

# Russian Federation

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RISK & COMPLIANCE REPORT

DATE: March 2018

**Executive Summary - Russia**

<b>Sanctions:</b>	US and EU Sanctions
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	US Dept of State Money Laundering assessment Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average score) Failed States Index (Political)(Average score)
<b>Medium Risk Areas:</b>	Compliance with FATF 40 + 9 Recommendations
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b></p> <p>grain, sugar beets, sunflower seed, vegetables, fruits; beef, milk</p> <p><b>Industries:</b></p> <p>complete range of mining and extractive industries producing coal, oil, gas, chemicals, and metals; all forms of machine building from rolling mills to high-performance aircraft and space vehicles; defense industries including radar, missile production, and advanced electronic components, shipbuilding; road and rail transportation equipment; communications equipment; agricultural machinery, tractors, and construction equipment; electric power generating and transmitting equipment; medical and scientific instruments; consumer durables, textiles, foodstuffs, handicrafts</p> <p><b>Exports - commodities:</b></p> <p>petroleum and petroleum products, natural gas, metals, wood and wood products, chemicals, and a wide variety of civilian and military manufactures</p> <p><b>Exports - partners:</b></p> <p>Netherlands 12.2%, China 6.4%, Italy 5.6%, Germany 4.6%, Poland 4.2% (2011)</p> <p><b>Imports - commodities:</b></p> <p>machinery, vehicles, pharmaceutical products, plastic, semi-finished metal products, meat, fruits and nuts, optical and medical instruments, iron, steel</p> <p><b>Imports - partners:</b></p> <p>China 15.5%, Germany 10%, Ukraine 6.6%, Italy 4.3% (2011)</p>	

**Investment Restrictions:**

Russian government officials have repeatedly stressed that foreign investment and technology transfer are critical to Russia's economic modernization. At the same time, the government continues to limit foreign investment in sectors deemed to have strategic significance for national defence, state security, energy, insurance, electricity, banking, and transportation via the Strategic Sectors Law of 2008. The law originally specified 42 activities that require government approval for foreign investment however, the Federal Anti-monopoly Service prepared several amendments, which are intended to diminish administrative barriers and simplify a number of procedures required for foreign investment in Russian strategic companies. The amendments were proposed in November 2012 and are now awaiting approval by the government.

Other sectors, such as business services, hotels and restaurants, construction, and distribution, have been opened up for foreign investment.

Foreigners can own, inherit, lease, mortgage, and sell real property. with certain restrictions, notably with respect to the ownership of farmland and areas located near federal borders.

In April 2013, the Russian Parliament adopted a new set of anti-corruption legislation that is aimed at preventing high-ranking officials from stashing illicit wealth abroad and stopping annual capital outflows of around USD 80 billion. The law prohibits all high-ranking officials, parliamentarians, judges and their immediate family members from having accounts in foreign banks.

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## Section 1 - Background

Founded in the 12th century, the Principality of Muscovy, was able to emerge from over 200 years of Mongol domination (13th-15th centuries) and to gradually conquer and absorb surrounding principalities. In the early 17th century, a new Romanov Dynasty continued this policy of expansion across Siberia to the Pacific. Under PETER I (ruled 1682-1725), hegemony was extended to the Baltic Sea and the country was renamed the Russian Empire. During the 19th century, more territorial acquisitions were made in Europe and Asia. Defeat in the Russo-Japanese War of 1904-05 contributed to the Revolution of 1905, which resulted in the formation of a parliament and other reforms. Repeated devastating defeats of the Russian army in World War I led to widespread rioting in the major cities of the Russian Empire and to the overthrow in 1917 of the imperial household. The Communists under Vladimir LENIN seized power soon after and formed the USSR. The brutal rule of Iosif STALIN (1928-53) strengthened Communist rule and Russian dominance of the Soviet Union at a cost of tens of millions of lives. The Soviet economy and society stagnated in the following decades until General Secretary Mikhail GORBACHEV (1985-91) introduced glasnost (openness) and perestroika (restructuring) in an attempt to modernize Communism, but his initiatives inadvertently released forces that by December 1991 splintered the USSR into Russia and 14 other independent republics. Since then, Russia has shifted its post-Soviet democratic ambitions in favor of a centralized semi-authoritarian state in which the leadership seeks to legitimize its rule through managed national elections, populist appeals by President PUTIN, and continued economic growth. Russia has severely disabled a Chechen rebel movement, although violence still occurs throughout the North Caucasus.



## Section 2 - Anti - Money Laundering / Terrorist Financing

### FATF Status

Russia is not currently identified by FATF as having substantial money laundering and terrorist financing (ML/TF) risks or having strategic AML/CFT deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Russia was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Russia was deemed Compliant for 10 and Largely Compliant for 13 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

### Main conclusions from Follow-Up Report – 2011

The financial threshold in respect of A.174.1 (Legalization (laundering) of monetary funds or other property acquired by a persons as a result of crime commission) should be reconsidered and it is strongly advised that it should be removed. Beyond this, on Recommendation 1, progress has been made in that the range of designated categories of predicate offence is now complete. An impressive number of cases were investigated in the period under review, though despite the threshold the large majority of convictions remains for self laundering as opposed to laundering by third parties. As at the time of the report, the Russian Federation is encouraged to make more use of the stand-alone money laundering offence, where the evidence permits, in the prosecution of serious laundering in major proceeds-generating cases.

The shortcomings in the criminalisation of TF have been partly addressed in that the theft of nuclear material is now covered. While the issue of corporate criminal liability has been revisited, as the Action Plan required, there is no progress on the issue of criminal liability of legal persons. The Russian Federation have no current plans to address this shortcoming as they consider their administrative sanctioning powers can achieve the same results in practice without the introduction of corporate criminal liability. The issue will need to be revisited in MONEYVAL's follow up evaluation. In any event, the offence as it stands appears, on a desk review, to be used effectively.

On Recommendation 5 and Customer Due Diligence generally there have been several significant and positive developments in the regulatory measures to address the shortcomings identified in the report. Several issues, while addressed in other normative documents, still have not been covered in Law or Regulation, as is required (and as those terms are interpreted by FATF). The major problem, which cannot be resolved in a desk review, is what is understood to be meant by the term "beneficiary", which is the term used

in the English translation of the legislation, rather than “beneficial owner”. The definition in the AML Law seems not to be entirely in line with the FATF definition, though the Russian Federation considers that the FATF’s definition of “beneficial owner” is how the concept is understood in practice. This will also be fully analysed in the forthcoming follow up onsite visit.

The other issue which still needs attention by the Russian Federation is to ensure that all attempted money laundering and terrorist financing STRs are reported to the FIU. Presently there is no legal basis for reporting attempts by those involved in occasional transactions. Overall, though, the STR regime under R.13 appears to be working well in practice.

In conclusion, subject to what has been said above, the Russian Federation has responded positively to most of the points on the Action Plan in the last report with respect to the Core Recommendations. Steady progress is being made overall in the implementation of the AML/CFT regime.

In conclusion, as a result of the discussions held in the context of the examination of this second progress report, the Plenary was satisfied with the information provided and the progress being undertaken and thus approved the progress report and the analysis of the progress on the core Recommendations. Pursuant to Rule 41 of the Rules of procedure, the progress report will be subject of an update in two years from the adoption of this report unless the 4th onsite visit has taken place before then.

#### **Further Information extracted from IMF Reports: -**

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#### **Key Findings extracted from IMF Report - Russian Federation: Targeted Detailed Assessment of Observance of Basel Core Principles for Effective Banking Supervision (released November 2011)**

##### **Institutional and Market Structure—Overview**

The Central Bank of Russia (“CBR”) CBR Law and the Law on Banks and Banking Activities (BL) assign responsibility for the licensing and supervision of banks to the CBR. The law empowers the CBR to grant banking licenses, approve permissible activities, issue regulations, supervise and enforce compliance with laws and regulations.

As part of the Russian Federation’s Development Strategy for the Banking Sector through 2015, the CBR is in the process of overhauling the supervisory, legal and operational landscape to enable the implementation of supervision by risk; including an enhancement in the scope of consolidated supervision. A published strategic plan to strengthen capital requirements and strengthen banking supervision is comprehensive and candid in recognizing shortcomings in the banking supervision framework. The strategy proposes to strengthen the CBR’s legal supervisory powers, and improve transparency, asset valuation, and corporate governance in banks. Adopting the proposed agenda and pending legislation will enhance the CBR’s ability to conduct more intensive supervision, identify risks, and take timely corrective action.

Current oversight of banking activities by the CBR relies on an integrated process combining offsite reviews with on-site inspections. In the course of supervision exercised by the CBR's territorial offices, as well as by the CBR's central staff with respect to SIFs, frequent contact is maintained with bank management. Since the last FSAP, the CBR has been working on legislative changes required to enable the CBR to appoint resident inspectors at SIFs.

Legislation, granting the CBR increased professional judgment to implement international best practices without always requiring a revision of existing legislation would enhance the safety and soundness of the banking system. Currently, the CBR is unable to require banks to implement best practices in many areas of corporate governance, and risk management or to perform consolidated supervision because of a lack of regulatory authority. Authority, within an approved legislative framework, to rely on professional judgment to implement best practices as prescribed by international standard setters, adjusted to the local market, is an essential element of supervision.

The Russian banking sector is dominated by state-owned banks. As of January 1, 2011 there were 1,012 banks operating in Russia, a decline of 46 from January 1, 2010. The number of banks is expected to decline further as a result of increased minimum capital requirements. As of January 2010, minimum capital was raised to Rub 90 million and will be raised to Rub 180 million on January 2012. The 50 largest banks control 80 percent of assets and the top five (all state-owned) control 48 percent.

The level of nonperforming loans and overdue loans has declined. As of January 1, 2011 banking system assets totalled Rub 33,805 billion and the capital adequacy level was 18.1 percent. Non-performing loans (NPL), which are defined as loans classified in categories IV and V, amounted to 8.2 percent of total loans, a decline from 9.6 percent on January 1, 2010. Total loan provisions currently cover 102 percent of total NPLs but seem inadequate to cover possible losses in the remainder of the loan portfolio. Profitability has increased over the last year, with a return on equity moving from 5 percent in 2009 to 12.5 percent in 2010.

The following summarizes the main findings of the detailed assessment of compliance with the BCP

## **Objectives, independence, powers, transparency and cooperation**

### **Licensing and structure**

The CBR Law does not establish requirements for banks to seek prior CBR approval when making domestic investments in nonbank financial institutions. Foreign investments by Russian banks require prior approval by the CBR, when they lead to the establishment of a subsidiary abroad, or acquisition of the status of parent company of a non-resident entity. A domestic acquisition of shares in a bank above a 20 percent ownership requires prior CBR approval. Acquisitions of over one-percent share require ex- post notification to the CBR. There is also an aggregate 25 percent limit on investments in banks and other entities. However, bank investments in nonbank financial firms do not require prior CBR approval. The CBR relies on the 25 percent aggregate limit to control that risk. Licensing regulations should provide for an approval/notification process for bank investments in non-banking



institutions. Without such requirement the CBR is not able to measure the possible impact of acquisitions on a bank's condition or to determine whether the acquisition will affect the transparency of the bank's organizational structure and affect the ability of the CBR to supervise it.

### **Prudential Regulations and Requirements**

Capital adequacy rules generally meet Basel II, Pillar 1 guidelines but the CBR lacks a legal authority to implement the Pillar 2 component. The standardized, simplified approach is being implemented but the CBR lacks the regulatory authority to implement the supervisory review process prescribed by Pillar 2. Under Pillar 2 the CBR plans to issue recommendations in the second quarter of 2011 on minimum standards for organizing internal procedures for assessing the adequacy of internal capital to cover potential and assumed risks and to provide for future capital needs based on stress testing, strategic plans and risk evaluation. Without legislation specifically stating the authority of the CBR to stipulate standards for risks and capital management, the CBR may not oblige credit institutions to implement said recommendations, to develop internal capital adequacy assessment procedures and to implement them.

The existing risk management regulatory framework is complex and multi-faceted. However, it does not provide the foundation necessary for full implementation of supervision by risk. The CBR has issued numerous regulations, instructions and recommendations which directly or indirectly support banks' strengthening their internal risk management processes. The nature of existing regulations enable a compliance approach to supervision but limit the ability of the CBR to exercise professional judgment to rate the adequacy of risk management systems or Board of Director policies and governance. Addressing these deficiencies is an area where the CBR is focused but needs amendments to existing legislation.

The concept of related parties has been identified in the regulations and the CBR collects reports on related parties. However, the definition of related parties is narrow and based on legal relationships. Legislation is being reviewed by the Duma that would expand the definition of related parties and allow the CBR to make judgments based on economic relationships or evidence of ability to influence decisions. The regulatory framework for related party transactions is also deficient in that it does not require that lending to related parties be on same terms and conditions as those generally offered to the public. The CBR has issued recommendations to banks on related party lending, however, they lack enforcement capacity.

The CBR is considering amending Regulation 254-P to address country and transfer risk. The current system does not impose country risk limits or provisions, except for operations with residents of offshore centres. The CBR has issued recommendations to credit organizations on the management of risk country based on the approaches specified in the BCBS document "Management of Banks' International Lending (Country Risk Analysis and Country Exposure Measurement and Control)" and also includes BCP requirements.

The supervisors do not have the authority to directly share client information with other agencies and regulators, at home or abroad, which constitutes a serious deficiency.

However, it can share such information with the FIU. Also, the CBR is aggressive and very successful in closing banks that are involved in money laundering.

### **Corrective and Remedial Powers of Supervisors**

The legal regime for corrective and remedial actions is clearly addressed in the regulations. Enforcement powers are broad and clearly spelled out. The remedial powers of the CBR are deficient in some key areas, such as the inability to sanction Board members and to prevent transactions between the bank and its affiliates.

