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■ **Welcome to the Spring 2008 edition of the Proximal Consulting Review.** In this issue we concentrate on all things Russian! Drawing on our extensive professional experience of conducting enquiries in Russia, we discuss carrying out effective due diligence investigations in the country, examine the relevance of kompromat reporting, as well as offering some more light-hearted news and facts from the Russian Federation. We hope you enjoy reading this issue of the review and as always we welcome your feedback - please feel free to contact us at newsletter@proximalconsulting.com.

CARRYING OUT DUE DILIGENCE IN RUSSIA

■ There is no doubt that the level of wealth in Russia is increasing; the Russian economy grew for a ninth consecutive year in 2007, whilst Forbes magazine's 2007 list of the world's billionaires featured a record 53 Russian individuals. With this growth come increased opportunities to establish business or financial relationships with Russian individuals or entities. If you or your organisation is contemplating entering into a professional relationship with a Russian partner, it is worth conducting Know Your Customer (KYC) or due diligence checks on prospective partners prior to initiating any kind of professional relationship. Due diligence reports can establish whether a prospective partner, be it an individual or company, is providing you with full and accurate information. In addition, KYC checks can uncover previously hidden risks and verify that your prospective partner is not involved in any money laundering, fraudulent or other criminal activity.

At Proximal Consulting, we have been carrying out successful due diligence enquiries in Russia on both private individuals and companies since 1999. Using our own comprehensive range of investigative tools, as well as reliable local contacts in Russia, we aim to confirm the bona fides/legitimacy and probity of the individual or entity in question. All our research is carried out in a discreet manner, ensuring complete client confidentiality. Our investigations into Russian subjects can generally determine the following details:

- Current and/or historical residential addresses
- Past and/or present passports issued to the subject
- Information regarding the subject's family members and civil status
- Detailed intelligence regarding the subject's career history and professional background, including corporate positions and shareholdings
- Any real estate and vehicles owned by the subject
- Summary details of financial relationships held by the subject
- Any negative or detrimental material regarding the subject and the subject's business interests
- Any links between the subject and organised crime, money laundering or other fraudulent or criminal activity

We endeavour to produce accurate and objective due diligence reports in a timely and cost effective manner. More importantly, we ensure that the legal and regulatory obligations of our clients are met and that our



clients are not exposed to any financial, legal, operational or reputational risks.

So that our investigations achieve the best possible results and simultaneously for our client to collect sufficient information to achieve KYC compliance we recommend that our clients obtain the maximum amount of information possible about any subject individual or entity. Such information should ideally include, but is not necessarily limited to, the following:

INDIVIDUALS

- Full name (including any spelling variations)
- Date and place of birth and nationality
- Copy passport details and/or identity card, showing date of birth
- Current residential address
- Full details of any business interests and professional activities
- Any information which suggests that the subject individual is, or may be, a PEP (Politically Exposed Person)

ENTITIES

- Full name (including any spelling variations or trade names)
- Current registered address
- Details of owners and officers

We appreciate that sometimes it is not possible to obtain all of the above-mentioned details. However, the more information that you can provide us with about the subject of the enquiry, the more likely it is that we will be able to successfully identify the subject and carry out research for you as quickly as possible. For more information regarding due diligence enquiries in Russia or any other location please contact us.

RUSSIAN EXTRAVAGANCE



London is a city accustomed to great wealth, indeed for centuries it has been the playground of the well-heeled English nobility. More recently the twentieth century saw the capital become a magnet for the newly moneyed classes of Norwegians with their shipping lines, the Japanese with their electronics and the Saudis with their oil. However, never has London seen anything quite like the emergent elite classes of Russians who have recently arrived in town with hundreds of millions if not billions to spend on the finest things money can buy. Just over three hours in a private jet from Moscow, London, or "Londongrad" as it is now affectionately known, boasts a sympathetic tax regime, fine shopping, good schools, a stable economy and a strong property market, making it an ideal second home for the discerning and cash-rich Russian. The city's purveyors of everything from fine jewellery and haute couture to Bentleys and Beluga caviar have been hiring Russian speaking staff to help their customers indulge. So what are the Russians spending their money on? We at Proximal Consulting have come up with our top 10 list of some of the most lavishly extravagant examples of Russian spending we have come across:

