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**EUROPEAN COMMITTEE ON CRIME PROBLEMS
(CDPC)**

**COMMITTEE OF EXPERTS
ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES
AND THE FINANCING OF TERRORISM
(MONEYVAL)**

**DETAILED ASSESSMENT REPORT
on the RUSSIAN FEDERATION¹**

**ANTI-MONEY LAUNDERING
AND COMBATING THE FINANCING OF TERRORISM**

EXECUTIVE SUMMARY

Memorandum
prepared by the Secretariat
Directorate General of Human Rights and Legal Affairs (DG-HL)

¹ Adopted by the MONEYVAL Committee at its 27th Plenary Session (Strasbourg, 7 - 11 July 2008)

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EXECUTIVE SUMMARY

Background Information

1. This report summarises the anti-money laundering (AML)/combating the financing of terrorism (CFT) measures in place in the Russian Federation as of the time of the on-site visits (the first was 25 September – 2 October 2007, and second was 12 – 23 November 2007) and shortly thereafter. The report describes and analyses those measures and provides recommendations on how certain aspects of the system could be strengthened. It also sets out the levels of compliance of the Russian Federation with the Financial Action Task Force (FATF) 40+9 Recommendations (see the attached table on the Ratings of Compliance with the FATF Recommendations) together with the two Directives of the European Parliament and of the Council (91/308/EEC and 2001/97/EC) in accordance with MONEYVAL Terms of Reference.

2. The Russian authorities are well aware of the money laundering (ML) and terrorist financing (TF) schemes used in Russia. Many ML schemes involve the misuse of (foreign) legal entities and financial institutions. Laundered money is often invested in real estate or security instruments, or used to buy luxury consumer goods. Russia has been a repeated victim of terrorism, and the authorities report the use of TF schemes involving the misuse of alternative remittance networks by foreign and North Caucasian terrorist groups.

3. A general impediment to the fight against ML/TF is the high level of corruption in the public and private sector. There are no indications that the FIU is affected by corruption, but some law enforcement bodies and private sector businesses are impacted by corruption in varying degrees. The current and previous President of Russia have rightfully established eliminating corruption as a priority for the Russian Government.

Legal System and Related Institutional Measures

4. Russia has criminalised ML through articles 174 of the Criminal Code (CC) (money laundering), 174.1 CC (self-laundering) and 175 CC (acquisition of property obtained by crime). Article 174 CC defines money laundering as an act that involves the carrying out of financial operations and other transactions with monetary funds or property knowingly acquired by other people by criminal means in order to impart legitimacy to their ownership and to conceal the criminal origin of the property. Article 175 CC states that the acquisition or sale of property knowingly obtained in a criminal manner is a punishable offence.

5. The money laundering offence extends to any property and monetary funds. It is not necessary to convict a person of a predicate offence to prove that property is the proceeds of crime. All crimes are predicate offences for ML, with the exception of 6 financial crimes. The absence of these offences could have a negative effect on the overall effectiveness the criminalisation of ML. For the predicate offences that should be covered by the ML offence, 19 of the 20 predicate offences for money laundering required under the FATF Recommendations are covered. The offences dealing with insider trading and stock market manipulation are not distinct criminal offences, although elements could be found in some other laws.

6. Only a natural person is subject to criminal responsibility, and the Russian authorities argued unsuccessfully that this principle constitutes a fundamental principle of the Russian criminal law. Notwithstanding, the Russian law provides for corporate and administrative liability for legal persons and a legal person found to have engaged in money laundering

activities can have its licence revoked and ultimately be subject to liquidation through civil court proceedings.

7. There is a wide range of maximum sanctions available for money laundering by natural persons, consisting of fines (from RUB 120 000 to RUB 1 million) and terms of imprisonment (from 4 to 15 years). Fines can also be adjusted on the basis of the offender's income (from 0.5 to 5 times the annual income).

8. The ML offences are being increasingly prosecuted, with ML investigations jumping from 618 in 2003 to 7 957 in 2006, the number of money laundering cases sent to court going from 465 in 2003 to 6 880 in 2006 and the overall number of convictions increasing from 14 in 2003 to 532 in 2006. However, considering the level of organised crime and corruption acknowledged by the Russian authorities, the ML offence should be used even more in the future.

9. Russia criminalised terrorist financing in article 205.1 CC. The article targets any support or contribution to terrorist activity, and financing of terrorism is explicitly mentioned in the first part of the article. Criminalisation also covers the provision and collection ("raising") of funds. The financing of terrorism is connected to 10 crimes of a terrorist nature, committed by both individual terrorists and terrorist organisations. However, it does not extend to the theft of nuclear material as required under the UN Convention for the Suppression of the Financing of Terrorism. Intent is required, but the Prosecution Authority does not need to prove that the funds are intended or had been intended to finance a specific terrorist act. Terrorist financing is committed as soon as the funds are collected, regardless of whether or not the funds are used in the commission of a terrorist act. The possible sentence for TF is from 4 to 8 years imprisonment. If the same crime is committed by a person through the abuse of his office, the possible sentence is 7 to 15 years imprisonment. In this last case, the judge may add a fine to the prison sentence (a maximum of RUB 1 million or five years annual income). The TF offences have been used with 24 persons convicted for the period 2004 – 2006. The average prison sentence was about eight years. Given the level of terrorist activity in Russia, the low number of cases and convictions suggests that the Russian terrorist financing provision could be used more effectively.

