

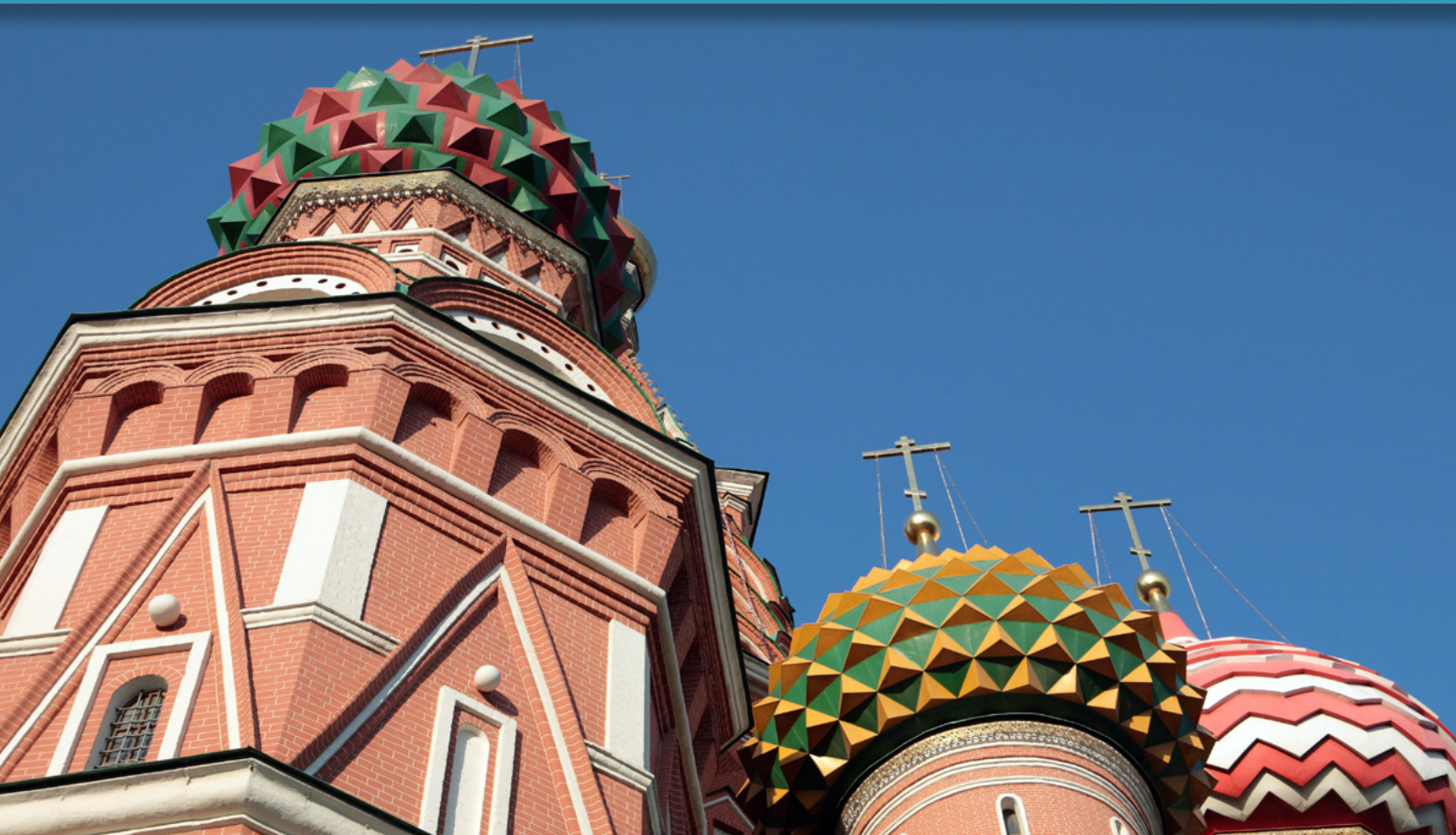
FATF



6TH FOLLOW-UP REPORT

Mutual Evaluation of the Russian Federation

October 2013





FINANCIAL ACTION TASK FORCE

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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CONTENTS

I	INTRODUCTION.....	3
II	MAIN CONCLUSIONS AND RECOMMENDATIONS TO THE PLENARY	5
	Core Recommendations.....	5
	Key Recommendations.....	5
	Other Recommendations.....	5
	Conclusions	5
III	OVERVIEW OF RUSSIA'S PROGRESS.....	6
	Overview of the main changes since the adoption of the MER.....	6
	The legal and regulatory framework.....	6
IV	DETAILED ANALYSIS OF COMPLIANCE WITH THE CORE AND KEY RECOMMENDATIONS.....	6
	Recommendation 1 – rating LC	6
	Recommendation 5 – rating PC	7
	Special Recommendation IV – Rating PC.....	10
	Recommendation 23 – Rating PC.....	11
	Special Recommendation III – Rating PC.....	13
V	OVERVIEW OF MEASURES TAKEN ON IN RELATION TO OTHER RECOMMENDATIONS RATED NC OR PC.....	14
	Recommendation 6 – Rating PC	14
	Recommendation 7 – Rating PC	15
	Recommendation 8 – Rating PC	15
	Recommendation 11 – Rating PC.....	15
	Recommendation 12 – Rating PC.....	16
	Recommendation 14 – Rating PC.....	17
	Recommendation 15 – Rating PC.....	17
	Recommendation 16 – Rating PC.....	18
	Recommendation 17 – Rating PC.....	19
	Recommendation 21 – Rating PC.....	20
	Recommendation 22 – Rating NC.....	20
	Recommendation 24 – Rating PC.....	21
	Recommendation 25 – Rating PC.....	22
	Recommendation 29 – Rating PC.....	23
	Recommendation 30 – Rating PC.....	24
	Recommendation 33 – Rating PC.....	24
	Special Recommendation VI – Rating NC	24
	Special Recommendation VII – Rating PC	25
	Special Recommendation VIII – Rating PC.....	26
	Special Recommendation IX – Rating NC	27

ACRONYMS

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
BoR	Bank of Russia
CDD	Customer Due Diligence
DNFBP	Designated Non-Financial Business or Profession
EDD	Enhanced Due Diligence
FIU	Financial Intelligence Unit
LC	Largely compliant
MER	Mutual Evaluation Report
MVTS	Money Value Transfer Services
NC	Non-compliant
NPO	Non-Profit Organisation
PC	Partially compliant
PEP	Politically Exposed Person
R	Recommendation
SCDD	Simplified Customer Due Diligence
SR	Special Recommendation
STR	Suspicious Transaction Report
TCSP	Trust or Company Service Providers
UN	United Nations

MUTUAL EVALUATION OF THE RUSSIAN FEDERATION 6TH FOLLOW-UP REPORT

Note by the Secretariat

I INTRODUCTION

The third mutual evaluation report (MER) of the Russian Federation was adopted in June 2008. At the same time, Russia was placed in a regular follow-up process. Russia reported back to the FATF in June 2010 (first follow-up report), June 2011 (second follow-up report) and June 2012 (third follow-up report). In June 2012, Russia requested that its next follow-up be discussed at the June 2013 Plenary. It also requested that its formal request to be removed from regular follow-up be discussed at that time. At the time, delegations agreed with both requests. In February 2013, the Secretariat provided an update on the timing of Russia's request to exit regular follow-up (forth follow-up report). Due to the scheduling of the discussions of draft legislative changes that was too close to the June 2013 Plenary meeting, the fifth follow-up report indicated that Russia's request to exit regular follow-up was tabled for October 2013.