### **Consolidated supervision**

An inability to limit transactions between affiliates, and request information from holding companies limits the ability to conduct consolidated supervision. Legislation is pending with the Duma to amend the CBR Law and the BL that will extend the supervisory authority of the CBR to cover bank holding companies. The amendments will also expand enforcement authority over banking groups and bank holding companies by granting the CBR authority to limit transactions between affiliates. The CBR will be able to dictate the types of consolidated information that bank holding companies will need to provide. The CBR actively collaborates with foreign supervisors and the amendments will enable the CBR to exchange customer-specific information. Finally, the definition of direct and indirect influence is expanded. Absent such powers, the ability of the CBR to monitor transactions between affiliates is severely hampered, increasing risks that losses are hidden through affiliate operations or off-balance sheet transfers. In defining bank holding company the EU standard (to be a bank holding company, over 40 percent of the company's activities must be in banking) will be applied. However, in Russia that definition may not be adequate as a large banking group would not be included. The definition should be reviewed and adjusted to the Russian market and ensure that all SIFIs are covered.

## **Russian Federation: Detailed Assessment of Observance of IOSCO Objectives and Principles of Securities Regulation**

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### **Anti-money laundering**

Regulated entities must comply with anti-money laundering provisions (FZ-115), and the implementation of FSFM ("Federal Service for Financial Markets") compliance programs are assisted by the Financial Intelligence Unit (Federal Financial Monitoring Service) and the FSFM. In 2009 and 2010 this resulted in the revocation of an unprecedented number of licenses (731) of seven different types. Anti money-laundering is reviewed pursuant to the FATF assessment methodology by FATF assessors.

### **Inspections in Practice**

In 2009 FSFM's headquarters inspection team conducted 106 inspections; 90 of which were

on-site and 16 of which were off-site. 2010's numbers were fairly similar. Most headquarters inspections are of brokers, dealers and investment fund management companies. In the territorial offices 11,195 inspections/ reviews were conducted of which 1368 were on-site and the remainder of which were off-site. Regional oversight is largely directed to issuers. Sanctions and orders/instructions flowing from the conduct of inspections/investigations are posted on the FSFM website (see also Principle 11). The FSFM aims to achieve yearly coverage of brokers.

**Assessment Partly: Implemented.**

Comments: Tremendous progress has been made by FSFM in securing the capacity to conduct effective oversight of the market and market professionals. It can conduct inspections without notice or judicial intervention. FSFM also has been granted broad authority to demand documents and information from brokers, and by brokers of their clients, and to suspend operations for failure to cooperate—a vigorous and prompt means of halting non-compliance, subject to further investigation. The FSFM's authority with respect to insider information and potentially manipulative conduct, or non-standard transactions, applies not only with respect to shares but also can be obtained with respect to commodities, financial instruments, and currency transactions.

The Russian Federation has moved forward to put in place laws and regulatory structures that provide FSFM with a robust ability to mandate maintenance of needed records, prompt access to those records and the ability to compel the production of records necessary to properly enforce its rules against market misconduct from its licensees. FSFM must clarify its ability, and process or gateways, to obtain banking records of natural persons for all regulatory purposes (see also Principle 13). To the extent possible, FSFM should clarify any remaining ambiguity as to the access to natural persons' general bank accounts either through declarative action or by furthering legislative change. For example, it could clarify the scope of Article 26 of the Banking Act, secure the adoption of pending CBR Banking Law amendments, or try to address the issue by executing a protocol with CBR as to the access to information needed for purposes of enforcing securities laws and related cooperative sharing as suggested under Principle 1.

FSFM should also explain in its procedures how it investigates the ownership of nominee accounts.

FSFM's expanded powers are new; therefore some time should be permitted to see how they are implemented in practice as provided in the assessment of Principle 10. The rating could be improved to the extent the power to access such accounts can be demonstrated.

Caveat: if further constraints are introduced by the banking laws, then this could adversely affect all the enforcement and information sharing ratings.

Russia was deemed a Jurisdiction of Primary Concern by the US Department of State International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

#### Perceived Risks:

In 2017, Russia strove to improve its AML/CFT legal and enforcement framework, updating and amending various laws focused on AML/CFT to improve their efficacy. While money laundering remains a major problem in Russia, official data show some progress when compared to prior years. The Central Bank of Russia (CBR) estimates losses to Russia - through what the CBR terms "fictitious transactions" - amounted to U.S. \$771 million in 2016 and U.S. \$523 million in the first half of 2017. Fictitious transactions include "remittances of funds abroad by means of fictitious transactions with securities, granted loans, and on foreign accounts." Financial crimes cases composed more than 76 percent of all closed criminal cases in Russia in 2016, up from 72 percent in 2015.

#### VULNERABILITIES

Official corruption remains a problem at all levels of government and is a major source of laundered funds. Cybercrime remains a significant problem, and Russian hackers and organized crime structures continue to work together.

Russia is a transit and destination country for international narcotics traffickers. Criminal elements use Russia's financial system and foreign legal entities to launder money. Criminals invest in and launder their proceeds through securities instruments, digital currencies, precious metals, domestic and foreign real estate, and luxury consumer goods.

There is a large migrant worker population in Russia. Many remittances may occur through informal value transfer systems that may pose vulnerabilities for money laundering.

Russia has continued to encourage domestic development of Blockchain-based technologies and innovations. This has created the potential for abuse of cryptocurrencies for money laundering. In September 2017, the CBR issued a warning about the possible risks of cryptocurrencies.

Gaming is only allowed in specified regions, with regulatory authority shared across multiple agencies. Rosfinmonitoring, Russia's FIU, has been designated as the competent AML authority for casinos. Only licensed casinos in special gambling zones can register with Rosfinmonitoring. Online gaming is prohibited.

#### KEY AML LAWS AND REGULATIONS

Government control of the financial sector, covering KYC and STR requirements, is enshrined in legislation. Laws control foreign currency transactions by non-profit organizations, foreign states, and international and foreign organizations; opening of banking accounts; use of letters of credit for defense and strategic industries; and definitions of AML-covered entities. Rosfinmonitoring requires individuals trading in commodity or financial markets to provide information upon request, and mandates notification of the opening, closing, or changing of

details of any accounts or letters of credit by companies of “strategic importance to the Russian Federation.” The law “On Combating Money Laundering and Terrorist Financing” entered into force in February 2002. The government amended the law seven times in 2016 and once in 2017.

The 2017 amendment ensures that strategic companies, strategic federal unitary enterprises (government-owned corporations), and state companies notify Rosfinmonitoring if they open overseas accounts or letters of credit or acquire an ownership interest in foreign banks. It also lowers the threshold to make such companies subject to AML requirements if their operations exceed around U.S. \$170,000, as opposed to the previous threshold of around U.S. \$850,000.

Russia is a member of the FATF and two FATF-style regional bodies, MONEYVAL and EAG.

#### AML DEFICIENCIES

Although the U.S. and Russia are parties to a bilateral MLAT, cooperation under the MLAT is often ineffective.

Russian individuals and businesses complicit in, or engaged in activities related to, the purported annexation of Crimea are potentially subject to a range of U.S. sanctions. The most recent round of U.S. sanctions was signed into law in August 2017. In a move intended to hinder sanctions enforcement, Russia no longer regularly updates information previously available in English on Russian government websites, including Rosfinmonitoring, which now publishes a fraction of the information it previously did.

There is no criminal liability for legal persons in Russia. A bill providing for criminal liability has been stalled in the Duma since 2015, following a negative review of the bill by the government.

Changes to Russian law may also have created vulnerabilities rather than closing them. PEPs are subject to less stringent reporting requirements for foreign currency transactions. At the same time, as of December 2016, state officials have been banned from owning securities or other financial assets located or registered abroad through third parties.

#### ENFORCEMENT/IMPLEMENTATION ISSUES

In May 2016, Russia signed the Multilateral Competent Authority Agreement (MCAA) on the automatic exchange of financial information, with the first information exchange scheduled to start by September 2018.

In 2016, Rosfinmonitoring prevented the embezzlement of more than U.S. \$2 billion worth of public funds and recovered more than U.S. \$800 million worth of public funds. The CBR revoked 93 bank licenses in 2016 and at least 18 bank licenses in 2017, primarily for suspicious transactions. In March 2017, the CBR revoked the license of Tatfondbank, a major lender based in Tatarstan.

In March 2017, reporting by investigative journalists revealed that laundered Russian money, totaling nearly U.S. \$740 million, has passed through Moldovan, Latvian, British, and U.S. banks since 2010 in a scheme called the “Russian laundromat.” Around 500 people and 70,000 banking transactions are thought to have been involved.

### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, Russia conforms with all necessary government legislation and other identifying characteristics required to combat money laundering vulnerability.

### **EU White list of Equivalent Jurisdictions**

Russia is on the EU White list of Equivalent Jurisdictions

### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

### **Offshore Financial Centre**

The Russian Federation is not considered to be an Offshore Financial Centre

### **Narcotics - 2016**

Russia remains a major destination country for Afghan opiates, consuming approximately 75 metric tons (MT) of heroin each year, according to a UN estimate from 2011. Smuggled opiates primarily enter Russia through extensive land and rail routes through Central Asia and through the country's Baltic and Black Sea ports. Other illegal drugs, particularly cocaine, are also smuggled into Russia via the port in St. Petersburg. In the first half of 2015, Russian law enforcement seized approximately 14 MT of illegal drugs, of which 1.34 tons were opiates (approximately half the volume of opiates seized during the same period in 2014). Four federal agencies conduct drug-related investigations in Russia: Federal Drug Control Service (FSKN); Ministry of Internal Affairs (MVD); Federal Security Service (FSB); and Federal Customs Service (FTS). FSKN is also the primary agency responsible for demand reduction within Russia.

According to FSKN, the estimated population of persons suffering from substance use disorders ranges from 7.5 to 8.5 million. Even at the low end this represents a significant increase from the 2011 estimate of 670,000. According to the FSKN, youth mortality (within the age group of 15 to 34) related to drug addiction has decreased by 30 percent over the last 14 years, from 130,000 annual deaths to 92,000. Nevertheless, in 2014, the FSKN reported a 35 percent increase in usage by minors in Moscow, while the Ministry of Health claimed a 6.5 percent increase by youth across the country. Leading specialists ascribe spotty progress and metrics to poor interagency and intersectoral cooperation, as well as a lack of a cohesive national rehabilitation program.

In 2013, Russia terminated its letter of agreement with the United States that funded counternarcotic capacity building programs. FSKN Director Victor Ivanov is included on the list of Russian officials sanctioned by the United States as a result of the illegal Russian annexation of Crimea. Cooperation between the FSKN and the U.S. Drug Enforcement Administration (DEA) has diminished, though good working relationships have been maintained between DEA and the FSB, and to some degree with the MVD and FTS.

On February 3, 2015, President Putin signed into law a bill allowing the FSKN to unilaterally but temporarily impose a ban on distribution of new psychoactive substances, which the FSKN claims appear at a rate of one new chemically unique drug every two days. Adding new substances to Russia's prohibited substance list otherwise took 12 to 18 months. This initiative was prompted by a series of synthetic marijuana poisonings and deaths in several Russian regions in September 2014. In addition, Russian law enforcement officials have recently sought assistance from DEA for structure and implementation of the temporary scheduling procedure employed in the United States.

### **Trafficking in Persons**

Russia is classified a Tier 3 country - a country whose government does not fully comply with the minimum standards and is not making significant efforts to do so.

Russia is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. Labor trafficking remains the predominant human trafficking problem within Russia. Workers from Russia and other countries in Europe, Central Asia, and Southeast Asia—including Vietnam and Democratic People’s Republic of Korea (DPRK)—are subjected to forced labor in Russia. Instances of labor trafficking have been reported in the construction, manufacturing, agricultural, textile, grocery store, maritime, and domestic service industries, as well as in forced begging, waste sorting, and street sweeping. Official and unofficial statistics estimate there are between five and 12 million foreign workers in Russia, of which the Federal Migration Service (FMS) estimates 1.5 million are irregular migrants. Foreign laborers work primarily in construction, housing, and utilities, and as public transport drivers, seasonal agricultural workers, tailors and garment workers in underground garment factories, and vendors at marketplaces and shops. Many of these migrant workers experience exploitative labor conditions characteristic of trafficking cases, such as withholding of identity documents, non-payment for services rendered, physical abuse, or extremely poor living conditions. Subcontracting practices in Russia’s construction industry result in cases of non-payment or slow payment of wages, which leave workers at risk of labor trafficking. Organized crime syndicates from Russia sometimes play a role in exploiting labor migrants, and corruption among some government officials and within some state agencies creates an environment enabling some trafficking crimes. There are reports of Russian citizens facing forced labor abroad.

Women and children from Europe (predominantly Ukraine and Moldova), Southeast Asia (primarily Vietnam), Africa, and Central Asia are reportedly victims of sex trafficking in Russia. Forced prostitution occurs in brothels, hotels, and saunas, among other locations; certain traffickers advertised the sexual services of children over the internet. Russian women and children are reportedly victims of sex trafficking in Russia and abroad, including in Northeast Asia, Europe, Central Asia, Africa, the United States, and the Middle East.

In recent years, there were criminal cases involving Russian officials suspected of allegedly facilitating trafficking in Russia, for instance by facilitating victims’ entry into Russia, providing protection to traffickers, and returning victims to their exploiters. Employers sometimes bribe Russian officials to avoid enforcement of penalties for engaging illegal workers. According to FMS, under a state-to-state agreement, the DPRK sends approximately 20,000 North Korean citizens to Russia annually for work in a variety of sectors, including logging in Russia’s Far East; reportedly many of these North Korean citizens are subjected to conditions of forced labor. A February 2016 agreement between Russia and DPRK may exacerbate these conditions by enabling FMS to repatriate North Koreans residing “illegally” in Russia, potentially even for those with refugee status.