10. Russia possesses a dual procedure for dealing with confiscation. The Code of Criminal Procedure (CCP) and Criminal Code both contain provisions that authorise the confiscation of proceeds of crime. Article 81 CCP permits the confiscation of proceeds that are derived directly or indirectly from the commission of an offence, including income and property resulting from proceeds that have been changed to another form. Article 104.1 CC allows for the confiscation of property that is derived directly or indirectly from the commission of crime, including income and property resulting from proceeds that have been changed to another form. Both articles allow for the confiscation of instruments, equipment or other means of committing an offence or intended to be used to commit a crime. Bone fide third party rights are protected by article 123 CCP and article 169 Civil Code provides that any transaction contrary to the fundamentals of law and order or to morality is void.

11. Russian authorities have made good use of the provision under article 81 CCP as evidenced by the value of confiscation for the ML offences at over RUB 385 million in 2006 and by confiscations for all crimes totalling over RUB 75 billion from 2003 to 2006. The procedure under CC articles 104.1 has only been in effect since 1 January 2007, and so it is difficult to evaluate its effectiveness. The new provision should be easier to use and should be even more effective in targeting proceeds of crime.

12. Russia has established a system for freezing terrorist assets to comply with UNSCR 1267(1999), UNSCR 1373(2001) and successor resolutions. Russia has issued a list of designated terrorist entities with an international part (UNSCR 1267) and a domestic part

(UNSCR 1373). All assets of terrorists and terrorist organisations listed in UNSCR 1267, as well as all assets belonging to persons and organisations owned or controlled by them, are frozen without time limitation or until there is a de-listing by the UN. However, no funds have been frozen so far.

13. For the domestic list (UNSCR 1373), a different regime has been created. The domestic list includes the names of entities that are identified and designated by the Russian authorities in accordance with the AML/CFT Law and the Terrorist Financing Regulation. The effect of being listed is a temporary suspension of financial operations (freezing) in respect of all assets owned or controlled by the listed entity. The freezing is reported to Rosfinmonitoring. This suspension is in effect for an initial two working days, during which time Russian authorities verify the basis for the freezing action. The freeze can be extended for an additional five working days if required in order to complete the verification. Thereafter, the criminal (seizure and confiscation) regime applies if necessary.

14. While the freezing mechanisms in the approach taken by the Russian Federation are in line with the UN Resolutions, there are elements associated with Special Recommendation III that are either absent or incomplete. In implementing UNSCR 1373, Russia relies heavily on the criminal justice system for covering the various elements contained in SR.III. Reliance on the criminal justice system risks creating problems regarding the efficient implementation of this Recommendation. For example, difficulties or delays in obtaining sufficient evidence to prosecute or convict may result in a terrorist being acquitted and his funds unfrozen. Such a result would frustrate the objectives of UNSCR 1373. In addition, Russia needs to implement an appropriate mechanism that will enable it to examine and give effect to actions initiated under the freezing mechanisms of other jurisdictions.

15. Rosfinmonitoring, the FIU of the Russian Federation, is the cornerstone of the Russian AML/CFT system. It is the central (policy) co-ordinating body for AML/CFT issues and is designated as the authority for collecting, processing, analysing and disseminating STRs. It is empowered to request information from reporting and government entities, maintain the national AML database, act as the international AML/CFT point of contact for Russia and represent Russia in international bodies such as FATF, Moneyval, EAG and the Egmont Group. Rosfinmonitoring was also the force that inspired the Eurasian countries to establish an FATF-style regional body, the EAG, in 2004.

16. Rosfinmonitoring has regional offices in all Federal Districts, and the co-operation between the headquarters and the regional offices seems to be good. The headquarters has established a sophisticated information technology infrastructure that enables the regional offices to analyse STRs, use the national AML database and submit cases for dissemination to headquarters. Rosfinmonitoring demands high professional standards of its employees, and internal control systems are used to protect information from unauthorised access by staff. The IT systems are designed to handle a large number of STRs and other reports. The only shortcoming detected by the evaluation team was the rather high number of staff vacancies (about 15% of maximum staff levels), especially in the analytical and supervisory departments, and the authorities are encouraged to fill all current vacancies.

17. The traditional tasks of an FIU (receiving, analysing and disseminating STRs) are performed effectively by Rosfinmonitoring, as are other important tasks that are unique to the agency, such as international co-operation and related activities such as training provided by its "*ANO Training Centre*".

18. The main law enforcement bodies involved with the fight against ML and TF are the Ministry of the Interior (MIA), the Federal Security Service (FSB), the Federal Service for the Control of Narcotics Circulation (FSKN) and the Prosecution Authority. All bodies co-operate with the FIU, but it is not always clear how they co-operate with each other. The

MIA, FSKN, FSB and Prosecution Authority are all clearly responsible for AML/CFT investigations, and the law designates the Prosecution Authority for delineating responsibilities for investigations when more than one body is involved. However, in practice and in all regions, there seems to be a lack of awareness by the Prosecution Authority and a lack of co-operation with the Prosecution Authority by other law enforcement bodies. This factor, along with the existence of corruption within law enforcement as acknowledged by Russian authorities, has a negative impact on the effectiveness of the system.

