

Financial Integrity Index 2008: Rating of the Degree of Fictitiousness (Fake Activity) of Russian Companies

Written by A.Ye.Krioni

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Lately one has often been hearing of measures taken by the tax authorities to control ‘fly-by-night’ companies. But this acute problem has been addressed half-heartedly and inadequately, based on no legislative initiative. As a result, the measures put in place by the government to control the activities of unscrupulous entities even now fail to serve the interests of medium and small businesses. The financial crisis which started in 2008 has boosted swindlers' demands for the services of phoney companies, and in so doing endangered the financial position of the country’s entrepreneurs and society as a whole. This goes against the grain of goodwill and the practice of fair play between business partners.

In 2008, the detective A. Krioni developed the Financial Integrity and Bona Fides Index for private establishments such as small and medium-sized businesses, with the object of rating their propensity to fictitious business activities. This is a first-of-a-kind tool, developed by a member of the general public – a practising private detective.

The study is meant to:

- draw attention to the identification of fictitious economic activities by seemingly legitimate businesses in fact set up to achieve criminal ends by deceiving the parties that contract with them in Russia and abroad;
- improve monitoring and sourcing of information which can be used to develop further policies against unscrupulous (malicious) entities.

An integrated value of the index is obtained by averaging 7 indicators. The indicators measure the integrity and good faith of an entity and the measures taken by the corporate governing body to eliminate signs of proforma activities – the function of fraudulent bankruptcy (Art. 197 Criminal Code of the RF), rather than to prevent financial insolvency. The indicators were thus designed to encourage bona fide businessmen rather than to identify mala fide ones.

The indicators are divided into two categories:

- * *Balance sheet*. Two indicators to cover the following: information on the hard currency balance (total assets) and the statutory share capital.
- * *Off balance sheet*. Five indicators to cover the following: RF Central Bank rate; Reporting period of financial statements; Fixed costs; Corporate staff on payroll; Corporate life span.

The process of index development revealed the limited nature of access to information in Russia. Reliable data are scattered pell-mell over various sources without rhyme or reason; when asked to provide information to a person concerned, officials more often than not refuse to do so, citing "lack of adequate arrangements".

The survey undertaken covered all the entities on the register of the Federal Government Statistical Service. In toto, the Financial Integrity Index 2008 is represented by a table featuring a hundred businesses in this country out of some four and a half million. The 2008 list presents businesses in various lines of activity. The group comprises retail businesses, financial companies, auto repair shops, and educational and sports establishments. The findings of office research are summarized in the Table called *List of Russia's First Hundred Fictitious Companies 2008*.

Facts that suggest semi-criminal and outright criminal bogus business activities are listed in the line *Further proof or facts taken by the author as evidence of fake corporate activities* in the Table. The review of the evidence gathered shows that out of the hundred businesses in operation 51 have clear signs of fictitious business activities. It is a matter of special concern that 26 organisations whose life span is two years or less have already been involved in proceedings of Arbitration courts of the Russian Federation.