The Government of Russia does not fully meet the minimum standards for the elimination of trafficking and is not making significant efforts to do so. During the reporting period, as in previous years, the government did not draft a national strategy or assign roles and responsibilities to government agencies. The government offered no funding or programs for trafficking victims’ rehabilitation, while several privately run shelters ceased operations during the reporting period due to lack of funding and the government’s crackdown on civil society. Authorities lacked a process for the identification of victims and their referral to care, though some investigatory bodies reportedly referred an unknown number of victims on an ad hoc basis. Authorities routinely detained and deported potential forced labor victims



without screening for signs of exploitation, and Russian courts prosecuted victims forced into prostitution for prostitution offenses. To reduce some migrant laborers' vulnerability, the government made it easier for citizens of some countries to obtain work permits, though it charged fees upfront that effectively excluded many of the most vulnerable from obtaining the permits. The government did not provide comprehensive information on law enforcement efforts, but the limited available data and media reports indicate prosecutions remained low compared with the scope of Russia's trafficking problem.

### **Terrorist Financing 2016:**

**Overview:** The Russian Federation continued to prioritize counterterrorism efforts in 2016, and Russia remained a target of international terrorist groups, particularly ISIS. The majority of counterterrorism activities conducted in 2016 targeted armed groups in the Russian North Caucasus, but government officials noted Russia has encountered increased ISIS-related activity in their law enforcement activities throughout the country following ISIS's August call to jihad within Russia.

In 2016, Moscow cited the threat posed by terrorists to justify its ongoing military intervention in Syria and the passage of far-reaching, "anti-extremism" legislation. As of June, the Russian government estimated 3,500 Russian citizens were fighting for ISIS in Syria and Iraq. Russia also continued to pursue counterterrorism cooperation with foreign partners, and expressed a desire to work with the United States to address terrorist threats. Despite rhetorical emphasis on operations against ISIS and al-Nusra Front (al-Qa'ida's affiliate in Syria), the great majority of Russian airstrikes in Syria targeted the moderate opposition.

Russia's counterterrorism focus also included the activities of the Imarat Kavkaz (Caucasus Emirate), Hizb ut-Tahrir – which Russia considers a terrorist organization, but the United States does not – and Aum Shinrikyo, which Russia's Supreme Court banned in September.

ISIL-Caucasus Province (ISIL-CP) has remained largely inactive, except for two claimed attacks in 2015. In December 2016, Russian security forces announced they killed ISIL-CP leader Rustam Aselderov and four other militants in Dagestan; a successor had not been named at the end of 2016.

**Legislation, Law Enforcement, and Border Security:** Russia has a comprehensive counterterrorism legal framework that includes the provisions of the Criminal Code and various federal laws including, "On Countering Terrorism," "On Money Laundering and Terrorist financing," "On Countering Extremist Activity," "On Security on Transport," and "On Security in the Fuel and Energy Complex." Throughout 2016, however, the Russian government continued to use its "anti-extremism" legislation to prosecute peaceful individuals and organizations, including the political opposition, independent media, and certain religious minorities. In July 2016, Russia adopted the so-called "Yarovaya Package" of amendments, which grants authorities broad additional powers, ostensibly to counter terrorism and extremism. It criminalizes acts such as failing to report terrorist-related crimes and justifying terrorism on social media and requires telecommunications companies to retain data to aid future law enforcement investigations. While the law's stated purpose is to help counter extremism, almost all of the applications observed in 2016 targeted the unsanctioned religious activities of minority Christian denominations.

A law in the Chechen Republic requires relatives of terrorists to pay the cost of damages caused by an attack, which human rights advocates criticized as collective punishment. The Memorial Human Rights Center reported that Chechen Republic authorities upheld the principle of collective responsibility in punishing the relatives of alleged members of illegal armed groups. The Memorial Human Rights Center and Caucasian Knot reported that, following an armed attack by two militants on a checkpoint in the village of Alkhan-Kala in Grozny's rural district in May, the homes of the attackers' families were set on fire.

Russia maintains several large, professional, and relatively well-funded security services that are focused on countering terrorism. The FSB is the primary agency responsible for domestic counterterrorism activities, but the Ministry of Interior (MVD) and newly created National Guard also play a role. The National Guard force was formed with troops from MVD and other armed personnel in April, and is officially charged with combating terrorism, extremism, and helping to secure Russia's borders. Some political commentators, however, have speculated it is intended to protect against domestic unrest. In October, a presidential decree stipulated that the National Guard will maintain the national fingerprint database. The FSB International Cooperation Directorate, through a joint relationship with the National Antiterrorism Committee (NAC), has developed the "International Counterterrorism Database," which holds both an unclassified and a restricted section. The FSB exclusively maintains and controls this database – which it promotes as the only international database that adheres to UN Security Council resolution 2178 – but it has invited international intelligence and law enforcement agencies to contribute information on events, subjects, organizations, and methods.

Despite an intense focus on counterterrorism, Russia's security services are challenged by the task of securing Russia's 12,000 miles of land border and more than 23,000 miles of coastline. Border crossings, particularly on the frontiers between Russia and some former Soviet republics, may not be registered. Given that Russia maintains a robust operational pace in North Caucasus (against ISIL-CP), many of Russia's 2016 counterterrorism operations targeted Central Asian migrant workers. While border guards have the capability of collecting biometrics at ports of entry and there are standard operating procedures for information sharing, it is unclear how often these procedures are followed. A traveler to Russia must receive a visa from the Ministry of Foreign Affairs, be permitted entry by the FSB through the Border Guard Service, and then be registered with the Directorate for Migration Affairs, which in April was converted from an autonomous organization to a division of the MVD. Citizens of Commonwealth of Independent States (CIS) countries may enter Russia for up to 90 days without registration with the MVD.

During 2016, Russian officials announced steps to improve border security. In November, Russia's Deputy Interior Minister announced that all foreigners arriving in Russia will be fingerprinted as of January 2017. In June, President Putin announced that Russia would create a federal information system for registering biometric data and effective operational intelligence, although it is unclear if and when the project will come into effect.

Terrorism-related law enforcement activities continued in 2016. The majority of operations occurred in the North Caucasus regions of Chechnya, Dagestan, and Ingushetia, but several high-profile cases took place in major Russian cities.

Russia also continued to prosecute alleged terrorists and those accused of supporting terrorism. On November 11, a court in Kazan, the capital of the Muslim-majority Republic of Tatarstan, added 77 individuals to a wanted list for pursuing jihad in Syria. In July, authorities placed Imam Makhmud Velitov of Moscow's Yadyam mosque under house arrest after he was charged with "public calls for terrorist activities or public justification of terrorism" after giving a sermon in support of Hizb ut-Tahrir in September 2013. If convicted, Velitov faces a sentence between two to five years.

Despite the tensions in the overall bilateral relationship with the United States, Russian security services have engaged in a limited amount of cooperation on counterterrorism matters. Russia continued to disseminate threat information and occasionally responded to requests for information, although its responses were often not substantive or timely. The Russian government continued to cooperate with the U.S. Federal Bureau of Investigation's (FBI) investigation of subjects associated with the Boston Marathon bombing. Both the FSB and Investigative Committee requested information from the FBI pertaining to the downing of the Russian charter plane in Egypt in October 2015. The FSB requested the FBI's assistance regarding security preparations for the 2018 FIFA World Cup.

There were no known legal constraints to effective Russian law enforcement and border security related to counterterrorism, although ethnic or clan ties in certain regions can make policing and prosecutions difficult. Important cases are often moved to Moscow or other regions to ensure a judge is not influenced by a clan.

**Countering the Financing of Terrorism:** Russia is a member of the Financial Action Task Force (FATF) and two FATF-style regional bodies: the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, and the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), in which it is a leading member and primary funding source. Through the EAG, Russia provides technical assistance and other resources towards improving legislative and regulatory frameworks and operational capabilities. Russia's financial intelligence unit (FIU), the Federal Service for Financial Monitoring (Rosfinmonitoring), is a member of the Egmont Group of Financial Intelligence Units. Rosfinmonitoring is overseen by the President of Russia.

The highest levels of the Russian government support counterterrorist finance initiatives, and in November 2015, Russian President Vladimir Putin signed an executive order to establish an interagency commission on preventing the financing of terrorism. Since then, its organization, activities, and reporting appear to be focused at the municipal level. At the end of 2016, Rosfinmonitoring continued its efforts to move forward a draft bill to ratify the 2005 Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (aka the "Warsaw Convention").

The most current data on investigations and convictions of terrorist financing is from 2015. In that year, the Russian government conducted more than 7,700 financial investigations, which included more than 3,500 persons suspected of involvement in international terrorist organizations, including ISIS. In 2015, the list maintained by Rosfinmonitoring of natural and legal persons tied to extremist activities or terrorism expanded, resulting in the freezing of 3,019 accounts totaling approximately US \$610,000. As of November 9, 2016, this list included 7,245 individuals and legal entities: 6,659 individuals and 79 legal entities within Russia, and 413 foreign individuals and 94 foreign legal entities.

Russia has oversight of the financial sector to reduce persistently high capital outflows and fictitious transactions which puts pressure on smaller financial institutions most likely to engage in money laundering and terrorist financing. The primary regulator is the Central Bank of Russia, which has revoked a large number of banking licenses over the past few years, often citing the presence of dubious transactions.

The U.S. and Europe are regularly expanding sanctions to include other Russian government officials and business entities in an effort to pressure President Vladimir Putin and his Ukrainian allies to cease their military activity in eastern Ukraine.

[US](#)

[Europe](#)

21 March 2014; The US President has issued a new Executive Order, Blocking Property of Additional Persons Contributing to the Situation in Ukraine; expanding the scope of the national emergency declared in Executive Order 13660 of March 6, 2014, and expanded by Executive Order of March 16, 2014

[Read Order](#)

21 March 2014; The EU has imposed sanctions on another 12 individuals over Russia's annexation of Crimea from Ukraine.

18 March 2014 - US President signed an Executive Order Blocking Property of Additional Persons Contributing to the Situation In Ukraine. This new authority expands upon E.O. 13660 by providing the ability to target officials of the Government of the Russian Federation, any individuals or entities that operate in the arms or related materiel sector in the Russian Federation, and any individual or entity that is owned or controlled by, or provides material or other support to any senior official of the Government of the Russian Federation or any person designated pursuant to this order.

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EU imposes Ukraine sanctions after deadly Kiev clashes

7 March 2014 Council Regulation (EU) No 208/2014 of 5 March 2014 concerning restrictive measures directed against certain persons, entities and bodies in view of the situation in Ukraine

[Read More](#)

7 March 2014 OFAC: Issuance of Ukraine-related Executive Order

[Read More](#)

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	29
World Governance Indicator – Control of Corruption	19

Corruption significantly impedes businesses operating or planning to invest in Russia. High-level and petty corruption are common, especially in the judicial system and public procurement. The business environment suffers from inconsistent application of laws and a lack of transparency and accountability in the public administration. Russia's regulatory inefficiency substantially increases the cost of doing business and has a negative effect on market competition. The Russian Federal Anti-Corruption Law requires companies to actively implement anti-corruption compliance programs. However, compliance with these provisions in practice is lagging behind. Russian law criminalizes active and passive bribery, facilitation payments, gifts and other benefits. However, effective enforcement of anti-corruption legislation is hindered by a politicized and corrupt judicial system. **Information provided by GAN Integrity.**

### US State Department

The Russian government stepped up its campaign against corruption in 2012. In March 2012, then-Russian President Medvedev adopted the National Anti-Corruption Plan for 2012–2013. The plan contained guidance and recommendations for the government, federal executive bodies and other government agencies on counteracting corruption, including the establishment of a legal framework for lobbying and increasing the transparency of state officials' personal finances and acceptance of gifts. Additionally, in 2012, Russia adopted a law requiring individuals holding public office, state officials, municipal officials and employees of state organizations to submit information on the funds spent by them and members of their families (spouses and underage children) to acquire certain types of property, including real estate, securities, stock and vehicles. The law also required public servants to disclose the source of the funds for these purchases and to confirm the legality of the acquisitions. In addition, the State Duma adopted a law in 2013 that required state officials, deputies, senators and governors to disclose information on their foreign property holdings and to close foreign bank accounts.

Speaking at the Russian General Prosecutor's Office on the occasion of the 291<sup>st</sup> anniversary of its establishment, Sergei Ivanov, Chief of the Presidential Administration, mentioned that in 2012, over 7,000 persons charged with corruption had received prison sentences and a greater number of corruption cases were initiated. One high level case led to the firing of Defense Minister Anatoly Serdyukov, who was reportedly at the center of multiple corrupt schemes on a very large scale. However, after a year of investigation, no charges have been filed. Various reports in the media speculated that Serdyukov had been given amnesty,

or alternatively, that the investigation had been limited to suspicious of negligence rather than more serious crimes. Failure to hold high government officials accountable for corruption sends a strong signal throughout the system that certain persons are untouchable and protected by the highest authorities. This phenomenon undermines the rule of law in Russia.

Indeed, a long-running dispute between the Russian Prosecutor General, Yuri Chaika, and the Chairman of the Investigative Committee, Alexander Bastrykin, flared up in the Spring 2014. Chaika publicly accused the Investigative Committee of being unwilling to handle serious corruption matters. However, even the General Procuracy has experienced public embarrassment on this issue, when Hewlett Packard Russia pleaded guilty in the United States in April 2014 to bribing Russian prosecutors ten years earlier in exchange for a computer systems procurement contract. Media reports suggested that Russia has not been very helpful in investigating cases under the U.S. Foreign Corrupt Practices Act (FCPA).

Russia is a signatory to the UN Convention against Corruption, the Council of Europe's Criminal Law Convention on Corruption, and, as of 2012, the OECD Anti-Bribery Convention. The OECD Convention calls for the implementation of national legislation to criminalize commercial bribery and to prohibit both offering bribes to foreign government officials and accepting such bribes. It provides no exceptions for "grease payments," and includes foreign entities doing business in Russia, meaning these entities could be subject to liability under their own country's law, as well as Russia's. The convention also calls for increasing the penalties that may be imposed upon an individual or entity found in violation. Fines and terms of incarceration contemplated by the Convention vary, depending upon the type of bribe and the official involved. During 2011-2012, Russia passed national legislation to bring itself into better compliance with its commitments under the OECD Convention and UNCAC. For instance, Article 13.1 of the Federal Law on Corruption allows removal of government officials for failure to take measures to combat corruption. Article 13.3, very broadly requires all legal entities in the Russian Federation implement an ethics and compliance program to combat corruption and conflict of interest. This law also applies to Russian government budgetary entities like schools.