19. Regarding Special Recommendation IX, Russia has added AML/CFT-related requirements to its existing currency control system. The outcome is a rather confusing legal framework that appears to be interpreted differently by the Customs authorities in each of the regions visited. In practice, the effort focuses almost exclusively on cash, is not implemented as foreseen by the law, and has enforcement, legal and implementation gaps in specific areas. In addition, few sanctions for non-compliance with the declaration requirements have been levied, statistics are lacking, and Customs authorities appear to lack a clear awareness of AML/CFT measures. A full review and subsequent integration of the currency control system into the AML/CFT Law is necessary, as the physical movement of cash in and out of Russia is an important component of money laundering schemes detected in Russia.

Preventive measures - Financial Institutions (FIs)

20. The legal framework for customer due diligence is set out in a variety of legal documents. Except for the detailed provisions of the AML/CFT Law, all of these constitute other enforceable means. All financial institutions (as defined by the FATF Recommendations) are covered by the AML/CFT law.

21. Credit Institutions are explicitly prohibited from opening anonymous accounts, but there is no specific provision that prohibits banks from maintaining existing accounts under fictitious names, although the authorities believe that existing procedures effectively preclude this. All customers must be identified, although there are exemptions for certain specifically defined occasional transactions below RUB 30 000, even if there is a suspicion of money laundering or terrorist financing. Foreign exchange transactions below RUB 15 000 are also exempted from CDD, but only if there is no ML/TF suspicion. Financial institutions are in fact prohibited from performing CDD in these cases.

22. The CDD framework includes provisions on authorised persons, representatives and beneficiaries, but it does not fully address the concept of beneficial ownership. Ongoing CDD is defined as an update of CDD information, which usually must take place annually. This may not be sufficient, but it does solve possible gaps for existing customers. Financial institutions are required to assess if there are risks that make it necessary to perform enhanced CDD. There are no such rules for simplified CDD.

23. The measures against PEPs are very recent, and their effectiveness could not be assessed. However, the legal framework is incomplete and should be dealt with as a matter of urgency. Although not a strict requirement under the FATF Standards, Russia should consider including domestic PEPs as a tool for fighting corruption. In relation to correspondent banking, all of the relevant criteria should be implemented, particularly the need to understand the nature of the respondent bank's business and to ascertain whether the respondent's AML/CFT system is adequate and effective. The requirement to document the respective AML/CFT responsibilities of banks should also be covered. There seems to be no practical problem with financial secrecy provisions.

24. Record keeping requirements are generally comprehensive, but there are a few gaps in law and regulation which the assessment team recommends Russia address. Notwithstanding, the evaluation team did not receive any indication that the competent

authorities had a problem obtaining required information on a timely basis. Thus, the assessment team has raised the rating for this Recommendation on the basis of effectiveness.

25. The new system governing wire transfers is a welcome step towards compliance, but gaps remain, particularly regarding the definition of originator information in certain limited cases. The assessment team recommends that the Russian authorities amend the current AML/CFT regime to address the remaining gaps and to ensure that all rules can be implemented in practice. As the legal framework for Special Recommendation VII was only implemented recently, it was impossible to measure implementation and effectiveness.

26. There is no overall requirement to examine the background and purpose of all unusual transactions and to record and maintain such information for competent authorities. Many financial institutions seem to be confused about the distinction between mandatory threshold reporting (> RUB 600 000) and examining the background of unusual transactions, however, the authorities maintain that many of the criteria for mandatory reporting are in fact unusual transactions. That said, despite the gaps in the law, in practice most FIs seem to pay attention to unusual transactions to be able to report STRs.

27. Russia bases its implementation of Recommendation 21 on the FATF list of Non Co-operative Countries or Territories, which is by itself insufficient to meet the requirements of this Recommendation. Nevertheless, Russia indicated that the Law on Special Economic Measures enables Russia to apply countermeasures in accordance with Recommendation 21, including when the FATF should decide to apply countermeasures.

28. The Russian AML/CFT Law requires the reporting of suspicious transactions in ML and TF cases, except for attempted transactions by occasional customers. While the banking sector files most STRs, other sectors also show an increase in the number of STRs. Other than these points, the shortcomings for Recommendation 13 are mostly technical.

29. Given the absence of any TF STR guidance, the authorities explained that, in practice, often a transfer of a small amount of money from a region with supposed TF activities or a withdrawal of a small amount of money from an ATM in such a region triggers an STR without any “real” TF suspicion. In addition, neither the authorities nor the private sector could indicate what the characteristics of a TF related STR would be. All of this has an impact on the effectiveness in assessing Special Recommendation IV.

30. General requirements for financial institutions to establish and maintain internal control procedures, policies, and controls to prevent ML and FT are laid out in the AML/CFT Law. Training programmes focus heavily on the legal requirements, but do not incorporate typologies, so employees are not adequately prepared to detect signs of ML and FT when they occur. TF requirements do not extend beyond the lists of designated terrorist entities. Employee screening procedures need to be broadened to cover all staff, including a criminal records check. The implementation of AML/CFT- related internal controls within Russia Post is lacking.

31. Russia has been criticised in past mutual AML/CFT evaluations for being vulnerable to criminal ownership of financial institutions, and some banks are in fact still believed to be owned and controlled by (suspected) criminals and their front men. The authorities also indicated their strong and longstanding desire to obtain the necessary supervisory instruments to deal with this issue. However, legislative changes have not yet addressed this clearly identified weakness, and all supervisors need more legal powers with respect to preventing criminals from controlling financial institutions.