1. Angry at what he has called the politically motivated persecution of business leaders by the Russian government, Russian billionaire and full-time British resident Boris Berezovsky staged a political protest in London in 2004 by sending one hundred silver limousines to the Russian Embassy. The peaceful limousine protest was understandably the first of its kind in the capital!
2. When purchasing property in London, the Russian elite demand the best postcodes available – Belgravia, Knightsbridge and Chelsea are among the locations favoured. It has been reported that a 10-bedroom home next to Kensington Palace went on the market for £30 million in 2004, however after several Russians got into a bidding war it sold for more than £35 million. Such is the demand for property in London that one of the city's top real estate firms, Knight Frank, has now opened offices in Moscow and St Petersburg to be closer to its Russian clients.
3. Recently Russian London Courier newspaper confirmed that the "madness for luxury" among Russians in the UK had prompted the company to start RussianUK, a new glossy magazine geared toward the burgeoning wealthy Russian expatriate community in the capital.

4. A spokesperson for a famous luxury department store in London recently commented of its Russian customers, "The women will come in with copies of Russian Vogue, wanting to be the first on the waiting list for the latest handbag or boots, and it is not unusual to see people regularly spending five-figure sums in one trip."
5. The food halls of the best department stores in town have also benefited from Russian patronage and as a result have had to double orders of Caspian Beluga caviar, the most expensive in the world at £146 per 50g, to keep up with demand.
6. The opulence and extravagance of Russian parties is renowned. A London-based party planning company set up to cater for the whims of wealthy Russians reported that a group of delegates not only paid for a sumptuous dinner, washed down with vintage Dom Perignon champagne and £300 bottles of cognac but also flew Liza Minnelli in to sing for them for an hour! The total cost of the party was not disclosed; however insiders have hinted that it was close to £500,000.

£15 million | The amount raised by a Sotheby's auction of pre-revolutionary Russian art in 2005

7. The proximity of Moscow to London has recently seen the emergence of a new breed of commuter, the *voskresny muzh* or "Sunday husbands." These are men who work in Moscow but catch a Friday night flight back to London where their family and home are based, before heading back on a Sunday night to be in the office bright and early on Monday morning. The very richest Russians of course charter their own private jet to make the journey.
8. It is reported that some expat Russians have been taking the opportunity to reacquire some of the Russian art treasures lost in the aftermath of 1917. A sale of mainly pre-revolutionary Russian art at Sotheby's in May 2005 raised approximately £15 million.
9. Wealthy Russians who struggle to find things to spend their millions on head for the annual Moscow Millionaire Fair where over 250 vendors of the most luxurious and expensive goods money can buy gather to exhibit their wares. At the fair it is possible to buy everything from private islands, race horses and luxury cars to helicopters, speed boats and diamond-encrusted mobile phones. Reportedly in 2005 there was even a man's suit made entirely from \$100 bills and a matching woman's suit made from 100 rouble notes for sale at \$15,000 the pair.
10. It has become a popular trend among the Russian elite to commission portraits of their nearest and dearest for posterity. Their artist of choice is said to be Nikas Safronov who is best known for his portraits of President Vladimir Putin (including one depicting the president as Francis I of France). An oil painting by Mr Safronov costs around \$70,000.

10 THINGS YOU DIDN'T KNOW ABOUT RUSSIA!

■ Seeing as Russia is the largest country in the world, it's little surprise that we write more reports on Russians than on any other nationality, yet there are still some rather weird and wonderful things that managed to surprise even us!

1. There are currently more 100 dollar bills in Russia than there are in the US.
2. Many of us know that vodka is the national drink of Russia, but were you aware that a staggering 46 billion litres of vodka is swallowed each year? The purified spirit reportedly became such a favourite since it didn't freeze as easily as other spirits while being transported during those bitter winters! And just when we thought they couldn't drink anymore - Russian scientists have now even developed a drug which can prolong drunkenness and boost intoxication!
3. Peter the Great disliked beards so much that during his reign, unless you were a peasant or priest, any nobleman sporting a beard was required to pay a special tax.
4. Infamous Russian ruler Ivan the Terrible thought that St. Basil's Cathedral was so stunning that he ordered the architect to be blinded. Well, he didn't want the architect to be able to design anything more superior of course!
5. Russia is ranked second favourite (after Germany) among possible investment locations in Europe, according to Ernst and Young.
6. Russia has one of the highest adult literacy rates in the world – 98.7 percent to be precise!
7. To drive around Russia in a dirty car is actually a criminal offence (let's hope there isn't a shortage of car washes then!).
8. There are eleven different time zones in Russia – confusing or what?
9. In 1976 microwave ovens were banned in Russia. For what reason however, we are not entirely sure!
10. At least fourteen journalists have been killed in connection with their work since the year 2000.

