

EAG

RUSSIAN FEDERATION: 1ST FOLLOW-UP REPORT (WITH RE-RATINGS)

December 2023



I. INTRODUCTION

1. The Mutual Evaluation Report of the Russian Federation ("MER") was approved at the FATF Plenary Meeting in October 2019, which resulted in the country being placed under regular follow-up.
2. The attached follow-up report is an analysis of the results achieved by the Russian Federation between October 2019 and July 2023 in addressing the technical compliance deficiencies noted in the MER. The request for TC re-ratings is considered for those recommendations for which justification for significant improvements to the national AML/CFT system was provided.
3. This report also provides an analysis of the changes to the national AML/CFT system related to the new requirements under FATF Recommendation 15 that were approved after the end of the on-site visit to the Russian Federation.
4. For information purposes, the follow-up report also includes information on the progress of the Russian Federation in implementing measures recommended by the assessors on other FATF Recommendations and information provided on immediate outcomes.

II. FINDINGS OF THE MUTUAL EVALUATION REPORT

5. In accordance with the results of the MER, the Russian Federation was assigned the following technical compliance ratings under the FATF Recommendations:

Table 1: Technical Compliance Ratings as of October 2019:

P. 1	P. 2	P. 3	P. 4	P. 5	P. 6	P. 7	P. 8	P. 9	P. 10
LC	C	LC	LC	LC	PC	PC	LC	C	LC
P. 11	P. 12	P. 13	P. 14	P. 15	P. 16	P. 17	P. 18	P. 19	P. 20
LC	PC	LC	LC	C	PC	LC	LC	LC	C
P. 21	P. 22	P. 23	P. 24	P. 25	P. 26	P. 27	P. 28	P. 29	P. 30
LC	LC	LC	LC	PC	LC	LC	LC	C	LC
P. 31	P. 32	P. 33	P. 34	P. 35	P. 36	P. 37	P. 38	P. 39	P. 40
C	LC	C	LC						

6. Taking into account the results of mutual evaluation, the Russian Federation is under regular follow-up.
7. Analysis of the request of the Russian Federation on TC re-ratings and preparation of this report was performed by the following experts of the delegations and representatives of the Secretariat:
 - Mr. Khurshid Akhmadaliev, Head of the Terrorism Financing Counteraction Division of the Department for Combating Economic Crimes under the General Prosecutor's Office of the Republic of Uzbekistan/professor in Law Enforcement Academy of the Republic of Uzbekistan;
 - Mr. Robin Rawal, Commissioner of the Tax Policy Research Unit, Department of Revenue, Ministry of Finance, Republic of India;
 - Ms. Zhongyuan ZHANG, Anti-Money Laundering Bureau of the People's Bank of China;
 - Ms. Nazerke Zhampeiis, Senior AML/CFT/CPF Counsellor of the EAG Secretariat (coordination by the Secretariat).

8. Section III of the FUR presents an analysis of AML/CFT system changes to improve TC, and Section IV contains the conclusion of the analysis and a list of Recommendations for which ratings have been upgraded.

III. ANALYSIS OF CHANGES AIMED AT IMPROVING THE LEVEL OF TECHNICAL COMPLIANCE

9. This section analyzes the changes submitted by the Russian Federation, which aim at:
 - a. addressing the technical compliance deficiencies noted in the MER (R.6, 7 and 25);
 - b. ensuring technical compliance with the new requirements of the FATF Recommendations that came into force after the end of the on-site visit to the Russian Federation (R.15).

3.1. Changes to address TC deficiencies identified in the MER

10. The Russian Federation submitted materials on the work carried out to address the deficiencies noted in the MER for R.6, 7 and 25, which were assigned an PC rating.

Recommendation 6 (Rating based on the MER results - PC)

11. The PC rating was assigned due to the following factors:
 - It can take up to two days for FIs and DNFBPs to implement TFS, which is not considered as occurring “without delay” (criterion 6.4).
 - There are no legally enforceable requirements that apply to all natural and legal persons (beyond FIs and DNFBPs) to freeze or prohibit the provision of funds/assets/services to designated persons or entities(criterion 6.5 (a) and (c)).
12. **In order to address the deficiencies under criterion 6.4**, the Russian Federation amended Federal Law No. 115-FZ. In terms of the UNSC sanctions lists implementation pursuant to Article 7.5 para 2 of Federal Law No. 115-FZ, Rosfinmonitoring shall, immediately after changes in the UNSC sanctions lists (hereinafter – the List), but no later than four hours after information on these decisions has been posted on the Internet on the official websites of the UNSC, send notifications to organizations conducting transactions with monetary funds or other property through their personal accounts (Article 3 of Federal Law No. 115-FZ), which shall include information on organizations and individuals included in the sanction lists. The Personal Account is a tool for fulfilling imperative requirements of anti-money laundering legislation, such as submitting STRs, receiving requests from the authorized body and sending responses to them, which indicates that its use by reporting entities is mandatory (Regulation of the Government of the Russian Federation No. 209 (para. 7, 14, 19); Instruction of the Bank of Russia No. 5861-U para. 5; Instruction of the Bank of Russia No. 4937-U para. 3; Rosfinmonitoring Order No. 175 para. 1). In addition, check of any client against the List, which is communicated via a personal account, is a mandatory element of the CDD (Rosfinmonitoring Order No. 100 para. 18; Bank of Russia Regulation No. 375-P para. 7.1.1; Bank of Russia Regulation No. 445-P para. 6.1). The List is also posted on the public part of the Rosfinmonitoring website. Organizations conducting transactions with monetary funds or other property must immediately take measures to freeze (block) monetary funds or other property after the inclusion of an organization or individual in the Lists of organizations and individuals associated with terrorism or proliferation of weapons of mass destruction compiled by UNSC` s decisions, but not later than twenty hours from the moment of receipt of the Rosfinmonitoring notification. The obligations to apply the TFS for reporting entities come into force immediately upon the relevant UNSC decision and they are

subject to liability for failure to comply immediately (e.g., for transactions of designated persons after they have been placed on sanctions lists) regardless of the expiration of the 20-hour deadline, which is the deadline for checking the entire customer base of reporting entities against updated List (Article 7.5 para 2 of Federal Law No. 115-FZ). The specifics of calculating the said twenty hours are set forth in Rosfinmonitoring Order No. 297 dated 29.11.2022, which was adopted for the purpose of interpreting and explaining the application of the provisions of Federal Law No. 115-FZ that provide mandatory requirements in astronomical hours, which means the application of the requirement regardless of the different time zones established in the Russian Federation. According to clause 4 of this Order, in cases where the FIs and DNFBPs received the notification during the working hours of such organization, the time of application of the TFS shall be calculated continuously starting from the time in hours and minutes (local time) at which the notification was received. In accordance with paragraph 5 of the said Order, if the reporting organization received the notification outside of its working hours, the time shall be calculated continuously starting from the first minute of working hours (local time) of such organization that occurred after the notification was received. It formally indicates possible delays due to non-working hours in such cases. According to the explanatory letter of Rosfinmonitoring, which was communicated to all reporting entities (through personal account), such entities should be guided by paragraph 4 as a general rule which means implementation of the TFS within 24 hours. In cases when reporting entities receive the notification outside working hours and do not serve clients or perform any transactions, including remotely, they are guided by paragraph 5 of the above-mentioned order which means they are ordered to check the client's data with the UN Security Council sanctions lists before performing any transactions when the business opens, failure to do so entails liability. These measures ensure complete lack of access to assets and services outside the reporting entities' business hours. Given the moment when the obligation to apply the TFS arise defined as immediate, as well as the need for check against the new List prior to any transactions ensured by liability for breach of the TFS, it does not result in the flight or dissipation of assets that are to be frozen, which is the purpose of the without delay application of the TFS under the FATF Standards. Thus, the formal deficiency that exists is minor.

13. In terms of the application of TFS in accordance with UNSCR 1373, TFS measures apply to persons: 1) included in the national list if there are grounds provided for Article 6 of Federal Law No. 115-FZ and formed by Rosfinmonitoring; 2) for which there is a decision of the interagency coordination body in the absence of the grounds specified in Article 6 of Federal Law No. 115-FZ, but if there are sufficient grounds to suspect the involvement of an organization or individual in terrorist activities, as well as on the basis of an appeal received from the competent authority of a foreign state (Article 7.4 of Federal Law No. 115-FZ).
14. Public notification that a person or organisation is to be subject to targeted financial sanctions is the posting of relevant information on the official website of Rosfinmonitoring on the Internet, after which measures to freeze (block) funds or other property shall be implemented immediately from the moment of publication, but not later than one business day.
15. The obligations to apply the TFS for reporting entities come into force immediately upon the relevant publication of the national decision and they are subject to liability for failure to comply with them immediately (e.g. for transactions of designated persons after they have been included on the sanctions lists) regardless of the expiry of one working day deadline, which is the deadline for checking of the entire customer base of reporting entities against the updated list.
16. Thus, the country's legislation provides for the immediate application of the TFS in accordance with UNSCR 1373.