32. Overall, the evaluators concluded that the supervision carried out by the BoR is detailed, in-depth and effective. For the FSFM and FISS, however, on average, each securities

market participant is only inspected once every nine to twelve years and each insurance company is inspected only once every five to six years. The sample reports obtained from FSFM and FISS do not appear to be sufficiently detailed. ROSCOM inspects each Russia Post branch only once every six years, and the reports also appear to be superficial with regard to AML/CFT matters. Leasing companies are only inspected once every eight to thirteen years by Rosfinmonitoring.

33. Except for some limited guidance issued by Rosfinmonitoring (explanation of the law and typologies), no guidance has been issued. Not surprisingly, few of the financial institutions met with had any knowledge of what constitutes ML or TF beyond the legal requirements of the AML/CFT Law.

34. The powers of the supervisors are found in the law, although, for example, the BoR Law still limits the BoR in the number of on-site inspections it may carry out over a certain period (this limitation has already been mentioned in a previous AML/CFT assessments). Powers to compel production of records are sound in practice, although there some technical legal shortcomings.

35. The sanctioning powers, as well as the sanctions themselves, are in general completely inadequate. The BoR, the only supervisor with some sanctioning powers, indicated that their powers are too limited to effectively correct compliance shortcomings. The evaluation team fully agrees with the view of the BoR. The FSFM and FISS both disagreed with evaluators as to whether their powers were too limited, despite the fact that neither of these supervisors has any (direct) sanctioning powers at all. The statistics show that the system for sanctioning non-CI financial institutions does not work effectively, especially with respect to the FISS and ROSCOM.

36. The lack of effective financial sector supervision regarding AML/CFT is a key shortcoming. Russia has not effectively addressed repeated critical AML/CFT assessments identifying the need for improvement. It would be advisable for the FATF, MONEYVAL and EAG to monitor this area to ensure that remedial action is taken once and for all.

37. The current system for dealing with MVT service providers ensures a fairly effective oversight of legal MVT service providers, but it does not effectively address the existence of illegal alternative remittance systems (ARS) operating in Russia. Russian law enforcement bodies should place a higher priority on investigating the existence of alternative remittance systems to better assess the size and the nature of ML/TF threat posed by illegal MVT occurring within and through Russia.

Preventive Measures – Designated Non-Financial Businesses and Professions (DNFBPs)

38. Within the AML/CFT Law, Russia has set up two different regimes for designated non-financial businesses and professions (DNFBPs). The first regime focuses on financial institutions but it also includes the gaming industry, the real estate sector and dealers in precious metals and stones. The second regime applies to lawyers, notaries and accountants. This second regime is a less strict version of the system for financial institutions and the specific reporting requirements only apply to lawyers, notaries and accountants under certain conditions: *i*) If, during the course of business, the professional has any ground to assume that the aim of the operation or financial transaction is to launder money or finance terrorism and *ii*) if the information or service provided is not covered by professional secrecy provisions in relation to a limited set of activities that does not fully match the activities listed by the FATF. Russia should review the AML/CFT regime as it applies to DNFBPs and ensure that all relevant elements are addressed.

39. The requirements for lawyers, notaries and accountants are generally incomplete or not effectively implemented. All DNFBPs that the evaluation team met with had implemented the requirements in a different manner and not always in line with the law. There are as well some specific concerns relating to the effectiveness of the regime for casinos and the real estate sector.

40. Although real estate agents, casinos and dealers in precious metals and stones are covered by the general duty to report STRs, the figures for reporting raise some concerns over the effectiveness of the provisions. The numbers of STRs filed by lawyers and notaries appear to be very low, which calls into question whether the requirements under the AML/CFT Law are sufficiently publicised, understood or enforced.

41. All DNFBPs are supervised, but it is not always clear if this is (also) done specifically for AML/CFT purposes. The current system in which casinos are not licensed by a competent authority involved with AML/CFT matters is a cause for concern. Rosfinmonitoring is responsible for supervising casinos and real estate dealers. In the absence of specific information on sanctions imposed, doubts remain as to the effectiveness of the regime. The fact that the Assay Chamber lacks effective supervision powers and resources to focus on AML/CFT matters for dealers in precious metals and stones is overwhelming. The supervision of lawyers, notaries and accountants concentrates on matters relating to professional practice and observance of federal legislation, including in theory, AML/CFT.

42. Russia is to be commended for identifying pawnshops, operational leasing companies and non-casino gambling enterprises as designated entities under the AML/CFT Law. Russia may also want to consider the ML risk posed by the proliferation of high value and luxury goods providers.

Legal Persons and Arrangements & Non-Profit Organisations

43. There are no bearer shares in Russia, nor are there any trusts or other similar legal arrangements.

44. All legal entities and individual businesses are required to register or update their registration at the moment of their establishment, reorganisation and liquidation as well as when any changes to the constituent documents are introduced. The law describes the data that have to be submitted to the registry which is maintained by the tax authorities. Information is publicly available, except for certain types of information that is only available to the state authorities. Information on beneficial ownership and control of legal persons as required by the FATF Recommendations is not registered or readily available to any state authorities.

