

Financial monitoring as a tool of the new industrialization: European and Russian experience

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Abstract—The article gives a description of the activities of organizations specialized in combating money laundering: their motivation, the historical aspect of the development of the world practice of struggle. Revealed problems of countries in conditions of new industrialization, associated with excretion of large capital offshore, presents the background of the development of schemes of tax evasion, given the variation in tax rates on income in different countries. The data on tax rates of the countries of Europe and Russia. Set problems related to the prevention of money laundering and financing of terrorism (AML/CFT) in Europe and Russia. Characterized the solutions to these problems. The dependence between the level of offshore operations and the level of state financial control in particular countries. Critical assessment of the work of services involved in the management of tax transparency, economic security in Europe and Russia, the impact of de-offshore. The essence of financial monitoring and its organization in Russia. Set of a number of international organizations established in this area, and the necessity of the implementation of the standards. The dependence of economic security and financial monitoring, as a tool of new industrialization. So, the loss of domestic manufacturing base threatens economic and political security of the country. The essence of the approach to the organization of financial monitoring based on risk assessment. Detailed compliance risk system of combating money laundering, for example credit institutions. Proved the importance of mutual evaluations of achievements in the sphere of counteraction.

Keywords— *financial monitoring; AML; CFT; FATF; the offshore security*

I. INTRODUCTION

New industrialization implies the development of all types of industry: machine-tool production, metallurgy, machine-building, light and food industry, chemical, mining, oil and gas industries oriented on deep processing of extracted raw materials and other types. Achieving economic breakthrough is possible in a streamlined financial system. As a significant threat to economic development and security of countries now allocate a problem of the laundering of proceeds of crime and financing of terrorism, tax evasion through offshore zones.

Combating money laundering and the financing of terrorism (AML-CFT) – is a global worldwide problem and recognized in the circle of scientists as a new sector of the economy. According to the network University in the field of AML/CFT annually laundered money obtained by criminal means 1.5 trillion. dollars. USA, which is 1.9% of world GDP. More than 6 million professionals involved in the global AML / CFT system. In the Russian AML/CFT system is already involved 120 thousand specialists and the number is growing [22, 23]. Due to the inability of the national security state, the development of new industrialization without achieving an environment conducive to the safety of its financial system.

New industrialization involves not only increasing production efficiency but also ensure the economic security of the country.

The world economy has never been stable enough. Governments and legislative bodies is extremely difficult to control all the revenues and cash flows around the world. Therefore, the appearance of such phenomena as money laundering, tax evasion and create black markets is not surprising. First of all, you need to understand what money laundering is, how it works and how responsible authorities are trying to prevent and control it?

In fact, the money laundering can be described as the legalization of so-called "dirty money" obtained from criminal activities such as drug trafficking or arms sales, tax evasion or corruption, other crimes, using shadow schemes run in the turnover of normal business transactions. Such legalized money do not attract the attention of law enforcement, can be transferred anywhere, including offshore. In consequence they can continue to be used in the criminal sphere: to support terrorism, war, coups and violation of the sovereignty of countries.

Thus, the problem is directly linked to economic security, new industrialization. While financial monitoring is a tool (instrument) of financial control.

II. A REVIEW OF THE LITERATURE

The studies show that there is a direct relationship between the energy consumption patterns, financial sector development and economic growth in the countries of the task force on financing of the activities of the FATF [1]. Improving

the financial sector usually leads to economic growth that promotes industrialization. The financial system must work for the state, not to help withdraw money from the state.

Based on the evaluations of the AML / CFT system in Russia, is isolated as major issues such as corruption at the level of state control, weak opposition to cyber-fraud, the country is a point of drug transit and destination of trafficking, the development of block-chain technology that can lead to abuse in the use of crypto-currencies, the presence of migrants, which can contribute to illegal circulation of money [7, 17, 25]. Thus the primary and main source of laundered funds is indicated corruption.

According to European researchers [9], the dynamics of enforcement of the OECD Convention on Combating Bribery requires the coordination of two different analytical approaches - a rational choice approach and an institutional one. It is more effective to create a decentralized monitoring system. In order to effectively implement the convention, an institutional approach should be used and "unconscious application" of anti-bribery laws should be ensured.

The modes of combating money laundering, the history of development and goals, changes in the Task Force on FATF financial measures are of interest to many scientists from different countries [10, 8]. For example, the question [11] is being considered that material coercion plays a key role in the global anti-money laundering. The FATF is guided by the principles of "experimental management." "Experimentalism" emphasizes a broad, participatory standard setting, contextualized implementation, intensive but diagnostic monitoring and routine updating in the light of experience. Most authors recognize the importance of the FATF aspects: the evolution of blacklists; monitoring roles; introduction of a risk-based approach [11, 12]. The statement that AML is a powerful security tool is not controversial. However, the claim that AML / CFT is a weak control lever for regulating financial crimes such as tax evasion or corruption [13, 24] is controversial, and the author of this article does not support this conclusion. The role of financial monitoring is written below. The crimes in the financial sphere of AML are transnational in nature, and methods of struggle must be at an appropriate level [21].

