment was made in full.
Shortly after the credit agreement was signed, LLC “A” applied to the bank to issue the full amount of the credit line based on the contract with LLC “B”. The Bank approved issuing the funds, despite reservations expressed by the credit organization’s experts.

LLC “A” transferred the funds to LLC “B” the day they were received, then back to an account belonging to LLC “A” with another bank the very next day. As a result of these actions, the Bank was unable to control the use of the loan. LLC “A” made interest payments on the loan to mask the fraud operation, and also acquired some tank cars, which were transferred to the bank as collateral for the loan agreement. The remaining funds amounting to around $50 million were spent by the fraudsters on expensive real estate, cars and other goods.

The violation of the Bank’s internal regulations over issuing loans in one tranche, despite expert advice, to the contrary, resulted from the bribery of a senior member of the Bank’s staff.

The signs of suspicious activity in this example are as follows:
— the sharp increase in LLC “A’s” charter capital just before the loan was approved;
— LLC “A’s” receiving the full credit line amount in one tranche;
— “A” transferring the loan funds to the address of another organization and the subsequent return to “A’s” account with another bank.

**Example 3. Creating a credit pyramid.**

This example of creating a credit pyramid is based on materials from an actual financial investigation.

Citizen “X”, a relative of one of the managers of a commercial bank, developed an investment project to construct several plants to process waste timber and produce environmentally friendly products in several regions.

Company “A” was registered to implement the project, and a range of organizations with a positive credit history were acquired to attract funds. Each participant was given a precise role within the internal structure of the holding:
— company “A” managed the implementation and financial side of the project;
— LLC “B” was the project operator (organized the construction of the factories);
— the remaining organizations managed the individual enterprises.

The bank issued mortgages to Company “A” and LLC “B” using the plots of land and industrial premises of one of the factories as collateral over an extended period of time (around three years).

In this period, 31 credit agreements were issued amounting to 8 billion rubles. The group of companies built two factories and announced the construction of another 18 such facilities.

A cost comparison of the full cycle construction of similar factories by other market participants was conducted to evaluate the payback period of the project. To this end, information about expenses incurred was collated from public sources and the return on investment was calculated. The results showed that the ROI for one factory built by Company “A” would be seven years, while the payback period for similar projects was between one and three years.

All the information gathered led to the conclusion that the Bank was part of a credit pyramid, with its management deciding on numerous occasions to issue additional loans at inflated interest rates.

At the same time, it was established that a large portion of the credit funds earmarked for the construction of the factories, were used by citizen “X” to purchase various assets (plots of land, businesses, securities), which given the nature of their close ties with the bank constituted the corrupt income.

The main signs of credit pyramids are the closure of a large number of credit agreements and various suspicious borrower traits.

2.5. Analysis of methods used to legalize (launder) illegal income

During the investigation of the various methods employed to legalize (launder) corrupt income, it became clear that there were no significant links between the type of fraud, and the subsequent method used to legalize (launder) the corrupt income.

Particular attention should be paid to legalization methods involving government officials (whose income and property may be monitored), when comparing the differences between legalizing (laundering) corrupt income to methods used to launder (legalize) funds resulting from other crimes.
One of the most widespread forms of legalizing (laundering) large amount of corrupt income is purchasing property (both in the country of residence and abroad). Property is quite frequently registered by the name of close relatives, including parents. There have been several cases where parents over the age of 80 have registered property in their name. Such actions should be treated as suspicious and links between the participants should be analyzed to identify any family ties.

Data about flights and train journeys abroad should be used to identify the countries where such property may be acquired.

**Part 3. Methodology of financial investigation of schemes for acquiring and legalizing illegal income as a result of corruption**

**3.1. General recommendations for conducting financial investigations into corruption schemes and the subsequent legalization of illegally obtained income**

The FIU must use the following two approaches in conjunction when identifying and analyzing signs of corruption and the subsequent legalization of corrupt income:

— use various corruption detection methods to analyze suspicious operations in legal entities to facilitate further financial investigation into the actions identified;

— when conducting any financial investigations, evaluate the possibility of corruption by the subjects of the investigation and where possible look for signs of corruption and subsequent fund legalization.

The following is an analysis of the approaches used to conduct an initial search for signs of corruption, based on the generalized scheme of an official illegally obtaining income by abusing their access to the company’s assets (see appendix 1).

The signs of corruption in this scheme are outlined in the following tables.
<table>
<thead>
<tr>
<th>№</th>
<th>Components of a scheme to obtain corrupt income and their interconnection</th>
<th>Description of corruption signs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Official relations between organization “A” (source of corrupt income) and its contractor, organization “B”</td>
<td>Each type of relationship between “A” and “B” has its own corruption traits. For example, a government contract may contain any of the following signs: -- inflated contract price; -- suspiciously short contract period given the time required to complete the work (render services, supply goods); -- the contract object is goods (work, services) that may not be needed</td>
</tr>
<tr>
<td>2</td>
<td>An official at organization “A” illegally obtaining income by abusing their access to the company’s assets (official or potential CORRUPT OFFICIAL)</td>
<td>Suspicious financial transactions involving large sums of money which could be connected to corrupt income payments include: -- money transfers from offshore companies to the official’s address; -- money transfers to the official from organizations that may be fictitious or have false staff records; -- third party asset payments to the official; Unusual spending patterns by the official involving large sums (exceeding the official’s declared income or that of their relatives), which could be connected with the spending or legalization of corrupt income: -- the official making payments for various forms of assets (property, vehicles, securities, stakes in businesses, etc.)</td>
</tr>
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</tr>
<tr>
<td>3</td>
<td>Close relatives of the official</td>
<td>Unusual spending patterns involving large sums, which could be connected with the spending of legalization of corrupt income: -- money transfers from offshore companies to the addresses of the officials close relatives -- money transfers to the official’s relatives from organizations that may be fictitious or have false staff records -- third party asset payments to the official’s relatives Unusual spending patterns by the official involving large sums (exceeding the official’s declared income or that of their relatives), which could be connected with the spending of legalization of corrupt income: -- the official’s relatives making payments for various forms of assets (property, vehicles, securities, stakes in businesses etc.). Additional signs: the official’s relatives not having their own business and at an age not typical for making such large transactions (older than 65 or younger than 20)</td>
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</tr>
<tr>
<td>4</td>
<td>Links between the official and organization “B” indicating their affiliation</td>
<td>Links between the official and organization “B” indicating their affiliation. As a rule, this leads to a conflict of interests when the official establishes official relations between organizations “A” and “B”, which in turn gives the official the opportunity to abuse their position of authority. These links can be direct (if the official is the owner or director of organization “B”) or indirect through third parties (for example, if the founder of organization “B” is a relative of the official)</td>
</tr>
<tr>
<td>5</td>
<td>Organization “B”</td>
<td>Suspicious transactions for large sums of money connected with depositing money with off-the-book services. Signs that organization “B” is fictitious and the transient nature of its financial transactions.</td>
</tr>
<tr>
<td>6</td>
<td>A complete scheme for obtaining corrupt income</td>
<td>A complete scheme for obtaining income through corruption including all the components and inter-relationships, as well as the corrupt income payment chain</td>
</tr>
<tr>
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  -- inflated contract price;  
  -- suspiciously short contract period given the time required to complete the work (render services, supply goods);  
  -- the contract object is goods (work, services) that may not be needed |
| 7  | A series of deals between organizations “A” and “B” | The corruption signs involving a string of deals vary depending on the type of relations between organizations “A” and “B”.  
Example 1: Organization “A” is the Client, while organization “B” has been contracted by the government to supply goods. To fulfill the contract Organization “B” purchases goods from the organization “C”. The price of the goods is significantly lower than the contract price. The government contract price may have been inflated.  
Example 2: Organization “A” sells some property to the organization “B”, which in turn sells it to organization “C” at a price significantly higher than organization “A” originally sold it for. The price of the deal between organizations “A” and “B” may have been deliberately underestimated |
### Possible areas to begin looking for signs of corruption