45. According to the Russian authorities, the overwhelming majority of money laundering schemes are associated to a certain extent with “one-day” firms – commercial organisations registered under the names of non-existent persons without intention to perform any real commercial activity. The evaluators believe that the lack of information on beneficial ownership and control of legal persons in accordance with the FATF Recommendations is the root cause of the problem. The evaluators strongly believe that if there were effective procedures in place to gather and maintain such information, the problem with the “one-day” firms would be resolved to a large extent.

46. The Russian authorities have undertaken a superficial review of the NPO sector with an aim to determine its vulnerability to terrorist financing. While the Russian authorities seem to be of the view that the system in place is quite tough, most of the provisions involve basic registration provisions that are in place for all legal entities in Russia, including commercial legal entities. There is limited outreach to the NPO sector to provide guidance, but more

needs to be done. The authorities should set up a more comprehensive and efficient system that focuses on real potential vulnerabilities and to share information to target abuse.

National and International Co-Operation

47. Russia appears to have mechanisms in place to review the effectiveness of its AML/CFT system, since new policy and legislative proposals are developed and implemented on an ongoing basis. However, the evaluation team also noted that the valuable findings of reports such as the National AML/CFT Strategy Paper and policy-oriented typologies reports by Rosfinmonitoring have had a rather limited effect in areas outside the control of Rosfinmonitoring, such as compliance with Recommendation 33 and Special Recommendations III and IX. While Rosfinmonitoring already has overall responsibility for the implementation of the FATF (Special) Recommendations, the evaluation team would recommend that it should also be given the necessary powers to ensure improved implementation.

48. Russia has implemented the Vienna and Palermo Conventions and almost fully implemented the Terrorist Financing conventions. There are gaps in implementing UNSCRs 1267, 1373 and successor resolutions.

49. Russia is able to provide various forms of mutual legal assistance on the basis of the provisions of the CCP and the AML/CFT Law. Mutual Legal Assistance (MLA) is provided on the basis of international agreements or on a reciprocal basis and is generally sound. Russia is party to a large number of bilateral and multilateral mutual legal assistance treaties. Recommendations 37 and 38 are fully implemented. In the course of the assessment, the team received information from FATF, MONEYVAL, EAG and members of other FSRBs that improvements were warranted in responding more expeditiously to mutual legal assistance requests. There also appears to be a stark difference in extradition practice in relation to non-CIS countries (the numbers seem unnecessarily low, perhaps indicating less co-operation in this area). Russia is however to be commended for the high number of requests to and from CIS countries. There are no issues in relation to other forms of international co-operation.

Resources and Statistics

50. Not all authorities keep quality statistics. While Russian authorities generally seem to have sufficient staff (based on the numbers provided), the number of staff specifically devoted to AML/CFT is generally too low.

TABLES

TABLE 1: RATINGS OF COMPLIANCE WITH FATF RECOMMENDATIONS

The rating of compliance vis-à-vis the FATF Recommendations should be made according to the four levels of compliance mentioned in the 2004 Methodology (Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-Compliant (NC), or could, in exceptional cases, be marked as not applicable (N/A).

Forty Recommendations	Rating	Summary of factors underlying rating
Legal systems		
R.1 ML offence	LC	<ul style="list-style-type: none"> • Russia has not established offences of insider trading and stock market manipulation.
R.2 ML offence – mental element and corporate liability	LC	<ul style="list-style-type: none"> • Russia has not established criminal liability for legal persons.
R.3 Confiscation and provisional measures	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.
Preventive measures		
R.4 Secrecy laws consistent with the Recommendations	C	<ul style="list-style-type: none"> • This Recommendation is fully observed
R.5 Customer due diligence	PC	<ul style="list-style-type: none"> • No specific prohibition on maintaining existing accounts in fictitious names. • No requirement to conduct CDD if suspicion of ML/TF if one of the exemptions of AML/CFT Law article 7 clause 1.1 applies. • No requirement in Law or Regulation for dealing with doubts about veracity. • Lack of clarity and effectiveness in respect of beneficial ownership requirements. • Lack of clarity in relation to ongoing due diligence. • No direct requirement to establish nature and intended purpose of business relationship. • Doubts about clarity and effectiveness of requirements relating to SDD and EDD. • Timing of verification – no measures for non-CIs. • Failure to complete CDD – measures for non-CIs only extend to ID.
R.6 Politically exposed persons	PC	<ul style="list-style-type: none"> • Definition of PEPs does not extend to those who <i>have been</i> entrusted with public functions. • No requirement for obtaining approval from senior management for existing customers found to be PEPs. • Lack of clarity relating to establishing source of wealth and enhanced ongoing due diligence. • Beneficial ownership is not covered. • No information on effectiveness.

