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The mechanics of adequate procedures and their practical implications for companies in Russia

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1 part

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- Ministry of Justice draft guidance
- Planning for implementation
- Risk assessment



2 part

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- Dealing with intermediaries
- Business Partners due diligence
- Whistle blowing system

MOJ Guidance on procedures to prevent bribery

Six key areas of focus:

- Principle 1 : Risk assessment
- Principle 2 : Top level commitment
- Principle 3 : Due diligence
- Principle 4 : Clear, practical and accessible policies and procedures
- Principle 5 : Effective implementation
- Principle 6 : Monitoring and review

Ministry of Justice has issued draft guidance about commercial organisations preventing bribery.

Consultation period ended 8 November 2010.

Guidance expected to be issued in final form in Spring 2011.

A ten-step plan

Specify

- 1. Assess risk
 - **2.** Evaluate existing controls
 - **3.** Target operating model
 - 4. Remediation planning

Build

5. Design enhancements

Implement

- 6. Roll-out
 - **7.** Implement

Business takes ownership

- 8. Test
- 9. Follow-up

Embed

10. Ongoing monitoring; continuous improvement

Risk analysis is the foundation of successful risk management (1)

Guiding principles:

- Focus on inherent (or "gross") risk
- Ignore controls until you have completed the risk identification
- Avoid preconceptions about control effectiveness or personal integrity



Risk analysis is the foundation of successful risk management (2)

Risk elements will include, inter alia:

- Nature of business activities
- Geographical and cultural issues, local business practices, etc
- Business processes (front and back office)
- Customer base
- Use of third parties, relationships with business partners, corporate structures
- Government interactions, regulatory landscape
- Other specific risk factors

Local business practices

Dealing with intermediaries

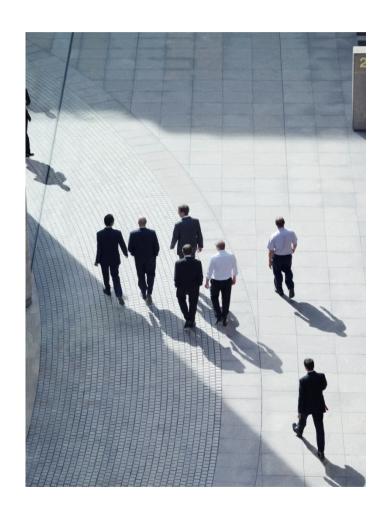
- Historically is a widely applied practice in Russia.
- Anti-corruption laws do not tend to differentiate between acts made by companies and acts by someone acting on the companies behalf
- Key risk areas in dealings with intermediaries:
 - Appears unqualified or understaffed
 - Is specified or recommended by certain government officials
 - Requests that his identity be kept hidden
 - Requests that he be paid in cash or upfront or offshore payments
 - Requests unusually large compensation in relation to the value of the services provided

When these or any other danger signs exist, additional Due Diligence and inquiry is required.

Business Partners due diligence

Some simple steps can generate high value:

- Identify "shell" companies
- prevent commercial risk of contracting with a non ethical business partners
- prevent associated tax risks on dealings with "mala fide" suppliers
- Prevent funds misappropriations from the company



Whistle blowing system

- Can really work in the Russian environment!
- 62 % of misconduct cases is done in collusion with 3rd parties
- Whistle blowing system is the most effective way to detect collusion
- Whistle blowing mechanisms acts as a safety net for risk management.
 Would your net catch the right risks?



Questions?

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