17. **In order to address the deficiencies under criterion 6.5**, the Russian Federation amended Federal Law No. 281-FZ in accordance with Federal Law No. 83-FZ dated 01.05.2019, which provides for the application of coercive measures. Country also introduced amendments to Federal Law No. 115-FZ, including Article 7.5 (please see analysis for c. 6.4).
18. 6.5a) In accordance with the adopted amendments, it is established that coercive measures are understood as collective measures aimed at preventing and eliminating threats to peace and suppressing acts of aggression or other breaches of the peace, the introduction, modification, suspension or abolition of which are stipulated by the UNSCR (including freezing under TFS) and apply to all individuals and organizations. In accordance with Article 5.1 of Federal Law No. 281-FZ, coercive measures are applied within the timeline established by the UNSCRs, which stipulate the without delay application of freezing measures. At the same time national legislation does not specify that freezing shall take place without prior notice. In addition to the above changes in the legislation, Article 15.27.1 of the CAO was amended to establish liability of all legal entities for failure to apply coercive measures. Individuals for providing funds, resources and services to designated persons may be held criminally liable under the relevant articles of the CC of the Russian Federation. At the same time, terrorist financing requires proof of criminal intent, while a violation of the TFS regime – does not, and thus not in all cases (e.g., in the case of financing the costs of returning an individual to his or her home country from a conflict zone as part of facilitating the individual's exit from a terrorist organization) it will be possible to hold an individual criminally liable for failure to apply TFS. However, in the Russian MER-2019 (criterion 5.2 of Rec 5) it is simultaneously confirmed that financing of an individual terrorist for any purpose is included in TF offence. Besides, in the Russian MER-2019 (IO.10) experts noted that in practice in Russia, the TF offence is used to punish the provision of funds or other assets, economic resources, financial or other related services to or for the benefit of designated persons or entities. However, under FATF Glossary freezing includes not only prohibition of the transfer, conversion, disposition, but also simple movement of any funds or other assets. Consequently, if movement of designated funds occurred not for the benefit or at the direction of the designated person this may not be covered by TF offence.
19. On this basis, the legal provisions for asset freezing within the time limits set out in the Resolutions under sub-criterion 6.5a are ensured by the existence of liability of legal persons in all cases. For natural persons the obligation to freeze without delay and without prior notice is not so clear, which is a minor deficiency given the specificity of the implementation of these requirements by individuals.
20. 6.5b) Federal Law No. 281-FZ establishes obligations that technically refer to the requirements of UNSC Resolutions. Even though national legislation does not explicitly outline the assets that need to be frozen in the context of TFS, some assets are covered in different pieces of national legislation and apply to natural and legal persons: CvC, CPC, Tax code (see 6.5 b analysis in the MER 2019).
21. 6.5c) Federal Law No. 281-FZ establishes explicit requirement for all natural and legal persons to apply the coercive measures under UNSCRs, while no domestic legislation elaborates on the specificities of prohibition applicable to natural and legal persons. However, for legal persons there is a specific administrative offence for non-compliance with the blocking/freezing, which includes the provision of funds or other assets. For natural persons, the TF offence is very broad and cover most cases of provision of funds to designated persons (see 6.5 a), however, criminal penalties for TF are not sufficient to technically comply with the requirement of the criterion (see MER 2019). Thus, taking into account the norms of Federal Law No. 281-FZ and the presence of full liability, the requirements of this sub-criterion are fully ensured for legal entities. For individuals, the obligation is not so explicit from the point of view

of technical compliance, which is a minor deficiency, given the new provisions of Federal Law No. 281-FZ and the specificity of the implementation of these requirements by individuals.

22. 6.5d) According to the requirements of Article 6.1 of the Federal Law No. 281-FZ, UNSCRs providing for the introduction, amendment, suspension or cancellation of coercive measures are subject to official publication. There is no requirement in Federal Law No. 281-FZ to provide clear guidance to individuals and organisations other than FIs and DNFBPs. At the same time, the legislation stipulates that Rosfinmonitoring shall provide legal entities and individuals with explanations on matters falling within its sphere of activity (Presidential Decree No. 808), including on TFS application.
23. Based on the above, the shortcomings related to the lack of requirements to extend the obligations to apply TFS in the field of TF to all individuals and organizations have been largely addressed. Minor shortcomings regarding the need for more detailed regulation of TFS application issues and improvement of individuals' liability, in order to cover all possible cases of TFS violations, remain.
24. **Weighting and conclusion:** The Russian Federation has addressed the shortcomings related to TFS application without delay on the basis of the UNSC sanctions lists, and now the timeframe for their implementation does not exceed 24 hours. The country's legislation also ensures without delay application of the TFS in accordance with UNSCR 1373. At the same time, there is a minor shortcoming regarding the application of the TFS by reporting organisations during non-working hours. However, this provision of regulation relates only to reporting entities which don't provide any services (assets, property) during non-working hours and thus the technical shortcoming is minor. The legislation includes provisions on coercive measures imposed by UNSCR, including TFS, which are mandatory for all individuals and organisations. At the same time, these provisions are not so specified as the requirements for the FIs and DNFBPs. For non-compliance with coercive measures by legal entities administrative liability is established, while individuals may be held criminally liable for TF, except in certain cases. Thus, the shortcomings regarding the non-extension of the TFS requirements to all natural and legal persons have been largely addressed. Taking into account the insignificant weight of the remaining shortcomings, **the rating for R6 is upgraded to LC.**

Recommendation 7 (Rating based on the MER results - PC)

25. The PC rating was assigned due to the following factors:
 - It can take up to two days for FIs and DNFBPs to implement TFS, which is not considered as occurring “without delay” (*criterion 7.1*).
 - There are no legally enforceable requirements that apply to all natural and legal persons (beyond FIs and DNFBPs) to freeze or prohibit the provision of funds/assets/services to designated persons or entities (*criteria 7.2 a, 7.2 c*).
26. The rules governing the TFS regime under UNSCR 1267 and 1988 are also applicable to the TFS regime under UNSCR 1718 and 2231. See the analysis of the fulfillment of the requirement of criterion 6.4, regarding the implementation of the UNSC sanctions lists.
27. The provisions of Federal Law No. 281-FZ providing for the application of coercive measures and Federal Law No. 115-FZ also apply to TFS in the field of PF. See in this part the analysis of fulfillment of the requirements of criterion 6.5a, 6.5b, 6.5c and 6.5d.
28. Article 15.27.1 of the CAO has been supplemented with provisions establishing liability of all legal entities for failure to apply coercive measures same as analyzed under criterion 6.5.

29. The CC has a number of articles providing for liability for acts related to weapons of mass destruction, under which it is possible to prosecute persons as accomplices for providing assets only for these purposes. Taking into account the fact that the TFS do not depend on the purpose of providing assets, are not limited to certain actions and any type of property or products, the mentioned norms of the CC do not cover all possible cases when any funds and for any purpose are transferred to a person from the list.
30. Taking into account the norms related to coercive measures established by Federal Law No. 281-FZ, the shortcomings related to the absence of requirements to extend the obligations to apply TFS in the field of PF to all individuals and organizations have been mostly addressed; minor shortcomings related to the need for more detailed regulation of the issues of TFS application and enhancement of the liability of individuals in order to cover all possible cases of violations of TFS requirements remain.
31. **Weighting and conclusion:** The Russian Federation has a unified legal framework regulating the regime of TFS for TF and PF under the UNSCR sanctions lists, which ensures the application of TFS for PF within 24 hours. At the same time there is a minor shortcoming related to application of TFS by reporting entities during non-working hours. However, this provision exclusively refers to reporting entities that do not provide any services (assets, properties) outside their working hours and in this respect the technical shortcoming is minor. The provisions of the legislation providing for the application of coercive measures are also relevant to the TFS in the field of PF, but they are not so specified as the requirements for FIs and DNFBPs. Liability of all legal entities for non-application of TFS in the field of PF is established by Article 15.27.1 of the CAO. Individuals may be held criminally liable on the basis of available articles of the Criminal Code criminalizing aiding and abetting in acts related to the proliferation of weapons of mass destruction, except in certain cases. Thus, the shortcoming concerning the non-extension of the requirements for the application of TFS to all natural and legal persons has been largely addressed. Due to the insignificant weight of the remaining shortcomings, under criteria 7.2a and 7.2c, **the rating under R.7 is upgraded to “Largely compliant”**.