<table>
<thead>
<tr>
<th>№</th>
<th>Main object of analysis</th>
<th>Sign of corruption</th>
<th>Information resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government contract</td>
<td>Affiliation between the parties in the government contract</td>
<td>The register of government contracts, the uniform state register of state entities (USRLE), the unified state register of individual entrepreneurs (USRIE), and other information resources that can be used to determine any affiliation between the two</td>
</tr>
<tr>
<td>2</td>
<td>Government contract</td>
<td>Short timeframes to perform a considerable amount of work</td>
<td>The register of government contracts</td>
</tr>
<tr>
<td>3</td>
<td>Government contract</td>
<td>The contractor shows signs of being fictitious and (or) was dissolved or went bankrupt less than three months after the contract period</td>
<td>The register of government contracts, USRLE, USRIE, tax reports, arbitration rulings</td>
</tr>
<tr>
<td>4</td>
<td>Government contract</td>
<td>Tax reports indicate the contractor’s revenue is less than the contract price</td>
<td>The register of government contracts, tax reports</td>
</tr>
<tr>
<td>5</td>
<td>Government contract</td>
<td>The contractor spends large sums of money in shady dealings (no less than 1/3 of all transactions involve fly-by-night firms or individuals)</td>
<td>The register of government contracts, transaction reporting database and other information resources that can be used to determine signs of fictitiousness</td>
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</tr>
<tr>
<td>6</td>
<td>Government contract</td>
<td>A chain of corrupt income payments from the Contractor to the Client’s official</td>
<td>The register of government contracts, transaction reporting database, and other information resources that can be used to determine any affiliation between the two</td>
</tr>
<tr>
<td>7</td>
<td>Transaction (deal)</td>
<td>Property payments on behalf of a third party individual</td>
<td>Transaction reporting database</td>
</tr>
<tr>
<td>8</td>
<td>Transaction (deal)</td>
<td>The recipient is either less than 20 years old or over 65 and the transaction exceeds a given threshold (for example, 15 million rubles), the recipient is not an individual entrepreneur, founder or director of an organization. The next step is to check the relatives of the officials involved (possibly CORRUPT OFFICIALS)</td>
<td>Transaction reporting database, USRLE, USRIE and other information resources that can be used to determine blood relations</td>
</tr>
<tr>
<td>9</td>
<td>Loan (a deal with a credit organization involving property as collateral)</td>
<td>The director of the credit organization (or subsidiary) issuing the loan is affiliated with the borrower</td>
<td>Transaction reporting database and other information resources that can be used to determine blood relations</td>
</tr>
<tr>
<td></td>
<td>Loan (a deal with a credit organization involving property as collateral)</td>
<td>The pledging organization has at least two affiliated organizations, which received credit from the same credit organization</td>
<td>Transaction reporting database, USRLE</td>
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<tr>
<td>10</td>
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<tr>
<td>11</td>
<td>Loan (a deal with a credit organization involving property as collateral)</td>
<td>The pledging organization shows signs of being fictitious.</td>
<td>Transaction reporting database, USRLE, tax reports and other information resources that can be used to determine signs of fictitiousness</td>
</tr>
<tr>
<td>12</td>
<td>Loan (a deal with a credit organization involving property as collateral)</td>
<td>According to tax reports, the pledging organization lacks the assets that could be used as a deposit</td>
<td>Transaction reporting database, tax reports</td>
</tr>
<tr>
<td>13</td>
<td>FSUE, Inc., Ltd, SC, are the payers in a transaction</td>
<td>The possibility of the director of the paying organization being associated with the recipient (inflated purchase prices for goods [services, work] for the personal gain of the director cannot be ruled out. The value of the financial flow exceeds a given threshold (for example, 10 million rubles)</td>
<td>Transaction reporting database, USRLE and other information resources that can be used to determine signs of affiliation</td>
</tr>
<tr>
<td></td>
<td>FSUE, Inc., Ltd, SC, are the recipients in a transaction</td>
<td>The possibility of the director of the receiving organization being associated with the recipient (inflated purchase prices for goods [services, work] for the personal gain of the director cannot be ruled out. The value of the financial flow exceeds a given threshold (for example, 10 million rubles)</td>
<td>Transaction reporting database, USRLE, and other information resources that can be used to determine signs of affiliation</td>
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<tr>
<td>15</td>
<td>FSUE, Inc., Ltd, SC, are the payers in a transaction</td>
<td>A chain of potential corrupt income payments from FSUE contractors (Inc. Ltd. Organizations) to its director or their affiliates</td>
<td>Transaction reporting database, USRLE and other information resources that can be used to determine signs of affiliation</td>
</tr>
<tr>
<td>16</td>
<td>Legal entity</td>
<td>The legal entity receives a large VAT refund (or refund for tax overpayment). Especially if the organization displays signs of being fictitious or other (no profit, a loan equal to the VAT amount etc.)</td>
<td>Transaction reporting database, USRLE, customs declarations database, tax reports and other information resources that can be used to determine signs of fictitiousness</td>
</tr>
</tbody>
</table>
It is clear that the vast majority of areas does not lend themselves to manual searching because they either not possible or too labor intensive. Therefore, to search for signs of corruption-related violations, various information resources must be brought together with algorithms that identify suspicious signs and automated solutions for the following tasks:

- batch processing of rules to identify possible affiliation between legal entities;
- batch processing of rules classifying information categories (transactions, participants, government contracts and their participants, in particular, identifying “fly-by-night” firms);
- batch processing of monitoring rules and the presentation of results in a graphical form.

The following is potential technical solutions for automating the tasks listed above.

Option 1. Create a data structure to store the algorithm tasks and results, as well as their execution rules in a low-level query language (for example, SQL). This is the simplest and cheapest automation method. The main drawbacks of this option are the highly time-consuming process of creating the rules (writing, testing, debugging, version control, predicated execution, changes in execution rules etc.) and the inability (without developing a special software component) to add rules following requests by analysts, when transferring startup parameters and raw data.

Option 2. Adapt existing industrial graphical analysis tools (such as i2, VisuaLinks, iRule) by integrating a scheduler and batch rule processing, which will allow parameters to be specified and the raw data to be analyzed, as well as the facility to save results. Customizing industrial graphical analysis tools requires a highly qualified contractor and often needs input from the developer. The cost and complexity of this solution are relatively high.

Option 3. Create automated classification components based on a business rule management system (BRMS) and incorporate them into the FIU’s information system. Configure the analysis tools (including visual analysis tools) to work on the results generated from the rules. The main advantage of this option is that each stage of the rule processing cycle is supported. To a large extent, the cost of this solution depends on the choice of BRMS software.
All these solutions to look for signs of corruption can also be used in financial investigations. Further information about this can be found below.

When conducting any financial investigations, evaluate the possibility of corruption by the subjects of the investigation and where possible look for signs of corruption and subsequent fund legalization.

Developments for this include:

— recommendations on using information resources available on the internet to analyze the activities of individuals and legal entities to identify and evaluate their affiliations and assets (Appendix 4);
— recommendations on evaluating the activities of individuals and legal enterprises for corruption;
— recommendations for identifying corruption schemes;
— recommendations for conducting a comparative analysis of declared income and property of an individual with their financial transactions and other income information, with the aim of identifying illegally obtained income.

3.2. Recommendations on evaluating the activities of individuals and legal enterprises for corruption

The following recommendations concern the analysis of the inter-relations between a specific group of legal entities, including financial, relative, business and other ties, for signs of corruption and how they can be confirmed during further analysis.

The sequence of actions described below should be used:

a) determine the key participants in the scheme, the nature of their activities, as well as any official dealings with other participants in the scheme.

b) evaluate the scheme’s potential for corruption based on the nature of the relations between the key figures. The analysis stops here if there is no potential.

c) if there is potential for corruption, the relevant corruption overview scheme must be selected. The various types are described in detail in section 2 “An Analysis of Corruption Schemes and the Subsequent Legalization of Illegally Obtained Income”.

Then, the presence of the various components and their interconnection must be identified according to the scheme.
d) Conduct an analysis of the components identified for signs of corruption based on the descriptions in the relevant scheme.
e) If important elements and interrelations are missing from the case in question compared to the generalized scheme, the missing data (links and subjects) must be filled in. The possibility of acquiring this data must be evaluated. Once the data has been acquired the analysis should be repeated.

The following sequence of actions designed to detect corrupt income and legalization serves as an example for looking for one of the most important elements of a financial scheme template.

It is a well-known fact that a significant proportion of corrupt income is either sent or laundered abroad. As a rule the owner of such assets must travel abroad from time to time. Furthermore it’s highly likely that these assets are located in a country that many people visit. Therefore, the flight reservation or state border-crossing database can be used to identify the most frequently visited countries. Requests for information regarding the financial transactions, property and stakes in companies of the suspect (or their family) can be sent to the FIUs of these countries.

3.3. Recommendations for identifying corruption schemes

These recommendations contain descriptions of the analytical techniques used to identify chains of corrupt income with the help of graphical analysis tools configured to work with a transaction database.

The recommendations developed to identify corruption chains will be examined in the context of this common situation: organization “A” (FSUE, Inc., Ltd, SC, the government contractor) takes part in a large number of transactions and the organization’s director, who also conducts a large number of transactions. The possible corruption chain must be established.

It would be prudent to use the following analysis algorithm.

Firstly, it must be established whether or not there is a chain of financial operations between an organization “A” and its director through several intermediaries. This can be done with the help of the “Find Path” function that can be found in most modern graphical
analysis tools (it finds the shortest path between two subjects). The name of this function was coined in the seventh version of Analyst-Notebook.

Before using this function the source subjects (organization “A” and its director) must be entered into the scheme, potential intermediaries and links must be specified in the request parameters, the direction of these links (money movements from an organization “A” to its director), and other possible variables (for example, narrow the time period: financial transactions conducted in a specific timeframe). Then select organization “A” and the director and use the “Find Path” tool. If the tool is powerful enough (this depends on myriad factors, including the length of the shortest path and the number of operations that need to be analyzed to identify it) and if the database contains the required transactions, the results should be displayed. The first step will have been completed.

It must be noted that this type of corruption chain is not particularly common. Nevertheless, this search method is much more effective than manually sifting through data looking for links.

Secondly, it would be useful to establish the director’s family ties (husband, wife, children, parents) and their organizations. If no financial links between an organization “A” and the directors are established, it would be advisable to include organizations in which the director and (or) their relatives own directly and any subsidiaries of these businesses.

Financial ties between the original organization and third parties are revealed much more frequently than links with the director.

If information about the director’s relatives is not available, the search can be conducted according to the following two criteria:
— two individuals with the same surname and registered address;
— two individuals with the same surname bound by an uncommon event (they founded a company together, participated in the same transaction, simultaneously reserved tickets on the same flight).

A search for the shortest path between the organization “A” and each subject should be conducted for each new potential participant and organization.

This approach becomes much less suitable when there is a significant number of additional players and organizations.

However, the laboriousness of this approach can be overcome by automating the process to establish family ties and configuring the
graphical analysis tool not only to work on the transaction database but also other information resources that can be used to establish any affiliation between two legal entities.

Ideally, the rule to identify the various types of affiliation and the shortest path search function should be combined with the automated classification component included in the BMRS package. In addition, it is important to note that analysts must be able to manually input various ties (including family ties).

3.4. Recommendations for conducting a comparative analysis of declared income and property of an individual with their financial transactions and other income information with the aim of identifying illegally obtained income.

One of the main aims of conducting financial investigations into possible corruption offenses is to identify the corruption ring. Unfortunately, this is not always possible for many reasons, including the fact that bribes are often given in cash. In this case, the following checks will be required:

— check that the assets (especially foreign assets) belonging to the Corrupt Official has been declared in the prescribed manner;
— check that the Corrupt Official’s transactions correspond to their declared income.

Practical experience in conducting financial investigations has proven that these checks must not only be applied to the Corrupt Official, but also their close relatives (spouses, children and parents).

These checks must be carried out in compliance with national legislation. The following is an example of how the first check can be carried out in accordance with Russian Federation Legislation.

as well as information about their spouse’s income, minors, property, property rights and liabilities.