Forty Recommendations	Rating	Summary of factors underlying rating
R.7 Correspondent banking	PC	<ul style="list-style-type: none"> • No specific requirement to understand nature of respondent's business or determine quality of supervision. • No requirement to ascertain if respondent has been subject of ML/TF investigation. • Nothing specific requiring a judgement on effectiveness of respondent AML/CFT system.
R.8 New technologies & non face-to-face business	PC	<ul style="list-style-type: none"> • Requirements for new technologies limited to internet banking. • No requirements for non face-to-face transactions except for CIs.
R.9 Third parties and introducers	N/A	<ul style="list-style-type: none"> • This recommendation is not applicable (financial institutions are legally not permitted to rely on intermediaries or third parties).
R.10 Record keeping	LC	<ul style="list-style-type: none"> • Account files and business correspondence do not have to be kept for a minimum of five years from the termination of the account or the business relationship. • "Timely access" is not required by law or regulation.
R.11 Unusual transactions	PC	<ul style="list-style-type: none"> • No requirement for FIs to examine as far as possible the background and purpose of all unusual transactions. • No requirement for FIs to set forth the findings of such examinations in writing. • No specific requirement for FIs to keep such findings available for competent authorities and auditors for at least five years. • Lack of effectiveness, especially in the non CI sector.
R.12 DNFBP – R.5, 6, 8-11	PC	<p><i>Applying R.5</i></p> <ul style="list-style-type: none"> • Casinos/Real Estate Agents/Dealers in Precious metals and stones – similar technical omissions as recorded under R 5. In particular: <ul style="list-style-type: none"> ○ No requirement for dealing with doubts about veracity of previously obtained information. ○ Lack of clarity and effectiveness in respect of beneficial ownership requirements. ○ Lack of clarity in relation to ongoing due diligence. ○ Doubts about clarity and effectiveness of requirements relating to SDD and EDD. ○ Timing of verification – no requirements. ○ Failure to complete CDD requirements limited to failure to carry out customer ID. ○ Concerns about effectiveness in the casino sector. • Lawyers/notaries/accountants <ul style="list-style-type: none"> ○ CDD requirements only relate to ID. <p><i>Applying R.6</i></p> <ul style="list-style-type: none"> • Lawyers/notaries/accountants: New provisions do not apply. • All other entities: similar omissions as recorded under R 6. <p><i>Applying R.8</i></p> <ul style="list-style-type: none"> • Casinos: requirements limited to prohibition of gambling via the internet. • All other entities: no requirements except the need to personally identify all natural persons. <p><i>Applying R.9</i></p> <ul style="list-style-type: none"> • N/A

Forty Recommendations	Rating	Summary of factors underlying rating
		<p><i>Applying R.10</i></p> <ul style="list-style-type: none"> • Casinos/Real Estate Agents/Dealers in Precious metals and stones <ul style="list-style-type: none"> ◦ Similar omissions as recorded under R 10. • Lawyers/notaries/accountants • No requirement to keep records except for those relating to ID. <p><i>Applying R.11</i></p> <ul style="list-style-type: none"> • All designated assessed sectors <ul style="list-style-type: none"> ◦ Similar omissions as recorded under R 11, practice suggests concentration on factors which give rise to the submission of STRs. • All Recommendations: TCSPs are not covered. • Accountants – no information on effectiveness.
R.13 Suspicious transaction reporting	LC	<ul style="list-style-type: none"> • No STR requirement in cases possibly involving insider trading and market manipulation. • No general STR requirement for attempted transactions by occasional customers. • Shortcoming in the criminalisation for terrorist financing limits the reporting obligation. • Lack of effectiveness, specifically relating to the TF STR system.
R.14 Protection & no tipping-off	PC	<ul style="list-style-type: none"> • FIs themselves and their directors are not covered by the safe harbour provision and the tipping off prohibition.
R.15 Internal controls, compliance & audit	PC	<ul style="list-style-type: none"> • Internal control procedures governing terrorism finance lack a comprehensive treatment of CFT, focusing almost exclusively on a “list-based” approach. • Training programmes of FIs focus too heavily on legal requirements under the AML/CFT Law, rather than on practical case studies of ML and TF, diminishing the effectiveness of the programmes. • Screening programmes are not broad enough, do not cover all personnel and do not focus on country specific risks, diminishing the effectiveness of the programmes. • Russia Post could not demonstrate effective implementation of internal control programmes at all branches.
R.16 DNFBP – R.13-15 & 21	PC	<p><i>Applying R.13</i></p> <ul style="list-style-type: none"> • Similar technical concerns to those recorded under Recommendation 13. • Casinos: Inconsistent levels of reporting lead to some doubts about effectiveness. • Real estate agents: Historically, relatively few STRs submitted. • Dealers in precious metals and stones: Large sector with relatively few STRs; lack of clarity as to how many STRs relate to the sector covered by the FATF definition. • Lawyers/notaries: Few STRs in this sector give rise to concerns over effectiveness. • Accountants – No specific information received. <p><i>Applying R.14</i></p> <ul style="list-style-type: none"> • Similar technical concerns to those recorded under Recommendation 14. <p><i>Applying R.15</i></p>