This paper is based on the procedure for removal from the regular follow-up, as agreed by the FATF plenary in October 2008 and subsequently amended¹. The paper contains a detailed description and analysis of the actions taken by Russia in respect of the core and key Recommendations rated partially compliant (PC) or non-compliant (NC) in the mutual evaluation, as well as a description and analysis of the other Recommendations rated PC or NC. The procedure requires that a country "has taken sufficient action to be considered for removal from the process – To have taken sufficient action in the opinion of the Plenary, it is necessary that the country has an effective AML/CFT system in force, under which the country has implemented the core² and key³ Recommendations at a level essentially equivalent to a Compliant (C) or Largely Compliant (LC), taking into consideration that there would be no re-rating"⁴. Russia was rated PC or NC on the following Recommendations:

Partially compliant (PC)	Non-compliant (NC)
Core Recommendations R1 (Criminalisation of ML ⁵) R5 (CDD) SRIV (TF STRs)	Core Recommendations None
Key Recommendations⁶ R23 (Supervision) SRIII (Freezing of terrorist assets)	Key Recommendations None

¹ Third Round of AML/CFT Evaluations Processes and Procedures, par. 41 (on www.fatf-gafi.org).

² The core Recommendations as defined in the FATF procedures are R1, R5, R10, R13, SRII and SRIV.

³ The key Recommendations are R3, R4, R23, R26, R35, R36, R40, SRI, SRIII and SRV.

⁴ Third Round of AML/CFT Evaluations Processes and Procedures, par. 39 (c).

⁵ Although rated LC at the time of the assessment process, R1 was added to the follow-up process due to changes that Russia had made to the criminalisation of money laundering after the MER had been adopted.

Partially compliant (PC)	Non-compliant (NC)
Other Recommendations R6 (PEPs) R7 (Correspondent banking) R8 (New technologies and non-FTF) R11 (monitoring unusual transactions) R12 (DNFBPs) R14 (Protection & no tipping-off) R15 (Internal controls) R16 (DNFBPs) R17 (Sanctions) R21 (Special attention for higher risk countries) R24 (DNFBPs) R25 (Guidelines and feedback) R29 (Supervision) R30 (Resources, integrity and training) R33 (Legal entities) SRVII (Wire transfers) SRVIII (NPOs)	Other Recommendations R22 (Foreign branches & subsidiaries) SRVI (MVTs) SRIX (Cross border declaration & disclosure)

As prescribed by the Mutual Evaluation procedures, Russia provided the Secretariat with a full report on its progress. The Secretariat has drafted a detailed analysis of the progress made for Recommendations 1, 5, 23, III and IV (see rating above), as well as a description of all the other Recommendations rated PC or NC. A draft analysis was provided to Russia for its review and comments received. The final report was drafted taking into account certain of the comments from Russia. During the process Russia provided the Secretariat with all information requested.

As a general note on all applications for removal from regular follow-up: the procedure is a *paper-based desk review* and by its nature is therefore less detailed and thorough than a mutual evaluation report. The analysis focuses on the Recommendations that were rated PC/NC, which means that only a part of the AML/CFT system is reviewed. Such analysis essentially consists of looking at the main laws, regulations and other material to verify the technical compliance of domestic legislation with the FATF standards. In assessing whether sufficient progress had been made, effectiveness is taken into account to the extent possible in a paper-based desk review and primarily through a consideration of data provided by the country. It is also important to note that these conclusions do not prejudice the results of future assessments, as they are based on information which was not verified through an on-site process and was not, in every case, as comprehensive as would exist during a mutual evaluation.

⁶ According to the FATF mutual evaluation follow-up procedures, the key Recommendations are: R 3, R 4, R 23, R 26, R 35, R 36, R 40, SR I, SR III and SR V.

II MAIN CONCLUSIONS AND RECOMMENDATIONS TO THE PLENARY

CORE RECOMMENDATIONS

Recommendation 1: With the removal of the threshold for criminalising self-laundering, Russia has sufficiently addressed the deficiencies to Recommendation 1 and brought its compliance with Recommendation 1 back to a level of largely compliant or higher.

Recommendation 5: Russia has addressed all deficiencies relating to Recommendation 5. Introducing beneficial ownership is important and significantly raises Russia's compliance with Recommendation 5 as do the improvements relating to the nature and intended purpose of business relationships and the timing of verification. When assessed against the 2003 FATF 40 Recommendations, Russia has brought its compliance with Recommendation 5 to a level of largely compliant or higher.

Special Recommendation IV: The only issue that Russia has not yet addressed relates to the criminal legal liability for legal persons. This is a shortcoming that is related to Special Recommendation II (which itself was already rated LC), but had a cascading effect on Special Recommendation IV. The other deficiencies to Special Recommendation II and IV have all been addressed as far as a desk based review can assess, and therefore, compliance with Special Recommendation IV has been brought to a level of largely compliant or higher.

KEY RECOMMENDATIONS

Recommendation 23: Russia has addressed the majority of the deficiencies related to R23, except in relation to deficiency 4 where the legal provisions are too narrow. Although further improvements are desirable, with the measures that have been taken, Russia has brought its compliance with Recommendation 23 up to a level of largely compliant.

Special Recommendation III: Federal Law No.134-FZ added the relevant provisions to the AML/CFT to implement the requirements of SRIII related to UNSCR 1373. This brings the level of compliance with SRIII at least up to a level of an LC.

OTHER RECOMMENDATIONS

Russia has also made progress in addressing deficiencies related to non-core and non-key Recommendations rated PC or NC. It should be noted, however, that since the decision of whether or not Russia should be removed from the regular follow-up process will be based solely on the decisions regarding the core and key Recommendations, this paper does not provide more detailed analyses regarding these other Recommendations. A summary of the progress that was reported by Russia has been included in the final section of this paper, for information only.

CONCLUSIONS

Russia has addressed the deficiencies related to all core and key Recommendations, and brought the level of technical compliance with these Recommendations up to a level of LC. This means that Russia has taken sufficient measures to be removed from the regular follow-up process.

III OVERVIEW OF RUSSIA'S PROGRESS

OVERVIEW OF THE MAIN CHANGES SINCE THE ADOPTION OF THE MER

Since the adoption of the MER for Russia, Russia has focused its attention on updates of the AML/CFT Law. The AML/CFT Law is the main legal instrument for the implementation of the FATF Recommendations in Russia. Russia has focused its attention to the correction of the most important deficiencies identified in the MER, in particular relating to the core and key Recommendations. However, deficiencies to other Recommendations were also addressed.

THE LEGAL AND REGULATORY FRAMEWORK

Russia's legal system for AML/CFT is based on the AML/CFT Law, which is a Federal Law (Federal Law 115/FZ). It was amended a few times since the adoption of the Mutual Evaluation Report, most recently in June 2013.

IV DETAILED ANALYSIS OF COMPLIANCE WITH THE CORE AND KEY RECOMMENDATIONS

RECOMMENDATION 1 – RATING LC

R1 (New deficiency): Introduction of a threshold for the money laundering offence

At the time of the adoption of the MER, Russia was largely compliant with R1. The only deficiency at the time was the lack of criminalisation of insider trading and market manipulation. This deficiency was addressed through amendments to Federal Law No. 224-FZ "On Countering Misuse of Insider Information and Market Manipulation, and Amending Certain Legislative Acts of the Russian Federation" (adopted by the Russian Parliament 27 July 2010), which, among other things introduced amendments to the Criminal Administrative Codes of the Russian Federation. Market manipulation and misuse of insider information are now classified as criminal offences.

After the mutual evaluation, in 2010 Russia amended its Criminal Code (in 2010) and decriminalised self-laundering of amounts lower than RUB 6 million (approximately EUR 150 000 / USD 200 000) (article 174.1, Criminal Code). The reintroduction of a financial threshold was motivated in part by the need to focus attention on 3rd party laundering. That said, a threshold is not within the FATF Recommendations, and this amendment introduced a new deficiency that did not exist at the time of the evaluation.