Recommendation 25

32. The PC rating was assigned due to the following factors:
- The law does not require persons acting as professional trustees of a foreign trust to maintain and update basic or BO information of the trust. FIs and DNFBPs are not obliged to conduct CDD when they act as a trustee (*criterion 25.1c*);
 - Professionals subject to article 7.1. of the AML/CFT Law do not have an obligation to keep information updated (*criterion 25.2*);
 - There are no specific obligations for trustees to disclose their status to FIs or DNFBPs (*criterion 25.3*);
 - Legal professionals do not have an obligation to keep information updated, including regarding trusts, and are not required to keep information on the trust when providing trustee services. As such, it is not possible to make trustees legally liable for non-compliance and to apply sanctions accordingly (*criterion 25.7*);
 - Since there is no obligation for the professionals referred to in c.25.1 and 25.2 to provide Rosfinmonitoring with information on the trust except in the case of an STR submitted, such sanctions are not applicable to them (*criterion 25.8*).
33. *To address shortcomings under criterion 25.1(c)* Russia amended its AML/CFT Law to include trustees/administrators (either natural or legal person(s)) of foreign legal arrangements as AML/CFT

- obliged entities (AML/CFT Law art.7.1, para. 1). Therefore, trustees (regardless of what other types of activities they carry out) are required to conduct CDD on their customers and the customers' beneficial owner(s) and to maintain the information for at least five years. The information is updated and includes the identity of founders (participants), trustees (administrators), protectors (if any) (AML/CFT Law, art.7, para. 1, (1)), the beneficial owners (AML/CFT Law, art.7, para. 1, (2)) to the trust.
34. There is no obligation for trustees to hold information on other regulated agents of, and service providers to, the trust. Though Russia explains, customer's (i.e., trust itself and parties to the trust) "beneficiaries" can cover the above persons according to the definition in art. 3 of the AML/CFT Law which indicates that "Beneficiary" is a person for whose benefit a customer is acting, including under agency service contract, agency contract, commission fee and entrusted administration when conducting transactions in monetary funds and other assets, yet is a bit difficult to reconcile as the customer (trust and parties to the trust) would not be acting on the "benefit" of the services providers but itself. Given this shortcoming, the rating for criterion 25.1(c) is rated as mostly met.
 35. *The shortcomings under criterion 25.2 have been fully addressed.* According to the new amendments to the legislation of the Russian Federation, information held pursuant to R.25 is subject to verification/ascertainment (AML/CFT Law, art 7.1, para. 1 and the definition of "identification" in art. 3) thus is required to be kept accurate and up to date. The frequency to update customers' information depends on the customers risk level (at least once in 3 years for low risk group, at least once a year for other groups) and the process to categorize risk level is indicated by internal control rules, in case of changes in information (AML/CFT Law, art. 6.1 subparagraphs 3, 4 and 5 and art. 7.1), and when doubts occur as to the credibility and accuracy of information received earlier (AML/CFT Law, art. 7 para. 1(3), GR 1188, paras.19-21). For the latter, information should be updated within seven business days following the day when such doubts occurred.
 36. *The shortcomings under criterion 25.3 have been fully addressed.* Trustees are obliged to disclose their status as a trustee or a protector of a foreign legal arrangement to FIs and DNFBPs (AML/CFT Law, art.7, para. 14).
 37. *The shortcomings under criterion 25.7 have been largely addressed.* Trustees of foreign legal arrangements were made obliged entities and legally liable for failures to comply with their duties including CDD, record keeping and disclosure requirements. According to article 15.27 (paragraph 1 and 4) of the Code on Administrative Offences, a warning, an administrative fine from RUB 50 000 to 1 000 000 or administrative suspension of activities for up to ninety days on trustees, and a fine from RUB 10 000 to 50 000 or disqualification for a term of one to three years on officers can be imposed, depending on the severity of violation(s). This provides for proportionate sanctions. However, fines seem too low to be considered dissuasive, as noted for similar sanctions/amounts in Russia's 2019 MER (See C.35.1).
 38. *The deficiencies under criterion 25.8 have been fully addressed.* Since trustees of foreign legal arrangements are obliged entities, failure to provide information to Rosfinmonitoring on customer transactions and beneficial owners by an obliged entity can result in a fine ranging from RUB 30 000 to 50 000 on natural persons and RUB 300 000 to 500 000 on legal persons (Art.15.27, CAO). Thus sanctions are applicable to legal professionals so far.
 39. **Weighting and conclusion:** Shortcomings identified in the MER has been largely addressed. Express trusts and other similar legal arrangements cannot be created under Russian law. Foreign trustees became AML/CFT obliged entities and are mandated to disclose their status to FIs or DNFBPs, and should comply

with their duties including CDD, update of information, record keeping and disclosure requirements. The CAO (Art 15.27) applies to failure comply with these requirements. Remaining minor shortcomings s include that i) there is no obligation to keep records related to the agents and service providers to the trust; ii) fines seem too low to be considered dissuasive. Indicated deficiencies are minor, including taking into account that there neither has been evidence that entities in Russia involved in foreign trust activities to a significant extent nor higher risk has been identified. Thus, re-rating is justified. **The rating of R.25 is upgraded to “Largely compliant”.**

3.2. Changes to comply with the updated recommendations

40. Recommendation 15 has been amended after approval of the MER of the Russian Federation. This section provides an analysis of the compliance of the national AML/CFT system of the Russian Federation with the updated text of Recommendation 15.
41. Since the new amendments to R.15, the Russian Federation has adopted Federal Law No. 259-FZ "On Digital Financial Assets, Digital Currency". According to the legislation there are two types of virtual assets: 1) digital financial assets (DFA); 2) digital currencies (DC, which covers cryptocurrencies). Thus, in the Russian Federation two types of VASPs can operate: 1) providers of DFA and 2) providers of DC.
42. Law No. 259-FZ defines the persons who carry out the activities of **digital financial asset service providers**. These are a) operators of the information system in which DFA are issued, b) DFA exchange operators. As far as these DFA service providers are concerned, the law covers all VASP activities defined in the FATF glossary. According to Federal Law No. 259-FZ, legal entities may act as DFA service providers for which personal law is Russian law, and information about which is included in the register of information system operators or the register of DFA exchange operators, respectively. Thus, despite the fact that there is no direct ban on the activities of DFA service providers by individuals, it follows from the provisions of Part 1 of Article 5 and Part 2 of Article 10 of Law No. 259-FZ that individuals cannot become a DFA service provider legally.
43. However, legislation does not define **digital currency service providers (which includes cryptocurrencies)**, i.e. it is not clear who exactly can carry out such activities. In terms of digital currency, of the 5 types of VASP activities presented in the FATF Glossary, one type of activity is partially prohibited by Law No. 259. Namely, residents are prohibited to use (i.e. transfer) DC as a means of payment. However, the remaining 4 activities related to DC are not fully regulated by the legislation as some draft laws related to digital currency circulation are still under development. This shortcoming affects the whole recommendation.
44. Digital currency has been defined in Federal Law No 259-FZ and has been recognized as ‘Property’ for the purpose of AML/CFT in Federal Law No 115-FZ. Thus, reporting entities (FIs, DNFBPs, DFA service providers) must fulfil all AML/CFT requirements in relation to DC. However, as noted above, the legislation regarding the DC service providers themselves is still under development and they are not reporting entities.

Recommendation 15

45. In relation to criteria 15.1 and 15.2 the "Met" rating reflected in the MER is maintained. The measures taken and new changes in legislation strengthen this rating. Federal Law No 423-FZ specified provisions of Federal Law No 115-FZ. Thus according to para 5.14 of Article 7 organizations carrying out transactions with monetary funds or other assets before providing new services and (or) software and

hardware that enable customers to perform transactions with monetary funds or other assets are required to assess the possibility of using such services and (or) software and hardware for the purpose of legalization (laundering) of proceeds of crime and financing of terrorism, and take measures aimed at reducing (mitigating) this possibility based on the results of this assessment. Same requirements apply to obliged entities under Article 7.1. According to these provisions obliged entities are required to assess risks of their customers taking into account inter alia results of the NRA and types products (services) used. Additional provisions are incorporated in Government Regulation No 667 and 1188. Requirements on risk mitigation measures are also contained in Chapter 4 of Bank of Russia Regulation No. 375 and Chapter 4 of Bank of Russia Regulation No. 445.

46. *Criterion 15.3 is rated as “Partly Met”*. The country has taken steps to assess VA risks within the ML NRA and TF NRA. As a result of these exercises trends in the usage of VAs for illegal purposes were identified. In addition, the Bank of Russia conducted analysis of the participation of Russian citizens in transactions within the cryptocurrency market, the risks of the spread of VA, including threats associated with illegal activities. An assessment of the sector of VASPs carrying out transactions with DC per se as reporting entities has not been carried out in the Russian Federation, since to date there is no legal regulation of the activities of VASPs carrying out transactions with DCs. However, the NRA 2022 evaluates and provides analysis of the use of the entire VA sector (DFA and DC) for ML/TF purposes. The country has identified through NRA 2022 that credit institutions remain the most significant sector in terms of their size and volume of assets compared to providers of services of new technologies, including DFA/DC. Thus, the DFA and DC sector has a relatively less significant weight in the financial market. (*criterion 15.3 a*). The country has taken certain steps to mitigate the risks of VA being used for criminal purposes. As noted above, there is a ban on the use of DC as a means of payment for residents, as well as a ban on the dissemination of information on the offer and/or acceptance of digital currency as a means of payment. In addition, the ML NRA 2022 takes into account some measures taken, including: the list of ML risk indicators was extended with an indicator related to transactions associated with virtual assets; civil servants have been required to declare owned virtual assets. In addition FIU is developing the system for identifying financial transactions using virtual assets, including through the creation of special software. Measures in relation to one of the main vulnerabilities identified during NRA – regulation of the DC service providers are under development (*criterion 15.3 b*). DFA service providers are reporting entities and are subject to all requirements of AML/CFT legislation, including risk assessment and risk mitigation measures. DC providers are not reporting entities and are not subject to similar requirements (*criterion 15.3 c*).
47. *Criterion 15.4 is rated as “Partly Met”*. DFA service providers are subject to registration and inclusion in the register of information system operators or DFA exchange operators maintained by the Bank of Russia (Article 5(2) and Article 10(2) of Law No. 259-FZ). As the legislation still does not define digital currency service providers, there is no obligation to undergo licensing or registration procedures in relation to them (*criterion 15.4 a*). At the same time it should be noted that in the Russian Federation it is prohibited to pay for services through DC as well as to disseminate information about the offer and (or) acceptance of DC as payment for goods (works, services).
48. The activities of DFA service providers are supervised by the Bank of Russia. In accordance with Article 5, paragraphs 5, 6 and 8 and Article 10, paragraphs 5, 7 and 8 of Federal Law No. 259-FZ, criminals may not hold directly or indirect managerial positions or have a significant or controlling interest, i.e. be beneficial owners. These provisions of the law apply to accomplices of criminals (persons controlled by

or associated with criminals). As the legislation still does not define digital currency service providers, there is no similar obligations in relation to them (*criterion 15.4 b*).