Under the procedure established by law, this information (in abridged form) is placed on the official websites of the federal government bodies and the constituent entities of the Russian Federation.

Therefore, it is a relatively simple matter to check for inconsistencies in declared income and the actual assets for individuals who are obliged annually to declare the aforementioned information to the personnel department. When conducting this check, the date the asset was bought (received) and financial reporting year must both be taken into account. For example, if the asset in question is a flat, then information about its size or other flats belonging to the individual must be acquired for a comprehensive comparison. With the help of this information, it is possible to establish whether or not the asset was declared. If it was not, it could have been obtained illicitly.

If the asset is in the form of monetary funds received by the individual or their close relatives (spouses, minors), the comparison must be carried out in the following manner.

If the funds in question exceed the monetary income amount declared by the individual (once the salary from the main place of work has been deducted), there would be reasoned to suppose that the funds have not been declared. Otherwise, it would not be possible to establish the presence or absence of discrepancies.

If the suspected Corrupt Official is not a civil servant, conducting such a check into both the official and their close relatives would require written requests to the tax authorities (of the location the individuals are registered) to acquire information about income and property for the past couple of years. This will facilitate a more detailed analysis.

Recommendations on conducting the second check are illustrated by the following example.

**Input data:** A series of dubious financial transactions was uncovered during the course of a financial investigation. These transactions were payments for construction work under a government contract amounting to more than 1 billion rubles, a significant proportion of which the Contractor directed to off-the-book payment schemes. The Client’s manager which accepted and paid for the construction work was identified. In addition, a transaction made by the manager’s 75-year old aunty to purchase a flat out 30 million rubles was uncovered. The flat was paid for one month after the construction work was completed, and the final
payment had been made by a cash deposit to a bank account and a non-cash payment to the address of the person selling the flat.

A comparative analysis of the managers confirmed income, his relatives’ and the flat transaction must be conducted to reveal any potential discrepancies.

It is worth noting that conducting a detailed comparative analysis can sometimes be prohibitively time consuming. What is more, a precise analysis is only possible if a government monitoring system of individuals’ income and expenditures are present. Therefore, it is wise to conduct a rough analysis. Such analyses can still yield important results. For example, a sharp spike in expenditures (when purchasing the flat) compared to the confirmed income was detected, which leads to the belief that the individual received income from an illicit source.

The comparison must be carried out in the following manner:

— find out if the manager or their relatives has a stake in a business. If they do, the value of this asset must be ascertained (based on the company’s most recent annual tax report). If the value of these assets significantly exceeds the value of the flat, it’s likely that these individuals have legal income comparable with the cost of the flat. In this case, further analysis is not necessary;

— check if the manager or their relatives has any recent transactions associated with the receipt of credit, in particular, using a deposit to fulfill credit agreement obligations. Property is most frequently used as a deposit when issuing large loans to individuals. It is important to mention that in the Russian Federation, if the value of the property used as the deposit exceeds 3 million rubles, the deal must be monitored. Therefore, if any of these transactions is present prior to purchasing the flat and providing, they are comparable to the value of the flat. It is reasonable to assume that the flat was bought legally with a mortgage. In this case, further analysis is not necessary;

— establish the locations where the manager and their relatives were employed over the past couple of years. Evaluate their combined income over this time. If this value is significantly less than the cost of the flat, it may be surmised that the individuals have undeclared income.

Where necessary, a more in-depth analysis using tax authority information about individuals’ income and property may be conducted.
Part 4. Methodology of anti-corruption procedure of legal and regulating acts in the sphere of AML / CFT

4.1. Explanatory note

Under present conditions, the fight against corruption is one of the biggest challenges, not only for certain countries but for the entire global community. Corruption is a complex problem, permeating the legal sphere as well as the social. Various methods of anti-corruption examination, both general and specialized, are used to counter corruptogenicity.

The anti-corruption methodology of examination of regulatory acts in the sphere of anti-money laundering and combating financing terrorism is developed for the complex evaluation of the corruptogenicity of regulatory acts. It permits an examination of the system of regulatory acts under the scope of AML/CFT by providing an account of their interconnections and hierarchical structure, compared with methods that focus on separate regulatory acts.

The Methodology is based on the results of anti-corruption examination of regulatory acts of EAG member countries carried out on the basis established by the Regulation of the Government of the Russian Federation of February 26, 2010, No.96. Examination of regulatory acts was aimed at formation of the initial data to serve as the foundation for identifying factors of corruptogenicity specific to the legislation in AML/CFT sphere. The results of the examination summed up in a specially developed matrix permitted the formation of statistical data, based on which particular and systematic factors of corruptogenicity and corresponding spheres of corruption risks were identified, allowing further development of the Methodology.

The main algorithm of the Methodology consists of two continuous stages. The first stage comprises formation of the list of regulatory acts, which are then classified in accordance with particular spheres of regulation, establishing their interconnection with other regulatory acts both in terms of vertical hierarchy and horizontal correlation. The second stage comprises an analysis of regulatory acts to identify factors of corruptogenicity. Based on results, a special matrix is compiled that allows an evaluation of the predominance of certain corruptogenic factors. Moreover, particular regulation spheres are classified as particularly risky (corruption
risk zones) depending on the number of corruptogenicity factors identified. Based on the results obtained, an expert opinion is prepared that presents conclusions regarding the corruptogenicity of regulatory acts and the whole system of acts and corruption risk zones as well as making recommendations on the removal of identified corruptogenicity factors entailed in the regulatory acts.

As a result of the anti-corruption examination of regulatory acts of EAG member countries, factors influencing the system of legislation of EAG member countries were identified together with the relevant corruptogenicity factors.

The legislation of EAG member countries within the post-Soviet space clearly demonstrates such systemic factors as insufficiency of conceptual basis, imbalance of legislation in the AML/CFT domain and forced corruptogenicity due to similarity of their legal systems and principles of legal regulation. Taken together, these form a definite indication of the necessity to create an interstate coordination body in the sphere of anti-corruption in the CIS zone. One of the functions of such a regional anti-corruption structure could be the implementation of mutual evaluation in the area of application of anti-corruption measures. The developed Methodology could become the basis for the implementation of corruptogenicity evaluations within the legislation of CIS member countries.

Certain elements of the Methodology (in particular, systemic corruptogenicity factors such as imbalances within legislation) could be proposed as criteria for an evaluation of the efficiency of AML/CFT systems that are discussed under the auspices of FATF in the context of updating the evaluation methodology of the 4th round appraisal.

It is affirmed that the development of the Methodology has the potential to become an important step in overcoming legislative corruptogenicity factors in the sphere of actions aimed at countering the laundering of the financial proceeds from crime and the financing of terrorism within EAG member states.

4.2 General part

General part of the Methodology of the anti-corruption examination of regulatory acts as applied to combating money laundering and the financing of terrorism (hereinafter — the Methodology), clarifying its aims, principles and the concept of the evaluation of the corrupto-
genicity of legislation under the scope of AML/CFT. It also specifies the aims and objectives of evaluation as well as the evaluation subjects, basic terms and definitions.

### 4.2.1. Methodological aim

The Methodology aims at the identification and removal (prevention) of corruptogenicity factors within the regulatory acts of EAG member states under the scope of AML/CFT and corruption risk zones that create the conditions for and (or) increase the possibility of corruption activities in the area of the implementation of these regulatory acts, resulting in the creation of excessively wide interpretative limits of a law enforcement body or provides for a possibility of unreasonable exercise of exceptions to general rules, as well regulations that contain ambiguous, difficult to accomplish and (or) burdensome requirements to citizens and organizations which, in its turn, creates the conditions in which corruption may flourish.

The task of the Methodology is to ensure completeness, consistency and verifiability of the results of anti-corruption examination of regulatory acts within EAG member states under the scope of AML/CFT; to organize the scrutiny of the quality of anti-corruption examinations of regulatory acts; to harmonize lawmaking in the area of anti-corruption measures in EAG member states and the practical needs of law enforcement; to introduce particular proposals and recommendations aimed at the removal of corruptogenic factors relating to the regulatory acts of EAG member states and reduce corruption risk zones.

When using the Methodology, the following main principles of implementation of anti-corruption examination of the regulatory acts of EAG member states under the scope of AML/CFT is among the most appropriate:

– compulsory implementation of the anti-corruption examination of regulatory acts under the scope of AML/CFT;
– evaluation of a regulatory act in terms of its connection to other regulatory acts;
– objectivity, sufficiency and verifiability of the results of anti-corruption examination of regulatory acts;
– competence of subjects of evaluation of regulatory acts with regards to corruptogenicity;
Cooperation of state power institutions with civic society institutions while carrying out the anti-corruption examination of regulatory acts.

4.2.2. Concept of evaluation of corruptogenicity of AML / CFT legislation

Corruption permeates all areas of the political, economic and cultural daily life of people influencing the proper functioning of state and public institutions in a destructive way. The universal nature of corruption permits its existence in countries with differing social-economic conditions. In many such countries corruption has become systematic. The determinants of corruption comprise both social and legal spheres.

Overcoming corruption requires the taking of systematic measures that include the creation of legislation aimed at preventing the corrupt relations and activities of officials. Legal norms are to be created that leave no loopholes for their voluntary application, will facilitate management process and will not allow legally stipulated benefits to ensue from interaction with citizens and organizations.

Regulatory acts in public areas of the law (administrative, financial, customs) show the highest corruptogenicity potential when such acts provide for regulation of the type of interaction that occurs when officials act as agents and citizens and organizations as counteragents.

AML / CFT legislation exhibits a high corruptogenicity potential due to the high intensity of contacts between regulatory bodies and organizations performing operations involving money or other property. Moreover, such legislation regulates the sphere of social relations connected with the countering of criminal interests.

In this regard, the implementation of anti-corruption examinations of the legislative acts of EAG member states on the basis of the developed Methodology could become an important element in the carrying out of mutual evaluations and the taking of further measures aimed at bringing national AML / CFT systems into compliance with generally accepted international standards.