Russia was advised that the threshold for criminalisation of self-laundering should be reconsidered and removed in a timely fashion. Russia removed the threshold through Federal Law No.134-FZ, which rewords Articles 174 and 174.1 of the Criminal Code to eliminate the decriminalisation of self-laundering below the threshold. This amendment rectifies the identified deficiency.

This deficiency has been addressed.

RECOMMENDATION 1 - CONCLUSION

With the removal of the threshold for criminalising self-laundering, Russia has sufficiently addressed the deficiencies to Recommendation 1, and brought its compliance with Recommendation 1 back to a level of largely compliant or higher.

RECOMMENDATION 5 – RATING PC

R5 (Deficiency 1): No specific prohibition on maintaining existing accounts in fictitious names.

Recommendation 5 requires that financial institutions should not be permitted to open or maintain anonymous accounts or accounts in fictitious names.

With the adoption of Federal Law No.134-FZ, the AML/CFT Law now includes a specific prohibition for credit institutions to maintain accounts in fictitious names, namely: “Credit institutions are banned from opening and maintaining anonymous accounts (deposits), i.e. when a natural person or a legal entity does not provide the documents necessary for the identification, as well as from opening and holding accounts of holders using fictitious names (pseudonyms)”. (AML/CFT Law, article 7, clause 5).

This provision only applies to credit institutions and not to all financial institutions. Considering however that the fact that accounts are mostly held at credit institutions (and less so at, for example, securities firms), this deficiency is considered to have been sufficiently addressed.

R5 (Deficiency 2): No requirement to conduct CDD in case of a suspicion of ML/TF, if one of the exemptions of AML/CFT Law article 7 clause 1.1 applies.

The MER concluded that CDD was not always required when there was a suspicion of ML/TF.

Russia has amended the AML/CFT Law to address this issue. Article 7, item 1.1 and item 1.2, now stipulates that none of the exceptions for CDD can apply in case of a ML/TF suspicion.

This deficiency has been addressed.

R5 (Deficiency 3): No requirement in law or regulation for dealing with doubts about veracity.

R5 requires that financial institutions should be required in law or regulation to undertake CDD measures when there are doubts about the veracity or adequacy of previously obtained CDD information. The MER indicated that a general clause in the law requires financial institutions to regularly update the information; however, no specific provision requires this in the case of doubt (AML/CFT Law, Article 7, clause 1, sub 3).

With the adoption of Federal Law No.134-FZ, Article 7, clause 1, sub 3 of the AML/CFT Law stipulates that CDD information must be updated annually, as well as within 7 working days if any doubts arise about the reliability and accuracy of the previously obtained CDD information.

This deficiency has been addressed.

R5 (Deficiency 4): Lack of clarity and effectiveness in respect of beneficial ownership requirements.

Federal Law No.134-FZ added the definition of the beneficial owner to the AML/CFT Law. Beneficial owner is defined as “a natural person who directly or indirectly (through third persons) owns a client / legal entity (has a controlling ownership interest in amount of 25%) or has a possibility to control the actions of a client”. This definition is now included in the AML/CFT Law in article 3 (definitions) and references to the beneficial owner have also been added throughout the AML/CFT Law, most notably in places where previously only a reference to the client was included (a client is defined as a natural person or legal entity).

This definition is consistent with the FATF requirements. The amendments to update references to *clients* to become *clients and beneficial owner* are appropriate. In addition, the AML/CFT Law also contains a requirement for clients to provide institutions with beneficial owner information (and any other information that financial institutions require to collect).

Further implementation measures to support the AML/CFT Law will be issued by the Government of the Russian Federation and by the Bank of Russia (BoR), with co-approval by the federal agency for financial market supervision. However, with the adoption of these detailed requirements in the law, this deficiency has been addressed.

R5 (Deficiency 5): Lack of clarity in relation to ongoing due diligence.

The AML/CFT Law requires that financial institutions regularly (at a minimum annually) update the CDD information (AML/CFT Law, Article 7, clause 1, sub 3). This was already required at the time of the evaluation but was considered too rigid to be considered a requirement to undertake ongoing due diligence.

Since the evaluation, a few additional requirements have been put in place. The most important requirement is that the AML/CFT Law now requires financial institutions to take measures on a regular basis to (re-)assess i) the purposes of the economic activity, ii) the financial standing of the customer and iii) the business reputation of the customer (AML/CFT Law, article 7, clause 1, sub 1.1). Although this is not an explicit requirement to conduct ongoing due diligence, this is the closest the Russian AML/CFT Law gets to ongoing due diligence. It should be explained that the Russian AML/CFT Law is comparatively detailed and is not designed to make financial institutions subject to open ended norms that would allow financial institutions to determine when and why CDD information needs to be checked and updated. The requirement to regularly update the CDD information will also in practice necessitate some form of ongoing due diligence by financial institutions. In that context, the new requirements seem appropriate to address this deficiency.

Additional measures to comply with ongoing due diligence requirements are in place. Rosfinmonitoring rule 59, enacted on the basis of Government Decree 957R, requires updating of CDD information (at least annually), or in every instance when a transaction appears suspicious.

Overall, Russia has sufficiently addressed this deficiency, although there is further room for improvement.

R5 (Deficiency 6): No direct requirement to establish nature and intended purpose of business relationship.

R5 requires that financial institutions obtain information on the purpose and intended nature of the business relationship.

The legal framework in place at the time of the MER is still in place; however, it has been supplemented by a provision in the AML/CFT Law that requires financial institutions to obtain information about the purposes and assumed nature of their business relation. It also requires that institutions on a regular basis take measures to (re-)determine the purposes of the economic activity, of the financial standing and the business reputation of the customer (AML/CFT Law, article 7, clause 1, sub 1.1). In addition, Rosfinmonitoring Letter number 17 provides financial institutions with additional information regarding higher risk transactions and higher risk customers that assists in the implementation of the legal requirement. This is also the case for Rosfinmonitoring Order number 59 (item 2.1). Also, Government Decision 667 of 30 June 2012 requires financial institutions to collect information regarding the nature of the legal entity (such as on the founders and structure).

This deficiency has been addressed.

R5 (Deficiency 7): Doubts about clarity and effectiveness of requirements relating to SDD and EDD.

The Russian AML/CFT Law leaves little room for financial institutions to apply simplified (SDD) or enhanced due diligence (EDD). In relation to SDD, the exemptions from CDD in the AML/CFT Law have been further narrowed with the prohibition of CDD exemptions in cases of a suspicion of ML/TF. As far as EDD is concerned, the Russian authorities still view EDD as a tool for reporting of transactions in higher risk situations; however, Rosfinmonitoring Order number 59 and BoR Regulation 375P, do include provisions for EDD customers.

This deficiency has been addressed.

R5 (Deficiency 8): Timing of verification – no measures for non-CIs.

With the adoption of Federal Law No.134-FZ, the AML/CFT Law now includes a specific provision that obliges financial institution to complete identification of a client, client's representative and/or beneficial owner before the establishment of a business relationship. Therefore, the institution is not allowed to begin a business relationship or conduct an occasional transaction before completion of identification and verification (Article 7, sub 1, clause 1).

This deficiency has been addressed.

R5 (Deficiency 9): Failure to complete CDD – measures for non-CIs only extend to ID.

At the time of the MER, Russian non-credit institutions were unable to refuse a transaction unless there was an issue relating to the identification of a client (in which case the client relationship could not be established). Based on item 11 of Article 7 of the AML/CFT Law and Rosfinmonitoring Order 103, non-credit institutions are now required to file an STR in such cases.