Some authors, as critics of AML, point to a contradiction in the activities of bankers and lawyers who, instead of guaranteeing confidentiality, disclose information about transactions and clients [14]. On the other hand, the rules of knowledge of their clients, the transparency of transactions is not pleasing to those associated with criminal activities, others are not a hindrance. The experience of the so-called front-line workers must be carefully studied and involved as much as possible in order to prevent crime.

It must be agreed that for the overall effectiveness of the global financial management regime, the value of the informal economy, which operates outside the framework of financial supervision, is important [15].

Also, the noncommercial component of the FATF activities [16,18] is important, as evidenced by the changes made to the FATF Recommendations. As a result, the FATF plays an important role in global efforts to prevent the financing of terrorism through the nonprofit sector.

A high percentage of the proceeds of crime are money hidden from taxation. Admittedly, there are thousands of ways to hide tax revenue. In some countries, personal income tax rates can be very high compared to other countries. For example, Sweden, Denmark and Japan charge up to 60% personal income tax (depending on the amount of income) and up to 23% for corporate income tax rates (in the same countries, respectively) [5, 24] High tax rates or strict state supervision may encourage ordinary or criminally active citizens to move their capital abroad.

It is obvious that the governments are very concerned about this issue, so the question arises: what can be done to combat offshore and criminal activities related to money laundering? The fight against offshoring is called "de-offshorisation."

In 1989, the weird G7 (G7) formed the Task Force on the Development of Financial Measures against Money Laundering (FATF) (from the English FATF - Financial Action Task Force on Money Laundering). It was the first step in combating money laundering and tax evasion at the international level. The objectives of this organization are to set standards and promote the effective implementation of legal and regulatory measures to combat money laundering and terrorist financing in the communities of the world. FATF also monitors whether the legislature complies with its recommendations; the first 40 recommendations were created in 1990. These rules are still valid, they have been changed four times: in 1996, 2001, 2003, 2012. It is worth noting that the number of these recommendations increased to 49, and 9 of them - special ones - were put into use after the disaster of September 11, 2001 [2].

Let us now dwell on the situation associated with the problem of money laundering in Europe. In 2012, a major scandal erupted in the media, involving the leakage of confidential documents of the Panamanian law firm Mossack Fonseca, which was called the industry leader. As a result, many well-known companies and officials who withdraw funds to offshore companies were made public. Industrialization, increasing the latest technologies require funding. Offshoring, withdrawing money from circulation deprives the country of the possibility of a rapid economic recovery. After the scandal with the "Panama Papers", tax evasion and money laundering again became the focus of attention of European legislative bodies [6, 23]. Subsequently, numerous initiatives were taken to combat this problem.

There are several EU members that have relatively low corporate taxes or dividend taxes. This is not only the cause of trillions of lost tax revenues, but also creates unfair competition between member states, for whom it is very profitable to maintain a single market. In the European Union itself, there are laws and regulations aimed at preventing tax evasion and money laundering, while Member States can determine their own tax rates and be completely independent in how they treat tax evasion, for example, through offshore funds.

For example, in Ireland, a low corporate tax rate is 12.5%, and entrepreneurs receive non-tax income to attract more investment and companies to grow their business. This led to the emergence of companies on the island, such as Apple. Recently, the European Commission summoned

representatives of the Irish government to the European Court, the highest judicial body in the EU, due to the fact that Apple had not demanded a tax reaching \$ 15 billion [5, 6].

The Netherlands is also a good example. After the new government was elected in 2017, the tax plan for tax exemption on dividends (taxation of dividends on shares) was disclosed as part of a coalition agreement that was subjected to enormous national and international criticism. Since the loss of tax revenues was offset by an increase in the value added tax (VAT) on basic goods. Due to low taxes, 48% of Fortune 500 companies have at least one legal entity established in the Netherlands [6].

III. RESEARCH METHODOLOGY

Throughout the European Union, several services are working to improve financial transparency policies and ensure that the standards of bodies such as AML (Anti Money Laundering) and CFT (Combating the Financing of Terrorism) comply with world standards. Although the European Union works together and has many norms and regulations, there are two main services in its territory that regulate tax transparency. Western Europe, Scandinavia and Greece are part of FATF, and Eastern Europe are part of MONEYVAL - an organization that functions similarly to FATF. Previously, this committee was an observer for the FATF, but in 2006 it became a separate organization, while remaining also associated with the FATF. It should be noted that FATF is a global organization, MONEYVAL is part of the European Council only, it publishes reports on individual countries with indication, analysis and recommendations regarding tax transparency, compliance with established rules and compliance with all standards [1, 3].