Factors that negatively influence the corruptogenicity of legislation of EAG member states in the AML / CFT context included insufficiency of development of conceptual and terminological mechanisms; discretion and indistinctness of the competency of major...
regulators; inconsistencies between different regulatory acts, including regulatory acts having been differing from legal effects; loopholes and referential nature; differences in the amount of prohibitions, restrictions, duties and authorizations of officials carrying out duties with the context of AML / CFT, and other factors.

The major concept of the Methodology consists in the development of an efficient algorithm that will permit the implementation of anti-corruption examination of legislation in the sphere of combating money laundering and the financing of terrorism in EAG member states, defining the major elements in the evaluation work of experts. The object of such examination is not separate regulatory acts but legislation in this sphere of activity as a whole.

The theoretical basis of anti-corruption examination of legislation in the context of AML / CFT includes:
— basic rules of implementation of anti-corruption examination of legislation in AML / CFT context;
— typology of corruptogenicity factors in legislation under the scope of AML / CFT.
— moreover, the following basic examination procedures were algorithmized:
  — general evaluation of regulatory acts;
  — special evaluation of regulatory acts;
  — development of corruptogenicity factor’s matrix;
  — development of opinion on the results of anti-corruption examination.

The implementation of methodological recommendations on anti-corruption analysis of legislation under the scope of AML / CFT will promote improvement of the quality of such legislation and regulatory acts and the norms that underpin this legislation, as well as removal of corruptogenicity risks in activities involving the social relations of participants in AML / CFT.

4.2.3. Terms and definitions

For the purpose of this Methodology, the following terms and definitions are used:

Anti-corruption examination of regulatory acts — activity of specialists on identification and description of corruptogenicity factors and corruption risk zones relating to existing legal acts; development
of recommendations aimed at removal or restriction of the influence of such factors.

**Corruptogenicity of the regulatory act** — opportunity that exists within legal norms to promote corrupt activity and (or) decisions taken during the process of applying regulatory acts that include such norms;

**Corruptogenicity factor** — conditions creating opportunities for corruption; provision of regulatory acts that establish unreasonably wide limits of judgment of a law enforcement body or provide for a possibility of unreasonable application of exceptions to general rules, as well regulations that contain ambiguous, difficult to accomplish and (or) heavy requirements to citizens and organizations which, in its turn, creates conditions for corruption;

**Corruption risk zone** — sphere of relations in the AML/CFT context that contains the most numerous and systematic corruptogenicity factors;

**Subjects of evaluation and anti-corruption analysis of regulatory acts in terms of their corruptogenicity** — international organizations, state power institutions (their legal bodies), scientific, research, educational and other expert institutions specializing in the sphere of the legal countering of corruption or AML/CFT.

### 4.2.4. Object of evaluation

In accordance with this Methodology, the object of anti-corruption examination is legislation in the AML/CFT context in EAG member states.

Risk zones in legislation in the AML/CFT context subject to evaluation included:
- law enforcement and criminal-procedural measures in the AML/CFT context;
- regulation of PF RF activity;
- regulation of the activities of organizations that are obliged to take measures for the purpose of AML/CFT (including organization of internal controls);
- supervision and control (including registration, licensing and penalties for violation of legislation in the AML/CFT context);
- inter-departmental cooperation.
Generally, any legislation includes a whole array of regulatory acts adopted by the corresponding authorized state power bodies in EAG member states: including laws, decrees of high-level state officials, regulations of the supreme body of executive power, regulatory acts of the corresponding executive power bodies and local regulatory acts.

For the purposes of anti-corruption examination, the legislation of EAG member states in the AML/CFT context may be structured as follows:

– basic law on AML/CFT;
– acts establishing legal responsibility for violations of the legislation aimed at countering the laundering of the financial proceeds of crime and the financing of terrorism (including criminal, administrative, civil and other penalties for violation of AML/CFT legislation);
– acts establishing powers of bodies competent in the AML/CFT sphere;
– act regulating the organization of internal control and audit functions in the AML/CFT context (including issues of identification of clients; development, approval and coordination of internal control rules; identification of operations subject to internal control; submission of data to bodies competent in the AML/CFT area; training and improvement of qualifications of special officials; suspension (freezing) of assets;
– acts establishing the powers of supervisory bodies, the procedures of supervision and control, as well as the procedures of imposing sanctions in banking sector.

This structure is exemplary in nature and serves as convenient tool for anti-corruption examination. If characteristics of national legislation provide for other regulatory acts in the AML/CFT context, these shall also be subject to anti-corruption examination in accordance with the Methodology.

The implementation of anti-corruption examination should consider how to account for principles of the hierarchical system of legislation as well as the rules of normative correlation between the law and certain types of subordinated regulatory acts in accordance with the following legal formulas:

“under and pursuant to law”. This formula makes clear the position of subordinate regulatory acts in relation to the law and determines that their adoption is based on the law.
The law shall contain a reference to the necessity of adopting a certain subordinate regulatory act by the corresponding lawmaking body, or direct reference to specification of public relations stipulated by the law. Subordinate regulatory act adopted within the competence by corresponding lawmaking body, or instruction to lawmaking bodies to adopt subordinate regulatory acts on specific issues within a specific time frame. While observing the formula “under and pursuant to law”, a subordinate regulatory act that specifies and develops the law shall not go beyond the framework established by the law or stand in contradiction to the law; “must not conflict with the law”. This formula indicates the position of a subordinate regulatory act in relation to the law with which it must not come into conflict and establishes an opportunity to regulate relations at the subordinate level in the absence of the law. A subordinate regulatory act is adopted only on issues that are within the competence of the corresponding lawmaking body; “adopted within the powers granted by the law”. This legal formula provides for a certain degree of independence of bodies of executive power with regards to issues of their own competence and the possibility of issuing regulatory acts in the sphere of relations not currently regulated by the law; “must comply with the law”. This formula shows that either a subordinate regulatory act was issued in accordance with a certain law, or the issue was regulated in accordance with the law at the subordinate level.

Evaluation of corruptogenicity of the whole legislation within the scope of AML/CFT shall be carried out within the frameworks of each separate anti-corruption examination.

4.2.5. Subject of assessment

The assessment of the regulations of EAG member states in the sphere of countering money laundering and financing of terrorism represents the estimation of regulations with regard to their conformity to anti-corruption requirements, with a view to revealing the corruptogenic factors (norms, defects) which can conduce to corrupt practices at the level of law enforcement, and develop recommendations as to their removal (elimination).
The subject of the assessment of the systems of regulation in EAG member states in the area of countering money-laundering and the financing of terrorism is:

— the subject of legal regulation of the legal acts in the stated sphere;
— the tasks and objectives of the regulation;
— the form of the regulation;
— the competence of a law-making body adopting that regulation;
— the consequences of application of the regulation; calculation of potential damage that may be caused as a consequence of the application of the regulation;
— lacunae in legal regulation;
— conformity of the regulation to the methodology requirements of legal drafting.

According to results of the assessment of the regulations system in the sphere of countering money laundering and financing of terrorism, certain recommendations about removal (elimination) of corruptogenic factors (norms, defects) shall be developed.

4.2.6. Assessment Subjects

The development of issues of anti-corruption examination and its introduction into the activities of international organizations, public authorities and public organizations should be carefully thought over. Thus, it is necessary to give special attention to a scientific-legal analysis of the competence of the subjects of anti-corruption examination of regulation’s drafts that will allow the effective application of this legal anti-corruption instrument.

Subjects of anti-corruption examination are understood as the authorized institutions of the central and local government, and also the institutions of civil society, organizations and individuals representing themselves as experts in the field of legal anti-corruption measures and in the fields of regulation subject to anti-corruption examination (in this case, in the area of countering money laundering and the financing of terrorism).

Anti-corruption examination can be considered as a legal technology, a procedure of using specific technical and legal methods aimed at revealing the presence of corruptogenic factors and the formulation of a set of recommendations concerning their removal from texts of regulations. In this context, it is a universal remedy. At the same time,
concerning the legislation in the sphere of the countering of money laundering and financing of terrorism, anti-corruption examination represents itself as a special instrument of interest to the following subjects:

— international (global and regional) organizations (their bodies) performing an examination of national legislation, including legislation in the sphere of countering money laundering and the financing of terrorism in EAG member states;
— judicial authorities of EAG member states (ministries of justice of EAG member states and other departments in the justice sphere);
— public prosecutor offices of EAG member states (divisions and bodies performing supervision of regulation’s quality);
— specialized in scientific, research, educational and other expert organizations in the sphere of countering money laundering and the financing of terrorism, involved in performing an anti-corruption examination of the legislation in the sphere of countering money laundering and the financing of terrorism.

All subjects of the analysis and estimation of the corruptogenicity of anti-corruption regulations can be divided into four groups:

— international organizations;
— uniform supranational specialized in anti-corruption bodies;
— state bodies (their legal services);
— specialized in scientific, research, educational and other expert organizations.

It should be noted that the increase in efficiency and integrated approach of performing of anti-corruption examination will be promoted by the organization of interaction of the specified subjects performing the anti-corruption examination.

4.3. Special Part

This section of the Methodology is central for understanding of procedures of anti-corruption examination of regulations of EAG member states in the area of countering money-laundering and the financing of terrorism. It reveals key instruments of the Methodology: key rules of performing of analysis (examination) of regulation’s corruptogenicity; the typology of corruptogenic factors. The basic stages of expert procedure are described. Requirements to preparation of the
conclusion according to the results of anti-corruption examination are defined.

4.3.1. Key rules of performing the anti-corruption examination of regulations in the area of countering money laundering and the financing of terrorism

Anti-corruption examination, as well as any other kind of activity, assumes the application of a certain set of rules promote the performance of the purpose to be achieved. They involve:

1. Uniformity of performing the examination of regulation corruptogenicity with each structural unit (norm) and recording of its results (it is attained at the cost of the analysis of each regulation and its separate norms in the structure and sequence of operations provided by the Methodology).