Forty Recommendations	Rating	Summary of factors underlying rating
		<ul style="list-style-type: none"> • Casinos/real estate agents/dealers in precious metals and stones – similar technical concerns to those recorded under Recommendation 15, and overall doubts about effectiveness. • Lawyers/notaries/accountants – Doubts about effectiveness given the lack of AML/CFT supervision of lawyers and accountants and lack of information about supervision of notaries. <p><i>Applying R.21</i></p> <ul style="list-style-type: none"> • No relevant requirements. • All Recommendations: TCSPs are not covered. • Accountants – no information on effectiveness.
R.17 Sanctions	PC	<ul style="list-style-type: none"> • Maximum fines that can be imposed by the BoR are too low. • Article 15.27 Code of Administrative Offences is not sufficiently broad. • Maximum fines against officials of financial institutions are too low. • No powers for supervisors (other than the BoR) to replace directors / senior management. • No powers for the BoR, the FSFM, the FISS and ROSCOM to withdraw a licence when the founders are convicted for criminal or economic offences. • System to sanction financial institutions other than credit institutions is not effective.
R.18 Shell banks	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.
R.19 Other forms of reporting	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.
R.20 Other NFBP & secure transaction techniques	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.
R.21 Special attention for higher risk countries	PC	<ul style="list-style-type: none"> • No requirement for financial institutions to give special attention to business relationships and transactions with persons from or in countries which do not or insufficiently apply the FATF Recommendations. • No requirement to examine as far as possible the background and purpose of such business relationships and transactions, to set forth the findings of such examinations in writing and to keep such findings available for competent authorities and auditors for at least five years.
R.22 Foreign branches & subsidiaries	NC	<ul style="list-style-type: none"> • The legal and regulatory framework does not consistently apply the requirement to abide by Russian AML/CFT Laws and regulations to both foreign branches and subsidiaries. • Existing guidance on foreign operations of CIs applies only to prudential risks, not to AML/CFT requirements. • There is no requirement for increased vigilance over foreign operations in jurisdictions that do not or insufficiently apply FATF recommendations. • There is no specific requirement to inform the Russian regulator when a foreign branch, subsidiary or representative office is unable to observe appropriate AML/CFT measures. • Foreign operations of non-credit FIs are not covered by the existing regulatory regime, thus effectiveness of the current legal framework cannot be assessed.

Forty Recommendations	Rating	Summary of factors underlying rating
R.23 Regulation, supervision and monitoring	PC	<ul style="list-style-type: none"> • No provisions to prevent criminals from becoming major shareholders in a non-banking financial institution. • Inadequate threshold with respect to major shareholders of credit institutions. • Inadequate provision regarding persons having a controlling interest with respect to a credit institution. • No fit and proper requirement regarding leasing companies and the members of the board of a life insurance company or an insurance broker. • No fit and proper test and general lack of effectiveness regarding the system to register and supervise organizations providing MVT services according to article 13.1 Banking Law. • Lack of effectiveness with respect to the supervision of the FSFM, the FISS and ROSCOM.
R.24 DNFBP - regulation, supervision and monitoring	PC	<ul style="list-style-type: none"> • No current AML/CFT licensing regime by an AML/CFT competent authority for casinos. • No measures to prevent criminals holding an interest in a casino. • Limited number of focused supervisory visits to real estate agents. • As reported on-site, supervisory activity for casinos does not appear to be proportionate to the perceived risks identified by the supervisor. • Monitoring of lawyers is remote and not specific to AML/CFT. • No details of specific AML/CFT monitoring of notaries. • Assay Chamber does not consider itself to have adequate powers. • Assay Chamber has relatively few AML/CFT specialists to supervise 25,000 firms. • General lack of specific information to assess effectiveness of the sanctions regime relating to DNFBPs. • TCSPs not covered.
R.25 Guidelines & Feedback	PC	<ul style="list-style-type: none"> • Insufficient and ineffective guidance to FIs, beyond an explanation of the law. • No case-by-case feedback beyond the acknowledgement of the receipt of the STR. • Limited feedback given to the dealers in precious metals and stones, lawyers and notaries. • No information about feedback given to accountants.
Institutional and other measures		
R.26 The FIU	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.
R.27 Law enforcement authorities	LC	<ul style="list-style-type: none"> • The discretionary powers of the Prosecution Authority to transfer a case from one law enforcement to another may lead to a lack of clear distribution of money laundering cases among law enforcement bodies (effectiveness issue). • Corruption has an impact on the effectiveness of the system. • Some designated law enforcement bodies do not appear to have sufficient knowledge of the ML provisions.
R.28 Powers of competent authorities	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.

Forty Recommendations	Rating	Summary of factors underlying rating
R.29 Supervisors	PC	<ul style="list-style-type: none"> • Limitation on the BoR for conducting on-site AML/CFT inspections. • FSFM not able to compel and obtain access to all necessary records with respect to non-state pensions funds. • FISS not able to compel and obtain access to information protected by banking secrecy. • Maximum fines against credit institutions are too low. • No power for the BoR to fine directors or senior management. • No powers for the FSFM, the FISS and ROSCOM to impose fines on financial institutions and directors / senior management and to replace directors / senior management. • No powers for the BoR, the FSFM, the FISS, ROSCOM and Rosfinmonitoring to withdraw a licence when the founders are convicted for criminal or economic offences. • System to sanction financial institutions other than credit institutions is not effective. • Lack of clarity with respect to ROSCOM's competence to carry out on-site inspections related to the full set of AML/CFT requirements and to compel production of records.
R.30 Resources, integrity and training	PC	<ul style="list-style-type: none"> • For a majority of regional offices and for a majority of law enforcement and supervisory agencies, the number of staff specifically devoted to AML/CFT issues is low, or was difficult to assess.
R.31 National co-operation	LC	<ul style="list-style-type: none"> • Law enforcement agencies and supervisors do not adequately co-operate on the operational-level with respect to potential systemic vulnerabilities such as illegal money and value transfer services.
R.32 Statistics	LC	<ul style="list-style-type: none"> • Not all authorities keep quality statistics on matters relevant to the effectiveness and efficiency of the system.
R.33 Legal persons – beneficial owners	PC	<ul style="list-style-type: none"> • None of the existing systems achieve adequate transparency regarding the beneficial ownership and control of legal persons.
R.34 Legal arrangements – beneficial owners	N/A	<ul style="list-style-type: none"> • This recommendation is not applicable.
International Co-operation		
R.35 Conventions	LC	<ul style="list-style-type: none"> • TF Convention: article 2(1)(a) – theft of nuclear material is not covered.
R.36 Mutual legal assistance (MLA)	LC	<ul style="list-style-type: none"> • No reliable statistics provided to show effectiveness of the system. • Feedback from other FATF and FATF-style Regional Bodies shows delay in answering MLA requests.
R.37 Dual criminality	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.
R.38 MLA on confiscation and freezing	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.
R.39 Extradition	LC	<ul style="list-style-type: none"> • Deficiencies noted in relation to the criminalisation of ML and TF may prove to be an obstacle in executing extradition requests. • The effectiveness of the extradition system to and from non-CIS countries should be enhanced.
R.40 Other forms of co-operation	C	<ul style="list-style-type: none"> • This Recommendation is fully observed.