Some analysts have expressed concern that lack of depth in the compliance culture in Russia will render the law a formality that does not function in reality. The implementation and enforcement of the many measures required by these conventions have not yet been fully tested. In recent years, there appears to be a greater number of prosecutions and convictions of mid-level bureaucrats for corruption, but real numbers were difficult to obtain and high-ranking officials were rarely prosecuted. After the close of the 2014 Winter Olympic Games in Sochi, anti-corruption blogger and opposition political candidate Alexey Navalny released a detailed report alleging wide-spread corruption and graft from those government and private individuals involved in construction of the Olympic venues. According to reports, the Prosecutor General's Office opened over 50 criminal cases related to the Olympic Games and has imposed administrative penalties on over 100 persons and companies. It is likely that many of these cases touch only lower level bureaucrats and not high-ranking government officials or prominent businessmen close to the Kremlin who won the lucrative construction contracts for the Olympics.

It is important for U.S. companies, irrespective of size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance programs or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in Russia should take the time to become familiar with the relevant anticorruption laws of both Russia and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

## **Corruption and Government Transparency - Report by Global Security**

### **Political Climate**

Russia enacted into law new anti-corruption legislation in December 2008. The legislation imposes financial disclosure requirements on government officials, restricts post-government employment at entities with which the official had prior connections and requires reporting of corrupt activities. According to the US Department of State 2012, Russia has introduced a series of amendments to the Code of Criminal Procedure between 2008 and 2010. In February 2012, former President Dmitry Medvedev signed the OECD Anti-Bribery Convention. Before leaving office, Medvedev signed and adopted the National Anti-Corruption Plan 2012-2013 in March 2012, which focuses on increasing transparency of asset declaration and acceptance of gifts by state officials. It also includes guidance for the government, executive bodies and governmental agencies on how to counteract corruption.

Under President Vladimir Putin, improvement of Russia's investment climate has been the top priority. Several administrative barriers have been reduced and tariffs across borders decreased, according to the US Department of State 2013. In April 2013, Parliament (Duma) adopted a new set of anti-corruption legislation aimed at preventing high-ranking officials from stashing illicit wealth abroad and stopping annual capital outflows of around USD 80 billion, according to a 2013 article by Reuters. The law prohibits all high-ranking officials, parliamentarians, judges and their immediate family members from having accounts in foreign banks. Despite increased anti-corruption regulation and the adoption of the new anti-corruption strategy, the implementation and enforcement of the measures, required by the law and several international conventions signed by Russia, remain ineffective, according to the US Department of State 2013. In its 2012 Evaluation Report, GRECO specifically recommends Russia to ensure that bribery of all judges and high-ranking officials of international courts is criminalised, broaden the scope of the bribery provisions in the Criminal Code and criminalise as a separate offence trading in influence. GRECO has given a generally positive evaluation of Russia's anti-corruption efforts, and the country is expected to present a new report on the implementation of the GRECO recommendations.

Despite Russia's recent anti-corruption efforts, Transparency International's Global Corruption Barometer 2013 reveals that 57% of surveyed Russian households consider the government's fight against corruption to be ineffective, and 50% perceive the level of corruption to have increased in Russia over the past two years. The same survey also shows that the police and



public officials are perceived to be the most corruption-prone public institutions in the country. More than 92% of respondents perceive public officials to be "corrupt" or "extremely corrupt". Corruption in Russia is widespread throughout the executive, legislative, and judicial branches at all levels of government. Weak institutions, weak enforcement, theft, extortion, and abuse of office are often cited as the reasons for rampant corruption, according to the US Department of State 2012. One of the most recent and prominent cases involves an ally of President Putin, Vladimir Pekhtin, who resigned from Parliament in February 2013 and faces charges after allegations of failing to declare ownership of property worth USD 2 million in the United States, according to a 2013 article by Reuters. As of November 2013 the case is still pending.

## **Business and Corruption**

Following the global financial crisis and a decline in foreign direct investment, the Russian government came forward with a massive economic stimulus package, but corruption and lack of trust in institutions continue to hamper domestic and foreign investor confidence. The World Economic Forum's Global Competitiveness Report 2013-2014 outlines that the weak institutional framework in Russia impedes business growth. According to the US Department of State 2013, despite the announced political will of Russian politicians to promote foreign investment and technology transfer, the government continues to exert control on the economy's strategic sectors and limits foreign investment in sectors that are significant for state defence and security. Nevertheless, in April 2013, Parliament initiated a step towards improving the investment climate for foreign companies and approved several amendments to the Federal Law on Foreign Investments proposed by the Federal Antimonopoly Service. The amendments have significantly simplified procedures for approval of acquisitions of shares in Russian companies operating in strategic sectors, reports a 2013 article by RussiaReport.

Large companies cite corruption as a major obstacle to doing business in Russia. Companies surveyed in the EBRD & World Bank's BEEPS Russia 2012 identify corruption as the fourth-largest obstacle for conducting business in the country. According to an April 2012 article by The Wall Street Journal, nearly 33% of top officials and leading finance professionals point to corruption as the biggest problem Russia needs to solve to realise its potential. Similarly, corruption is identified as the most problematic factor for doing business in Russia by surveyed business executives in the Global Competitiveness Report 2013-2014, who report the occurrence of irregular payments and bribes in Russia to be common. According to the World Bank & IFC's Enterprise Surveys 2012, over 20% of companies make unofficial payments to "get things done". As a result of the unattractive conditions for business, investments are far from sufficient to satisfy the modernisation needs of the Russian economy, according to the Bertelsmann Foundation 2012.

Many SMEs operate in Russia's sizeable informal sector. According to the Enterprise Surveys 2012, more than 30% of surveyed companies report that they must compete against unregistered or informal companies, and more than 14% identify the practices of competitors in the informal sector as a major constraint. An SME can expect to pay more than 2% of the contract value in bribes to secure a government contract. Given the high-risk of exposure to corruption on the Russian market, foreign companies are recommended to develop,

implement, and strengthen integrity systems and to conduct extensive due diligence when planning to invest and when already doing business in Russia. View the special page on information on obtaining business licences and permits in Russia.

## **Regulatory Environment**

Corruption is institutionalised in Russia and permeates through all levels of government, including the regulatory bodies. To reduce bureaucracy and decrease the opportunities for corruption, one-stop shops have been established for citizens and companies to reduce direct interaction with public officials and reduce opportunities for extortion. In addition, several governmental internet portals have been launched to make the regulatory processes more transparent. Further, salaries of civil servants have been significantly increased in recent years. To raise awareness among public officials about corruption, the Russian government has instituted mandatory anti-corruption training for public officials through the Academy of State Service. In January 2013, a new amendment to the Russian Federal Anti-Corruption Law came into force. Now Russian and foreign companies are required to establish effective anti-bribery compliance programmes and promote extensive anti-corruption policies internally. Companies, however, continue to report that they frequently encounter attempts at extortion. The Prosecutor General's Office has launched a special section, Prosecutorial Supervision over Observance of Rights of Business Entities and Entrepreneurs, where businesspeople can lodge complaints if their rights or legal interests have been violated.

Business regulations in Russia have improved in recent years. Figures from the World Bank & IFC's Doing Business 2014 show that the amount of time required to start a business in Russia is only slightly above the regional average, while costs associated with starting a business are lower than the OECD and the regional averages. Although Russia has increased its ownership in strategic sectors, such as energy, insurance, electricity, banking and transportation, the bias in favour of well-connected companies has decreased, while support to innovative and export-oriented firms has improved, according to the Bertelsmann Foundation 2012. However, the inconsistent and non-transparent application of laws and regulations and the weak enforcement of laws and court decisions have decreased the country's regulatory efficiency. Global Integrity 2010 reports that Russia exhibits a huge implementation gap and that many laws are poorly enforced. Companies surveyed in the World Economic Forum's Global Competitiveness Report 2013-2014 identify inefficient government bureaucracy to be among the most problematic factors for doing business in the country. According to the World Bank & IFC's Enterprise Surveys 2012, senior managers spend more than 15% of their time dealing with requirements of government regulation in Russia.

According to the US Department of State 2013, it can be difficult to obtain independent dispute resolution in Russia due to the developing judicial system, political pressure, widespread corruption within the courts and weak law enforcement. Reportedly, many attorneys refer their Western clients with investment or trade disputes in Russia to international arbitration in Stockholm or foreign courts. Russia accepts binding international arbitration and foreign arbitral awards are legally enforceable in Russia, even without a reciprocal treaty between Russia and the country where the order was issued. Russia is a member of the International Centre for the Settlement of Investment Disputes (ICSID) and a signatory to the New York Convention of 1958. Domestic arbitration avenues are available through the Supreme Arbitration Court of the Russian Federation and the International Commercial

Arbitration Court at the Russian Chamber of Commerce and Industry (ICAC). The ICAC will hear claims if both parties agree to the referral. Similarly, an Arbitration Tribunal at the St. Petersburg Chamber of Commerce and Industry has been established. However, the enforcement of domestic international arbitral awards ultimately requires action from Russian courts and follow-up by bailiffs, which, according to the US Department of State 2013, has yet to consistently and effectively enforce court judgments. Access the Lexadin World Law Guide for a collection of legislation in Russia.

### Section 3 - Economy

Russia has undergone significant changes since the collapse of the Soviet Union, moving from a centrally planned economy towards a more market-based system. Both economic growth and reform have stalled in recent years, however, and Russia remains a predominantly statist economy with a high concentration of wealth in officials' hands. Economic reforms in the 1990s privatised most industry, with notable exceptions in the energy, transportation, banking, and defence-related sectors. The protection of property rights is still weak, and the state continues to interfere in the free operation of the private sector.

Russia is one of the world's leading producers of oil and natural gas, and is also a top exporter of metals such as steel and primary aluminium. Russia's reliance on commodity exports makes it vulnerable to boom and bust cycles that follow the volatile swings in global prices.

The economy, which had averaged 7% growth during 1998-2008 as oil prices rose rapidly, has seen diminishing growth rates since then due to the exhaustion of Russia's commodity-based growth model.

A combination of falling oil prices, international sanctions, and structural limitations pushed Russia into a deep recession in 2015, with the GDP falling by close to 4%. Most economists expect this downturn will continue through 2016. Government support for import substitution has increased recently in an effort to diversify the economy away from extractive industries. Although the Russian Ministry of Economic Development is forecasting a modest growth of 0.7% for 2016 as a whole, the Central Bank of Russia (CBR) is more pessimistic and expects the recovery to begin later in the year and a decline of 0.5% to 1.0% for the full year. Russia is heavily dependent on the movement of world commodity prices and the CBR estimates that if oil prices remain below \$40 per barrel beyond 2016, the resulting shock would cause GDP to fall by up to 5%.

#### **Agriculture - products:**

grain, sugar beets, sunflower seeds, vegetables, fruits; beef, milk

#### **Industries:**

complete range of mining and extractive industries producing coal, oil, gas, chemicals, and metals; all forms of machine building from rolling mills to high-performance aircraft and space vehicles; defence industries (including radar, missile production)

#### **Exports - commodities:**

petroleum and petroleum products, natural gas, metals, wood and wood products, chemicals, and a wide variety of civilian and military manufactures

#### **Exports - partners:**

Netherlands 11.9%, China 8.3%, Germany 7.4%, Italy 6.5%, Turkey 5.6%, Belarus 4.4%, Japan 4.2% (2015)

#### **Imports - commodities:**

machinery, vehicles, pharmaceutical products, plastic, semi-finished metal products, meat, fruits and nuts, optical and medical instruments, iron, steel

#### **Imports - partners:**

China 19.2%, Germany 11.2%, US 6.4%, Belarus 4.8%, Italy 4.6% (2015)

### **Banking**

Despite improvement over the last several years, the Russian banking system is still evolving in terms of being able to meet the capital and credit needs of a rapidly growing and dynamic market economy. However, while the banking services available from Russian banks is still limited compared to what is available in the U.S., a company doing business in Russia can access an expanding range of basic services offered by a larger commercial bank.

The Russian banking sector is highly segmented, with the top five banks controlling 48% of assets. There are over 1000 banks in Russia; 80 are 100% foreign-owned. The number of small banks is gradually decreasing due to insolvency and consolidation. The top two banks, Sberbank (controlled by the Central Bank) and VTB (controlled by the government), together own about one-third of the banking sector assets in Russia. The Russian government has approved a list of 11 state-controlled companies whose stakes are to be privatized in 2011-2013, which includes Sberbank and VTB. This mass privatization began with the sale of a 10% stake in VTB for \$3.3 billion in February 2011.

### **Stock Exchange**

Russia's two main stock exchanges are in Moscow: (1) the [Russia Trading System \(RTS\)](#), and (2) the equity trading floor on the [Moscow Interbank Currency Exchange \(MICEX\)](#). Trading volume is largely dominated by large oil and gas companies such as Gazprom, Rosneft, and Lukoil. Trading activity at Russia's other exchanges, such as the Moscow Stock Exchange and several regional centers, is low. Some large Russian companies choose to list their stock in London and elsewhere abroad in order to obtain higher valuations.

The Law on the Securities Market includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process, as well as on a quarterly basis. In addition, the law defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.