   Recording of the results of the examination shall be made while considering the basic provisions subject to be included into the conclusion according to the results of the analysis of regulations concerning the counteraction of the laundering of the financial proceeds of crime and financing of terrorism.

2. It provisions of the regulation shall be analyzed for the presence of all factors provided by typology of corruptogenic factors.

   For performance of this rule, the following measures are performed:

   — each structural unit (norm) of the regulation is analyzed for the presence in its text of corruptogenic factors and observance of anti-corruption requirements provided by the Methodology concerning other norms of this regulation and other regulations relating to the area of countering money-laundering and the financing of terrorism;

   — each revealed corruptogenic factor provided by this Methodology is compared with all provisions of the regulation for the presence of corruptogenic factors;

   — all corruptogenic factors revealed in this norm are marked according to the results of examination concerning each norm of the analyzed regulation.

3. The corruptogenic factor is correlated with the corrupt practices based on it, creating favorable conditions for anti-corruption actions (within the framework of performance of this rule, the expert shall
estimate what corrupt practices can appear as a consequence of the revealed corruptogenic factor).

4. **Corruptogenic factors revealed during the regulation examination are marked in the conclusion according to the results of the analysis of regulations in the sphere of countering money laundering and the financing of terrorism, in which some recommendations are offered about the elimination of corruptogenic factors aimed at increasing the efficiency of legal influence on public relations and law enforcement.**

Recommendations concerning the elimination of corruptogenic factors are included into the conclusion about the necessity of removal or changing of norms containing them, making relevant amendments and (or) additions into the regulation, cancellation of the regulation, its abrogation or completion.

5. **Results of anti-corruption examination of regulations shall be well-founded, impartial and auditable.**

6. **Examination of regulations is made with the use of the corruptogenic factor's matrix which allows to reveal zones of corruption risk.** The matrix is filled with subjects of anti-corruption examination and promotes to the increase of efficiency of corruptogenicity estimation of legislations about countering money-laundering and the financing of terrorism and consistency of such activity.

7. **Competence of estimation subjects and anti-corruption analysis of regulations.** Application of the Methodology requires the mastering of specific skills of expert work, wide experience of practical work and relevant training. Subjects of the examination and anti-corruption analysis of regulations shall be experts possessing legal knowledge in various areas of law, in particular, knowledge of the legislation concerning the countering of money laundering and financing of terrorism of the country in which relation the examination is made. For the purposes of achieving a consistent picture of the realization of regulations in the area of countering money-laundering and the financing of terrorism, it is recommended to involve experts having special and practical knowledge.

For detailed studying of the current application practice of legislation in the sphere of countering money-laundering and the financing of terrorism the expert is recommended to refer to mass media; the Internet; consultations in the state bodies; public and self-regulating organizations; sociological researches in the area of corruption, specialized publications; precedents; results of applications analysis and
complaints made to the authority who developed the regulation concerned.

4.3.2. The typology of corruptogenic factors

One of the main tools used by experts during the anti-corruption examination is the typology of corruptogenic factors. This provides a citation of corruptogenic factors, a description of their content and recommendations for their detection and elimination. It should be noted that, as the concept of anti-corruption examination advances, the typology of corruptogenic factors tends towards a constant expansion.

In order to improve the use of the typology of corruptogenic factors, the experts should monitor its changes and follow the publication of frameworks and methods for the analysis of propensity of regulations to corruption as well as the incipiency of new scientific developments in this domain. They should attend scientific conferences, anti-corruption training sessions and seminars devoted to the analysis of the propensity of legislation for corruption.

Today, the typical corruptogenic factors that are contained within the legislation on AML/CFT can be divided into four groups:

— corruptogenic factors that are the consequence of unbalanced legislation;
— corruptogenic factors ensuing from the establishment of the competencies of public agencies and the powers of its officials;
— corruptogenic factors caused by legal lacunae;
— manifestations of legal-linguistic uncertainty.

While conducting the anti-corruption examination, the examiner assesses the auditable regulations for the presence of corruptogenic factors provided by the typology below.

When using the described typology, the expert follows the rules for conducting an analysis (examination) of the propensity of regulations to corruption set forth in this Methodology.

In order to perform a comprehensive evaluation of regulations within the AML/CFT domain and to identify the most significant corruptogenic factors, all corruptogenic factors relating to legislation on AML/CFT is divided (classified) into two groups: system and private.
Factors recognized as a **systemic** effect the entire AML/CFT system integrally, in particular, among these are the factors that are transmitted from the acts of higher-level to the acts of lower level (the so-called imposed propensity for corruption, insufficiency of the conceptual apparatus, etc.).

To carry out the anti-corruption examination of legislation of AML/CFT domain, the following factors are identified as systemic:

— imposed propensity for corruption;
— normative conflicts;
— violation of the balance of interests;
— excessive freedom of sub-legislative rule making;
— insufficiency of the conceptual apparatus.

Also, private factors may be identified as systemic if the results of analysis of the entire system of regulations of AML/CFT domain revealed its significant predominance.

Factors that are recognized as **private** do not affect the legislative system of AML/CFT integrally, and their part in the total number of corruptogenic factors is insignificant (less than 25 percent of the total number of revealed corruptogenic factors).

While assessing the legislation of AML/CFT domain of an EAG member stated the expert follows the following typology of corruptogenic factors.

**I. Corruptogenic factors coming from the unbalanced legislation**

Imposed propensity for corruption — the propensity for corruption due to the presence of corruptogenic factors in the regulation with higher legal force.

Normative conflicts — conflicts, including internal, between the rules that create for public authorities (their officials) the possibility of making the arbitrary choice of rules to be applied in specific case.

Violation of the balance of interests — the presence of the unjustified prevailing of interests of individual groups and individuals, as well as the impairment of the rights of other individuals and groups, within the regulation.

**II. Corruptogenic factors ensuing from the establishment of competence of public agencies and powers of its officials**

Spread of discretionary powers — the absence or uncertainty of the terms, conditions or grounds for managerial decision-making,
the presence of overlapping powers of public authorities (their officials).

Determination of jurisdiction by the formulas “may”, “is able” — the facultative establishment of public authorities or local authorities (their officials) capability to commit the actions with respect to citizens and organizations.

Selective changes in the scope of rights and responsibilities — the possibility of unreasonably establishing exceptions to the general order for individuals and organizations at the discretion of public authorities or local authorities (their officials);

Excessive freedom of sub-legislative rule making — the presence of blanket and reference rules, leading to the adoption of subordinate acts that invade the competence of public authority, which passed the original regulation.

Adoption of regulation beyond competence — the violation of the competence of public authorities (their officials) when adopting regulations.

III. Corruptogenic factors coming from the presence of legal gaps

Absence or incompleteness of administrative procedures — lack of order of making specific actions by public authorities (their officials) or of elements of this order.

Absence of prohibitions and restrictions for public authorities (their officials) — lack of preventive anti-corruption rules governing the status of public officials in corruptogenic spheres.

Absence of measures of responsibility of public authorities (their officials) — lack of rules on legal responsibility of public officials, as well as rules on review of their actions (or inaction) and decisions.

IV. Manifestations of legal-linguistic uncertainty

Insufficiency of the conceptual apparatus — lack or insufficient certainty in regulations of the terms that are fundamental to the legal regulation of the AML/CFT.

Use of unconsolidated terms. Those terms are unconsolidated whose content is not obvious to the indefinite range of persons, to which the regulation is addressed, and, which are not used in current legislation.

Use of ambiguous terms. These terms have a double meaning, which can be defined depending on the specific situation. For example, the term “coercion.”
Use of the evaluative categories. These defects can lead to manifestations of corruption, as they enlarge the discretionary powers of public authorities (their officials). Of particular danger are uncertain provisions imposing legal obligations and responsibilities.

4.3.3. Overall assessment of the state legislation within the AML / CFT domain

1. When conducting an overall assessment of the state legislation within the AML / CFT domain, above all it is necessary to define the list of regulations and to make their classification in the following areas of regulation:
   — law enforcement and criminal procedure measures within the AML / CFT domain;
   — regulation of the PFRF activity;
   — regulation of activities of organizations that are obliged to take measures for AML / CFT (including the organization of internal control);
   — supervision and monitoring (including registration, licensing and penalties for violation of legislation on AML / CFT);
   — interagency cooperation.

2. The regulations that are necessary to build a hierarchy based on their validity should be distributed among the areas mentioned. At the same time, the first regulation in this list is the framework law on AML / CFT. It is followed by other legal acts on these areas. Following the laws, the subordinate laws are presented according to their validity.

The presence of hierarchies in the list of regulations to be evaluated is necessary to identify the cases of “imposed propensity for corruption” when corruptogenic factors contained in regulations of higher legal force are transmitted to the related regulations.

Overall assessing of the regulation will draw the attention of the subject of anti-corruption examination to the conceptual disadvantages of the regulation, pointing to a possible propensity for corruption.

3. The presence of corruptogenic rules in a regulation is determined by:
   lack of legal grounds, which are necessary for the issuance of a regulation in accordance with the legislation.
   the overall groundlessness of a passed regulation.
discrepancies in the regulation of national anti-corruption standards (if any).
non-compliance with the hierarchy of regulations and their coherence with each other.
adoption of a regulation in execution of a repealed regulation of higher legal force.
adoption of a regulation by an incompetent agency, or its publication with the excess of powers, provided to that agency.
non-compliance with the rules of legal technique.
vViolation of the order of adoption of a legal act.

4.3.4. Special assessment of regulatory legal acts

After the regulatory legal act has been carried out it is necessary to assess regulatory legal acts on their merits. The following assessment procedure is recommended.

1. Identification of the corruptogenic elements, related to legislation imbalance.

1.1. Diagnostics of “imposed corruptogenicity”. In case there are any corruptogenic elements in the regulatory legal act of a higher legal effect, such as a law, then it is necessary that an expert assessed the possibility of the “imposed corruptogenicity”. In order to carry out the assessment, the expert shall identify whether a law within the AML/CFT framework contains any blanket or reference rules, which confers a set of questions onto a sub-legislative regulation. Herewith, it is necessary to assess all bylaws relating to the regulatory legal acts in order to identify whether the bylaws contain the corruptogenic elements, provided with the regulations of a higher legal effect. As often as not there appears a situation in which a departmental regulatory legal act is adopted based on the corruptogenic provisions of law and automatically reproduces the corruptogenic elements contained therein.