14 | The minimum number of journalists that have been killed in connection with their work since 2000

KOMPROMAT

■ Kompromat (compromising material) is a peculiarly Russian phenomenon whereby unsubstantiated allegations are made in the public domain in order to discredit the reputation of business rivals or political opponents. The allegations may relate to the subject's business activities or personal life, and can range from the entirely feasible to the downright bizarre. It is said that the concept of kompromat has evolved from the days of KGB disinformation.

The main difficulty with kompromat is the fact that it is often virtually impossible to confirm such allegations, as the kompromat may be true, partially true, or otherwise completely fabricated.

There are several publications and Internet sites, such as www.kompromat.ru, which are dedicated entirely to kompromat. In cases such as these, the reader is at least aware of the intention of the material and can therefore bear this in mind when deciding upon the accuracy of the allegations.



However, problems arise when kompromat infiltrates the mainstream media. Many observers have commented that, with so many Russian newspapers and TV channels now controlled by oligarchs or powerful organisations, kompromat is now a regular feature in the supposedly independent press. In addition, more and more kompromat websites are being developed to look like legitimate news sites, making the accuracy of such allegations even more difficult to determine. And, in what is perhaps a reaction to the kompromat phenomenon, there have even been cases of Russian businessmen financing so-called "news" websites with the express purpose of disseminating positive information about the subject.

Given the difficulty of determining the accuracy of kompromat, how should kompromat allegations be viewed in relation to due diligence reports?

It is our view that kompromat allegations should be included in reports but it should be clearly marked as such. We believe that evidence to support or refute kompromat allegations should be obtained from as many sources as possible and that all the material obtained should be considered in context. In some cases it may not be possible to establish the truth regarding kompromat allegations, but regardless of the truth, the kompromat allegations can tarnish the subject's reputation.



CIVIL SERVICE CORRUPTION IN RUSSIA

■ A \$9 million pilot program, aimed at stamping out corruption began in Russia last autumn. The program, spearheaded by Deputy Prime Minister Sergei Naryshkin, will be piloted in 11 government institutions and 19 regions and will offer civil servants compensation packages aimed at making bribes less tempting.

All officials who come into contact with the public will have to sign a new, instantly terminable contract that allows greater oversight of their work but also offers a better compensation package. These compensation packages have been promoted as being comparable to a “performance-related bonus,” however it is not clear if they will also be comparable to the money bureaucrats can make through “unofficial” business channels.



Yury Korgunyuk, a political analyst at the Indem anti-corruption think tank, rubbished the new scheme, suggesting “The corrupt will check up on the corrupt. And anyway, what’s the point of such a program when a bribed judge will decide whether the official has been dabbling in corruption?”

Other sources have dubbed the scheme “self-propaganda,” observing that a “high profile battle with corruption” would help Mr Naryshkin gain popularity should he be nominated as a presidential candidate in the future.

Revelations that under the program managers will have new powers to check up on their employees via telephone bugging and surveillance cameras have also sparked concern amongst human rights activists.

Once the pilot scheme is completed, government heads will decide whether to implement the program on a permanent basis, however this is unlikely to happen before June 2008.



IT COULD ONLY HAPPEN IN RUSSIA!

■ The following are three stories which have been printed in the Russian media that we particularly enjoyed:

ALL IN A DAY’S WORK!

Valery Milyayev, 34, decided to earn some extra cash and fool the Moscow police at the same time, by providing false information on terrorist acts in return for \$200,000 in reward money! After notifying the police that he had information concerning planned terrorist acts, Milyayev met the police at the mailbox, where he claimed the letter had been left. He demanded 50,000 roubles (\$2,000) for the information, which the police handed to him upon receiving the letter. Having felt so successful, Milyayev then phoned the police three days later, telling them of a second letter containing further information on intended terrorist acts. However, this time he demanded an extra five million roubles (\$198,000) for good measure. By this point, the police had cottoned on to Milyayev’s scam and arrested him as he accepted the cash. Milyayev has since been sentenced to six years.