49. *Criterion 15.5 is rated as “Partly Met”*. The Bank of Russia is carrying out work to identify on the territory of the Russian Federation the activities of organizations (individuals) that have signs of illegal activity in the financial market, within the framework of which companies are identified, including those that attract funds from citizens under the guise of investing in digital assets. In accordance with Federal Law No. 259-FZ, in case of violations, including non-compliance by DFA service providers with the requirement to carry out activities only after registration process (i.e. inclusion in the register), the Bank of Russia shall apply appropriate sanctions. As the legislation still does not define digital currency service providers, there is no similar sanctions for violation of the registration requirement in relation to them.
50. *Criterion 15.6 is rated as “Partly Met”*. The Bank of Russia regulates, controls and supervises the activities of DFA service providers (operators of information systems where DFAs are issued and DFA exchange operators), including for compliance with AML/CFT legislation. In accordance with the AML/CFT law, this supervision should be based on a risk-based approach (*criterion 15.6 a*). The Bank of Russia conducts inspections of the activities of DFA service providers through remote supervision and on-site inspections, sends binding orders and applies other measures prescribed by federal laws, including deregistration (*criterion 15.6 b*). However, with respect to digital currency service providers, the supervisory authority is not defined and, accordingly, the powers and sanctions are not established.
51. *Criterion 15.7 is rated as “Partly Met”*. The current guidelines applicable to non-credit financial institutions apply to DFA service providers. Such guidelines relate to the procedure for conducting CDD, developing Internal Control Rules, submitting STRs, freezing (blocking), and identifying beneficial owners. However, there are no similar guidelines in relation to DC service providers that are currently not regulated.
52. *Criterion 15.8 is rated as “Partly Met”*. With respect to DFA service providers, the Bank of Russia is authorized to apply a set of sanctions for AML/CFT violations. If violations are detected on the part of the operator of the information system in which the DFA is issued, such sanctions as termination of the circulation of the DFA, restriction of activities to conclude transactions, replacement of the person performing the functions of the sole executive body (paragraph 18 of Article 5 of Federal Law No. 259-FZ), and exclusion from the register (paragraph 8 of Article 7 of Federal Law No. 259-FZ) are applied. In case of violations by the DFA exchange operator, sanctions are applied to restrict the activity on conclusion of transactions, replacement of the person performing the functions of the sole executive body (Clause 17, Article 10, Federal Law No. 259-FZ), as well as exclusion from the register (Clause 13, Article 11, Federal Law No. 259-FZ). In addition, DFA service providers as reporting entities are liable under the Code of Administrative Offenses for non-compliance with the requirements of the AML/CFT Law. At the same time, the same deficiencies as noted in R.35 in the MER in relation to non-dissuasive nature of the sanctions related to non-credit financial institutions (DFA service providers) remain. Similar sanctions are not imposed on DC service providers (*criterion 15.8 a*).
53. Except for DC operators, directors and senior management of the operators of the information system in which DFA are issued or DFA exchange operators are liable under Article 15.27 CAO as officials for non-compliance with AML/CFT requirements. (*criterion 15.8 b*).
54. *Criterion 15.9 is rated as “Partly Met”*. DFA operators have been included in the list of obliged entities and requirements of AML/CFT Law are applicable to them including CDD, record keeping, STR reporting

and other requirements. DC service providers are not reporting entities and are therefore not subject to the AML/CFT law requirements of Recommendations 10-21. At the same time some activities related to DC (transfer of the DC for payment purposes) is prohibited. In relation to criterion 15.9(a) subjects of Law No. 115-FZ, including DFA service providers, are required to conduct CDD. DFA service providers are required to carry out identification regardless of the transaction amount. In relation to criterion 15.9 b) R.16 requirements necessitate existence of specific legal enablement to effectuate immediate, accurate and secure transfer of required originator information and beneficiary information by originating VASPs to beneficiary VASPs, and submission of details to respective authorities on requests. The absence of the same requirements for DFA service providers and absence of regulation of DC service providers restricts the capacity of the country to implement travel rule requirements. At the same time, for example, regulations in respect of operational reliability, documents necessary for confirmation of data included in the registry of users of information system where DFA issuance occurs, order of their provision as well as record keeping are provided.

55. *Criterion 15.10 is rated as "Partly Met"*. All relevant requirements of AML/CFT Law are applicable to obliged entities including DFA operator which provide for obligations described under Recommendations 6 and 7. Measures implementing requirements under Rec 6 and 7 also cover digital currencies due to their recognition as property for the purposes of AML/CFT Law. However DC service providers are not reporting entities and therefore are not subject to the AML/CFT law requirements of Recommendations 6-7.
56. *Criterion 15.11 is rated as "Mostly Met"*. The Bank of Russia carries out international cooperation with foreign supervisory authorities in relation to the DFA service providers supervised by it. In the absence of direct regulation of the activities of DC service providers and, accordingly, the supervisory authority, cooperation between supervisory authorities is not carried out. However, as mentioned above, DC is recognised as property for the purposes of AML/CFT law which also relates to provisions regulating access to information by competent authorities. Thus, FIU and LEAs of the Russian Federation carry out international cooperation, including on the DC used for illegal purposes. International cooperation of competent authorities carried out in accordance with international treaties of the Russian Federation and Article 10 of the Federal Law 115-FZ.
57. **Weighting and conclusion:** After the NRA exercise, the country has taken specific steps to regulate the VASP sector. The activities of DFA service providers are substantially regulated. The DC has been classified as property for the AML/CFT laws, there is a ban on the use of DC as a means of payment and illegal DC activities are prosecuted by competent authorities, thereby reducing the risks associated with it to some extent. However, shortcomings remain since legislation on intermediary activities in the sphere of digital currencies is still under development (although one activity is prohibited: transfer of DC as a means of payment, the remaining activities are not subject to regulation). Considering the country context (existence of regulation on DFA service providers and the measures in place for DC activities), and the existence of moderate shortcomings with respect to DC service providers as discussed above, the overall **rating on Recommendation 15 is downgraded to "Partially Compliant"**.

3.3. Information on progress on other recommendations for which the country does not require re-ratings

58. During the reporting period, the country has worked to address deficiencies identified in the mutual evaluation as well as to further enhance AML/CFT/CPF system in terms of both technical compliance and

effectiveness for the following Recommendations and Immediate Outcomes with due regard to the priority and recommended actions;

- R. 1, 2, 3, 4, 8, 9, 10, 12, 14, 19, 20, 22, 23, 24, 26, 28, 29, 31, 32, 36 38 and 40;
 - IO 1, 6, 7, 8, 9, 9, 10 and 11, 3, 4, 5, 2.
59. The country also provided an update on risks and context: interagency changes, international agreements entered into, changes in national AML/CFT/CPF policies, updates to the national ML/TF risk assessment, changes in the composition of reporting entities, legislative and regulatory changes.
60. The information in this section is provided for information purposes only. The country is not requesting re-ratings for the Recommendations and Immediate Outcomes mentioned in this section. Further details of the country's effort can be found in Annex 1 to this report.

IV. CONCLUSION

61. The Russian Federation has demonstrated significant progress in addressing the technical compliance deficiencies noted in the MER, resulting in the ratings for R.6, R.7 and R.25 being upgraded from "PC" to "LC".
62. With regard to the Recommendations that have been modified since the on-site mission, the Russian Federation has to some extent implemented the new requirements of R.15. As there are significant deficiencies in the new requirements, the rating for R.15 is downgraded from "C" to "PC".
63. Taking into account the progress of the Russian Federation in improving the national AML/CFT system after the approval of the MER, the ratings of technical compliance with the FATF Recommendations have been modified as follows (**modified ratings are in bold and orange/green colour**):

P. 1	P. 2	P. 3	P. 4	P. 5	P. 6	P. 7	P. 8	P. 9	P. 10
LC	C	LC	LC	LC	LC	LC	LC	C	LC
P. 11	P. 12	P. 13	P. 14	P. 15	P. 16	P. 17	P. 18	P. 19	P. 20
LC	PC	LC	LC	PC	PC	LC	LC	LC	C
P. 21	P. 22	P. 23	P. 24	P. 25	P. 26	P. 27	P. 28	P. 29	P. 30
LC	C	LC							
P. 31	P. 32	P. 33	P. 34	P. 35	P. 36	P. 37	P. 38	P. 39	P. 40
C	LC	C	LC						

64. The Russian Federation remains on regular follow-up and will continue to report on further progress in improving the national AML/CFT system.

1. Risk and context update

Changes of interagency nature

1) Interagency Commission for Preparation of the FATF Fourth Round Mutual Evaluation (IAC FATF Evaluation), information on which has been included in the FATF/MONEYVAL/EAG mutual evaluation report of the Russian Federation of 2019 (hereinafter MER of Russia 2019, please see criteria 1.4 and 2.3), has been reorganised in Interagency Commission for Taking Measures Following the Results of the FATF Fourth Round of Mutual Evaluation (hereinafter – High Level IAC) by the Order of the President of the Russian Federation No 156-rp of June, 12 2020. This reaffirms high-level political commitment to further improve AML/CFT/CPF system.