This deficiency has been addressed.

RECOMMENDATION 5 - CONCLUSION

At this time, Russia has addressed all deficiencies relating to Recommendation 5. Introducing beneficial ownership is important and significantly raises Russia's compliance with Recommendation 5 as do the improvements relating to the nature and intended purpose of business relationships and the timing of verification. When assessed against the 2003 FATF 40 Recommendations, Russia has brought its compliance with Recommendation 5 to a level of largely compliant or higher.

SPECIAL RECOMMENDATION IV – RATING PC

SRIV (Deficiency 1): No STR requirement for attempted transactions by occasional customers.

Federal Law No.134-FZ amended item 2 of article 7 of the AML/CFT Law to include an explicit requirement for the reporting of attempted transactions by occasional customers.

This deficiency has been addressed.

SRIV (Deficiency 2): Shortcoming in the criminalisation for terrorist financing limits the reporting obligation.

Despite the fact that SRII (criminalisation of terrorist financing) was considered to be largely compliant, the deficiencies for SRII had a negative impact on the assessment of SRIV. For this reason, the deficiencies related to SRII are assessed as part of the deficiencies for SRIV.

The MER identified two deficiencies for SRII:

- The first deficiency related to the non-criminalisation of nuclear theft, as required by the TF Convention. This deficiency was addressed with the enactment of federal Law 197FZ, which criminalised the theft of nuclear material in articles 220 and 221 of the Criminal Code.
- The second deficiency related to the lack of criminal liability for legal entities. As part of its accession to the OECD Anti-Bribery Convention, Russia is studying the implementation of relevant measures that would make Russia also compliant with this requirement of SRII. It is unclear what the current status is of this issue.

With Special Recommendation II already rated as LC, one of the two deficiencies addressed and one being considered as part of the accession to an OECD Convention, this deficiency is considered to be addressed.

SRIV (Deficiency 3): Lack of effectiveness, specifically relating to the TF STR system.

The MER concluded that the assessment team could not confirm that the TF STR system was implemented effectively. This conclusion was reached on the basis of discussions during the on-site. Follow-up reports are desk-based exercises, and it is not always possible to confirm whether or not

effectiveness has improved. However, it is noteworthy that the authorities have issued additional guidance to financial institutions. The authorities have also provided statistics that show that the number of TF STRs has been declining over the past years. This could point at a growing lack of effectiveness, but it could also be that fewer STRs of a better quality are reported (for example, due to the guidance that was issued). In light of the desk-based character of this follow-up report, this deficiency is considered to have been addressed.

SPECIAL RECOMMENDATION IV - CONCLUSION

At this time, the only issue that Russia has not yet addressed relates to the criminal legal liability for legal persons. This is a shortcoming that is related to Special Recommendation II (which itself was already rated LC), but had a cascading effect on Special Recommendation IV. The other deficiencies to Special Recommendation II and IV have all been addressed as far as a desk based review can assess, and therefore, compliance with Special Recommendation IV has been brought to a level of largely compliant or higher.

RECOMMENDATION 23 – RATING PC

R23 (Deficiency 1): No provisions to prevent criminals from becoming major shareholders in a non-banking financial institution.

This deficiency was an issue REMAINING from previous FATF and MONEYVAL assessments, and the MER advised that Russia should enact necessary legislative changes as a matter of urgency. New legislation in force since 28 June 2013 corrects this situation for several sectors.

Federal Law 134-FZ amended several pieces of legislation to address this deficiency. Article 7 of Federal Law 134-FZ amended the law on the Securities Market. A new Article 10.2 was introduced that prohibits any individual with non-expunged or outstanding convictions for economic crimes or crimes against the state, to acquire or control (in)directly more than 10 per cent of the voting shares of a securities company. The provisions for the non-state pension funds (Article 9), financial lease (Article 11), investment funds (Article 15), micro financial organisations (Article 19), insurance (article 32), and management companies (Article 38) are similar with the difference that for some sectors the provisions apply to board and management rather than to shareholders.

The reference to economic crimes and crimes against the state as grounds for shareholder / management refusal may be too restrictive or too vague, but that will need to be assessed during the next evaluation. At this stage the measures taken so far are probably sufficient to conclude that this deficiency has been addressed.

R23 (Deficiency 2): Inadequate threshold with respect to major shareholders of credit institutions.

Federal Law 146-FZ, in force as of 2 October 2013, amended both the Banking Law, and the Law on the Bank of Russia (Central Bank Law). On the basis of these amendments, if more than one percent of the shares of a credit institution is acquired, the BoR will need to be notified. If more than 10 percent is acquired, the BoR needs to give prior consent (Article 1). Prior consent is again required when 25 percent, 33 percent, 50 percent, 66 percent, and 75 percent are acquired. The Law also lists

the grounds for refusal (Article 16), which are very broad and contain references to business reputation, previous convictions, lack of relevant education or experience et cetera. These same grounds can also be used to refuse a managerial or board position, or other controlling positions.

This deficiency has been addressed.

R23 (Deficiency 3): Inadequate provision regarding persons having a controlling interest with respect to a credit institution.

See the previous deficiency.

This deficiency has been addressed.

R23 (Deficiency 4): No fit and proper requirement regarding leasing companies and the members of the board of a life insurance company or an insurance broker.

To address this deficiency, Rosfinmonitoring has put in place Order 203 with requirements for AML/CFT training of non-credit institutions. Regarding other fit and proper elements, such as education and integrity, Government Resolution 715 (from 2005) covers some of these elements but only for AML staff such as compliance officers (see MER, paragraph 483, on Recommendation 15). This is too narrow.

This deficiency has not been fully addressed.

R23 (Deficiency 5): No fit and proper test and general lack of effectiveness regarding the system to register and supervise organisations providing MVT services according to article 13.1 Banking Law.

Article 13.1 of the banking law was abolished. MVT service providers that had previously been covered by this provision are currently considered as payment agents for which credit institutions are responsible (Federal Law 161FZ, Article 14).

This deficiency is has been addressed.

R23 (Deficiency 6): Lack of effectiveness with respect to the supervision of the FSFM, the FISS and ROSCOM.

While the desk-review nature of the follow-up process makes it difficult to assess improved effectiveness, Russia describes a number of measures that should normally have a positive impact. Since the approval of the MER in 2008, Russia has taken several measures to improve the effectiveness of the supervision of FSFM (securities), FISS (insurance) and ROSCOM (Russia Post and remittances). Rosfinmonitoring has played an important role in supporting more effective supervision, for example through the provision of relevant AML/CFT information to the supervisors. In addition, supervision has been co-ordinated, detailed guidelines have been published, more supervisory inspections have been undertaken, licences have been revoked and the number of STRs from supervised entities has also improved. Finally, insurance supervision was moved from FISS to the Central Bank (by Federal Law 251 of July 2013).

This deficiency has been addressed.

RECOMMENDATION 23 - CONCLUSION

At this time, Russia has addressed the majority of the deficiencies related to R23, except in relation to deficiency 4 where the legal provisions are too narrow. Although further improvements are desirable, with the measures that have been taken, Russia has brought compliance with Recommendation 23 up to a level of largely compliant.

SPECIAL RECOMMENDATION III – RATING PC

SRIII (Deficiency 1): Reliance on the criminal justice system risks creating problems with the effective implementation of UNSCR 1373.

Federal Law No.134-FZ added relevant definitions to the AML/CFT Law, to create a system for the freezing of terrorist assets, in line with UNSCR 1373.

The basis for the new law is a new definition for freezing of funds (the Law uses the term blocking/freezing, which covers both a freezing of funds and a prohibition against dealing with funds in Article 3 of the AML/CFT Law). Other provisions in the law include an interagency designation system. The law targets the designated entity, financial institutions and DNFBPs, and any other natural or legal person in Russia. It covers all funds or other assets.