The Russian Federation is considered a key international partner for increasing financial transparency. The Russian economy since the fall of the Soviet Union has seen a trend towards an increase in money laundering and its export to offshore countries. To combat these phenomena, Russia cooperated at the international level in order to improve its financial security standards.

The government has ratified several treaties in order to coordinate their actions at the international level and jointly cooperate with other countries in the fight against money laundering. Russia joined:

United Nations Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances;

The Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime;

United Nations Convention against Transnational Organized Crime

Russia has also been a member of the FATF since 2003 and has been identified as an opponent of money laundering and terrorist financing. In addition, the risks and shortcomings in compliance with standards were minimized - in the latest mutual evaluation report on the implementation of AML-CFT standards, it was concluded that Russia complies with most of the main recommendations [7].

Russia has done a lot in preparation for the fourth round of the FATF mutual evaluation. Analyzed the activities of law enforcement. To prevent the financing of terrorism - added to the year 2017. The black list is the list of persons

who are involved in extremist activities or terrorism [20], by 1.2 thousand individuals, and amounted to 8 thousand people. The funds of 2 thousand defendants in the amount of 12 million rubles were frozen. The assets of 350 persons were blocked, including 4 legal entities involved in terrorism in the amount of more than 6 million rubles.

To level the risks associated with the use of the financial and credit system of Russia in order to carry out suspicious transactions, the Authorized body, the Bank of Russia and credit organizations cooperate in studying the typology of highly risky operations and modifications of the "dirty money" money laundering schemes [4].

In the modern world of rapid development of financial technologies, the emergence of new risks for the development of financial structures and the industrialization of the country should be noted. This includes the emergence of new schemes using virtual currencies and digital technologies [17, 19].

The risks lie not only in competition regarding the anonymity of payments, but also protection against fraud and cybercrime. To compete with digital financial technology, banks need to guarantee a higher level of customer protection. To banks increased requirements. Otherwise, they will be superseded by new structures. Financial monitoring is a tool of such protection.

Banks classify clients according to the level of risk of participation in shadow money laundering schemes. There is a need to assess the risks of clients as counterparties, their potential hazards, and to assess the involvement of the bank and its employees in shadow schemes. Bank risks in the field of financial monitoring can be classified as in «Fig. 1».

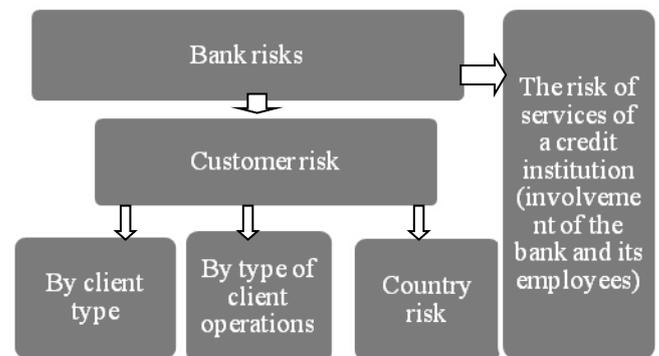


Fig. 1. Risk - oriented control of the bank in the area of AML / CFT

Banks classify clients by the level of risk of participation in shadow AML / CFT schemes. According to the risk scale, the level of client involvement in Russia is divided into 4 levels: critical, high, standard and low risk.

The client's assessment should be the result of an analysis of the documents, information and information about the client and his activity that is available to the credit organization. In addition, it is necessary to assess the involvement of the credit institution and its employees in these schemes.

It should be noted that there is no systemic research in the Russian Federation in the area of compliance risk of

financial monitoring, as well as scientific research in the field of financial monitoring assessment methodology.

Systematic risk assessment in compliance allows you to develop a program of measures to combat and counter money laundering of criminally obtained incomes and develop an action matrix with a description of the algorithm. The main measures carried out by the subjects of monitoring in the framework of the State Financial Monitoring Agency are shown in «Fig.2».

Identification of customers and their beneficiaries
Risk assessment of the client's laundering of criminally obtained income and financing of terrorism
Monitoring of operations subject to mandatory monitoring
Monitoring for unusual operations
Sending messages to Rosfinmonitoring
Implementation of measures to counter the financing of terrorism and extremist activities
Documentary recording and storage of information on operations subject to mandatory and optional monitoring
Training and education
Providing information on requests of Rosfinmonitoring
Ensuring the confidentiality of measures taken by the subject of financial monitoring

Fig.2. The matrix of actions carried out by the subjects of monitoring in the framework of state financial control.