1.2. Identification of the regulatory conflicts. The regulatory conflicts are characterized as the contradictions between different regulatory legal acts and as the contradictions of the individual legal regulations within one regulatory legal act. The existence of regulatory conflicts provides officials with the possibility to choose themselves a regulation, which is a subject to implementation in a specific case,
which assists corrupt practices. At this stage of the assessment of the existence of the corruptogenicity at the level of the regulatory legal act, the expert shall apply the system’s analysis method as the reason for this is the necessity of accountability of the system’s constraints among the individual standards and provisions within the regulatory legal act being analyzed.

In order to identify the conflict, the expert shall analyze all the regulatory legal acts directly related to the act being examined; this requires a high degree of qualification. In cases where a conflict is identified, it is necessary to identify whether there exist rules for choosing a standard as having priority. In cases where there are no such rules, then the corruptogenic element is in evidence.

Any type of conflict is indicative of the corruptogenic element, which is under examination, if the possibility of its resolution is subject to alternative interpretations by the public authority agencies. There are several types of conflicts — hierarchical (between a law and a bylaw regulatory legal act), temporary (when the standards are mistiming), substantial and others.

1.3. Verification of compliance of balance of interests (absence of unfounded precedence of interests of the individual groups and entities, as well as impairment of a right of other groups and entities in the regulatory legal act).

One of the broad manifestations of the regulatory legal act’s corruptogenicity is an unbalancing of interests, when its adoption results in benefits to only one group of the holders of a right (large and medium-sized businesses, a business class, insurance enterprises, etc.). In such cases, there is a corruptogenic element, which is the unbalancing of interests, in the content of the regulatory legal act.

Each regulatory legal act, including bylaws, is the bearer of the interests (of common, group and individual character). When assessing a bylaw it is important to identify which specific interests the legal regulatory act benefits. In case of impairment of the specific individual or common right, it is necessary to identify whether the public interest criterion (common interest which is provided under the Constitution, laws, international agreements) is met. Herewith, it is necessary to identify entities and structures, which are potentially able to turn it to their advantage if the legal regulatory act is adopted, as well as thosenwhose rights will be impaired if the legal regulatory act is adopted. The information about specified entities may appear
directly from statutory notes of the regulatory legal act as well as from the data contained in its foundation. In case of such analysis not having any demonstrable effects, it is useful to identify such entities with the simulation of corrupt practices.

In cases where the developers of the legal regulatory act refer to the public interest, it is necessary to assess the possibilities of maintaining such interest and compliance of the public interest with the chosen means of its achievement.

It is useful to follow the balance of interests of the subjects of the social relations which are under the regulation of a bylaw legal regulatory act, in order to identify the specified disadvantage when preparing such act. Herewith, it is necessary to take into account the main principles of the industrial regulation.

To avoid the unbalancing of interests it is useful to ensure compliance of the aims of adoption of the bylaw legal regulatory act with the relevant provisions of the legal regulatory act of the higher legal effect which is a basis for the bylaw legal regulatory act adoption.

An unbalancing of interests at the stage of implementation of the legal regulatory acts can be identified with the analysis of the law enforcement practice, including judicial practices relating to the legal regulatory acts, which are under examination, within the process of the advance information method and sociologic method implementation.

2. Verification of validity of identification of public agencies’ capacities and their officials’ authorities. As a rule, corruptogenic elements of the present group are related to the existence of public agencies (officials) authorities in the legal regulatory acts in the field of AML/CFT that can be used at one’s sole discretion.

2.1. Assessment of the extent of discretionary authorities.

Any authoritative action entails a specific portion of the discretion of the agencies and officials who carry it out. This provides the necessary extent of independence when making one decision or another. Along with this, the extent of such independence cannot be total, as it will inevitably lead to be unrestricted decision-making.

Unfounded extension of the discretion of authorities is an element of corruptogenicity. The expert can diagnose the extension of the discretion of authorities with an analysis of the following main elements of the management activity.
A) Basis for making the decisions. As a rule, an official has a possibility to choose from at least two decision variants – positive (permission) and negative (refusal). Corruptogenicity occurs in cases where the legal regulatory act provides several possible variants of behavior without establishing clear grounds for making one decision or another.

B) Terms of decision making. The legal regulatory acts shall determine the terms of implementation of one or another administrative action or procedure. The possibility of the corrupt practice’s increases with the extension of terms, or with the establishment of an extended time period for carry out single acts (make decisions), as well as with absences of such terms.

C) Duplication of authorities. Corruptogenicity results from the establishment of duplications in the number of the state bodies and officials. As a rule, the existence of duplicative authorities is a result of the equivocal distribution of powers of the supervising and regulatory agencies.

2.2 Identification of the corruptogenic element “distribution of power with the formulae “has the right to”, “can”.

In many legal regulatory acts the power of the government agency (official) is distributed with the formulae “has the right to” or “may”, when implemented by various types of powers (permission, control, etc.). According to the legal theory, the rights and responsibilities of the government agency are inseparably associated and consequently, from powers. The separation of rights and liabilities within the legal regulatory acts creates an illusion of the possibility to implement powers as rights. Herewith, the implementation of such “rights” depend on the existence of improper benefits.

2.3 Identification of the possibility of the selective change of the extent of rights and responsibilities — unfounded establishment of the exceptions from the common order for the citizens and organizations at the discretion of the agency of State power or local government bodies (and their officials). The legal regulatory acts can provide the restrictions for citizens and the entities, as well as create exceptions from the common order and resulting privileges. Such changes of the extension of the rights of the entities lead to corruptogenicity in cases where they are implemented solely at the discretion of the officials and not based on the decision-making terms, which are established in the legal regulatory acts.
In order to identify such corruptogenic elements, the expert shall pay attention to the verification of the possibly unfounded establishment of the exceptions from the common order for the citizens and the entities made at the discretion of the agency of State power or local government bodies (and their officials). As often as not, the law provides citizens and organizations the right of independent choice in the means or terms under which an activity is carried out, in the absence of clear regulation. This is a way to hide the discretionary authorities of the officials.

2.4. Identification of the corruptogenic element “an excessive freedom of sub-legislative rule making”.

The specified corruptogenic element appears in sub-legislative regulation of issues, which provides the Necessity Of Their Resolution At Law level. It is necessary that the frameworks within which such rule-making takes place, and its main terms, are subject to legal regulation. Otherwise, fewer transparent orders of sub-legislative rule making may lead to the emergence of corrupt practices. Such acts often conflict with the law. There are corruptogenic standards among their provisions.

In order to identify such corruptogenic elements, the expert shall verify legal regulatory bylaw acts for corruptogenicity, without limitation to the text of the legal regulatory act being examined. It is also should be noted, that the legislative act as well as a bylaw legal regulatory act can provide wide possibilities for local rule-making. This bears witness to the fact that the government agency does not implement the regulating function. The legislative act may encourage the legalization of virtually applied corruptogenic schemes by leaving such gaps for independent implementation by other bearers of the right. The reference and blanket rules are indicators of the existence of the corruptogenic element in the text of the legal regulatory act.

2.5. Detection of Existence of Corruptogenic Factors in «Adoption of Regulatory Legal Acts beyond the Scope of Authority».

The activity of any governing institution should be based on the scope of authority of this institution. Such a body has no right to run beyond its limits being indicated in the Statutory Act. Violations of the established scope of authority could be expressed by:

— adoption of the sub-statutory regulatory legal act, which regulates issues being subject to the legislative act, if the deputation of authority isn’t provided;
— adoption of the regulatory legal act, which regulates issues being subject to regulation by the regulatory legal acts of other authorities;
— adoption of the extra-legal sub-statutory regulatory act;
— adoption of the sub-statutory regulatory legal act without compulsory agreement of any other governing institution;
— issuing the unilateral institutional regulatory legal act instead of the participatory one; adoption of the regulatory legal act by the structural subdivision or territorial form of executive government;
— signing the sub-statutory regulatory legal act by any person except the executive (or his/her deputy).

To detect such a corruptogenic factor, the expert should analyze the Statutory Act, which determines the scope of authority for the institution having adopted the regulatory legal act (law, regulation concerning a body in some established area). For this it is necessary to find the extension of non-correspondence between the adoption of a regulatory legal act and the institution’s scope of authority.

It is reasonable to conduct the audit of defining the scope of authority of the governing institutions and officials using the functional-analytic approach.


3.1. Detection of Absence or Incompleteness of Administrative Procedures.

When there is no clear order in which certain activities and administrative procedures are performed, the propensity for corruption is higher. The administrative procedures should include the terms and sequences necessary to perform the administrative actions, which are the scope for decision making, providing and using any information, considering any application of citizens and organizations, controlling, obtaining the permits, etc.

To exercise the rights of the government employees within the strictly defined administrative procedures, which include the terms, conditions, and grounds for administrative actions, the situation of establishment of the administrative procedures by law is ideal. In addition, the situation of their approving at the sub-legislative level is allowed.
If there is no such a procedure, or it is incomplete, the order for exercising the governing institution and official’s scope of authority becomes uncertain. Such a situation is caused of malversations. In such a case, we can talk about such a corruptogenic factor as “absence or incompleteness of administrative procedures”.

3.2. Detection of Absence of Prohibitions and Restrictions for Governing Institutions (Their Officials).

As a rule, the prohibitions, restrictions, responsibilities and permits are focused on the prevention of corruption and a specification of the legal status of government employees defined by the legislative acts on state service. Usually, government employees are subject to stricter anti-corruption prohibitions, restrictions, responsibilities and permits than employees of the National Bank (e.g., in terms of arrangement of conflict of interests).

To detect the above corruptogenic factor, the expert should estimate the correspondence between the indicated prohibitions, restrictions, responsibilities, permits and actual authorities.