Freezing must take place within one day of the issuing of the designation. Any frozen funds will have to be reported to the authorised agency (the FIU) without delay (within a day). At the time of the initial freeze, assets are frozen for two days. Unless the FIU responds to the freezing, funds are automatically unfrozen. If the FIU responds to the freezing (e.g., because the funds belong indeed to the designated entity, or because further checks are needed), the funds remain frozen. The decision to keep the funds frozen can be appealed in court (AML/CFT Law, Article 7, item 1, sub item 6 and 7).

The scope of the law is not restricted to financing of terrorism but targets terrorism in general (as required by UNSCR 1373 and SRIII).

This deficiency has been addressed.

SRIII (Deficiency 2): Russia does not have a national mechanism to examine and give effect to freezing actions taken by other countries.

Federal Law No.134-FZ created a new Article 7.4 in the AML/CFT Law. This article contains a provision that allows giving effect to freezing actions by other countries (sub 1). This provision is sufficient to address this deficiency.

This deficiency has been addressed.

SRIII (Deficiency 3): Russia does not have an effective and publicly-known mechanism for the purpose of considering de-listing requests.

Through the enactment of Federal Law No.134-FZ, the AML/CFT now contains a provision that introduces an effective and publicly-known mechanism for the purpose of considering delisting requests (Article 7.4, sub 3). Requests must be made to the FIU and are required to be answered

within 10 days. Any refusal to delist can be appealed through a court. This provision is sufficient to address this deficiency. Relevant are also the provisions for humanitarian exemptions in sub 4 of Article 7.4.

This deficiency has been addressed.

SRIII (Deficiency 4): Russia does not have an effective and publicly-known procedure for unfreezing the funds of persons inadvertently affected by a freezing action.

Federal Law No.134-FZ created a new Article 7.4 in the AML/CFT Law. This article contains a provision that allows those that have been inadvertently affected by a freezing action the right to take civil action (Article 7.4, sub 5). Although potentially cumbersome, this provision is sufficient to address this deficiency.

This deficiency has been addressed.

SPECIAL RECOMMENDATION III - CONCLUSION

Federal Law No.134-FZ added the relevant provisions to the AML/CFT to implement the requirements of SRIII related to UNSCR 1373. This brings the level of compliance with SRIII at least up to a level of an LC.

V OVERVIEW OF MEASURES TAKEN ON IN RELATION TO OTHER RECOMMENDATIONS RATED NC OR PC

The Russian authorities reported that the following measures have been taken to address the deficiencies related to other Recommendations rated PC or NC. The information in this section is presented for information and was not discussed or approved by the FATF Plenary.

RECOMMENDATION 6 – RATING PC

R6 (Deficiency 1): Definition of PEPs does not extend to those who were entrusted with public functions, and (Deficiency 2): No requirement for obtaining approval from senior management for existing customers found to be PEPs; and (Deficiency 3): Lack of clarity relating to establishing the source of wealth and enhanced ongoing due diligence.

AML/CFT Law Article 7.3 relates to foreign public officials, for whom enhanced measures need to be taken. This does not cover former PEPs. Management approval is now required, and also the source of wealth needs to be established. The BoR has issued guidance to assist in the implementation of the requirements. Russia also covers domestic PEPs, and international organisation PEPs.

R6 (Deficiency 4): Beneficial ownership is not covered.

See R5, deficiency 4.

R6 (Deficiency 5): No information on effectiveness

Effectiveness is not covered by this desk-based update.

RECOMMENDATION 7 – RATING PC

R7 (Deficiency 1): No specific requirement to understand the nature of respondent’s business or determine quality of supervision, and (Deficiency 2): No requirement to ascertain if respondent has been subject of ML/TF investigation.

Pursuant to Regulation No.375-P, banks have to take into account the nature of business operations carried out by a correspondent bank, quality of supervisions and also whether or not a correspondent bank has been subject to ML/TF investigation.

R7 (Deficiency 3): No specific requirement to evaluate effectiveness of respondent AML/CFT system.

There is no specific reference in the law or in the regulation to require that the effectiveness of the AML/CFT system is evaluated.

RECOMMENDATION 8 – RATING PC

R8 (Deficiency 1): Requirements for new technologies limited to internet banking.

Federal Law No.161-FZ adopted on 27 June 2011 and in force since 29 September 2011 establishes the legal and organizational framework of the Russian national payment system and regulates the procedure for providing payment services, including transfer of funds with the use of electronic means of payment, information and communication technologies, electronic media (including payment cards) and other technical devices. Article 14 of the law links these requirements to the AML/CFT Law. The BoR has issued regulations to assist financial and non-financial institutions in the implementation of the law.

R8 (Deficiency 2): No requirements for non-face-to-face transactions except for CIs.

The AML/CFT Law bans any non-face-to-face transactions except for those below the CDD threshold for identification of occasional transactions of RUB 15 000 (approximately EUR 350 or USD 450).

RECOMMENDATION 11 – RATING PC

R11 (Deficiency 1): No requirement for financial institutions to examine, as far as possible, the background and purpose of all unusual transactions, and (Deficiency 2): No requirement for FIs to set forth the findings of such examinations in writing.

On 17 June 2012, Russia enacted Government Regulation No. 667 “On Approval of Requirements to Internal Control Rules, Elaborated by Institutions Performing Transactions with Monetary Funds or Other Assets (Except for Credit Institutions) and Termination of Certain Government Acts”, requiring that Internal Control Rules must contain an unusual transaction detection programmes. These programmes must require the examination of unusual transactions, analysis of other transactions by the same customer, as well as customer data and other relevant information. These programmes must also require the institution to analyse the reasons and purposes of all unusual transactions, as well as keeping written records on the results obtained.

Government Decision No.667, dated 30 June 2012, sets similar rules for rules for banks. The decree contains a series of recommendations for identifying and examining unusual transactions. Item 19 of the decree requires that the program for identification of transactions subject to mandatory control specifies the procedure to examine the background and purposes of all such transactions and keep the findings in writing.

R11 (Deficiency 3): No specific requirement for financial institutions to keep such findings available for competent authorities and auditors for at least five years.

The AML/CFT Law contains record keeping requirements in Article 7.4, as does Government Regulation 667.

R11 (Deficiency 4): Lack of effectiveness, especially in the non-CI sector.

Effectiveness is not covered in this desk-based update.

RECOMMENDATION 12 – RATING PC

R12 (Deficiency 1): Applying R5 - Casinos/Real Estate Agents/Dealers in Precious metals and stones – Similar technical omissions as recorded under R5. In particular: i) no requirement for dealing with doubts about veracity of previously obtained information; ii) lack of clarity and effectiveness in respect of beneficial ownership requirements; iii) lack of clarity in relation to ongoing due diligence; iv) doubts about clarity and effectiveness of requirements relating to SDD and EDD; v) timing of verification – no requirements; vi) failure to complete CDD requirements limited to failure to carry out customer ID; vii) concerns about effectiveness in the casino sector; viii) lawyers/public notaries/accountants; and ix) CDD requirements apply to identification only.

As the legal framework for DNFBPs is identical to the legal framework for financial institutions, see the description under R5.

R12 (Deficiency 2): Applying R6: Lawyers/public notaries/accountants: new provisions do not apply; and (Deficiency 3): Applying R6: All other organisations: omissions similar to those specified in R6.

As the legal framework for DNFBPs is identical to the legal framework for financial institutions, see the description under R6.

R12 (Deficiency 3): Applying R8: Casinos – Requirements limited to prohibition of gambling via the internet.