Table 1

LIST OF RUSSIA'S FIRST HUNDRED FICTITIOUS COMPANIES 2008

| No | COMPANY NAME | <i>Further proof or facts taken by the author as evidence of fake corporate activities</i> |
|----|--|---|
| 1 | OOO "Fair-traid" | No information available |
| 2 | OOO "Kommersant" | No information available |
| 3 | OOO "Termoros-Sochi" | Going concern. Service and product information available on corporate website http://www.termoros.com |
| 4 | ZAO "Iniciativa, Razrabotka, Vnedrenie, Uslugi sertifikacii" | No information available |
| 5 | OOO "Starli Inzhiniring" | Going concern. Service and product information available on corporate website http://www.cis-automation.ru |
| 6 | OOO "PARKprodukt" | See court case No. № A68-1130/08 |
| 7 | OOO "Udacha" | See court case No. № A11-4767/2007-K2-21/235 |
| 8 | OOO "Uralochka" | No information available |
| 9 | OOO "Altair" | See court case No. № A46-5455/2008; № A46-8541/2008 |
| 10 | OOO "Telets" | No information available |
| 11 | OOO "Nadezhda S" | No information available |
| 12 | OOO "Prestizh" | No information available |
| 13 | OOO "TP Garant-Ekaterenburg" | No information available |
| 14 | OOO "Zhasmin" | See court case No. A11-2195/2008-K1-11/131; A11-10886/2007-K1-1/534 |
| 15 | OOO "Sfera" | No information available |
| 16 | OOO "Apeks" | No information available |
| 17 | OOO "YuzhuralElektrokhimzaschitaStroy" | No information available |
| 18 | OOO "Lis,T" | No information available |
| 19 | OOO "Torgservice" | See court case № A72-4266/08-27/148 |
| 20 | OOO "Zvezdochka" | No information available |
| 21 | OOO "Opytno-Konstruktorskoe Buro "Elegia" | Going concern. |
| 22 | OOO "Elektromekhanicheskaya Kompania" | No information available |
| 23 | OOO "Razdolie" | See court case № A11-7191/2007-K2-19/445 |
| 24 | OOO "GELIOS-PARK Spb" | No information available |
| 25 | OOO "Akropol Snab" | No information available |
| 26 | OOO "PKP "PpoliPrivod" | Going concern. Service and product information available on |

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|----|----------------------------------|---|
| | | corporate website www.poli-privod.ru |
| 27 | OOO "Labaz Plus" | No information available |
| 28 | OOO "Svetlana" | No information available |
| 29 | OOO "Energosnab" | See court case № A76-510/2008-22-163; № A76-22480/2007-16-798/56 |
| 30 | OOO "TransUsAvto" | No information available |
| 31 | OOO "Vesta" | See court case № A03-10350/07-31 |
| 32 | OOO "Kompania Kraft" | Going concern |
| 33 | OOO "Nestandartnoe Oborudovanie" | No information available |
| 34 | OOO "Dialog" | No information available |
| 35 | OOO "TerminalStroiServic" | No information available |
| 36 | OOO "Valentina" | No information available |
| 37 | OOO "Fortuna" | See court case № A39-659/2008-35/7 |
| 38 | OOO "Argo" | Going concern |
| 39 | OOO "Region-DV" | See court case № A51-2842/2007-19-113 |
| 40 | OOO "Kuban'torg" | No information available |
| 41 | OOO "Lena" | No information available |
| 42 | OOO "SMT" | No information available |
| 43 | OOO "Osen" | See court case № A67- 1500/08 |
| 44 | OOO "KubPromStroy" | See court case № A-32-15659/2008-18/355; № A-32-14172/2007-1/138; № A-32- 23973/2006-44/208 |
| 45 | OOO "PKF Girosfera" | No information available |
| 46 | OOO "Topolek" | No information available |
| 47 | OOO "RelKom" | Going concern |
| 48 | OOO "KosmoTekh" | No information available |
| 49 | OOO "Kerro" | See court case № A56-3669/2008 |
| 50 | OOO "Yaroslavna" | No information available |
| 51 | OOO "Torgovyi Dom "TriO" | No information available |
| 52 | OOO "Armada" | Going concern |
| 53 | OOO "Yoldyz" | Going concern. See website http://www.tatar-inform.ru/news/2008/01/15/92107/ |
| 54 | OOO Torgovyi Dom "Atlantik" | No information available |
| 55 | OOO "Katusha" | See court case № A12-18289/07-C19 |
| 56 | OOO "KV-MARKET" | No information available |