The organization of compliance of risks of financial monitoring under such a scheme will facilitate the introduction of a methodology for evaluating external control over the implementation of financial monitoring.

The method of assessing financial monitoring should include an assessment of the system of risk control indicators, a formalized model for forecasting threats and the level of financial security, the formation of a financial matrix of strategic directions for safe development of state credit institutions, an assessment of banking indicators and managing financial flows of banks using functional blocks.

IV. PRACTICAL SIGNIFICANCE, SUGGESTIONS AND RESULTS OF INTRODUCTIONS, RESULTS OF EXPERIMENTAL RESEARCHES

According to Rosfinmonitoring, in 2017, banks refused to open almost half a million accounts, which prevented about 180 billion rubles from entering the shadow turnover. These accounts seemed suspicious to banks and, therefore, financial authorities had good reason to reject the request. In 2016, according to the Central Bank of Russia, fictitious transactions were made in the amount of 771 million US dollars, in the first half of 2017 in the amount of \$ 523 million. The fight against money laundering is underway. In 2016, the Authorized body of Russia prevented the embezzlement of public funds worth more than 2 billion US dollars, and was able to return public funds in the amount of 800 million US dollars. In 2016, the Central Bank revoked 93 licenses from credit institutions, including there were incidents when the license was revoked for violations of the law in the

area of AML / CFT. In the future, this work was continued. [7, 23]

Russia continues to strengthen its position as a stable partner in the fight against illegal and suspicious transactions. According to the latest report of Rosfinmonitoring, the main goal in 2017 was to strengthen national security. The government has focused on expanding the responsibilities and scope of Rosfinmonitoring. In 2016, 10 federal laws, 2 presidential decrees, 1 presidential executive order, and 6 government decrees and orders were adopted to strengthen the organization and assist in increasing the amount of information received so that the service can more effectively carry out its work. In addition, in 2016, the legislature adopted amendments to the Criminal Code of the Russian Federation, increasing the thresholds for criminal liability for tax crimes. Now a large amount, according to Art. 198 of the Criminal Code of the Russian Federation ("Tax evasion and (or) fees from individuals") is considered the sum of taxes and fines in the amount of more than 900 thousand rubles for three fiscal years and a particularly large amount - 4.5 million rubles for the same period. Moreover, the threshold amount of unpaid tax (article 199, 199.1 of the Criminal Code) in large amounts increased from 2 million rubles to 5 million rubles for three fiscal years, and very large - from 10 million rubles to 15 million rubles for the same period of time. It should be added that the report also indicates that the attention of the international community is more focused on the fight against the financing of terrorism, and not on the problem of offshoring.

The fact that the Russian government pays more attention to CFT standards, while the European Union prefers AML standards, indicates that greater emphasis is placed on security services on solving domestic problems, but the European Union is mainly focused on tracking offshore and foreign accounts. This disharmony may well impede the development of international cooperation, since national interests clearly prevail over international ones. While Europe is looking for external ways to oppose sending funds from its citizens to offshore territories, Russia is more focused on eradicating this problem from the inside.

This article has scientific and practical value. It can be used for the organization of compliance of risks of financial monitoring.

V. CONCLUSIONS

In conclusion, it is safe to say that high-quality monitoring is the key to national security. New industrialization, economic recovery is possible only in the conditions of developed financial relations.

The best way to combat global money laundering schemes or unlawful acts, such as terrorist financing, is targeted cooperation at the international level. Illegal groups are being created all over the world every day, and the fact that not all of them are at the center of attention of the above-mentioned organizations means that even more measures are to be taken in the future. Nevertheless, the world is united in its endeavor to strengthen the global rules and standards of AML-CFT, and this is a good sign for further cooperation. The more joint efforts will be made, the more effectively

governments will be able to protect their national interests and make the world more secure.

VI. THE DISCUSSION OF THE RESULTS

The discussion of the research topic was held at international scientific conferences and received positive recognition:

2nd International Scientific and Practical Conference "New Industrialization: Global, National, Regional Dimension" SICNI 2018 December 4-5, 2018, Yekaterinburg, Russia

III International scientific-practical conference of educational and scientific organizations of the network Institute in the field of AML / CFT Fintech and Regtech: opportunities, threats and risks of financial technologies, held on 11/22/2017, Moscow.

The 46th International Scientific and Practical Conference "Taturov Readings" on the theme: "Reforming accounting, auditing and accounting education in accordance with international standards in the transition to an innovative economy" dated September 17, 2018 Moscow, Moscow State University. Lomonosov

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