Any gambling in the Russian Federation is now physically limited to certain gambling zones. The gambling in these zones can also not be transmitted through any means of communications to allow persons outside the zone to gamble.

R12 (Deficiency 4): Applying R8: All other entities – No requirements except the need to personally identify all natural persons.

As the legal framework for DNFBPs is identical to the legal framework for financial institutions, see the description under R8.

R12 (Deficiency 5): Applying R10: Casinos/Real Estate Agents/Dealers in Precious metals and stones – Similar omissions as recorded under R10; and (Deficiency 6): Applying R10: Lawyers/notaries/accountants, no requirement to keep records except for those relating to ID.

As the legal framework for DNFBPs is identical to the legal framework for financial institutions, see the description under R10 in the mutual evaluation report (Russia had already been rated LC for R10 at the time of the mutual evaluation).

R12 (Deficiency 7): Applying R.11: All designated assessed sectors – Similar omissions as recorded under R11, practice suggests concentration on factors which give rise to the submission of STRs; and R12 (Deficiency 8): Applying R11: All Recommendations: TCSP are not covered; and R12 (Deficiency 9): Applying R11: Accountants – Efficiency data unavailable.

As the legal framework for DNFBPs is identical to the legal framework for financial institutions, see the description under R11. Effectiveness is not covered in this desk-based update.

RECOMMENDATION 14 – RATING PC

R14 (Deficiency 1): FIs themselves and their directors are not covered by the safe harbour provision and the tipping off prohibition.

Federal Law No.176 (23 July 2010), which amended the AML/CFT Law, stipulates that “neither institutions submitting relevant information to the authorised agency, nor directors and employees of institutions submitting relevant information to the authorised agency, have the right to inform their customers or other persons thereof”.

The AML/CFT Law in item 8 of Article 7 indicates that any provision of information and documents to the FIU by their heads and employees in line with the AML/CFT Law is not deemed breach of service, banking, tax, commercial or communication secrecy.

RECOMMENDATION 15 – RATING PC

R15 (Deficiency 1): Internal control procedures governing terrorism financing lack a comprehensive treatment of CFT, focusing almost exclusively on a “list-based” approach.

Government Decision No.667 (June 2012) expands the list of indicators that financial institutions need to check. The internal control requirements also oblige financial institutions to detect transactions of listed designated terrorist entities.

R15 (Deficiency 2): 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 programs.

The requirements for training programmes require training on case studies and typologies. Training programmes need to be approved by the FIU. Also other competent authorities, such as the supervisor for Russia Post and the Assay Chamber (supervisor for dealers in precious metals and stones) have expanded training programme (requirements). The authorities also report that in 2011, 13 919 persons have been trained.

R15 (Deficiency 3): 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.

Where screening programs exist, these focus only education and professional qualification, and not on integrity and the potential AML/CFT risks that a particular employee may or may not pose.

R15 (Deficiency 4): Post of Russia could not demonstrate effective implementation of internal control programmes at all branches.

Effectiveness is not covered in this desk-based update. However, the authorities report that Russia Post has expanded its efforts to implement an effective internal control mechanism. This included new regulations and guidance, but also AML/CFT training for almost 100 000 employees.

RECOMMENDATION 16 – RATING PC

R16 (Deficiency 1): Applying R13: Casinos: Inconsistent levels of reporting lead to some doubts about effectiveness; R16 (Deficiency 2): Applying R13: Real estate agents: Historically, relatively few STRs submitted; and R16 (Deficiency 3): Applying R13: 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; and R16 (Deficiency 4): Applying R13: Lawyers/notaries: Few STRs in this sector give rise to concerns over effectiveness; and R16 (Deficiency 5): Applying R13: Accountants – no specific information obtained

As the legal framework for DNFBCPs is identical to the legal framework for financial institutions, see the description under R13 in the mutual evaluation report (Russia had already been rated LC for R13 at the time of the mutual evaluation).

R16 (Deficiency 6): Applying R14: Similar technical concerns to those recorded under Recommendation 14.

As the legal framework for DNFBCPs is identical to the legal framework for financial institutions, see the description under R14.

R16 (Deficiency 7): Applying R15: Casinos/real estate agents/dealers in precious metals and stones – similar technical concerns to those recorded under Recommendation 15, and overall doubts about effectiveness; and R16 (Deficiency 8): Applying R15: 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.

As the legal framework for DNFBPs is identical to the legal framework for financial institutions, see the description under R15 in the mutual evaluation report (Russia had already been rated LC for R15 at the time of the mutual evaluation).

R16 (Deficiency 9): Applying R21: No relevant requirements; and R16 (Deficiency 10): Applying R21: All Recommendations: TCSP not covered; and R16 (Deficiency 11): Applying R21: Accountants: efficiency information unavailable.

As the legal framework for DNFBPs is identical to the legal framework for financial institutions, see the description under R21. Effectiveness is not covered in this desk-based update.

RECOMMENDATION 17 – RATING PC

R17 (Deficiency 1): Maximum fines that can be imposed by the BoR are too low; and R17 (Deficiency 3): Maximum fines against officials of financial institutions are too low.

The maximum fines that the BoR can impose are unchanged. These are RUB 1 000 000 (approximately EUR 23 000 / USD 30 000) on banks, and RUB 50 000 (approximately EUR 1 000 / USD 1 500) on executive officers.

R17 (Deficiency 2): Article 15.27 Code of Administrative Offences is not sufficiently broad.

Article 15.27 of the Code of Administrative Offences refers now already in the chapeau to “failure to comply with AML/CFT legal requirements”, and the article describes the punishments for violation of the AML/CFT legal requirements.

R17 (Deficiency 4): No powers for supervisors (other than the BoR) to replace directors / senior management.

There are draft laws in Parliament to grant the insurance and securities sector supervisors similar powers to the BoR to enable the demand the replacement of directors / senior management. It is unclear if these draft laws relate to AML/CFT, or to other criteria (such as professional qualifications).

R17 (Deficiency 5): No powers for the BoR, the FFMS, the FISS and Roskomnadzor to withdraw a licence when the owners are convicted of a relevant criminal or economic offence.

There is a draft law in Parliament to grant the securities supervisor the powers to withdraw licenses when the owners are convicted of a relevant criminal or economic offence. No other measures will be taken.

R17 (Deficiency 6): System to sanction financial institutions other than credit institutions is not effective

Effectiveness is not covered in this desk-based update. However, the authorities did provide statistics, indicating that action had been taken following detection of over 800 AML/CFT violations.

RECOMMENDATION 21 – RATING PC

R21 (Deficiency 1): 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.

The relevant requirements were introduced by Federal Law 176-FZ, which amended the AML/CFT Law. Article 6, item 1, sub-item 2 now requires special attention. Rosfinmonitoring Order No.59 requires financial institutions to implement the relevant procedures to comply with this legal provision. Rosfinmonitoring circulates the FATF lists among relevant competent authorities and published.

R21 (Deficiency 2): 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.

See on R11.

RECOMMENDATION 22 – RATING NC

R22 (Deficiency 1): 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, and (Deficiency 2): Existing guidance on foreign operations of CIs applies only to prudential risks, not to AML/CFT requirements.

Federal Law No.176-FZ (23 July 2010) requires subsidiaries and affiliates of financial institutions located outside the territory of the Russian Federation to comply with the requirements of the Russian AML/CFT Law, unless such compliance contradicts legislation of the respective foreign state. (Item 5.3 of Article 7 of the AML/CFT Law)

R22 (Deficiency 3): There is no requirement for increased vigilance over foreign operations in jurisdictions that do not or insufficiently apply FATF recommendations.

There is no requirement for increased vigilance over foreign operations in jurisdictions that do not or insufficiently apply FATF Recommendations.

R22 (Deficiency 4): 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.