Russian financial authorities are attempting to deepen the ruble-denominated domestic debt market to make it more attractive to foreign investors. In December 2011, the Central Bank issued a resolution allowing, effective January 1, 2012, government bonds ("OFZ"s) to be traded outside Russian exchanges (over the counter). Currently, foreign investors wanting to trade domestic bonds must set up local brokerage and custody accounts, a lengthy process that discourages many investors from buying OFZs. Additionally, in October 2012, the Federal Financial Markets Service granted Euroclear Bank, the world's largest settlement system for securities, access to the Central Securities Depository to offer post-trade services

for Russian OFZs. The Russian Deputy Finance Minister expressed hope that Russian OFZs would begin trading via Euroclear by early 2013. Hostile takeovers are common in Russia among both foreign and local firms. Private companies' defenses to prevent hostile takeovers relate to all potential hostile takeovers, not just foreign ones.

### Executive Summary

American firms seeking to invest in the Russian Federation should be aware that the Russian investment climate continues to be marked by high levels of uncertainty, corruption, and political risk, making thorough due diligence and good legal counsel essential for any potential investment. Conditions for foreign investment are unlikely to improve in the near term. Foreign direct investment flows in Russia during 2015 were USD 6.7 billion, a decline of 92 percent from the figure two years earlier, according to the UN Conference on Trade and Development. This decline in investment reflected the increased risks that investors faced when doing business in Russia.

Russia's real gross domestic product (GDP) contracted by 3.7 percent in 2015. The International Monetary Fund expects a further 1 percent contraction in 2016. The fall in the global price of oil has hit Russia's economy hard: oil and gas production has traditionally accounted for approximately 20 percent of GDP, two-thirds of exports, and half of federal government revenues. The Russian ruble also depreciated 55 percent against the U.S. dollar through 2015. Capital outflows in 2015 decreased to USD 57 billion, after a peak of USD 151.5 billion in 2014.

Russia's attempted annexation of Crimea in March 2014 is not recognized by the U.S. government. U.S. investors in Russia must ensure they are in full compliance with U.S. sanctions on designated Russian firms and individuals. These measures include a prohibition on the refinancing of debt beyond 30-days on sanctioned entities, restrictions on the export to Russia of certain kinds of equipment for the energy sector, and a complete ban on doing business with those entities or individuals identified by the U.S. Treasury Department as "specially designated nationals." Specific sanctions designations are available on the U.S. Treasury's website: [www.treasury.gov](http://www.treasury.gov).

Long-standing concerns about the rule of law in Russia persist. Several new laws in 2015 gave the Russian Constitutional Court new powers to disregard foreign arbitral decisions, while 2014 changes to the Russian high court have cast doubts on its ultimate autonomy. Russia's judicial system is heavily biased in favor of the state, leaving investors with little recourse in the event of a legal dispute with the government. High levels of corruption in the Russian government compound this risk.

Economic activity carried out by state-owned enterprises (SOEs) is estimated to comprise over half of Russia's GDP. Most government initiatives in 2015 point to a stronger government influence in SOE activities, including placing senior government officials on major SOE boards, dictating the percentage of SOE purchasing that must come from small and medium enterprises, and requiring Russian-made equipment purchases for government-funded projects. Regulations require Russian government approval for foreign firms to invest in "strategic sectors" and, in some cases, ban majority foreign ownership.

Though a policy goal prior to Russia's 2014 attempted occupation of Crimea and aggression in Ukraine, import substitution has subsequently become a central tenet of Russian government policy, with the aim of shifting Russia's reliance on imported products to goods either produced domestically or by "friendly" nations. The Russian government hopes to

achieve a higher level of self-reliance through a combination of localization and procurement restrictions. The most attractive sectors for foreign investment in Russia historically include wholesale and retail trade, finance and insurance, manufacturing, and mining. In 2015, the Central Bank of Russia created a national payment card system (NSPK) to process all domestic credit card transactions for Russian cardholders. International payment card systems continue to process the domestic transactions of foreign cardholders and the international transactions of Russian cardholders. Russia also enacted a new law in 2015 that requires all companies processing the personal data of Russian citizens to store that data on servers located in Russia.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	119 of 167	<a href="http://transparency.org/cpi2015/results">transparency.org/cpi2015/results</a>
World Bank's Doing Business Report "Ease of Doing Business"	2015	51 of 189	<a href="http://doingbusiness.org/rankings">doingbusiness.org/rankings</a>
Global Innovation Index	2015	48 of 143	<a href="http://globalinnovationindex.org/content/page/data-analysis">globalinnovationindex.org/content/page/data-analysis</a>
U.S. FDI in partner country (\$B USD, stock positions)	2014	\$9.2	BEA FDI stock in Russia
World Bank GNI per capita	2014	\$13,220	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## 1. Openness To, and Restrictions Upon, Foreign Investment

### Attitude toward Foreign Direct Investment

Russian President Vladimir Putin told foreign investors in June 2015, "Russia always wants to be an open and friendly country to all those who want to run their business here." Russia's primary approach to attracting foreign direct investment (FDI) has been to pass a variety of measures intended to induce companies to localize their production in Russia. President Putin signed the Industrial Policy Law (No. 488-FZ) in December 2014, which stipulates preferences for Russian-made products in government procurement and major government-funded projects; the law also "recommends" similar preferences for purchasing by state-owned enterprises (SOE). The law also provides for special investment contracts, which would guarantee some preferential treatment for foreign companies that localize production of an item not currently made in Russia.

Most sectors of the economy are open to foreign investment, though there are ownership restrictions in strategic sectors. The Strategic Sectors Law (FZ-57) stipulates 45 activities for



which foreign investment requires government approval (see Limits on Foreign Control below). Foreign ownership in air transportation, financial services, insurance, media, and agricultural land is also restricted.

#### Other Investment Policy Reviews

The Organization for Economic Cooperation and Development (OECD) conducted an Investment Policy Review of Russia in 2010-2012, in the context of Russia's attempt to become an OECD member, based on the OECD Policy Framework for Investment.

#### Laws/Regulations on Foreign Direct Investment

While a legal structure exists to support foreign investors, the laws are not always enforced in practice. The 1991 Investment Code and 1999 Law on Foreign Investment (FZ-160) guarantee that foreign investors enjoy rights equal to those of Russian investors, although some industries have limits on foreign ownership (see Right to Private Ownership and Establishment below). Russia has sought to enhance consultation mechanisms with international businesses (for example, through the Foreign Investment Advisory Council, whose members are the chief executives of large companies) regarding the impact of the country's legislation and regulations on the business and investment climate. In 2012, President Putin created the position of Ombudsman for Entrepreneurs' Rights as an additional measure of protection and advocacy for entrepreneurs. The court system and particularly the Investigative Committee, a body directly under the president of the Russian Federation charged with legal oversight of government agencies, are subject to political interference that may affect foreign investments. In addition, the country's investment dispute resolution mechanisms can be non-transparent and unpredictable (see Dispute Settlement section).

#### *Business Registration*

Russia's business registration website, [www.nalog.ru](http://www.nalog.ru) (in Russian), is operated by the Federal Tax Service (FTS). The online registration process is clear, comprehensive, and open to foreign companies, but requires receiving an electronic signature from one of the certification centers designated by the Ministry of Telecom and Mass Communications to submit an application electronically. A company must register with a local FTS Office; application documents can be hand-delivered, sent by mail or submitted electronically. According to Law FZ-129 of 2001, the business registration process must not take more than five days. Foreign companies may be required to notarize the originals of incorporation documents included in the application package.

The Russian Direct Investment Fund (RDIF) was established in 2012 to attract foreign direct investment into the Russian economy. The RDIF co-invests up to 50 percent of ownership in individual projects with foreign investors. The services of the fund are available to co-investors meeting one of the following criteria: more than USD 1 billion worth of assets under management, market capitalization of over USD 1 billion, or a turnover exceeding USD 1 billion, and earnings before interest, taxes, depreciation and amortization (EBITDA) over USD 150 million.

According to Russian legislation, businesses qualify as medium-sized enterprises if they employ 101 to 250 people and have annual revenues, less value-added tax (VAT), of 2 billion rubles (USD 27.4 million) or less. Small enterprises are defined as businesses and sole

proprietors that employ 16 to 100 people and whose annual revenues do not exceed 800 million rubles (USD 11 million). Microenterprises are defined as businesses and sole proprietors employing not more than 15 persons and whose annual revenues are under 120 million rubles (USD 1.6 million).

#### Limits on Foreign Control and Right to Private Ownership and Establishment

Russian government officials have repeatedly stressed that foreign investment and technology transfer are critical to Russia's economic modernization. At the same time, the government continues to limit foreign investment in sectors deemed to have strategic significance for national defense and state security via the Strategic Sectors Law of 2008 (FZ-57). The law originally specified 42 activities and has since been amended on six separate occasions. As of April 2015, 45 activities require government approval for significant foreign investment. Foreign investors wishing to increase or gain ownership above certain thresholds need to seek prior approval from the government commission described below.

On October 15, 2014, President Putin signed a law "On Mass Media," (FZ-305) which restricts foreign ownership of any Russian media company to 20 percent. Previously only Russia's broadcast sector was subject to a 50 percent foreign ownership limit. The new law took effect on January 1, 2015, and media owners have until February 1, 2017, to adjust their ownership structures. The law prompted the sale in November 2015 of the leading business paper *Vedomosti* by its three foreign owners (Dow Jones, Pearson, and Finnish publishing house Sanoma), and has further heightened concern of media consolidation and government influence.

#### Privatization Program

Due to federal budget constraints in 2016, privatization plans have become a priority, albeit with little action as of March 2016. The Federal Property Management Agency (Rosimushchestvo) reported that revenues generated from the privatization of state-owned property in 2015 (the so-called "mass privatization," not involving the largest state-owned companies) amounted to only 7.39 billion rubles (USD 104 million), as nearly 80 percent of the auctions were invalidated for lack of demand caused by "high volatility of financial markets and borrowing costs."

The 2013 Privatization Program for state-owned enterprises (SOEs) fell behind its original schedule for 2014-2016. Most of the sales were supposed to involve the sale of minority share positions, privatization through dilution of shares rather than divestment, and retention of "golden shares" that maintain government veto power on company boards. In June 2014, Prime Minister Dmitriy Medvedev approved the "Plan to Implement State Programs on Federal Property Management in 2014-2016," in which the Russian government laid out concrete annual plans to decrease its ownership in various companies. However, plans to decrease state ownership in such companies as the national rail monopoly Russian Railways by 5 percent, commercial shipping company Sovkomflot by 25 percent, and the flag carrier airline Aeroflot by 1.2 percent by the end of 2014 did not materialize.

According to a March 2015 report issued by Russia's Accounting Chamber, an auditing body under the country's parliament, Russia had fully or partially privatized 1,180 joint-stock companies and 274 federal unitary enterprises between 2010 and 2014. Privatization

proceeds for the period, however, amounted to only 21 percent of the planned total, as the bulk of the privatization program was postponed. The main reasons for the postponement was low asset prices, compounded by Russia's economic downturn and Western sanctions imposed on the country.

Russia also established a separate list of strategic companies that includes the largest and most profitable Russian firms via Executive Order No. 1009 of August 4, 2004. Companies identified on this list have some level of government ownership; the Executive Order sets forth the requirements for privatizing these firms. The 2012 addition of privately held, Russian internet company Yandex to the strategic companies list highlighted the government's broad interpretation of what is required to protect state security and national defense.

To date, treatment of foreign investment in new privatizations has been inconsistent; at times, and foreign participation has been confined to minority stakes. Subsequently, many investors have faced problems with inadequate protection for minority shareholders and corporate governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal agencies that exercise ownership or authority over SOEs whose shares they may want to acquire. (See State-Owned Enterprises)

#### Screening of FDI

Established in 2008, the Government Commission on Monitoring Foreign Investment screens FDI in Russia. The type of industry for a proposed investment and not a threshold level of investment triggers a review by the Commission. The Commission scrutinizes foreign investment in businesses that have strategic importance for national defense and security. The Prime Minister is the Chairman of the Commission, ex-officio. Since 2008, the Commission has received 395 applications for foreign investment (as of March 11, 2016). Of that total number, 150 were recognized as transactions for which approval was not required; 43 applications were withdrawn by applicants; and seven had not been completed. Of the 195 applications that the Commission reviewed, 183 were approved (93.8 percent), including 49 with certain conditions. Only 12 applications (6.2 percent) were rejected.

#### Competition Law

The current regulation on the Federal Antimonopoly Service (FAS) was adopted by the Russian government in July 2004. The stated primary goal of the agency is to enhance development of competition in the economy and financial services market. Since 2004, control over the activity of natural monopolies and observance of the legislation on advertising has been delegated to FAS.

The Federal Antimonopoly Service has been criticized for being overly aggressive, particularly toward small and medium enterprises (SMEs). In 2013, FAS reviewed over 55,000 cases – more than all other national anti-monopoly agencies worldwide. Over one-third of the cases investigating abuse of market position were against SMEs, often in rural areas where the local market demand could not support multiple businesses. Only 11 percent of cases reviewed by FAS involved major market players that fell within the top 100 Russian companies in terms of annual revenue. The fourth anti-monopoly package law, passed in October 2015, increased the annual sales threshold below which Russian companies would not be recognized as dominant regardless of their market share and entered into force in January 2016. FAS

expects that under the new law, annual sales of about 80 percent of all Russian SMEs will fall below the new threshold, leaving only 20 percent of SMEs subject to FAS antimonopoly regulation.

In March 2015, President Putin signed into law amendments to Article 178 of the Criminal Code aimed at reducing pressure both on small businesses and major market players, further liberalizing Russia's antitrust laws. Article 178 imposes liability on competing business entities for: (1) non-admission, restriction, or elimination of competition by entering into agreements that restrict competition (cartels) or by abusing repeatedly their dominant positions by fixing and/or maintaining monopolistic high or monopolistic low prices for goods; (2) unreasonable refusal to conclude or avoidance of concluding an agreement; and (3) restriction from entering a market, provided such actions cause major damage to individuals, companies, or the state or involve high profits. The amendments changed the definitions of "high profits" and "major damage" by increasing the minimum monetary amounts that constitute a violation, thus avoiding criminal prosecution in the majority of cases that involve SMEs.