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|----|---|---|
| 57 | OOO "RusKapitalGrupp" | No information available |
| 58 | OOO "Kentavr" | See court case № A40-12150/08-123-32Б; № A40-64093/07-65-571 |
| 59 | OOO "Svetlana" | See court case №A64-1746/08-3; №A64-563/08-8; №A64- 5914/06-22 |
| 60 | OOO "Komas" | Going concern. Service and product information available on corporate website http://www.komac.icnn.ru/index.html |
| 61 | OOO "Parabelnefteprodukt" | Going concern |
| 62 | OOO "Rodina" | Going concern |
| 63 | OOO "Niva" | See court case № A56-44528/2007, № A56-54480/2007; № A56-49286/2007; № A56-26059/2007; № A56-45878/2006 |
| 64 | OOO "TransServicStroi" | Going concern |
| 65 | OOO "IzhTeploStroi" | Going concern |
| 66 | OOO "Specvodstroi" | No information available |
| 67 | OOO "Nadezhda" | See court case № A68-2642/07-144/10 |
| 68 | OOO "22 Plus" | No information available |
| 69 | OOO "Sibirskoe neftegazovoe snabzhenie" | Going concern. See website http://www.trknara.ru/dealers.htm |
| 70 | OOO "Aivengo" | See court case № A05-1229/2008 |
| 71 | OOO "Parus" | See court case № A76-9506/2007-56-495 |
| 72 | OOO "Elektromontazh Yugo-Zapad" | No information available |
| 73 | OOO "Akhtamar" | Going concern |
| 74 | OOO "Takho-Transmition" | Going concern. Service and product information available on corporate website http://www.tahoe.ru/index.php |
| 75 | ZAO "Torgovyi Dom "UralEvrosouz" | See court case № A60-17942/06-C7; № A60-13094/06-C3; Going concern. Service and product information available on corporate website http://www.ugshk.ru/index.html |
| 76 | OOO "Everest" | Going concern. Service and product information available on corporate website http://everest09.narod.ru/index.htm |
| 77 | OOO "RASH" | No information available |
| 78 | OOO "TK Lora" | Going concern. See case № GU MRO FSS RF 3633-Psh 14.07.08 |
| 79 | OOO "NPO Sibagroservice" | No information available |
| 80 | OOO "Vash Teplyi Byt +24" | No information available |
| 81 | OOO "Proekt Inzheniring" | Going concern |
| 82 | OOO "C q retail" | See court case № A76-11664/2008-53-263 |
| 83 | OOO "SibStroyPostavka" | Going concern |

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| 84 | OOO "Tekhnoaktiv" | Going concern. Service and product information available on corporate website http://www.tact.front.ru/index.htm |
| 85 | OOO "Stroimetallotorg" | Going concern |
| 86 | OOO "Gold Faktura" | No information available |
| 87 | OOO Firma "Svetlana" | Going concern. Service and product information available on corporate website http://www.svet-len.ru |
| 88 | OOO "Stels" | See court case A40-37908/08-48-341 |
| 89 | OOO firma "Anker" | See court case № A40-9321/07-121-85; № A40-33961/07-146-215 |
| 90 | OOO MSK "Polistrom" | No information available |
| 91 | OOO "Lukomor" | No information available |
| 92 | OOO "Orion M" | See court case № A76-23200/03 |
| 93 | OOO "Neftegazkomplex" | No information available |
| 94 | OOO "Katusha" | See court case № A76-23200/03 |
| 95 | OOO "SASHENKA" | No information available |
| 96 | OOO "Zhasmin" | No information available |
| 97 | Torgovyi Dom "Souz" (OOO) | Going concern. Service and product information available on corporate website http://souz-td.ru |
| 98 | OOO "Alexandrovskii" | No information available |
| 99 | OOO "Getap" | No information available |
| 100 | OOO "Grein Invest" | Going concern |

The Index will be published on an annual basis to enable the bona fide contractor to identify mala fide players. A number of non-governmental and educational establishments have already expressed their interest in conducting such surveys in order to improve the security of business environment.

Now the task is to boost the performance of the index by:

- improving its methodology;
- removing impediments to solid economic information on the future business partner;
- developing proposals to improve the laws on business activities by introducing amendments to the Russian Federation CC to make fictitious business activity a criminal offence.

The publication of the index should prompt the economic community to put in place policies to encourage bona fide business activities.

For further information on the index, visit the website www.krioni.com

A.Ye.Krioni

Address: M.Tukhachevskogo, 33 – 85, Moscow, 123154, Russian Federation

E-mail: krioni@krioni.com

Phone: (+7 495) 799 5799