Federal Law No.176-FZ (23 July 2010) obliges financial institutions to inform the relevant competent / supervisory authority if their branches and subsidiaries located in a foreign country or territory are wholly or partially unable to observe (parts of) the Russian AML/CFT legislation (Item 5.3 of Article 7 of the AML/CFT Law). Rosfinmonitoring has compiled a general list of information that needs to be reported in such cases (Informative Letter No.9 of 26 January 2011).

R22 (Deficiency 5): Foreign operations of non-credit FIs are not covered by the existing regulatory regime, thus effectiveness of the current legal framework cannot be assessed.

The aforementioned new provisions of the AML/CFT Law apply to all financial institutions.

RECOMMENDATION 24 – RATING PC

R24 (Deficiency 1): No current AML/CFT licensing regime by an AML/CFT competent authority for casinos.

Rosfinmonitoring has been designated as the competent AML/CFT authority for casinos. Only licenced casinos in special gambling zones can register with Rosfinmonitoring. The two existing casinos have been inspected by Rosfinmonitoring.

R24 (Deficiency 2): No measures to prevent criminals holding an interest in a casino.

Item 2 of Article 6 of Federal Law 244-FZ of December 2006 is said to be used to prohibit criminals from organising a gambling business, as amended by Federal Law 64FZ of 22 April 2010.

R24 (Deficiency 3): Limited number of focused supervisory visits to real estate agents.

Effectiveness is not covered in this desk-based update. However, the authorities did provide statistics, indicating that action had been taken by Rosfinmonitoring. Between 2009 and 2012, Rosfinmonitoring inspected 4 036 real estate agents. Following this, 1 236 sanctions were imposed in 2008 - 2009, 533 in 2010, 1 113 in 2011 and 633 in 2012 (on both legal entities and natural persons).

R24 (Deficiency 4): As reported on-site, supervisory activity for casinos does not appear to be proportionate to the perceived risks identified by the supervisor.

With only 2 casinos left in Russia, and both being inspected, supervision has become comprehensive.

R24 (Deficiency 5): Monitoring of lawyers is remote and not specific to AML/CFT.

Effectiveness is not covered in this desk-based update. However, the authorities report that between 2007 and 2010, over 70 000 lawyers have been inspected.

R24 (Deficiency 6): No details of specific AML/CFT monitoring of notaries.

Effectiveness is not covered in this desk-based update. However, the authorities report that between 2007 and 2010, over 10 000 notaries have been inspected.

R24 (Deficiency 7): Assay Chamber does not consider itself to have adequate powers.

The legislation that is described under Recommendation 23 also applies to the Assay Chamber.

R24 (Deficiency 8): Assay Chamber has relatively few AML/CFT specialists to supervise 25 000 firms.

Effectiveness is not covered in this desk-based update. However, the authorities report that the number of controllers employed by the Assay Chamber has more than doubled from 85 to 189.

R24 (Deficiency 9): General lack of specific information to assess effectiveness of the sanctions regime relating to DNFBPs.

Effectiveness is not covered in this desk-based update.

R24 (Deficiency 10): TCSPs not covered.

No information.

RECOMMENDATION 25 – RATING PC

R25 (Deficiency 1): Insufficient and ineffective guidance to FIs, beyond an explanation of the law.

The authorities report that an extensive list of letters with guidance on the implementation of the AML/CFT Law, and on monitoring transactions, that has issued by supervisors (BoR, FSFM, Assay Chamber) and Rosfinmonitoring. In addition, workshops devoted to the practical application of the AML/CFT Law are being organised with the participation of representatives of professional associations (such as the Association of Russian Banks) on a regular basis. One of the topics of such workshops is the discussion of risks that both credit institutions and Rosfinmonitoring face. Rosfinmonitoring has also posted typologies information on its website.

R25 (Deficiency 2): No case-by-case feedback beyond the acknowledgement of the receipt of the STR

Once the receipt of an STR has been acknowledged, the reporting institution does not receive any further information on that specific STR (such as, whether the STR was used in an investigation or prosecution).

R25 (Deficiency 3): Limited feedback given to the dealers in precious metals and stones, lawyers and notaries.

The list of indicators for transactions for dealers in precious metals and stones, lawyers and notaries was expanded.

R25 (Deficiency 4): No information about feedback given to accountants.

The Ministry of Finance has issued several pieces of guidance to accountants, and also enhanced its training programme.

RECOMMENDATION 29 – RATING PC

R29 (Deficiency 1): Limitation on the BoR for conducting on-site AML/CFT inspections.

The Russian authorities report that Article 1 of Federal Law 294-FZ “Regarding Protection of Rights of Legal Entities and Individual Entrepreneurs in the Course of State Control (Supervision) and Municipal Control” was amended by Federal Law 60-FZ of April 2009, which eliminated frequency and procedural limitations on AML/CFT inspections for the BoR, and any other AML/CFT supervisor.

R29 (Deficiency 2): FISS not able to compel and obtain access to information protected by banking secrecy

A draft law has been presented to the government to address this issue but has not been sent to Parliament.

R29 (Deficiency 3): Maximum fines against credit institutions are too low.

The maximum fines for breaches of the AML/CFT Law for credit institutions were set between RUB 50 000 and 1 000 000 (EUR 1 200 – 23 000 / USD 1 500 – 31 000) (Administrative Offence Law amendments passed as Federal Law 176-FZ in July 2010).

R29 (Deficiency 4): No power for the BoR to fine directors or senior management

The maximum fines for breaches of the AML/CFT Law for directors and senior management of credit institutions were set between RUB 10 000 and 50 000 (EUR 230 – 1 200 / USD 310 – 1 500) (Administrative Offence Law amendments passed as Federal Law 176-FZ in July 2010). Professional disqualification of up to three years is another possible sanction.

R29 (Deficiency 5): No powers for the FFMS, the FISS and Roskomnadzor to impose fines on financial institutions and directors / senior management and to replace directors / senior management

See R29, deficiency 3 and 4. These legal provisions apply to all sectors.

R29 (Deficiency 6): No powers for the BoR, the FFMS, the FISS, Roskomnadzor and Rosfinmonitoring to withdraw a licence when the owners are convicted of a relevant criminal or economic offence.

This issue was addressed for the insurance sector (FISS) and for Russia Post (Roskomnadzor). For the securities sector, relevant draft legislation is currently in Parliament.

R29 (Deficiency 7): System to sanction financial institutions other than credit institutions is not effective.

Effectiveness is not covered in this desk-based update. However, the authorities did provide statistics indicating that sanctions had been levied in the securities sector and on Russia Post (employees).

R29 (Deficiency 8): Lack of clarity with respect to Roskomnadzor's competence to carry out on-site inspections related to the full set of AML/CFT requirements and to compel production of records.

New legislation and administrative guidelines have been issued by the relevant government ministry to clarify inspection powers.

RECOMMENDATION 30 – RATING PC

R30 (Deficiency 1): 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.

The authorities have indicated that for the MIA the number of staff that are fully devoted to AML/CFT issues at the HQ level has risen from 14 to 34 (during the period 2008 – 2010).

RECOMMENDATION 33 – RATING PC

R33 (Deficiency 1): None of the existing systems achieve adequate transparency regarding the beneficial ownership and control of legal persons.

The authorities indicate that under Russian law every legal person is required to have an account with a credit institution. Since the update of the AML/CFT Law with requirements on beneficial ownership (see R5), credit institutions are said to be Russia's virtual national beneficial ownership registry.

SPECIAL RECOMMENDATION VI – RATING NC

SRVI (Deficiency 1): The current system lacks effectiveness in ensuring compliance.