On the 20th of August 2020 the Chair of High Level IAC approved interagency Plan of actions on implementation by the Russian Federation of FATF recommended actions based on the results of the fourth round mutual evaluation (hereinafter – Plan of Actions). This Plan of Actions represents comprehensive integrated plan of joint actions of all authorities-participants of AML/CFT/CPF system of Russia aimed at its improvement. This Plan consists of actions of different nature – legal measures; operative measures covering different spheres: risk assessment, supervision, enhancement of measures on fight against crimes in AML/CFT sphere, increase transparency of legal persons and arrangements, international cooperation; as well as organisational measures. This Plan of Actions encompasses all priority and recommended actions, overall conclusions on technical compliance assessment as included in MER of Russia 2019.

High Level IAC comprises of representatives of all authorities-participants of AML/CFT/CPF system holding the position of deputy minister or its equivalent, which enables consideration of interagency issues of strategic nature such as, for example, national risk assessment. Thus at the meeting of High Level IAC on the 20th of May 2021 alongside with the general consideration of interim outcomes of Plan of Action's implementation, ML/TF NRA methodological recommendations were approved and the timeline for PF NRA was set up taking into account amended FATF Standards. At the meeting of High Level IAC on the 8th of December 2022 ML/TF NRA reports were approved. Summary of key findings please find below.

2) For the purposes of strengthening interagency cooperation and prompt elaboration of joint decisions, improvement of legislation and law enforcement practices Interagency working group on foreign asset recovery under the Prosecutor General's Office has been established by the Order No 625 of November, 12 2020. Before there was Interagency working group on foreign asset recovery related to corruption (please see para 250 of the MER of Russia 2019). The new Interagency working group as a permanent coordination body considers issues on asset recovery related to all categories of crimes. Interagency working group comprises of representatives of Prosecutor General's Office of the Russian Federation, Investigative Committee of the Russian Federation, Ministry of Internal Affairs of Russia, Ministry of Foreign Affairs of Russia, Ministry of Justice of Russia, Federal Security Service of Russia, Rosfinmonitoring, Federal Customs Service of Russia, Federal Tax Service of Russia, Federal Bailiffs Service of Russia, Federal Agency for State Property Management, Bank of Russia, state corporation "Deposit Insurance Agency", University of prosecutor's office of the Russian Federation. Interagency working group's activities are aimed at comprehensive enhancement of confiscation measures and asset recovery measures.

Changes of international nature

1) Within Eurasian Economic Union on the 20th of June 2021 Agreement on information exchange in the sphere of combating legalization (laundering) of the proceeds of crime and financing of terrorism in the course of transportation of cash and (or) monetary instruments through customs border of the Eurasian Economic Union was concluded. In order to ensure implementation of the Agreement, Decree of the President of the Russian Federation No 487 was enacted "On responsible authority and other authorities participating in the information exchange in the course of

implementation of the Agreement on information exchange in the sphere of combating legalization (laundering) of the proceeds of crime and financing of terrorism in the course of transportation of cash and (or) monetary instruments through customs border of the Eurasian Economic Union”.

2) Federal Law No 413-FZ of November, 4 2022 was enacted “On ratification of the Treaty of member-states of Commonwealth of Independent States on combating legalization (laundering) of the proceeds of crime, financing of terrorism and financing of proliferation of weapons of mass destruction”. This Treaty was signed by heads of member-states of CIS, including Russia, on the 15th of October 2021.

National Policy in the sphere of AML/CFT/CPF

1) Resolution of the Federation Council of the Federal Assembly of the Russian Federation (upper chamber of the Parliament) No 665-CF of December, 23 2019 “On implementation of the Concept for development of national AML/CFT system” contains concrete proposed actions on further implementation of the indicated Concept (on the Concept please see in particular criterion 2.1).

2) Decree of the President of the Russian Federation No 400 of July, 2 2021 “On the strategy of national security of the Russian Federation” determines as one of the tasks, solving of which enables reaching the goals of ensuring national security, the decrease in the level of criminality in economic sphere, including in financial sector, prevention and suppression of crimes related to corruption, misappropriation and embezzlement of budgetary funds, prevention and suppression of offences and crimes committed with the use of information and communication technologies, including laundering of the proceeds of crime, financing of terrorism, organising drug trafficking as well as use of digital currencies for criminal purposes (see, inter alia, subpara 11 of para 47). The Strategy also indicates that anonymity, which is ensured through information and communication technologies, facilitates commitment of crimes, broadens opportunities for laundering of the proceeds of crime, financing of terrorism, drug trafficking (para 54).

According to indicated Strategy the aim of economic security is being achieved through fulfilment of the following tasks:

- Enhancement of the state system of control (supervision) in the sphere of economic activity;
- De-offshorisation of economy;
- Decrease in the portion of shadow and criminal economy sectors as well as decrease in the level of corruption in business environment;
- Reinforcing financial system of the Russian Federation and its sovereignty, reduction of financial assets outflow abroad, combatting illegal financial transactions.

3) Resolution of the Federation Council of the Federal Assembly of the Russian Federation No 391-CF of July, 8 2022 explicitly indicates the need to continue implementation of FATF international Standards in the legislation of the Russian Federation and constructive cooperation with foreign states.

ML/TF NRA

As proved in MER of Russia 2019 the Russian Federation ensures ML/TF risk assessment on a permanent basis with periodic publication of comprehensive reports and communication of operative information on risks to the reporting entities, which is conducted separately. Previous comprehensive reports were published in 2018. New comprehensive NRA reports have been published in December 2022. Like for previous NRA, separate reports have been prepared on assessment of ML and TF risks, in public (available, in particular, to obliged entities for taking into account in the course of application of RBA) and non-public (available for competent authorities) versions each. The assessment has been conducted on the basis of ML/TF NRA methodological recommendations, approved by protocol decision of High Level IAC No 1 of May, 20 2021. The process for preparing NRA with coordination role of Rosfinmonitoring involved all key participants of the national AML/CFT system, including law enforcement

authorities (Persecutor General’s Office of the Russian Federation, Investigative Committee of the Russian Federation, Ministry of Internal Affairs of Russia, Federal Security Service of Russia, Federal Customs Service of Russia), supervisors (Bank of Russia, Federal Tax Service of Russia, Federal Assay Chamber, Roskomnadzor, Ministry of Finance of Russia, Ministry of Justice of Russia, SRB of auditors, Federal Notaries’ Chamber, Federal Chamber of Advocates), other state authorities and organizations (Ministry of Foreign Affairs of Russia), as well as the private sector. External assessments of ML/TF risks in Russia also have been considered during the NRA process through the analysis of information on risks and vulnerabilities received from foreign partners, including on actual cases, as well as regional and global risks identified by specialized international bodies. Particular attention was given to the risks, identified by EAG supranational risk assessment considering the territorial, economic, and cultural commonality across the Eurasian region. According to the methodology NRA process was conducted in three stages: identification, analysis, and assessment of risks. ML NRA, inter alia, considers specifically risks related to virtual assets as well as risks of abuse of legal persons for ML purposes. TF NRA, inter alia, considers risks of abuse of NPOs for TF purposes.

Changes in the composition of obliged entities under Article 5 of Federal Law No 115-FZ for AML/CFT/CPF purposes

- 1) According to Federal Law No 212-FZ of July, 20 2020 operators of financial platforms have been introduced as obliged entities under AML/CFT Law
- 2) According to Federal Law No 259-FZ of July, 31 2020 operators of information systems in which the digital financial assets are issued, and digital financial assets exchange operators have been introduced as obliged entities under AML/CFT Law
- 3) According to Federal Law No 343-FZ of July, 2 2021 foreign insurance companies entitled in accordance with the Law of the Russian Federation of November 27, 1992 No. 4015-1 "On the organization of insurance business in the Russian Federation" to carry out insurance activities on the territory of the Russian Federation have been introduced as obliged entities under AML/CFT Law

Changes in the composition of obliged entities under Article 7.1 of Federal Law No 115-FZ for AML/CFT/CPF purposes

- 1) According to Federal Law No 233-FZ of June, 28 2021 trustees (administrators) of foreign structures without forming a legal entity have been introduced as obliged entities under AML/CFT Law
- 2) According to Federal Law No 72-FZ of March, 26 2022 executive bodies of personal fund with the status of international fund (except for an international hereditary fund) in accordance with Federal law of August 3, 2018 “On international companies and international funds” have been introduced as obliged entities under AML/CFT Law

Changes in legislative and regulatory framework

- 1) According to Federal Law No 165-FZ of June, 11 2021 which amended AML/CFT Law definitions of ML/TF national and sectorial risk assessments have been explicitly included in legislation. Federal Law No 165-FZ established as well organisation procedures for control and supervision activity in AML/CFT/CPF sphere taking into account risk-based approach. According to the indicated Federal Law risk-based approach (RBA) constitutes basic principle of organisation and implementation of control (supervision) in the sphere of AML/CFT/CPF. Range of mandatory elements of RBA are introduced at the legislative level: ranking of objects of supervision on the basis of the level of risk, mandatory sectorial risk assessment by authorised body and control (supervisory) bodies. Actual supervisory activity is carried out on the basis of the model of assessment of risk of non-compliance with requirements of AML/CFT Law by obliged entities, which is established by supervisory bodies. Supervisory functions of self-regulatory bodies in certain sectors are further detailed. Introduced measures enable to differentiate prudential supervision and control (supervision) in the sphere of AML/CFT/CPF. In order to further develop provisions of indicated Federal Law, Regulation of the Government of the

Russian Federation No 219 of February, 19 2022 have been enacted “On approval of Regulation on control (supervision) in the sphere of countering the legalization (laundering) of proceeds from crime, the financing of terrorism and financing of proliferation of weapons of mass destruction”.