Forty Recommendations	Rating	Summary of factors underlying rating
Nine Special Recommendations		
SR.I Implement UN instruments	LC	<ul style="list-style-type: none"> • TF Convention: Article 2(1)(a) – theft of nuclear material is not covered. • UNSCRs 1267, 1373 and successor resolutions have been implemented insufficiently.
SR.II Criminalise terrorist financing	LC	<ul style="list-style-type: none"> • The terrorist financing offence does not extend to the theft of nuclear material, as required in the UN Convention for the Suppression of the Financing of Terrorism. • Russia has not established criminal liability for legal persons.
SR.III Freeze and confiscate terrorist assets	PC	<ul style="list-style-type: none"> • Reliance on the criminal justice system risks creating problems with the effective implementation of UNSCR 1373. • Russia does not have a national mechanism to examine and give effect to freezing actions taken by other countries. • Russia does not have an effective and publicly-known mechanism for the purpose of considering de-listing requests. • Russia does not have an effective and publicly-known procedure for unfreezing the funds of persons inadvertently affected by a freezing action.
SR.IV Suspicious transaction reporting	PC	<ul style="list-style-type: none"> • No STR requirement for attempted transactions by occasional customers. • Shortcoming in the criminalisation for terrorist financing limits the reporting obligation. • Lack of effectiveness, specifically relating to the TF STR system.
SR.V International co-operation	LC	<ul style="list-style-type: none"> • The deficiencies related to Recommendations 36 and 39 have a negative effect on the rating of this Recommendation.
SR VI AML requirements for money/value transfer services	NC	<ul style="list-style-type: none"> • The current system lacks effectiveness in ensuring compliance. • Insufficient attention is devoted to the existence of and risks presented by illegal alternative remittance systems. • Payment acceptance service providers were not covered by supervisory regime until November 2007, therefore effectiveness of their compliance with AML/CFT rules cannot be determined. • Implementation of Recommendations 5, 6, 7, 8, 10, 13, 14, 15, 22 and 23 in the MVT sector suffers from the same deficiencies as those that apply to banks and which are described earlier in section 3 of this report. • ROSCOM lacks effective sanctioning powers.
SR VII Wire transfer rules	PC	<ul style="list-style-type: none"> • Full originator information is not required in certain limited cases.. • No requirements for beneficiary FIs to adopt a risk-based procedure for wire transfers, and incoming transfers are not covered at all. • Requirement to refuse transactions without full originator information cannot be implemented. • Batch transfers are not specifically mentioned in the Law. • Shortcomings identified under Recommendation 17 (sanctions) and 23 (monitoring and supervision) apply equally to this Special Recommendation. • Effectiveness of the new system cannot be measured.
SR.VIII Non-profit organisations	PC	<ul style="list-style-type: none"> • The lack of a comprehensive review of the system means that not all the necessary measures have been taken and it is unclear what measures

Forty Recommendations	Rating	Summary of factors underlying rating
		<p>are part of a comprehensive policy to fight the misuse of NPOs by terrorist financiers, and what the effect of those measures has been (effectiveness issue).</p> <ul style="list-style-type: none"> • Some of the rules are insufficiently enforced. • There is inconsistent outreach to the NPO sector to provide guidance. • There is no formalised and efficient system in place that focuses on potential vulnerabilities. • There is no formalised and efficient system in place to share information to target abuse. • No single authority is formally designated as the competent authority responsible for co-ordinating Russia's domestic efforts regarding NPOs and receiving international requests.
SR.IX Cross Border Declaration & Disclosure	NC	<ul style="list-style-type: none"> • No clear power to stop or restrain declared cash or bearer negotiable instruments in case of a suspicion of money laundering. • Customs declaration forms are not in line with the requirements set in the law. • Customs authorities do not keep all required data relating to ML/TF. • There is inadequate co-ordination among relevant competent authorities on cross border cash movement (effectiveness). • The administrative fines available for false or non-declarations are not dissuasive and not effective. • Customs staff seem not to be aware that the system can be used for AML/CFT purposes (effectiveness). • Insufficient number of dedicated AML/CFT staff at the borders. • Corruption seems to affect the effectiveness of the system. • Failures under Special Recommendation III have a negative impact. • Sending cash through containerised cargo is not covered and implementation through general provisions was not demonstrated. • The authorities could not demonstrate the effectiveness of the system.