Effectiveness is not covered in this desk-based update. However, the authorities indicate an expansion of the AML/CFT training programme by Russia Post. This should, ultimately, positively affect the compliance levels of Russia Post, which in turn, make it easier for the supervisor to ensure compliance.

SRVI (Deficiency 2): Insufficient attention is devoted to the existence of and risks presented by illegal alternative remittance systems

To address this issue, the AML/CFT Interagency Commission has been engaged. In this Committee, 23 key competent authorities cooperate to fight AML/CFT. As a first step, law enforcement bodies share on a regular basis case examples of detected illegal alternative remittance systems. In addition, the authorities indicate that law enforcement entities have taken action in several cases. The work of the Commission is being replicated in all 7 Federal Districts jointly by the Interregional Departments of Rosfinmonitoring and local law enforcement bodies. Another measure taken to address the issue is the enhancement of the attractiveness of the legal MVT sector, by i) reduction of commission fees, ii) extension of the territorial coverage; and iii) putting in place faster and more reliable systems for transferring money.

SRVI (Deficiency 3): Since providers of payment acceptance services were not subject to supervision before November 2007, the effectiveness of their compliance with AML/CFT regulations may not be evaluated.

Federal Laws 103-FZ and 121-FZ (June 2009) provide for supervision of compliance with the existing legislation of providers of payment acceptance services. In 2009 – 2010, Rosfinmonitoring inspected 147 such service providers, and commenced administrative procedures against 35 entities and 41 persons for breach of AML/CFT requirements.

SRVI (Deficiency 4): 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.

See under Recommendations 5, 6, 7, 8, 10, 13, 14, 15, 22 and 23.

SRVI (Deficiency 5): ROSCOM lacks effective sanctioning powers.

Federal Law 176-FZ provided ROSCOM with the relevant sectioning powers. See also under R29.

SPECIAL RECOMMENDATION VII – RATING PC

SRVII (Deficiency 1): Full originator information is not required in certain limited cases.

The authorities indicate that since 2009, full originator information is required generally (per Article 7.2 of the AML/CFT Law).

SRVII (Deficiency 2): No requirements for beneficiary FIs to adopt a risk-based procedure for wire transfers, and incoming transfers are not covered at all.

The AML/CFT Law still requires that all incoming wire transfers that lack originator information are refused (the rule based approach). However, if a transaction with no or insufficient or (possibly) incorrect originator information is received, then the AML/CFT Law requires an STR to be filed.

SRVII (Deficiency 3): Requirement to refuse transactions without full originator information cannot be implemented.

The AML/CFT Law still requires that all incoming wire transfers that lack originator information be refused.

SRVII (Deficiency 4): Batch transfers are not specifically mentioned in the Law.

The authorities consider that since batch transfers are not mentioned, the requirements apply to batch transfers.

SRVII (Deficiency 5): Shortcomings identified under Recommendation 17 (sanctions) and 23 (monitoring and supervision) apply equally to this Special Recommendation.

See under Recommendations 17 and 23.

SRVII (Deficiency 6): Effectiveness of the new system cannot be measured.

Effectiveness is not covered in this desk-based update.

SPECIAL RECOMMENDATION VIII – RATING PC

SRVIII (Deficiency 1): 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 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).

The Russian authorities report that a detailed analysis of the NPO system was undertaken at some time between 2008 and 2010. This analysis was submitted to Rosfinmonitoring to assist in the development of further guidance and as a basis for further communications with the private sector.

SRVIII (Deficiency 2): Some of the rules are insufficiently enforced

The authorities report that Federal Law 170-FZ contains changes to the procedures for submitting annual reports by NPOs, and for executing inspections of NPOs by the authorities.

SRVIII (Deficiency 3): There is inconsistent outreach to the NPO sector to provide guidance.

The authorities report that in 2011 and 2012, the Commission on Development of Charity and Volunteering at the Russian Federation's Public Chamber, together with the Ministry of Justice and the Ministry of Economic Development, organised the 5th and 6th "all-Russia Competition of Public Reports of Non-Profit Institutions". At the end, 20 NPOs were awarded commemorative diplomas.

SRVIII (Deficiency 4): There is no formalised and efficient system in place that focuses on potential vulnerabilities.

To allow for a more formalised and efficient system that focuses on NPO risks, the AML/CFT Interagency Committee is tasked to work on this issue. See also SRVI.

SRVIII (Deficiency 5): There is no formalised and efficient system in place to share information to target abuse.

To allow for a more formalised and efficient system to share information to target abuse, the AML/CFT Interagency Committee is tasked to work on this issue. See also SRVI.

SRVIII (Deficiency 6): No single authority is formally designated as the competent authority responsible for co-ordinating Russia's domestic efforts regarding NPOs and receiving international requests

By Presidential Order 1079 (July 2008), the Ministry of Justice is the primary competent authority for NPO issues.

SPECIAL RECOMMENDATION IX – RATING NC

SRIX (Deficiency 1): No clear power to stop or restrain declared cash or bearer negotiable instruments in case of a suspicion of money laundering.

There is no information available that confirms that this deficiency has been rectified. Although the Russian authorities report on a large number of measures and draft laws to improve this issue, it is unclear if the final enacted legislation contains the necessary requirements.

SRIX (Deficiency 2): Customs declaration forms are not in line with the requirements set in the law.

A new passenger customer declaration form has been in use since July 2010.

SRIX (Deficiency 3): Customs authorities do not keep all required data relating to ML/TF.

The Russian Customs authorities report that new hardware and software application allow for the scanning and subsequent (automatic) search of all customs forms. This platform is also used to exchange information, such as with Rosfinmonitoring.

SRIX (Deficiency 4): There is inadequate co-ordination among relevant competent authorities on cross border cash movement (effectiveness).

Besides the use of the software application that is mentioned under deficiency 3, Russia also reports on enhanced cross-border cooperation, with EU and CIS countries and within the framework of the WCO (RILO-Moscow).

SRIX (Deficiency 5): The administrative fines available for false or non-declarations are not dissuasive and not effective.

The authorities indicated that new article 200.1 of the Criminal Code of the Russian Federation (as amended by Federal Law No.134-FZ) envisages criminal liability for smuggling of cash and (or) negotiable instruments. The Code of the Russian Federation on Administrative Offences sets the following administrative liabilities: in Article 16.2 for failure to declare or false declaration of goods and in Article 16.4 for failure to declare or false declaration of cash and (or) negotiable instruments.

SRIX (Deficiency 6): Customs staff seem not to be aware that the system can be used for AML/CFT purposes (effectiveness).

The authorities report that regional customs offices have received repeated updates about AML/CFT developments and requirements also with foreign source material (FATF, WCO) since the mutual evaluation. In addition, an anti-money laundering staff training programme has been put in place.

SRIX (Deficiency 7): Insufficient number of dedicated AML/CFT staff at the borders

The customs authorities indicate that an additional number of the 14 000 customs staff have been given AML/CFT responsibilities.

SRIX (Deficiency 8): Corruption seems to affect the effectiveness of the system.

Effectiveness is not covered in this desk-based update; however, the customs authorities report a large number of measures against corruption taken since the mutual evaluation. These measures, some of which are part of the 2008 Presidential action plan against corruption, relate to preventive, educational and law enforcements measures.

SRIX (Deficiency 9): Failures under Special Recommendation III have a negative impact.

See Special Recommendation III.

SRIX (Deficiency 10): Cash delivery through container cargoes was not covered, and application through the general provisions was not demonstrated.

The authorities indicate that the provisions of the customs law require the transfer of cash in container cargoes to be indicated on the container cargo customs declaration.

SRIX (Deficiency 11): The authorities could not demonstrate the effectiveness of the system.

Effectiveness is not covered in this desk-based update; however, the aforementioned measures should assist to enhance the effectiveness of the implementation of SRIX.