2) Federal Law No 423-FZ of December, 21 2021 which amended AML/CFT Law further detailed application of RBA by obliged entities under Articles 5 and 7.1 of Federal Law No 115-FZ. For this purpose levels of risk of carrying out suspicious transactions have been introduced. By these levels reporting entities shall rank their customers and according to these levels they shall determine the internal control procedures and risk mitigation measures that shall be applied. The definition of suspicious transaction has been specified, requirements for customer’s information update have been detailed depending on the level of risk or doubts in the accuracy of information. Procedure for refusal in carrying out a transaction has been specified as well as procedure for information exchange between obliged entities and competent authorities.

3) Federal Law No 233-FZ of June, 28 2021 which amended AML/CFT Law specifies definitions of trustees of foreign structures without forming a legal entity and protectors; explicit requirements for legal persons on the update of information on their beneficial owners upon changes in this information. This Law extends existing requirements for legal persons concerning identification of their own beneficial owners to foreign legal persons and foreign structures without forming a legal entity, which carry out activities in the territory of the Russian Federation. This Law also further specifies obligation to disclose the status of a trustee of foreign structure without forming a legal entity to obliged entities; it extends obligations in the AML/CFT/CPF sphere to trustees of foreign structures without forming a legal entity by analogy with pre-existing obligation for legal professionals and accountants under Article 7.1 of AML/CFT Law. This Law as well expands the list of activities of legal professionals, lawyers, accountants, carrying out of which for or on behalf of a customer determines the obligation of such obliged entities to implement AML/CFT/CPF measures. Thus, formation of foreign structures without forming a legal entity, maintaining their activities or management thereof as well as the purchase or sale of foreign structures without forming a legal entity has been added to the list of specified activities.

4) Federal Law No 31-FZ of March, 4 2022 which amended Code of Administrative Offences has introduced liability for non-implementation of freezing measures under targeted financial sanctions by all legal persons; improved liability of legal persons for money laundering; enhanced liability of legal persons for non-compliance with obligations on their beneficial owners.

5) Federal Law No 219-FZ of June, 28 2022 which amended AML/CFT Law ensures implementation of targeted financial sanctions within 24 hours.

6) Federal Law No 259-FZ of July, 31 2020 has introduced regulation of digital financial assets and digital currencies, the latter explicitly recognised as property for the purposes of AML/CFT Law as well as for the purposes of anti-corruption legislation.

Technical compliance update (no re-ratings sought)

2.1. Recommendation 1

Taking into account RA1/RA2(IO1) as a result of interagency work new Methodology for conducting 2022 national risk assessment on ML/TF was developed and approved The ML and TF NRA 2022 was approved at the High-level IAC meeting on 08.12.2022. Public versions of the NRA are posted on the Rosfinmonitoring and the Bank of Russia official websites on the Internet¹. The Plan for mitigation of ML/TF risks, identified in ML/TF NRA 2022, has been approved by High-level IAC meeting on 14.06.2023 (minutes of the IAC meeting № 1 dated 14.06.2023).

¹ www.fedsfm.ru and www.cbr.ru

Taking into account RA3(IO1) when NRA on ML/TF 2022 was conducted in terms of NPOs information on the amount and types of registered NPOs, information on founders, members and participants of NPOs as well as information on their beneficial owners (hereinafter – BOs) was taken into account and analysed.

In order to address shortcoming mentioned in the analysis of R1 and also taking into account RA1(IO4) on the 11th of June, 2021 Federal law No. 165² was adopted. This law introduced to the Federal law No. 115-FZ concept of “national risk assessment”. In addition, adopted on the 21st of December, 2021 Federal Law No. 423-FZ³ established an obligation for FIs and DNFBPs to assess the degree (level) of the risk of the client carrying out suspicious transactions, taking into account the NRA, when on-boarding and servicing clients, and to attribute each client to a specific risk group using appropriate measures⁴. In turn, the Regulation of the Government of the Russian Federation No. 1188⁵ dated July 14, 2021 establishes that DNFBPs are required to take into account the findings of the NRA when conducting their own assessment of ML/TF risks when developing the internal control rules. A similar requirement for FIs to take into account the findings of the NRA in their own assessment of ML/TF risks is determined by amended Regulation of the Government of the Russian Federation No. 667⁶ dated June 30, 2012. In addition, the results of the NRA, as well as the conclusions of the sectoral ML/TF risk assessment, are one of the criteria according to which the performance is assessed and the risk level is assigned to FIs supervised by Rosfinmonitoring.

2.2. Recommendation 2

Interagency Commission for Preparation of the FATF Fourth Round Mutual Evaluation (IAC FATF Evaluation), information on which has been included in the MER of Russia 2019 (please see criteria 1.4 and 2.3), has been reorganised in Interagency Commission for Taking Measures Following the Results of the FATF Fourth Round of Mutual Evaluation (hereinafter – High Level IAC) by the Order of the President of the Russian Federation No 156-rp of June, 12 2020⁷. Composition of High Level IAC was updated according to Order of the President of the Russian Federation No 91-rp on March, 27 2023.

Based on the results of the ML/TF NRA conducted in 2022, taking into account the position of all governmental authorities, a plan to minimize ML/TF risks was developed;

² Federal Law No. 165-FZ of June 11, 2021 "On Amendments to the Federal Law "On Counteracting the Legalization (Laundering) of Proceeds from Crime and the Financing of Terrorism";

³ Federal Law No. 423-FZ of December 21, 2021 "On Amendments to Certain Legislative Acts of the Russian Federation";

⁴ For FIs, this obligation is enshrined in the aforementioned Federal Law No. 423-FZ, in addition to the requirement previously established by the Bank of Russia to take into account in its ML/TF risk management programs the results of a national risk assessment of transactions (transactions) for ML/TF purposes (Instructions of the Bank of Russia dated 27 February 2019 No. 5083-U - for CIs and dated February 27, 2019 No. 5084-U - for NFOs).

⁵ Regulation of the Government of the Russian Federation No. 1188 of July 14, 2021 "On approval of requirements for internal control rules developed by lawyers, notaries, trustees (managers) of a foreign structure without forming a legal entity, executive bodies of a personal fund with the status of an international fund (except for an international inheritance fund), persons engaged in entrepreneurial activities in the provision of legal or accounting services, audit organizations and individual auditors"

⁶ Regulation of the Government of the Russian Federation No. 667 of June 30, 2012 "On Approving the Requirements for Internal Control Rules Developed by Organizations Carrying out Operations with Cash or Other Property and Individual Entrepreneurs, and on Recognizing Certain Acts of the Government of the Russian Federation as Invalid"

⁷ Order of the President of the Russian Federation No. 156-rp of June 12, 2020 "On the Interdepartmental Commission for the Russian Federation to take measures based on the results of the fourth round of mutual assessments of the Financial Action Task Force on Money Laundering";

In accordance with Decree of the President of the Russian Federation No. 150⁸, the competent authorities of the Russian Federation participating in the implementation of the Treaty of the CIS Member States on Combating the Legalization (Laundering) of Proceeds from Crime, the Financing of Terrorism and the Financing of Proliferation of Weapons of Mass Destruction have been identified.

In terms of measures taken to develop a national AML/CFT/CPF policy, see the section on risks and context in relation to the Decree of the President of the Russian Federation No. 400 dated July 2, 2021 as presented in December 2022 together with re-rating request for other Recommendations.

2.3. Recommendation 3

In order to address deficiencies identified in R3 and taking into account RA6 (IO7) on the 4th of March 2022 Federal law No. 31-FZ⁹ was adopted. In accordance with that Federal law administrative liability of LEs for ML provided for by CAO was enhanced (art. 15.27.3).

Cassation determination of the Supreme Court of the Russian Federation No. 6-UDP23-6-A1 date 08.06.2023 according to which the Supreme Court of the Russian Federation determined that for the existence of an offence under 174.1 Criminal Code of the Russian Federation (ML by a person who has committed a crime), does not require the mandatory involvement of legalized property (including VA) in economic turnover, since liability under this article comes when establishing the very fact of committing financial transaction (including transactions with VA) in order to give legitimate form of possession, use and disposal of funds.

2.4. Recommendation 4

Federal law No. 203-FZ¹⁰ "On Amendments to Articles 2 and 11 of the Federal law "On Operative Investigative Activity" defines as the objectives of OIA not only the identification of property subject to confiscation, but also property that is necessary to enforce a conviction in terms of civil action, fines and other property penalties.