3.3. Detection of the Existence of Corruptogenic Factors “Absence of Penalties for Government Authorities (Their Officials)”.

The responsibility of the authority’s legal representatives must be an inherent part of their legal status. With that being said, the regulations concerning the responsibilities of public officers are omitted in many legislative acts. At that, the general formulae are used, e.g., “he/she takes responsibility according to the procedure provided for by the legislation”. However, as a rule, such a formula doesn’t correspond to any certain provisions of law, which establish such a responsibility. Also, in some cases, this corruptogenic factor is accompanied by an impossibility to lodge an appeal relating to the official’s action (or failure to act).

The penalties must correspond to the official’s authority and provide adequate prohibitions and restrictions.

To define the above correspondence, the capability of above measures to influence the negative motivation of the officer’s activity and increase the risk of his/her corruption behavior should be specified. If any regulatory legal act includes a formula establishing the officers’ responsibility, this must correspond to certain articles of the Criminal Code, Code of Administrative Violations, or other laws (e.g., norms of the law concerning the state service).

The factors of for legal and linguistic uncertainty are the most commonly encountered in the AML/CFT area. To detect them, the expert should evaluate the legal and technical qualities of the regulatory legal act.

Such an evaluation should be performed using the following procedures.

Detection of notions and terminology of the legislation in the AML/CFT area. The expert should evaluate omissions of insufficient certainty of the legally important terms and notions.

Review of the regulatory legal acts for unconventional terms. Terms that are not used in the legislation, in effect, and which are uncertain by their content for any number of unspecified persons being addressees of the regulatory legal act, are recognized to be unconventional terms.

4.3. Detection of ambiguity. Such terms are ambiguous, and their meaning depends on their application in a particular situation. For example, such a term as “coercion”.

4.4. Detection of categories of discretionary character. Their usage leads to corrupt practices, since it increases the government authorities’ (their officials) discretionary powers. The uncertain provisions imposing the legal obligations and responsibilities are the most dangerous.

5. Determination of Possible Corrupt Practices Based on Corruptogenic Factors Detected in Regulatory Legal Acts.

The actions for determination of the possible corrupt practices based on corruptogenic factors being detected in the regulatory legal act should be optional. There significance consists in capability to improve the results of analysis conducted by indicating the certain corrupt practices, which could result in corruptogenic factors in the text of regulatory legal act. The actions under consideration should be performed using the extrapolation method.

Currently, the analytic methodologies for corrupt practices based on imperfection of legislation are not widely used. That being said, the expert’s experience in the area of the possible application of the legal act analyzed could help to define the basis for such practices.
4.3.5. Preparation of Corruptogenic Factors Matrix

Having completed the analysis of the regulatory legal acts for their propensity for corruption, the matrix allowing estimating the domination of the corruptogenic factors is formed. Also, the matrix is necessary to form the statistic information concerning the number of corruptogenic factors in the whole system of the regulatory legal acts, taking into account their classification by respective areas of regulation.

The Corruptogenic Factors Matrix should be built using a form being indicated in Annex 5 and reflect the number of corruptogenic factors:
— by separate regulatory legal acts;
— by areas of regulation;
— on the basis of classification of corruptogenic factors (systemic and individual).

The building of the Corruptogenic Factors Matrix allows us to define:
— general number of regulatory legal acts, which were subject to anti-corruption expertise;
— general number of detected corruptogenic factors;
— domination of corruptogenic factors;
— areas of corruption risk.

Comparison of the Corruptogenic Factors Matrixes by separate member states of the EAG will allow the performance of comparative analysis of propensity for corruption of the legislations in the AML / CFT area and the detecting of corruptogenic factors characteristic to the regional AML / CFT regulatory management system.

4.3.6. Revelation of areas of corruption risk

During the assessment, the examiner should determine whether the areas of corruption risk exist. To do this, he should analyze the perceived system and private corruptogenic factors in the context of areas listed in the Methodology, using a matrix of corruptogenic factors.

If, in respect of any of these areas, it is possible to make a conclusion of dominance of systematic corruptogenic factors, or the part of perceived corruptogenic factors in this area is more than 25 percent
of the total number of perceived corruptogenic factors, this area is recognized as an area of corruption risk.

4.3.7. Preparation of experts’ report

The experts’ report on the results of examination of regulation of AML/CFT domain is the resulting part of the anti-corruption examination procedure.

The experts’ report is prepared by drawing up descriptive and tabular parts with obligatory coverage of the following positions on all regulations, in which the corruptogenic factors were observed:

— requisites of document;
— name of the regulation;
— type of the regulation;
— list of rules, in which corruptogenic factors were found;
— description of corruptogenic factors found in the rules;
— conclusions on the manifestation of systematic and private corruptogenic factors, which are presented based on the statistics in the matrix;
— recommendations for the elimination of perceived corruptogenic factors and elimination (correction) of the rules comprising them;
— indication of the presence of provisions that could reduce the risk of corrupt practices in this regulation, and recommendations for their inclusion;
— conclusion on the evaluation of the systematic or regulatory propensity for corruption in general;
— date and signature of the expert.

An experts’ report should include formulated conclusions about individual acts of propensity for corruption, manifestation of corruption risk areas as well as recommendations concerning the propensity for corruption of AML/CFT system in general. In addition, recommendations to reduce the propensity for corruption are made, which must be local (on individual regulations) and system (in respect of the legal, institutional and organizational aspects of the AML/CFT system).

Propensity for corruption of AML/CFT system could be assessed on a five-point scale with consideration of the following:
Grade 5 — low degree of propensity for corruption (only private corruptogenic factors have been diagnosed; however the part of regulations in which they are identified does not exceed 10 percent of the total number of regulations being assessed).

Grade 4 — slight degree of propensity for corruption (only private corruptogenic factors have been diagnosed; however the part of regulations in which they are identified does not exceed 20 percent of the total number of regulations being assessed).

Grade 3 — moderate degree of propensity for corruption (private and systemic corruptogenic factors have been diagnosed; however, the part of regulations in which they are identified does not exceed 10 percent of the total number of regulations being assessed).

Grade 2 — increased degree of propensity for corruption (private and system corruptogenic factors have been diagnosed; corruption risk areas have been perceived; however the part of regulations in which they are identified does not exceed 50 percent of the total number of regulations being assessed).

Grade 1 — high degree of propensity for corruption (private and system corruptogenic factors have been diagnosed; corruption risk areas have been perceived; however the part of regulations in which they are identified exceeds 50 percent of the total number of regulations being assessed).
Appendixes
Appendix 1.

Generalized corruption scheme for an organization official illegally obtaining income by abusing their access to a company’s assets
Generalized financial scheme for obtaining corrupt income by officials empowered to significantly impact activity of other parties

Decision making body

Government authority (executive, legislative, judicial), international organization

Possible recipients of corrupt income

CORRUPT OFFICIAL
(performing organizational/managerial or administrative duties)

Employee

relatives or close friends

Managed or owns

Managed or own

Controlled organisations

Organization

Organization

Controlled organisations

Organization

Organization

Individuals associated with corrupt official

Receipt of licenses (or other permissions, agreements, quotas, subsidies, benefits)

A professional decision regarding, criminal, civil, arbitration or administrative rulings
Appendix 3.

Generalized financial scheme for obtaining corrupt income by officials in the sphere of public procurement
Appendix 4.

Recommendations on using informational resources available on the Internet to analyze activity of individuals and legal entities to identify and evaluate their connections and assets

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<tr>
<th>N</th>
<th>Information resource</th>
<th>Description and recommendations</th>
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<tr>
<td>1</td>
<td>SPARK — System of professional analysis of markets and companies</td>
<td>SPARK is an information system that contains unified and systematized information out of various databases. Internet address - <a href="http://spark.interfax.ru">http://spark.interfax.ru</a>. It contains information on all registered legal entities of Russia, Ukraine and Kazakhstan. Basic information is given on: - company details, information on registration, registration bodies, licenses; - company structure, co-owners, daughters companies, branches, management; - statistical and financial reports of companies; - financial reports of banks and insurance companies; - database on bankruptcies and decisions of arbitration courts; - mass media reports; - information on participation in state tenders; - another information published by companies within the frames of information disclosure. Recommendations: 1.Identification of affiliation. SPARK system allows identification of affiliation of legal entities, legal and physical entities, physical entities. Conclusions on affiliation are formed based on following information: - information on the owner (co-owner) of the company, including these data changes as of different dates; - information on the company head; - information on company branches, including information on their locations and heads;</td>
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<td>- information on company participation in various funds, holdings, non-commercial partnerships and associations, including information on their locations and heads;</td>
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<td>- information on daughters companies, including their locations and history of changes as of different dates;</td>
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<td>- information on company members of board of directors, including information on their previous places of work;</td>
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<td>- information on members of various collegiate management bodies of the company, including information on their previous places of work;</td>
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<td>- information on major suppliers of the company, including their locations;</td>
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<td>- information on major clients of the company, including their locations and history of changes;</td>
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<td>- information on the company affiliated persons disclosed in accordance with the legislation</td>
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<td>- information of “address of mass registration” service, report of which contains all companies registered at one legal address;</td>
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<td>- information of “telephone of mass registration” service, report of which contains all companies using one phone number as a contact phone.</td>
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Analysis of the above listed data allows identification of all chains of affiliation connections with a high degree of probability.

A distinctive feature of this system is provision of interactive links to affiliated legal and physical entities that will allow identification of new additional links.

At the same time, SPARK provides various approaches to identification of physical and legal entities.
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While identification of legal entity is carried out with 100% probability based on such data as the name, taxpayer identification number (INN), primary state registration number (OGRN) and others, identification of physical entities is carried out only based on matching of the surname, name and patronymic. This approach of report preparation may contain errors due to the presence of full namesakes. However, as practical experience of SPARK application shows, while identifying the connections of physical entities, additional analysis of received data almost always allows making a conclusion on errors made. Presence of errors may be caused by the following reasons:
- commonly used surname, name and patronymic;
- registration of companies linked to the physical entity in various regions.