## **2. Conversion and Transfer Policies**

### Foreign Exchange

While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Only authorized banks may carry out foreign currency transactions, but finding a licensed bank is not difficult. According to Russia's currency control laws, the Central Bank of Russia retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account. The Central Bank does not require security deposits on foreign exchange purchases. Russia has no capital controls, and there are no barriers to remitting investment returns abroad, including dividends, interest, and returns of capital. Nonetheless, investors should seek expert advice at the time of an investment.

Currency controls exist on all transactions that require customs clearance, which, in Russia, applies to both import and export transactions and certain loans. A business must open a "deal passport" with the authorized Russian bank through which it will receive and service the transaction or loan. A "deal passport" is a set of documents that importers and exporters provide to an authorized bank which enables the bank to monitor payments with respect to the transaction or loan and to report the corporation's compliance with currency control regulations to the Central Bank. Russia's regulations regarding deal passports are prescribed under Instructions of the Central Bank of Russia No. 117-I of June 15, 2004. In early 2011, the Central Bank of Russia expanded the list of grounds under which a deal passport does not need to be submitted. On June 4, 2012, the Central Bank issued Instruction Number 138-I, which introduced some changes to the regulation. In particular, an authorized bank is no longer required to submit additional documentation if the authorized bank is debiting money for a currency operation from an existing bank account of a resident or non-resident. In case of multilateral agreements with multiple parties and participation of non-residents, only one resident deal participant is obligated to execute a deal passport for this agreement rather than all resident parties being required to submit documentation. The Central Bank further amended the regulation by issuing Directive No. 3016-U of June 14, 2013, which came into

effect in the fall of 2013. A deal passport is now needed only if the value of the underlying contract is equal to or exceeds the equivalent of USD 50,000.

Effective 2016, the Central Bank introduced tighter regulation for cash currency exchanges: a client must provide his full name, passport details, registration place, date of birth and taxpayer number, if the transaction value exceeds 15,000 rubles (approximately USD 200). The declared purpose of this regulation is to combat money laundering and terrorist financing.

### *Remittance Policies*

There are no restrictions or limitations on investment remittances in Russia. Banking contacts confirm that investors have had no issues with remittances and in particular with repatriation of dividends.

Since November 2014, the Central Bank has employed a floating exchange rate regime. This means there is no exchange rate target and no operational band or predetermined interventions in the currency market by the Central Bank. The Central Bank, however, reserves the right to intervene "in case of a sharp increase of financial stability risks."

The Russian Federation is a member of the Financial Action Task Force (FATF), the international body to combat money laundering. Russia is assessed by FATF, the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval, part of the Council of Europe). Russia was listed as a country of primary concern in the U.S. Department of State's International Narcotics Control Strategy Report for 2015.

### **3. Expropriation and Compensation**

President Putin created a working group to address business concerns about law enforcement pressure on business in February 2016. Out of 200,000 economic crime cases initiated in 2014, only one-quarter went to court, and a total of 31,000 cases were concluded in court. Despite the small proportion of cases decided in court, over 80 percent of the individuals whose cases were dropped lost their businesses in the process. There is little recourse for Russian businesses caught in the legal system.

The re-nationalization of the oil company Bashneft in 2014 was a high-profile illustration of many of the challenges faced by private business in Russia. Prior to September 2014, the privately owned Russian conglomerate AFK Sistema owned a majority stake in Bashneft, Russia's sixth largest oil producer. In July, a district court in Russia froze AFK Sistema's Bashneft shares just prior to the oil company's much-touted London public offering, which would have diluted the company's ownership among foreign investors. The Russian government transferred Sistema's shares in Bashneft to the state while the majority owner, Vladimir Yevtushenkov, was temporarily placed under house arrest.

The 1991 Investment Code prohibits the nationalization of foreign investments, except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to Russian courts, and the investor must be adequately and promptly compensated. At the sub-federal level, expropriation has occasionally been a

problem, as has local government interference and a lack of enforcement of court rulings protecting investors.

#### **4. Dispute Settlement**

The Russian legal system includes both Administrative and Criminal Codes. Economic crimes fall under both codes, although officials have recently promised to revise the criminal code to reduce punishment for fraud and other economic crimes. The single greatest complaint of major foreign businesses operating in Russia is the unstable regulatory environment in Russia, according to a June 2015 study. In 2014 and 2015, over 40 changes to the Criminal Code were instituted with respect to business operations. Russia has conflicting, overlapping, and frequently changing laws, decrees, and regulations, which complicate the environment for dispute resolution. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is often ineffective. Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribery of judges and prosecutors to the fabrication of evidence. Some companies write foreign arbitration clauses into contracts in order to minimize the role of the Russian legal system.

##### Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Russian Supreme Court oversees criminal and civil cases as well as commercial cases, which were the purview of a separate Higher Arbitrage Court until June 2014. As of March 2016, only two-thirds of the judge positions on the economic collegium were staffed (21 out of 30). The procedure for selecting Supreme Court judges following the merger excluded most of the former Supreme Arbitrage Court judges.

Commercial arbitration courts are required by law to decide business disputes relatively quickly, and many cases are decided on the basis of written evidence and little or no live testimony by witnesses. The arbitration court workload is dominated by relatively simple non-contentious cases involving the collection of debts and firms' disputes with the taxation and customs authorities, pension fund, and other state organs. Tax-paying firms often prevail in their disputes with the government in court. The number of routine cases limits the time available to decide more complex cases. The court system has special procedures for the seizure of property before trial, so that it cannot be disposed of before the court has heard the claim, as well as procedures for the enforcement of financial awards through the banks. As with international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions. Few firms pay judgments against them voluntarily. Rumors of corruption concerning bailiffs, who are charged with enforcing decisions, are frequent, although hard evidence is scarce.

Federal Law 262, in effect since 2010, requires courts to publish their decisions online and otherwise make information about their activities publicly available. All Russian courts now have websites, which generally include a schedule of cases to be heard, the name of the judge, the location of the court, forms that can be used by prospective litigants, and copies of decisions.

A specialized court for intellectual property (IP) disputes opened in July 2013. The IP Court hears matters pertaining to the review of decisions made by the Russian Federal Service for

Intellectual Property (Rospatent) and determines issues of IP ownership, authorship, and the cancellation of trademark registrations. It also serves as the court of second appeal for IP infringement cases decided in arbitration (commercial) trial courts and courts of appeal.

### Bankruptcy

Russia has had a law providing for bankruptcy of enterprises since the early 1990s. Corporate bankruptcies often involve criminal acts. A law on personal bankruptcy came into force on October 1, 2015. While Russia improved its overall rank in the World Bank's "Doing Business 2016" report to 51st from 54th in the previous year, it slipped to 51st from 44th in the report's "Resolving Insolvency" category.

### Investment Disputes

Available information indicates that 13 investment disputes have involved a U.S. person since 2006. The U.S. Embassy in Moscow does not track disputes lodged by foreign investors. To address some of the challenges facing the business community, the Russian government created the Office of the Ombudsman for Entrepreneur Rights in 2012. The Ombudsman's remit includes advocating for foreign and domestic business rights in court and requesting suspension of official actions if a business feels its rights were violated. Each Russian Federal District also has an Investment Ombudsman who reports to the national Ombudsman and oversees efforts to improve the business climate, including the protection of foreign and domestic investors. The government has also encouraged international business leaders, as part of their work in the Russian government's Foreign Investment Advisory Council, to participate in the discussion of dispute resolution mechanisms and individual commercial disputes. While these steps offer some promise, overall, the country's investment dispute mechanisms remain underdeveloped and largely non-transparent.

### International Arbitration

Some attorneys refer Western clients who have investment or trade disputes in Russia to international arbitration bodies in Stockholm, London, The Hague, or other courts abroad. A 1997 Russian law allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was issued. Russian law was amended in 2015 to give the Russian Constitutional Court authority to disregard verdicts by interstate bodies if it determines the ruling contradicts the Russian constitution. Historically, Russia accepted binding international arbitration. However, international arbitral awards still required enforcement by domestic courts and bailiffs to attach assets. Russian courts have yet to become consistently effective enforcers of court judgments, whether domestic or international.

Investors of the now-defunct Yukos oil company won two major claims in foreign courts against the Russian Federation in 2014. In July 2014, the Permanent Court of Arbitration in The Hague awarded Yukos investors USD 50 billion, and a separate case in the European Court of Human Rights awarded shareholders approximately USD 2 billion. Shareholders are now seeking to enforce the claims through the legal system in Russia as well as in other countries.

In July 2015, the Russian Constitutional Court determined that the European Court of Human Rights ruling against Russia on behalf of former Yukos investors contradicted the Russian constitution and therefore was not binding. In December 2015, President Putin signed a law

validating the Russian Constitutional Court's authority to determine whether to implement verdicts by interstate bodies, if the Court finds that the case is incompatible with the Russian Constitution.

#### *ICSID Convention and New York Convention*

Russia is party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. While Russia does not have specific legislation providing for enforcement of the New York Convention, Article 15 of the Constitution specifies that, "the universally recognized norms of international law and international treaties and agreements of the Russian Federation shall be a component part of [Russia's] legal system. If an international treaty or agreement of the Russian Federation fixes other rules than those envisaged by law, the rules of the international agreement shall be applied." Russia is a signatory but not a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID).

### **5. Performance Requirements and Investment Incentives**

#### WTO/TRIMS

Russia joined the World Trade Organization on August 22, 2012. At that time, Russia agreed that all of its laws, regulations, and other measures concerning matters covered in the Trade-Related Investment Measures (TRIMS) provisions of the WTO Protocol would be consistent with its WTO commitments. Certain measures were subject to a limited transition period.

As part of its WTO Protocol, Russia agreed to eliminate by July 2018 the elements of the automotive assembly investment incentive regimes initiated in 2005 and 2010 that are inconsistent with the TRIMS Agreement, and to begin consultations in July 2016 with the United States and other WTO members on WTO-consistent measures it could take in this sector. The United States will continue to monitor Russia's administration of these programs and its efforts to bring them into compliance with its WTO obligations. Additionally, the United States has monitored possible local content requirements by a government-owned agricultural equipment leasing company, RosAgroLeasing, as well as Russian programs that support domestic production at the expense of imports, in order to ensure Russia's compliance with its international obligations.

#### Investment Incentives

President Putin signed a law on public-private-partnerships (FZ-224) in July 2015 to fill a gap in regulations in order to develop needed infrastructure with private support. Also in 2015, the Russian government issued implementing regulations for Special Investment Contracts, which foreign and domestic companies can use in order to introduce manufacturing of products not currently produced in Russia or the Eurasian Economic Union.

#### *Research and Development*

Russia continues to promote the use of high-tech parks, special economic zones, and industrial clusters which offer additional tax and infrastructure incentives to attract investment. The flagship project, the Skolkovo Innovation Center, was designed to be the Russian equivalent of Silicon Valley and was assured funding through 2015. Subsequent



funding remains uncertain. Skolkovo “resident companies” can receive a broad range of benefits, including exemption from profit tax, value-added tax, property tax, and import duties, and partial exemption from social fund payments. Applicants for residency are evaluated and selected by an international admission board; company performance is monitored to ensure continued qualification for benefits.

#### Performance Requirements

Performance requirements are not generally imposed by Russian law and are not widely included as part of private contracts in Russia. They have appeared, however, in the agreements of large multinational companies investing in natural resources and in production-sharing legislation. There are no formal requirements for offsets in foreign investments. Since approval for investments in Russia can depend on relationships with government officials and on a firm’s demonstration of its commitment to the Russian market, these conditions may result in offsets in practice.

In certain sectors, the Russian government has pressed for localization and increasing local content. This was the case in auto manufacturing before Russia joined the World Trade Organization in 2012. Russia is currently considering local content requirements for industries that have high percentages of government procurement, such as medical devices or pharmaceuticals. Russia is not a signatory to the WTO’s Government Procurement Agreement. Consequently, restrictions on public procurement have been a major avenue for Russia to implement localization requirements without running afoul of international commitments. Several new laws in 2015 have expanded the localization requirements to purchases by state-owned enterprises, particularly for major projects receiving government funding. The Russian government instituted an import-substitution drive in response to Western sanctions imposed on Russia in 2014 for its aggression in Ukraine. The Russian government also blocked the import of certain agricultural and food products, in addition to some other items, from countries that had imposed sanctions on Russia.

The Central Bank of Russia has imposed caps on the percentage of foreign employees in foreign banks’ subsidiaries. The ratio of Russian employees in a subsidiary of a foreign bank is set at no less than 75 percent. If the executive of the subsidiary is a non-resident of Russia, at least 50 percent of the bank’s managing body should be Russian citizens.

#### Data Storage

Law FZ-242 has required firms to handle and store personal data of Russian citizens on local servers since September 1, 2015. According to its authors, the goal of the law is to increase state security by protecting the personal data of Russian individuals. Companies that violate the law are subject to restricted access to their websites and/or fines imposed by the mass communications regulator Roskomnadzor. Virtually all Russian and foreign firms have expressed concerns about the law, due to its extremely broad and poorly defined provisions and absence of implementing regulations or clarification from the government about the scope of the law. Even though the law’s implementation has resulted in increased overhead costs for companies, sufficient data storage appears to be available for compliance, and Roskomnadzor has reportedly identified few violations in its data localization compliance inspections.

The Ministry of Economic Development and the Ministry of Industry and Trade set the parameters for determining what constitutes domestic telecommunications equipment and, therefore, what equipment could be used in specified applications or projects. In order to qualify, a company that manufactures telecommunications equipment must be incorporated in Russia and at least 50 percent owned by a Russian party or entity. Also, the manufacturer must have the legal rights to the technology and software it uses, possess its own production base, manufacture printing boards, and carry out final assembly of the telecommunications equipment in Russia.