2.5. Recommendation 6 – provided for re-rating

Please, see above and analytical table attached to this report

2.6. Recommendation 7 – provided for re-rating

Please, see above and analytical table attached to this report

⁸ Decree of the President of the Russian Federation No. 150 of March 9, 2023 "On the Financial Intelligence Unit and Competent Authorities of the Russian Federation Participating in the Implementation of the Treaty of the States Members of the Commonwealth of Independent States on Counteracting the Legalization (Laundering) of Proceeds from Crime, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass destruction";

⁹ Federal Law No. 31-FZ of March, 4 2022 "On amendments to the Code of the Russian Federation about administrative offenses"

¹⁰ Federal law No. 202-FZ of June 28, 2022 "On Amendments to Articles 2 and 11 of the Federal law "On Operative Investigative Activity"

2.7. Recommendation 8

Taking into account RA9 (IO10 and 11), on the 2nd of December 2019 Federal law 407-FZ¹¹ was passed. This Federal law provides for a prohibition to act as a founder (participant, member) of NPOs for natural persons in respect of which a decision has been taken to freeze (block) funds or other property due to sufficient grounds to suspect them of involvement in terrorist activities. In addition, on April 5, 2021, Federal Law No. 68-FZ¹² was adopted, according to which a person who is included in the list of terrorists and extremists in accordance with Art. 6 of Federal Law No. 115-FZ, or in relation of whom a decision has been taken to freeze (block) monetary funds or other property in accordance with Article 7.4 of Federal Law No. 115-FZ, cannot act as a leader (member) of a religious group.

Moreover, Federal Law No. 113-FZ amended the Federal Law "On charitable activities and volunteering (volunteering)", in accordance with article 16.1 of which the cash collected using donation boxes shall be credited to the bank account of the organization specified in paragraph 1 of this article within three working days from the date of withdrawal of such funds from the donation box.

Taking into account RA3 (IO1) and RA7(IO 10 and 11) in 2022 TF NRA, where TF risks in NPO`s sector were analysed, as well as sectorial risk assessment (SRA) of NPOs were conducted. Public reports were published on the official website of Rosfinmonitoring¹³. SRA NPOs were conducted according to the updated Methodology, with the involvement of competent authorities, in particular, the MoJ.

In order to improve supervisory measures in the NPO sector, under Federal Law No. 498-FZ of December 5, 2022, in addition to the previously established requirements, LEs are also required to provide information on their BOs at the request of the federal executive body authorized in the sphere of registration of NPOs (Article 6.1 Federal Law No. 115-FZ). In addition to the above, new forms of reports on the activities of NPOs have been approved, including information on the sources of formation and expenditure of property of NPOs, taking into account inter alia the BOs of LEs, as well as on the governing bodies and employees of NPOs¹⁴.

2.8. Recommendation 9

The procedure for access by officials of governmental authorities carrying out operational-search activities to information on transactions and accounts of individuals, individual entrepreneurs, LEs on the basis of a court decision has been improved. In accordance with the amendments made to article 26 of Federal Law No. 395-1 and article 9 of Federal Law No. 144-FZ¹⁵, documents on such transactions and accounts are provided by the credit institutions to the governmental authorities carrying out operational-search activities

Access to information on accounts and deposits of individuals for the purposes of combating corruption additionally granted to the Prosecutor's Office of the Russian Federation¹⁶.

¹¹ Federal Law No. 407-FZ of December 2, 2019 "On Amendments to Certain Legislative Acts of the Russian Federation in order to establish a prohibition on acting as a founder (participant, member) of a non-profit organization for persons in respect of which a decision has been made to freeze (block) funds or other property due to reasonable grounds to suspect them of involvement in terrorist activities"

¹² Federal Law No. 68-FZ of April 5, 2021 "On Amendments to the Federal Law "On Freedom of Conscience and on Religious Associations"

¹³ www.fedsfm.ru

¹⁴ Order of the Ministry of Justice of Russia dated September 30, 2021 No. 185 "On the forms and deadlines for submitting reports of non-profit organizations to the Ministry of Justice of the Russian Federation"

¹⁵ Federal Law No. 77-FZ of April 1, 2022 "On Amendments to Article 26 of the Federal Law "On Banks and Banking Activities" and Article 9 of the Federal Law "On Investigative Activities"

¹⁶ Federal Law No. 44-FZ of March 6, 2022 "On Amendments to Article 26 of the Federal Law "On Banks and Banking Activities" and the Federal Law "On Combating Corruption"

2.9. Recommendation 10

In order to address PA5 and RA10 (IO10 and 11), Federal Law No. 233-FZ and Regulation of the Government of the Russian Federation No. 127 dated 07.02.2022 introduced an obligation for foreign LEs and foreign structures without forming a legal entity to identify its BO (for details, see R24 and R25). In addition, Federal Law No. 233-FZ provides for a clarification of the concept of a “trustee (administrator) of a foreign structure without forming a legal entity”, and also introduces the concept of a “protector”.

As noted in R1, Federal Law No. 423 provides for the obligation of FIs and DNFBPs to assess the degree (level) of the risk of a client committing suspicious transactions and classify the client into one of three risk groups – low, medium, high and to apply relevant risk mitigation measures.

In order to address shortcomings under R10, as well as taking into account RA4 (IO4), on December 30, 2020, Federal Law No. 536-FZ was adopted, which provides for the obligation for FI to refuse a client in case of failure to identify a client, client`s representative, beneficiary and beneficial owner as provided for and in accordance with the requirements of Federal Law No. 115-FZ. In addition to the above, such refusal to on-board and service existing clients is now mandatory for FIs and DNFBPs in the event that a LE intends or conducts business activities without a duly obtained license.

2.10. Recommendation 12

Taking into account RA 4 (IO 4), signs indicating the unusual nature of transactions related to PEPs have been adjusted (Regulation of the Bank of Russia No. 375-P).

2.11. Recommendation 14

The Bank of Russia issued Directive No. 5365-U dated December 23, 2019 “On the Procedure for Controlling the Activities of Banking Paying Agents by a Money Transfer Operator”, which provides for the measures that money transfer operators are required to take in order to exercise control over compliance with the banking payment agents (hereinafter referred to as BPAs) of the requirements of the AML/CFT legislation.

The internal documents of the money transfer operator may include other provisions for exercising control over the activities of the Payment Agents involved by it.

2.12. Recommendation 15 – provided for re-rating due to the changes in the Standard

Please, see above and analytical table attached to this report

2.13. Recommendation 19

Federal Law No. 423-FZ provides for the obligation of FIs and DNFBPs to assess the degree (level) of the risk of their client carrying out suspicious transactions and classify the client into one of three risk groups - low, medium, high with application of corresponding mitigating measures. These requirements, in particular, take into account the risks of the country of origin.

2.14. Recommendation 20

The system for filing STRs has been improved. The system of STRs as in force at the time of the MER 2019 was supplemented with the possibility of sending suspicious activity reports¹⁷

2.15. Recommendation 22

Taking into account RA 4(IO5) on the 28th of June 2021 Federal law No. 233-FZ was adopted according to which trustees (administrators) of foreign structures without forming a legal entity have been introduced as obliged entities under AML/CFT Law, the concept of trustees (administrators) of foreign structures without forming a legal entity was clarified and concept of “protector” was introduced.

In accordance with Federal Law 233-FZ, the AML/CFT/CPF requirements provided for by Federal Law No. 115-FZ were expanded and apply to lawyers, notaries, trustees (managers) of a foreign structure without forming a legal entity, and persons engaged in entrepreneurial activities in the field of providing legal or accounting services, in cases where they prepare or carry out on behalf of or on instructions of their client operations with monetary funds or other assets related also to the creation of LEs and foreign structures without forming a legal entity, ensuring their activities or managing them, as well as in the case of the sale and purchase of LEs and foreign structures without the formation of a legal entity.

Taking into account obligation provided for Federal Law No. 115-FZ (as amended by Federal Law No. 233-FZ) in relation to LEs, foreign LEs and foreign structures without the formation of a legal entity obtain, store and update information on their BO are aimed at address shortcomings identified in PA5 and RA10 (IO10 and 11).

In addition, in accordance with the amendments to article 7.1 of Federal Law No. 115-FZ, introduced by Federal Law No. 423-FZ, specifies the requirements for assessing and reducing customer risks.

2.16. Recommendation 23

Please see comments to R22 in the part of Federal Law No. 233-FZ, as well as information on R19. Taking into account RA2 (IO 4), the requirements for internal control rules that are applied by the DNFbps have been further specified¹⁸.

2.17. Recommendation 24

Federal law No. 233-FZ established an obligation for LEs to update information about their BO when (and if) such information has been changed. According to the Federal law requirements to identify a BO of a LE has been expanded to foreign LEs (which also encompass implementation of the new requirements of R24, which was updated in 2022) and to foreign structures without forming a legal entity, which carry out their activities within the Russian Federation. In addition, on December 5, 2022, Federal Law No. 498-FZ¹⁹ was adopted, which supplemented the list of competent authorities entitled to submit requests to LEs, with the federal executive body authorized in the sphere of registration of NPOs (Ministry of Justice of Russia). Corresponding changes were made to the Regulation of the Government of the Russian Federation No. 913²⁰.

¹⁷ para 3 of article 7 of article 7 of Federal Law No. 115-FZ

¹⁸ Art. 7.1 of Federal Law No. 115-FZ and Regulation of the Government of the Russian Federation No. 1188 dated July 14, 2021.

