Prof. Anastasia Nesvetailova, City, UoL

SQUEEZED?
Russia and Illicit Financial Flows
Background

Pre- and post-Soviet money laundering has been a driver of the globalisation of Russian organised crime, formation of early capital and the oligarchy.

FDI flows in and out of Russia are anchored into 3-4 core offshore centres.

Post-2014, the offshore mode of Russian capital flows has helped the Russians avoid sanctions.

2018: Russia’s richest men hold about 60% of Russia’s GDP offshore ($1 trillion).
**Changing hands**

- **Before March 2014**
  - Bank Rossiya (100%)
    - Abros (51%)
      - Kordeks (12.5%)
        - Sogaz (12.5%)

- **After March 2014**
  - Bank Rossiya (100%)
    - Abros (51%)
      - Kordeks (12.5%)
        - Sogaz Realty (48.5%)
          - Gazprom subsidiary (2.5%)

- **After August 2014**
  - Bank Rossiya (100%)
    - Abros (100%)
      - Kordeks (12.5%)
        - Sogaz Realty (32.3%)
          - Gazprom subsidiary (2.5%)

*Source: The Economist*

*Restrictions on financing in Western capital markets †Later transferred to Abros*
Cyprus: Russia’s Real Financial Centre

- 2014: 30% of FDI into Russia came from Cyprus
- 2017-2018: $35.9bn flew from Russia into Cyprus
- Overall: $177.4 bn of Russian money went into Cyprus

Kommersant
Data: Russian Central Bank, 2007-2017
FDI out of Russia, $ million
Data: Russia Central Bank
FDI Into Russia, $million

Austria
Bahamas
Bermuda
BVI
Cyprus
Luxemburg
Netherlands
UK
US
Switzerland
Offshore for dummies: simple schemes

1. Move funds into say, Gibraltar or Malta. Get a bank account.
2. Moves the funds upwards into more secretive havens.
3. Repeat (2) continually until the money gets to final destination (e.g. London).

All bank accounts are in the name of an offshore company with nominal owners.

The scheme is not appropriate for civil servants, but totally ok for gangsters and entrepreneurs.
Alternatively, fake invoices

• A Russian company belongs to a Cyprus ‘mother’.
• The Cyprus company gives its Russian ‘daughter’ a loan (or a right to use the brand name, licence, etc.).

• The Russian company sells products in the Russian market and earns revenue. Yet most part of this revenue goes to paying off the Cyprus mother (either as interest on the loan or as a fee for the title/right/royalty).

• As a result, the net profit of the Russian daughter is minimal, most of the sum goes to Cyprus.
Service providers

• Offshore companies have been a regular offering by specialised firms since the early 1990s to 2014.

• Business thrived in a lax regulatory environment internationally, and fed by (1) the demand of Russian clients to conceal the ownership of assets (rather than avoid taxation as such) as well as (2) use capital outside Russia.

• A typical example:
BUY OFFSHORE

Do you want to buy offshore?

Offshore makes your business more successful. West Union consultants will help you to choose the most appropriate jurisdiction for your business.

Individual approach to each client makes it possible to use all the benefits of different jurisdictions and choose the most appropriate one with regard to specifics of particular business. We will provide different variants of different offshore jurisdictions in many tax schemes which our specialists develop individually for your company.

Below you can see the major offshore jurisdictions in which we register companies.
Information on other countries can be obtained by simply contacting us by phone +7 495 987 18 55.
2014:

• Targeted international sanctions against Russian capital have coincided with the new global regulatory drive to tame illicit financial flows and regulate banks

• This has produced several changes within the industry of enablers:
Post-2014 / AML/ CRS:

• Extremely difficult for politically exposes persons to move money, unless you are a close friend of the president

• Standard offshore enablers have switched to more complex ‘international financial planning’: due diligence, taxation, assessment of risk, paperwork for compliance, etc.
Two current trends

(1) Corporatisation of corrupt wealth and (2) consolidation of enablers

• New forms of illicit finance: trusts and fund management

• Always, the ultimate goal is access to a bank account in the West
By way of example,

• West Union can provide bank accounts in the following jurisdictions:
<table>
<thead>
<tr>
<th>Country</th>
<th>Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>ANGLO IRISH BANK (AUSTRIA) AG, CREDIT SWISS, DEUTSCHE BANK (AUSTRIA) AG, EURAM BANK AG, RAiffeisen Bank, VONTOBEL BANK</td>
</tr>
<tr>
<td>Britain</td>
<td>ACCESS, CREDIT SUISSE (UK) LIMITED, EFG PRIVATE BANK, HSBC</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>HSBC HONG KONG, STANDARD CHARTERED BANK</td>
</tr>
<tr>
<td>Denmark</td>
<td>JYSKE BANK, NORDEA BANK DANMARK (UNI BANK)</td>
</tr>
<tr>
<td>Cyprus</td>
<td>ALPHA BANK LTD, AVTOVAZBANK International Banking Unit, BANK OF CYPRUS LIMITED, EFG EUROBANK, FBME BANK LTD, HELLENIC BANK, LTD, MARFIN LAIKI POPULAR BANK PUBLIC CO LTD, PROMSVYAZBANK</td>
</tr>
<tr>
<td>China</td>
<td>BANK OF CHINA, STANDARD CHARTERED BANK (HK) LTD.</td>
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<td>Latvia</td>
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