## **6. Protection of Property Rights**

### Real Property

The Russian Constitution, along with a 1993 presidential decree, gives Russian citizens rights to own, inherit, lease, mortgage, and sell real property. The state owns the majority of Russian land, although the structures on the land are typically privately owned. Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments. Thus far, this law has been successfully implemented and is generally effective. In 2014, mortgage lending grew by 30 percent compared to 2013, with new issuances amounting to USD 31.4 billion. The number of mortgage loans issued increased by 20 percent year-on-year. As a measure to respond to the current economic downturn, the government recently approved a program of mortgage loan rate subsidies for purchases of new middle-income housing. According to the program, for which 20 billion rubles (USD 345 million) has been allocated in the budget, the government will compensate banks for capping their interest rates at 12 percent for mortgages originated between March 1, 2015, and March 1, 2016.

Russian law places two restrictions on land ownership by foreigners. Land located in border areas or other specifically assigned territories may not fall under foreign ownership, according to Article 15 of the Land Code. Foreign citizens and foreign legal entities cannot own more than 50 percent of a plot of agricultural land according to FZ-101 of 2002, "On Turnover of Agricultural Land." Instead, foreign companies typically lease land for up to 49 years, although an Agriculture Ministry proposal from September 2015 would significantly curtail the maximum length of leases for agricultural land. Russian law distinguishes between land and structures located on it, treating them as separate legal interests.

One recent high-profile example in Moscow serves as a cautionary tale to investors to ensure compliance with local regulations. On the night of February 8, 2016, the Moscow city government demolished nearly 100 businesses near the city's metro stations, many of which had been in operation for over 20 years, for violating municipal regulations on building codes and land use. Some businesses had initiated court cases to fight the demolition notifications, which had been issued in December 2015, and others have subsequently filed suit for compensation since the demolition of the buildings.

### Intellectual Property Rights

Russia is included on the 2015 Special 301 Priority Watch List due to continued significant challenges to intellectual property rights (IPR) protection, notably a continued decline in

enforcement efforts against many forms of IPR infringement. Additionally, Rutracker, Rapidgator, and vKontakte are Russian websites listed in the 2015 Notorious Markets list.

In Russia, the protection of IPR is enforced on the basis of civil, administrative, criminal, or customs legislation. The Civil Code sets up the statutory damages for IPR infringement and/or incurred damages for copyright, trademarks and geographical indications. The Code of Administrative Offenses concerns IPR infractions that violate public or private interest or rights, but do not meet the criteria of the Criminal Code. An administrative investigation may be initiated at the request of an IPR owner or by law enforcement authorities (police or Customs) suspecting possible IPR infringement. General jurisdiction courts or state arbitration (commercial) courts that have jurisdiction over economic disputes deal with administrative cases. The IPR provisions of the Criminal Code apply to large-scale infringements of copyright, patent and trademark rights that cause gross damages, as defined by the Criminal Code.

The United States Government continues to highlight to the Russian government the necessity to improve intellectual property enforcement. Enforcement actions combatting end-user piracy continued to decline over the past year, including a decrease in raids, initiations of criminal cases, and issuances of court verdicts. Industry representatives have recommended that the Russian government strengthen administrative penalties to serve as effective deterrents and increase political will to combat piracy more effectively. Additionally, in December 2014, Russia amended the Law on Circulation of Medicines to allow the submission of registration materials and data that should be protected under regulatory data protection for "follow-on" drugs three years after the reference drug's marketing authorization in the case of small-molecule drugs and four years after the reference drug's marketing authorization for generics. Industry representatives see this "4+2" and "3+3" scheme as a significant weakening of protection for that data as well as a potential violation of Russia's WTO obligations.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

#### *Resources for Rights Holders*

Contact list of Russian lawyers: <http://moscow.usembassy.gov/attorneys.html>

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## **7. Transparency of the Regulatory System**

Russia's legal system remains in a state of flux, with various parts of the government continuing to implement new regulations and decrees on a broad array of topics, including the tax code and requirements related to regulatory and inspection bodies. Negotiations and contracts for commercial transactions, as well as due diligence processes, are complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law. In some cases, Russian law has contradictory provisions. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees, and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government, and jurisdictions interpret and apply regulations inconsistently and the decisions of one may be overruled or contested by another. As a result, reaching final agreement with local political and economic authorities can be a long and burdensome process. Companies should be prepared to allocate sufficient funds to engage local legal counsel to set up their commercial operations in Russia.

**Taxes:** Russia's tax system has recently undergone major changes. The Russian government has brought its tax legislation into line with OECD requirements, which has simplified the system and prevents double taxation on transfer prices. However, businesses continue to raise concerns regarding audits. Multiple audits, repeated requests for documentation, and technical weaknesses of some claims have been identified as serious impediments to the conduct of business. A 2014 law restored the power of police and prosecutors to initiate tax cases even if the State Tax Authority has not determined the existence of a tax violation, raising concerns this change could lead to abuses and corruption.

**Public Comment:** All draft laws that go through the Russian Duma are published on the Duma's website. Sometimes, but not consistently, ministries and other Russian government bodies also publish proposed legislation (including draft laws, government decrees, and regulations) on their websites. The scope of Russia's Open Government initiative was severely reduced after the Russian government announced in May 2013 that it would no longer be a part of the international Open Government Partnership due to unspecified differences regarding the terms of the partnership. Russian ministries have become more active in seeking input from industry experts and business groups, including the government's Foreign Investment Advisory Council, when developing business-related laws and regulations.

Russia is a member of UNCTAD's international network of transparent investment procedures, available at <http://moscow.eregulations.org/>. Foreign and national investors can find information on administrative procedures applicable to investment and income generating operations, including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time, and legal bases justifying the procedures. However, this website does not appear to be fully functioning or regularly updated.

## **8. Efficient Capital Markets and Portfolio Investment**

Russia's two main stock exchanges – the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) – merged in December 2011. The MICEX-RTS bourse conducted an initial public offering on February 15, 2013, auctioning an 11.82 percent share.

Russian authorities and shareholders of MICEX and RTS believe the merged entity, now branded the Moscow Exchange, has the potential to become a global player. While most large Russian companies currently choose to list their stocks in London and elsewhere outside Russia, the Russian government has begun a campaign to encourage state-owned companies to use the Moscow Exchange as a vehicle for privatization. The imposition of sanctions against financial entities and the slowing of the Russian economy have dampened enthusiasm for the Moscow Exchange to serve as a domestic source of funding.

The Law on the Securities Market includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process as well as on a quarterly basis. In addition, the law defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.

Russian financial authorities are attempting to deepen the ruble-denominated domestic debt market to make it more attractive to foreign investors. In December 2011, the Central Bank issued a resolution allowing, effective January 1, 2012, government bonds (OFZs) to be traded outside Russian exchanges (over the counter). In February 2013, Euroclear and Clearstream, two international securities depositories, began settling transactions of OFZ bonds, Russia's primary sovereign debt security. Euroclear and Clearstream have since also begun settling transactions of Russian corporate and municipal debt, and in the second half of 2014, first Clearstream and later Euroclear started settling Russian equities. This has increased access to Russian securities markets for foreign investors by negating the need to have onshore brokerage and custody accounts.

#### Money and Banking System, Hostile Takeovers

Banks continue to make up a disproportionate share of Russia's financial system. Although Russia had 728 banks with a valid license on February 1, 2016, the sector is dominated by state-owned banks, particularly Sberbank and VTB Group. Five out of Russia's largest banks in terms of assets are state-controlled (with private banks Otkritie and Alfa Bank ranked fifth and seventh, respectively). The top five banks held 54.2 percent of all bank assets in Russia as of February 1, 2016. The role of the state in the banking sector continues to distort the competitive environment, impeding Russia's financial sector development. At the beginning of 2016, aggregate assets of the banking sector amounted to 103 percent of GDP, and aggregate capital was 11.2 percent of GDP. Russia's banking sector has been suffering from restricted access to international capital markets due to sanctions, the fall in global oil prices, ruble depreciation, and economic recession. Russian banks reportedly still operate on short time horizons, limiting capital available for long-term investments. In 2015, the sector capital adequacy was supported through the Russian government's 830 billion ruble bank recapitalization program covering 27 banks representing more than 80 percent of total banking assets. A tight fiscal situation may not allow additional recapitalization in 2016, which will likely lead to a decline in capital adequacy.

On September 1, 2013, the Central Bank of Russia became the consolidated financial markets regulator (replacing the Federal Financial Markets Service) for Russia's capital markets and financial institutions. The Central Bank has closed down a growing number of banks since Elvira Nabiullina became its Governor in June 2013 and began tightening oversight of banks and reining in shadow banking activity. The Central Bank revoked licenses

from 226 banks between June 2013 and March 2016, with many banks cited for violating anti-money laundering or anti-terrorist financing (AML/CFT) laws. This effort has advanced not only much-needed banking sector consolidation but also the weeding out of bad banks that were complicit in money laundering and in facilitating “dubious transactions” that have characterized capital outflows from Russia.

To fill the gap in capital available for long-term investments, authorities have also sought to improve the regulatory environment for non-bank institutional investors. This has had some success, though non-bank financial institutions remain small relative to the size of the financial sector. Pension funds were once viewed as the most promising source of long-term capital. Pension funds have had strong inflows, in recent years, though they have shown little risk appetite, primarily investing in sovereign debt, corporate debt, and bank deposits, thus limiting their utility as a source of long-term capital. A decision by the government in late 2013 to reallocate employer contributions to pension programs designed for investment in private investment funds (so-called “funded pensions”) has undermined confidence in the pension fund industry. As of 2016, the funded pension program remained frozen for the third year in a row, and the government is considering extending the freeze into 2017.

## **9. Competition from State-Owned Enterprises**

According to the latest government list, Russia has approximately 4,100 state-owned enterprises (SOEs), which play a prominent role across much of the Russian economy. The public sector accounted for a considerable share of economic activity with revenues of at least 71 percent of GDP, expenditures of at least 68 percent of GDP, and an estimated surplus of 3 percent of GDP in 2014. Russia is not yet party to the WTO Government Procurement Agreement, which would have an impact on the benefits enjoyed by SOEs in Russia. The Russian government appears to be increasing state control over the country’s leading economic institutions as the economy continues to weaken.

The Russian government owns controlling stakes in major Russian energy firms and plays a large role in the energy sector. For example, the Russian government owns a 50.23 percent stake in the natural gas firm Gazprom, which produced 67.5 percent of Russia’s total natural gas output as of 2014. Similarly, the oil company Rosneft, in which the Russian state owns a 69.5 percent stake, accounted for 36.2 percent of oil output in Russia. In December 2014, Prime Minister Medvedev relaxed a 2011 regulation that had prohibited senior government officials from serving on SOE boards. Senior officials (deputy prime ministers and ministers) now have seats on the boards of the major state-owned companies Rosneft, Gazprom, Russian Railways, RusHydro, Rostelecom, Russian Grids, Bashneft, and Transneft.

The government, in its latest count in January 2013, listed 4,132 SOEs, divided into 1,795 federal unitary enterprises and government stakes in 2,337 joint-stock companies. The government also maintains a list of 176 “strategic companies” that are either wholly or partially owned by the Russian state and that cannot be privatized due to their national significance. This list includes 128 federal unitary enterprises (100 percent government-owned) and 48 joint stock companies, which have varying percentages of state ownership. A specific variant of SOE, state corporations (there are currently six: Rosatom, VEB, Fund for Communal Housing, Deposit Insurance Agency, Roskosmos, and Rostec), are 100 percent owned by the Russian government and operate under separate legislation.

Private enterprises are theoretically allowed to compete with SOEs on the same terms and conditions, and in some sectors, including those where state ownership is minimal, competition is robust. In other areas, however, the playing field can be tilted. Issues that hamper efficient operations and fair competition with SOEs include a lack of transparency, lack of independence, and unclear responsibilities of boards of directors, misalignment of managers' incentives and company performance, inadequate control mechanisms on managers' total remuneration or their use of assets transferred by the government to the SOE, and minimal disclosure requirements.

#### OECD Guidelines on Corporate Governance of SOEs

In 2014, the government implemented the Russian Code of Corporate Governance, which is voluntary in nature. The Federal Service for Financial Markets established a corporate governance code in 2002 and has endorsed an OECD White Paper on ways to improve corporate governance practices in Russia. International business associations such as the American Chamber of Commerce in Russia, the U.S.-Russia Business Council, the Association of European Businesses in Russia, the International Business Leaders Forum, and Russian business associations, all stress corporate governance as an important priority for their members and for Russian businesses overall. In February 2016, President Putin approved a roadmap for strategic governance created by the Agency for Strategic Initiatives.

#### Sovereign Wealth Funds

There are two sovereign wealth funds in Russia: the Reserve Fund (USD 49.9 billion and 4.8 percent of GDP as of March 1, 2016) and the National Wealth Fund (USD 71.34 billion and 6.8 percent of GDP on March 1, 2016). The Ministry of Finance oversees both funds' assets, while the Central Bank of Russia acts as the operational manager. Both funds are audited by Russia's Accounts Chamber (the standing body of state financial control established by Russia's parliament), and the results are reported to the Federal Assembly, Russia's parliament. The two funds have different charters, with the Reserve Fund designed to supplement federal budget deficits due to a fall in oil revenues, while the National Wealth Fund provides support for the pension system. The two funds are maintained in foreign currency, and are included in Russia's foreign currency reserves, which amounted to USD 386.9 billion as of March 18, 2016.

### **10. Responsible Business Conduct**

While not standard practice, Russian companies are beginning to show an increased level of interest in their reputation as good corporate citizens. When seeking to acquire companies in Western countries or raise capital on international financial markets, Russian companies face international competition and scrutiny, including with respect to corporate social responsibility (CSR) standards. Consequently, most large Russian companies currently have a CSR policy in place, or are developing one, despite the lack of pressure from Russian consumers and shareholders to do so. CSR policies of Russian firms are usually published on corporate websites and detailed in annual reports. However, these CSR policies and strategies are still in an early stage relative to those of Western counterparts. Most companies choose to create their own NGO or advocacy outreach rather than contribute to an already existing organization. The Russian government is a powerful stakeholder in the development of certain companies' CSR agendas; some companies view CSR as merely

financial support of social causes and choose to support local health, educational, and social welfare organizations favored by the government. One association, the Russian Union of Industrialists and Entrepreneurs, developed a Social Charter of Russian Business in 2004 in which over 200 Russian companies and organizations have since joined.