¹⁹ Federal law date 05.12.2022 No. 498-FZ "On amendments to certain legislative acts of the Russian Federation"

²⁰ Regulation of the Government of the Russian Federation dated 31.07.2017 No. 913 "On approval of the Rules for the provision by legal entities of information about their beneficial owners and the measures taken to establish, in relation to their beneficial owners, information provided for by the Federal Law "On countering the legalization (laundering) of proceeds from crime and the financing of terrorism", at the request of authorized state authorities"

On the 4th of March 2022 Federal law No. 31-FZ was passed. The Federal law No. 31-FZ amended article 14.25.1 CAO, which enhanced administrative liability of LEs for failure to comply with the requirements for establishing, storing, updating and submitting, at the request of the competent authorities, information about the BO of a LE. These amendments in terms of sanctions for failure to comply with provisions of Federal law No. 115-FZ also provide for disqualification of an official for a period up to 1 year.

On the 20th of December 2019 Order No. 236 of the Federal Archives was adopted, in accordance with which the timelines for storing documents of an organization at the moment of its establishment, reorganization and liquidation, including lists of participants (founders) of organizations, are established.

ML NRA 2022 contains a special section describing the risks of using LEs, including NPOs, for illegal purposes. In addition, the TF NRA 2022 also contains a section describing the risks of TF using legal entities.

2.18. Recommendation 25 – provided for re-rating

Please, see above and analytical table attached to this report

2.19. Recommendation 26

Federal Law No. 165-FZ amended Federal Law No. 115-FZ in terms of supplementing Article 9.1, which provides for a risk-based approach to supervisory activities, classifying the activities of organizations engaged in transactions with cash or other property, individual entrepreneurs specified in Article 5 of the Federal of the law, persons specified in Articles 7.1 and 7.1-1 of the Federal Law, to a certain level of risk of non-compliance with the requirements established by this Federal Law, the regulatory legal acts of the Russian Federation adopted in accordance with it and the regulations of the Bank of Russia, formed by them, including taking into account the results of the NRA, SRA, remote monitoring.

Regulation of the Government of the Russian Federation dated February 19, 2022 No. 219 “On Approval of the Regulations on Control (Supervision) in the Sphere of Counteracting the Legalization (Laundering) of Proceeds from Crime, the Financing of Terrorism and the Financing of Proliferation of Weapons of Mass Destruction” and Order of Rosfinmonitoring No. 192²¹ provide for the assignment to supervised (controlled) organizations of one of four risk levels (high, increased, medium and low), in accordance with which supervisory response measures are selected, such as: conducting an unscheduled inspection, conducting a scheduled inspection, informing about existing shortcomings, taking preventive measures (communication of information on risks, providing information on current legal requirements, summarizing law enforcement practice).

In accordance with Federal Law No. 196-FZ of July 13, 2020 “On Amendments to Certain Legislative Acts of the Russian Federation”, the procedure for market admission and withdrawal from the market of credit consumer cooperatives, agricultural credit consumer cooperatives, microfinance organizations and pawnshops has been improved, and the powers of the Bank of Russia have also been strengthened to apply enforcement measures against these organizations for violations of AML/CFT legislation.

In order to improve risk-based supervision in the AML/CFT sphere for credit institutions (CI) and non-credit organisations (NFO) in August 2021 the Bank of Russia approved the “Concept of organization of risk-based supervision in the AML/CFT sphere based on the ML/TF risk profile”. In order to more accurately determine the level of ML/TF risk, the rating scale for this indicator has been expanded from three to four levels (high, increased, medium and low). Depending on the relevant level of ML/TF risk of a supervised entity, corresponding supervisory regime is selected. According to the Concept methodology of the identifying a risk is based on several dozen sources of internal Bank of Russia’s information and

²¹ Order of Rosfinmonitoring dated 07.09.2022 No. 192 "On approval of the procedure for the Federal Financial Monitoring Service to carry out control measures in the sphere of combating the legalization (laundering) of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction"

external information (including information from other competent authorities), over 40 typologies of suspicious transactions and 300 indicators of their manifestations (risk scenarios). Application and improvement of FinTech solutions (artificial intelligence and self-learning technologies) for the analysis of ML/TF risks.

2.20. Recommendation 28

Please see R26 in terms of article 9.1 of Federal law No. 115-FZ, introduced by Federal law No. 165-FZ.

In addition, according to the amendments introduced by Federal law No. 242-FZ²² for lottery operators and organizers of gambling, additional requirements are introduced to prohibit being a founder (participant), beneficial owner of such organizations, as well as members of the board of directors (supervisory board), members of the collegial executive body, persons with an unexpunged or outstanding conviction for crimes in the sphere of economics, crimes in the sphere of state power or for intentional crimes of medium gravity, grave crimes, especially grave crimes.

Lawyers and notaries are subject to risk-based supervision in the field of AML/CFT/CPF according to para 4 article 9.1 of Federal Law No. 115-FZ as amended by Federal Law No. 165-FZ.

2.21. Recommendation 29

Federal Law No. 331-FZ introduced the additional authority of Rosfinmonitoring, in agreement with the Bank of Russia, to determine transactions subject to mandatory control, in addition to the list established in Art. 6 of Federal Law No. 115-FZ.

Federal Law No. 423-FZ in development of the provisions regarding information on the connection of a transaction or operation with ML/TF, clarified the possibilities of Rosfinmonitoring to send information to law enforcement agencies on other criminally punishable acts.

Federal Law No. 297-FZ²³ extends the powers of Rosfinmonitoring to access the data bases of governmental authorities of the Russian Federation to obtain information from the Unified State Register of Civil Status Records.

2.22. Recommendation 31

In accordance with the clarifications made to Article 26 of Federal Law No. 395-1, the capabilities of law enforcement agencies have been expanded in order to provide access to information on transactions and accounts of individuals, individual entrepreneurs, LEs at the request of the body carrying out the operational-search activity in accordance with Article 9 of Federal Law No. 144- FZ.

Federal Law No. 387-FZ²⁴ provides for the possibility of a prosecutor to intervene in a case, considered by an arbitration court or in case of consideration a case by a court in accordance with Civil Procedural Code of the Russian Federation, as well as recognition of invalidation of transactions (deals) in case of identification circumstances indicating that dispute (transaction (deal) under consideration) has been initiated for the purpose of evading the procedures provided for by the AML/CFT legislation.

²² Federal Law No. 242-FZ date 20.07.2020 "On Amendments to Article 131 of the Federal Law "On Lotteries" and Article 6 of the Federal Law "On State Regulation of Organization and Conduct of Gambling and on Amendments to Certain Legislative Acts of the Russian Federation"

²³ Federal Law No. 297-FZ of July 14, 2022 "On Amendments to Article 13.2 of the Federal Law "On Acts of Civil Status"

²⁴ Federal Law No. 387 of October 7, 2022 "On Amendments to Article 52 of Arbitration Procedural Code of the Russian Federation and Article 45 of Civil Procedural Code of the Russian Federation"

2.23. Recommendation 32

Taking into account RA 7 (IO 8), on July 20, 2021, within the framework of the EAEU was concluded an Agreement on the exchange of information in the sphere of combating the legalization (laundering) of proceeds from crime and the financing of terrorism when moving cash and (or) monetary instruments across the customs border of the Eurasian economic union. In order to ensure the implementation of this Agreement, Decree of the President of the Russian Federation No. 487²⁵ was adopted on July 21, 2022

2.24. Recommendation 36

Please see information provided under R3.

2.25. Recommendation 38

On November 12, 2020, an interdepartmental working group for the return of assets from abroad was formed by order of the Prosecutor`s General Prosecution Office of the Russian Federation²⁶. In addition, an interdepartmental order approved the Instruction on the procedure for organizing work on the return of assets from abroad obtained as a result of crimes and other offenses.²⁷

2.26. Recommendation 40

Rosfinmonitoring continued its work on the conclusion of bilateral agreements with foreign FIUs on the exchange of information for AML/CFT purposes.

The Bank of Russia amended Directive No. 5101-U, as of March 25, 2019, "On Organizing in the Bank of Russia Exchange of Information and (or) Documents between the Bank of Russia and Central Banks and (or) Other Supervisory Authorities of Foreign States, whose Functions include Banking supervision, and on providing information to another body of a foreign state, whose functions include the settlement of the insolvency of organizations that are the parent organizations of a banking group (bank holding company) and other associations with the participation of credit institutions", providing for the obligation of the Bank of Russia in the event of a request from a Russian court as part of the proceedings in a criminal case on the transfer to court of the information at the disposal of the Bank of Russia, provided by a foreign banking supervisory authority (FSA), to inform the FSA of the receipt of a court request and of the obligation of the Bank of Russia to disclose the specified information to the court.

²⁵ Decree of the President of the Russian Federation No. 487 "On the responsible body and other bodies of the Russian Federation participating in information exchange within the framework of the implementation of the Agreement on the exchange of information in the field of combating the legalization (laundering) of proceeds from crime and the financing of terrorism when moving cash and (or) monetary instruments across the customs border of the Eurasian Economic Union"

²⁶ Order of General`s Prosecution Office of the Russian Federation 12.11.2020 № 625

²⁷ Order as of 28.02.2023 № 133/25/107/3573/33/100/45/144/ED-18-137/106/40/OD-326/221/12802 General`s Prosecution Office of the Russian Federation, Investigative Committee of the Russian Federation, MoI, MoF, MoJ, FSB, Rosfinmonitoring, Federal Customs Service, Federal agency for state property management, Bank of Russia, Deposit insurance agency