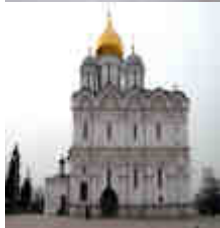
EGG-SPENSIVE!

Just as the title suggests – a Faberge egg has become one of the most expensive Russian objects after it sold at auction for a whopping £8.9 million! Made by Peter Carl Faberge, the gold and pink egg has a clock face and a diamond encrusted cockerel which nods its head and flaps its wings on every hour. The egg was originally given as an engagement gift in 1905 but was bought by a private Russian art collector in the auction room at Christie’s, London.



WHAT A GEM!

An elderly Russian woman has been charged with fraud after she tried to sell a 25 kilogram corundum stone for \$20 million – claiming that it was a large piece of ruby! Valentina Pashkova had been storing the stone in a safety deposit box in a bank in Moscow, while she attempted to find the victim buyer. Little did she realise, however, but the police had been tipped off several weeks beforehand and the so-called buyer was in fact an undercover police officer! After presenting the undercover cop with a falsified certificate stating that the ruby was actually worth \$270 million, she was arrested as she removed the stone from the safe.



SERVICE DIRECTORY



NEWSLETTER INFORMATION

Can you afford to be without this critical intelligence? You can subscribe to this newsletter and download all previous issues from our website. The Spring 2008 / Russian Special edition of the Proximal Consulting Review is brought to you by Peter Lilley, Jacqueline Ahmed, Jane Smith, Alison Keyzor and Julie Venis.



DUE DILIGENCE BACKGROUND REPORTS

One of our core business areas is providing global due diligence background reports on individuals and/or companies that are structured to provide focused intelligence in a cost efficient manner and in accordance with your needs. More importantly, our many years of experience in this field ensure that the legal and regulatory obligations of our clients in regard to due diligence are met. We ensure that you, as our client, are not exposed to reputational, operational, legal or concentration risks. Additionally, we have a wealth of experience in providing **MERCHANT BACKGROUND CHECKS**.



COUNTRY REPORTS

Our country reports provide you with reliable and credible advice on country risks, a further invaluable tool for staying ahead in the fast-moving international business environment of today. We analyse national and local risks in each country and provide a detailed examination of political, general business, money laundering and corruption factors.



AML TRAINING

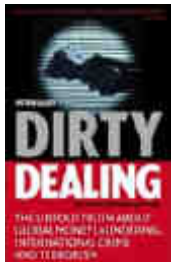
We provide a full range of high quality Anti Money Laundering training and prevention services. These include: creating and devising KYC and AML procedures, designing and delivering customised AML training packages, producing definitive AML training material (including client-specific training films), evaluating your AML "defences" to ensure regulatory compliance together with providing ongoing AML advice and guidance either on a general level or relating to specific events.



ASSET TRACING & OTHER INVESTIGATIONS

We are able to provide our clients with proven methodologies and the latest tools for investigation, evidence gathering and asset location to freeze and seize funds. Our in-house abilities together with our global network of contacts ensure that we are able to provide a worldwide coverage. Additionally, we have substantial experience in developing overall winning strategies in asset tracing projects and other types of complex and high profile investigations.

FURTHER READING



DIRTY DEALING

The third completely revised edition of Peter Lilley's acclaimed book on money laundering.

One of "Director" magazine's business books of the year.

"Entertaining, well written & well presented"
The Irish Times

www.dirtydealing.net



HACKED ATTACKED & ABUSED

"Hacked, Attacked & Abused" exposes the full extent of digital crime and how to avoid falling victim to it.

"This book is an excellent exposé of digital crime stemming from Peter Lilley's own expertise in the field of prevention, detection and investigation of global business crime and money laundering"

-*Asian Voice*

CONTACT US



UK Office | 2 Pelham Court
London Road
Marlborough
Wiltshire

Swiss Office | Rue du Rhone 14
1204 Geneva

Telephone +44 1672 516725 | **Fax** +44 1672 516759 | **E-mail** enq@proximalconsulting.com