2. Asset’s identification.
SPARK system can be used for identification and evaluation of assets owned by physical and legal entities. Conclusions on presence and amount of assets are formed based on the following information:
- information on company authorized capital;
- information on branches and daughters companies;
- information on production;
- company accounting reports, including the income and loss statements;
- information on capital assets, shares and bonds.
- other information disclosed in accordance with the legislation.
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<td>2</td>
<td>Search engines for information on issues of industrial patents</td>
<td>Example: <a href="http://www.patika.ru/Espasenet">http://www.patika.ru/Espasenet</a> patented_poisk.html <a href="http://www.google.com/patents">http://www.google.com/patents</a> <a href="http://www.freepatentfetcher.com">http://www.freepatentfetcher.com</a> <a href="http://www.patentfetcher.com">http://www.patentfetcher.com</a> There are also other search engines that allow finding information on patents and other objects of intellectual property. Objects of intellectual property (industrial patents, design rights, trade marks, brand name and commercial brands) have their value. Depending on the demand such as the value can be relatively high. That requires searching the database of industrial patents while analyzing activity of physical and legal entities. Those databases are mostly in free access in the Internet. It shall be noted that various services can provide information on the national basis and on the meta-search basis (that unites patent organizations of various countries and continents). Search in such engine is carried out based on the surname, name, and patronymic of the inventor, name of the rights owner, date of patent issue, key words and name of the patent. Search shall not be limited by one system, a cross-check is recommended. Information on the right owners, inventors and people submitted applications to receive a patent is of major interest for the purpose of financial analysis. Practice shows that patents usually contain several persons as designers and such people have certain business connections. Frequently, officials whose activity is the subject of this research are included in the number of inventors as well as the right owners. Thus, transfer of the right (part of the right) of ownership with regards to invention constitutes their asset that can be used, contributed to authorized capital, used in any other legal way.</td>
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| 3 | Internet sites archives                 | Example: http://web.archive.org  
These services are designed for browsing archive copies of sites. This might be necessary in the following cases:  
- if a site by the moment of the search does not longer exist;  
- if there is a need to receive outdated information from such site, for example on former management, employees, clients of company or other information.  
The site to be browsed shall be entered in the search filed of the service. The pop-up window will offer a calendar showing the dates when the site was saved. Distinctive feature of this service is not only the ability to save an archive copy of the main page of the site but also possibility to use interactive links for further exploration. |
| 4 | Geo-information system                  | Example:  
http://www.google.com/earth/index.html  
http://maps.yandex.ru  
Data of geo-information systems, in particular, contain satellite maps of the Earth that may combine layers of different data. There is a great number of photographs and videos.  
Google geo-information system allows finding the location on the map using the address.  
For the purpose of this research geo-information systems use can help to visually evaluate assets of objects of interest and to make a conclusion on their probable value. |
| 5 | Search of information on a physical person | While searching for information in the Internet on physical persons the following recommendations shall be followed:  
- perform the search with the similar request in various search engines, for example Yandex, Google and Rambler;                                                                                                                                            |
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<td>- make a search request using various options of surname and name of the person. For example: John M. Smith, John Smith, J. Smith.;</td>
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<td>- make a new search request using various sequences of writing a name and a surname. For example, : John M. Smith, John Michael Smith, J.M. Smith, etc.;</td>
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<td>- include variants of name and surname in transliteration into a search request for the purpose of finding information on persons in foreign segments of the Internet.</td>
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<td>The Internet provides an opportunity to find persons and their affiliates (relatives, business partners, work colleagues), assets, significant events, information that will complete the research report and allow the analyst to make correct conclusions.</td>
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<td>It is reasonable to use the libraries of biographies formed by major search engines, information agencies and portals. For example, Yandex, Mail, Google and others. In the majority of cases, biography contains information on date and place of birth, place of work and title, information on relatives, significant events in person’s life. It also provides specific sources where such information was taken from.</td>
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<td>Another source of information on contacts of physical persons includes various social nets, such as “Facebook”, “Twitter”, “LiveJournal” and others. For example, in “Facebook” social net a person can be searched for using the surname, name, place of residence, age. Information page on a physical person has its specific structure that includes the following sections:</td>
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<td>- identification data, including name, age, region, a photograph;</td>
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<td>- data on communities the person is a member of, including places of study, work, military service, rest;</td>
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- photographs, including albums organized in a subject order.
Specifics of the listed sections include a possibility to select members of family out of other people with the help of a special link, mark persons at group photos and provide their identification data, and when visiting a community section, there is a possibility to review all its participants and their filtering time-wise.

It shall be noted that all the data available on the page are entered by the social net user, thus their authenticity is not proven. However, practice of searches in social nets shows that in most cases, users publish true information.

Apart from widely known search engines, meta-search engines can be used to look for information on public persons. For example, a search engine “Nigma”, Internet address http://nigma.ru. This system uses the data of most popular search engines and provides referential information that includes data on person’s relatives, data and place of birth. For example, the search request “BROWN” gave the following results:
- date of birth XXXXXX;
- place of birth XXXXXXXX;
- father XXXXXXXX XXXXXXXX;
- mother XXXXXXXX XXXXXXXX;
- spouse XXXXXXXX XXXXXXXX;
- children XXXXXXXX XXXXXXXX.

Internet-resources providing access to databases with compromising information shall be noted separately.

Internet-resources providing access to databases with compromising information shall be noted separately. For example, www.wikileaks.org and others.
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<td>Information provided by these resources is, in fact, a collection of articles related to physical and legal entities with compromising information of various natures. Data is personally structured. Simple search can be performed. These articles may contain information on person’s contacts, his assets, unlawful (from the author’s point of view) actions this person committed. As a rule, these articles are based on journalist investigation and contain not only text description but copies of documents as well. Search of compromising information can also be performed through video service «YouTube». This resource provides a regularly updated archive of video materials of various contents. Any Internet user can add any material. It has been widely used for publication of video appeals of citizens on facts of corruption and power abuse. The service also provides an option to search for a certain subject. Considering the fact that service «YouTube» has become globally recognized, almost any video material published there is copied and accessible by «YouTube» archive.</td>
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<td>6</td>
<td>Database of court decisions of arbitration courts of the Russian Federation</td>
<td><a href="http://kad.arbitr.ru">http://kad.arbitr.ru</a> – official site with the catalogue of cases considered by arbitration courts of the Russian Federation. Database of these court decisions is a structured system of court decisions taken with regards to disputes of economic subjects (protocols of meetings, decisions, etc.). In particular, this site provides a search engine that allows selecting information based on the name of the case participant, dispute category, other parameters. Search results are provided as a selection of documents related to a specific case with participation of the entity of interest.</td>
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Review of these documents allows establishing the connections of the object. Its assets and various facts related to entrepreneur (economic) activity. Information on attorneys authorized to present an object of research in court is of special interest. System of identification of court proceedings participant is not yet satisfactory as it allows search only by name. However, as the practice of these resource use shows, in most cases indirect data (location, dispute matter, etc.) allows correct identification of decision participants.

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<td>Database of state contracts</td>
<td>Example: <a href="http://reestrgk.roskazna.ru">http://reestrgk.roskazna.ru</a> Database of state procurement can be used for identification of connections between state organizations and suppliers of goods, works, and services. Contract documents contain the data on the tender commission members of which exercise significant influence on the decision on supplier’s choice. Considering high corruption risks at the conclusion of state contracts, study of information provided by this database can provide a significant help in identification of persons that may be involved in abuse in this sphere of activity.</td>
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<td>8</td>
<td>Analysis of company site or personal page of a person</td>
<td>Analysis of activity of physical and legal entities is impossible without evaluation of information published at their sites. It is necessary to check if a company or a person has a page in the Internet. While analyzing a site (personal page) the following shall be considered: - contact information; - information on company management and employees; - information on company clients; - information on company assets; - documents that are accessible at the site; - implemented projects a company participated (plans to participate) in.</td>
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<td>Information resource</td>
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<td>9</td>
<td>National databases of companies registered in various countries</td>
<td>For example: <a href="http://www.ompa.ad/indexang.html#">http://www.ompa.ad/indexang.html#</a> (Andorra) <a href="http://www.lursoft.lv/?a=16&amp;v=en">http://www.lursoft.lv/?a=16&amp;v=en</a> (Latvia) <a href="http://www.cyprus-data.com">www.cyprus-data.com</a> (Cyprus) National databases of companies registered in the territories of various countries. Information that such databases contain is extremely important for evaluation of assets of the object of interest. As the practice shows, persons (their relatives, attorneys) receiving income from corruption usually invest it abroad purchasing not only real estate and luxury goods but business as well, organizing (buying) various commercial companies. Location of such companies abroad impedes their detection by law enforcement bodies and is not declared by their owners though their value may significantly exceed a corrupt person’s income. These databases allow identifying of owners of companies registered abroad and make conclusions on their connection with the object of interest.</td>
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<tr>
<td>10</td>
<td>Federal registry of bankruptcy information</td>
<td><a href="http://www.fedresurs.ru">www.fedresurs.ru</a> Unified federal register of bankruptcy information is a database of information on organizations under bankruptcy procedure, as well as their assets that is under liquidation sale for the purposes of repayment to creditors. This resource contains information on physical and legal entities. It also provides a possibility to search using identification data of the object, select information of various layers (regional, form of ownership). Especially useful is the possibility to access documents on sale of debtors’ property (information on sales, their results, creditors’ meeting and court decision). This data allows identification of assets that belong to the debtors as well as their affiliated connections.</td>
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Appendix 5.

Matrix of corruptogenic factors perceived during the anti-corruption examination of legislation of the AML/CFT domain

(name of State)

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<th>Corruptogenic factors</th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>Subtotal</th>
<th>Total</th>
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<td>Regulation areas</td>
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<td>System</td>
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METHODOLOGICAL BASIS OF THE FIGHT AGAINST CORRUPTION RELATED TO COMBATING MONEY LAUNDERING AND FINANCING OF TERRORISM

(edited by the EAG Chairman O. Markov)

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