## **11. Political Violence**

Political freedom has been significantly curtailed during the past year, including rising hostility toward almost all opposition media outlets and increasing harassment of non-governmental organizations (NGOs). In the aftermath of Russia's attempted annexation of Crimea in March 2014, nationalist rhetoric has increased markedly. New laws give the government the authority to label non-governmental organizations "foreign agents" if they receive foreign funding, greatly restricting the activities of these NGOs. As of March 2016, more than 120 NGOs have been labelled foreign agents. President Putin also signed a law (FZ-129) in May 2015 authorizing the government to designate a foreign organization as "undesirable" if it is deemed to pose a threat to national security or national interests. Five foreign organizations currently have this designation, and are banned from operations in Russia.

Although the use of strong-arm tactics is not unknown in Russian commercial disputes, the U.S. Embassy is not aware of cases where foreign investments have been attacked or damaged for purely political reasons. Russia continues to struggle with an ongoing insurgency in Chechnya, Ingushetia, and Dagestan in the northern Caucasus region. These jurisdictions and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping. More recently, the threat of terrorism in Chechnya from Da'esh has increased markedly. There have been numerous reports of Chechen fighters joining the ranks of Da'esh, and the group has issued threats against Chechen authorities.

Public protests continue to occur sporadically in Moscow and other cities. Authorities frequently do not grant permits for opposition protests, and there is usually a heavy police presence at demonstrations. The most recent large-scale protest took place on February 27, 2016, when more than 20,000 people peacefully took to the streets in Moscow to commemorate the one-year anniversary of the murder of opposition politician Boris Nemtsov. Official counts of participants at demonstrations tend to overestimate numbers at pro-government events and underestimate those at anti-government events.

## **12. Corruption**

Despite government efforts to combat corruption, the level of corruption in Russia remains high. Russia adopted a law in 2012 requiring individuals holding public office, state officials, municipal officials, and employees of state organizations to submit information on the funds spent by them and members of their families (spouses and underage children) to acquire certain types of property, including real estate, securities, stock, and vehicles. The law also required public servants to disclose the source of the funds for these purchases and to confirm the legality of the acquisitions. Recent anti-corruption campaigns include guidance for government employees and establishment of a legal framework for lobbying. In 2014, government plans called for an education campaign for employees and students in tertiary education on bribery and the law.



The law provides criminal penalties for official corruption, but the government acknowledged difficulty enforcing the law effectively, and officials often engaged in corrupt practices with impunity. Some analysts have expressed concern that lack of depth in the compliance culture in Russia will render Russia's adherence to international treaties a formality that does not function in reality. The implementation and enforcement of the many measures required by these conventions have not yet been fully tested. In recent years, there appear to have been a greater number of prosecutions and convictions of mid-level bureaucrats for corruption, but real numbers were difficult to obtain. The areas of government spending that ranked highest in corruption were public procurement, media, national defense, and public utilities.

Russia's Investigative Committee estimated annual damages of 40 billion rubles (USD 615 million) caused by corruption, although independent estimates put the figure much higher. Investigative Committee spokesperson Vladimir Markin claimed the committee opened more than 25,000 cases involving corruption in 2014. Prosecutors charged high-level officials with corruption during the year, including two regional governors.

Corruption is frequently associated with large construction or infrastructure projects. Russia's Federal Security Service stated in February 2016 that 5 billion rubles (USD 77 million) of defense spending was lost to corruption in 2014. The country's prosecutor general announced in July 2015 that 7.5 billion rubles (USD 115 million) had been stolen during construction of the Far East Kosmodrome. After the close of the 2014 Winter Olympic Games in Sochi, anti-corruption blogger and opposition political candidate Alexey Navalny released a detailed report alleging widespread corruption and graft among government officials and private individuals involved in construction of the Olympic venues. According to reports, the Prosecutor General's Office opened over 50 criminal cases related to the Olympic Games and has imposed administrative penalties on over 100 persons and companies since 2014.

Russia does not provide special protections for NGOs investigating corruption. Several prominent anti-corruption NGOs, including the Russia branch of Transparency International, were designated as "foreign agents" in 2015, requiring them to publish the designation on all print and online material, as well as to undergo burdensome financial and regulatory checks. Other NGOs engaged in anti-corruption have highlighted a frequent form of corruption known as "raiding," in which government or security forces apply legal pressure to business owners in an attempt to take control of legal assets.

It is important for U.S. companies, irrespective of size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance programs or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in Russia should take the time to become familiar with the relevant anticorruption laws of both Russia and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

Additional country information related to corruption can be found in the U.S. State Department's annual Human Rights Report available at <http://www.state.gov/g/drl/rls/hrrpt/>.

*UN Anticorruption Convention, OECD Convention on Combatting Bribery*

Russia is a signatory to the UN Convention against Corruption (UNCAC), the Council of Europe's Criminal Law Convention on Corruption, and, as of 2012, the OECD Anti-Bribery Convention (although Russia is not an OECD member state). Russia hosted the 2015 biannual meeting of UNCAC members (the Conference of States Parties, or COSP) in November 2015 in St. Petersburg, highlighting their hosting of the event as an indication of the success the Russian government has had in combatting corruption. Nevertheless, Russia has yet to ratify Article 20 (on unlawful enrichment) of the UNCAC, arguing that it contradicts the Russian Constitution, and the Russian government remains reluctant to allow civil society to participate in discussions on how best to combat corruption.

The OECD Convention calls for the implementation of national legislation to criminalize commercial bribery and to prohibit both offering bribes to foreign government officials and accepting such bribes. It provides no exceptions for "grease payments," and includes foreign entities doing business in Russia, meaning these entities could be subject to liability under their own country's law, as well as Russia's. The convention also calls for increasing the penalties that may be imposed upon an individual or entity found in violation. Fines and terms of incarceration contemplated by the Convention vary, depending upon the type of bribe and the official involved. During 2011-2012, Russia passed national legislation to bring itself into better compliance with its commitments under the OECD Convention and UNCAC. For example, Article 13.1 of the Federal Law on Corruption allows removal of government officials for failure to take measures to combat corruption. Article 13.3 broadly requires all legal entities in the Russian Federation to implement an ethics and compliance program to combat corruption and conflict of interest. This law also applies to Russian government budgetary entities, such as schools.

#### *Resources to Report Corruption*

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### **13. Bilateral Investment Agreements**

The United States and Russia signed a bilateral investment treaty (BIT) in 1992, though it was not ratified by Russia and is not in force. The U.S.-Russian dialogue to enact a new BIT ceased after Russia's attempted annexation of Crimea in 2014.

#### Bilateral Taxation Treaties

The United States and Russia have shared an income tax treaty since 1992, which is designed to address the issue of double taxation and fiscal evasion with respect to taxes on income and capital. Full text of the treaty: <http://www.irs.gov/pub/irs-trty/russia.pdf>. There is some

concern that taxation requirements have sometimes been used in Russia as a way to “raid” or illegally take possession of foreign companies, particularly small and medium enterprises.

#### 14. Foreign Trade Zones/Free Ports/Trade Facilitation

Russia has 32 special economic zones (SEZs), which fall in one of four categories: industrial and production zones; technology and innovation zones; tourist and recreation zones; and port zones. An Audit Chamber investigation of SEZs in April 2016 found the zones had no impact on the Russian economy since they were founded in 2005. Progress in attracting foreign investors to SEZs is uneven. The majority of SEZ investments are still listed as “planned,” meaning investors are still able to back out of commitments. The Russian government has been hesitant to go forward with major SEZ infrastructure projects. Detailed information about the benefits and results of Russia’s SEZs can be found at the MED’s SEZ website: <http://www.economy.gov.ru/minec/activity/sections/sez/main/>.

In addition to SEZs, the Russian government also began designating “territories for advanced development” in the Russian Far East in 2015. There are currently 10 areas with this designation which offer similar benefits to SEZs, but which fall under the authority of the Ministry for the Russian Far East, not the Ministry of Economic Development.

#### 15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Russia’s GDP was 74.6 trillion rubles in 2015, estimated at USD 1.2 trillion, compared to USD 1.861 trillion in 2014, according to International Monetary Fund data. The latest Russian foreign direct investment (FDI) statistics show a sharp decline in the stock of U.S. FDI into Russia in the first half of 2015.

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$T USD)	2015	\$1.2 trillion (IMF estimate)	2014	\$1.861 trillion	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2015	\$2.5 billion	2014	\$9.2 billion	<a href="http://bea.gov/international/direct_investment">http://bea.gov/international/direct_investment</a>

					<a href="#">multinational_companies_comprehensive_data.htm</a>
Host country's FDI in the United States (\$M USD, stock positions)	2015	\$7.4 billion	2014	\$5.3 billion	Central Bank of Russia: <a href="http://www.cbr.ru/eng/statistics/?PrId=svs">http://www.cbr.ru/eng/statistics/?PrId=svs</a>
Total inbound stock of FDI as % host GDP	2015	0.2%	2014	0.5%	N/A

\*Russian statistical source: Central Bank of Russia

*Table 3: Sources and Destination of FDI*

Table 3 shows flows of foreign investment into and out of Russia by country in 2014. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and other investment (largely trade credits). FDI flows between Russia and both Cyprus and the Netherlands is consistently high, reflecting the fact that most FDI coming from these countries is likely either returning or reinvested Russian capital channeled through subsidiaries or off-shore "shell" vehicles. While official statistics by country for 2014 are not yet available, overall FDI outflows from Russia were USD 57 billion in 2015 after a peak of USD 150 billion in 2014.

Direct Investment from/in Russian Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	272,229	100%	Total Outward	307,185	100%
Cyprus	92,158	34%	Cyprus	96,506	31%
Netherlands	40,039	15%	Brit Virgin Islands	43,282	14%
The Bahamas	20,946	8%	Netherlands	37,747	12%
Bermuda	14,465	5%	Austria	35,635	12%
Germany	11,526	4%	Switzerland	16,643	5%

Source: <http://data.imf.org/CDIS>

*Table 4: Sources of Portfolio Investment*

Portfolio investment into Russia has fallen since 2014. The table below shows the top destinations for Russian portfolio investment.

Portfolio Investment Assets in 2014
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Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	56,630	100%	All Countries	3,723	100%	All Countries	57,932	100%
Luxembourg	16,664	29%	Jersey	1,423	38%	Ireland	18,813	32%
Ireland	15,328	27%	UK	496	13%	Netherlands	3,736	6%
Cyprus	5,679	10%	United States	490	13%	Cyprus	3,493	6%
Netherlands	4,652	8%	Cyprus	466	13%	UK	1,998	3%
UK	3,118	6%	Netherlands	137	4%	Germany	336	0.5%

Source: cpis.imf.org

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### International organization participation:

APEC, Arctic Council, ARF, ASEAN (dialogue partner), BIS, BRICS, BSEC, CBSS, CD, CE, CERN (observer), CICA, CIS, CSTO, EAEC, EAPC, EAS, EBRD, FAO, FATF, G-20, G-8, GCTU, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFC, IFRCs, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM (observer), IPU, ISO, ITSO, ITU, ITUC (NGOs), LAIA (observer), MIGA, MINURSO, MONUSCO, NSG, OAS (observer), OIC (observer), OPCW, OSCE, Paris Club, PCA, PFP, SCO, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNISFA, UNMIL, UNMISS, UNOCI, UNSC (permanent), UNTSO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO, ZC

### Legal system:

Civil law system; judicial review of legislative acts

## Section 6 - Tax

### Exchange control


























Generally, hard currency transactions between Russian residents and non-residents are executed without any limitation. However, certain transactions are subject to state regulations and restrictions.

Hard currency transactions between residents are forbidden with certain exceptions.
























Hard currency transactions between non-residents may be carried out without limitations.

### Treaty and non-treaty withholding tax rates

Russian Federation has exchange of information relationships with 111 jurisdictions through 89 DTCs, 0 TIEAs and 1 multilateral mechanism, Convention on Mutual Administrative Assistance in Tax Matters.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Albania	DTC	11 Apr 1995	1 Jan 1998	Unreviewed	No	
Algeria	DTC	10 Mar 2006	1 Jan 2009	Unreviewed	No	
Argentina	DTC	10 Oct 2001	16 Oct 2012	Yes	No	
Armenia	DTC	28 Dec 1996	1 Jan 1999	Unreviewed	Yes	
Australia	DTC	7 Sep 2000	17 Dec 2003	Yes	No	
Austria	DTC	13 Apr 2000	30 Dec 2002	No	No	
Azerbaijan	DTC	3 Jul 1997	1 Jan 1999	No	Yes	
Belarus	DTC	21 Apr 1995	1 Jan 1998	Unreviewed	Yes	
Belgium	DTC	16 Jun 1995	26 Jun 2000	Yes	No	
Botswana	DTC	8 Apr 2003	1 Jan 2010	No	No	
Brazil	DTC	22 Nov 2004	19 Jan 2009	Yes	No	
Bulgaria	DTC	8 Jun 1993	1 Jan 1996	No	Yes	
Canada	DTC	5 Oct 1995	5 May 1997	Yes	No	
Chile	DTC	19 Nov 2004	28 Feb 2012	Yes	No	
China	DTC	27 May 1994	1 Jan 1998	Yes	No	
Croatia	DTC	2 Oct 1995	1 Jan 1998	Unreviewed	No	
Cuba	DTC	14 Dec 2000	15 Nov 2010	Unreviewed	No	
Cyprus	DTC	5 Dec 1998	1 Jan 2000	Yes	Yes	
Czech Republic	DTC	17 Nov 1995	18 Jul 1997	Yes	Yes	
Denmark	DTC	8 Feb 1996	27 Apr 1997	Yes	No	
Egypt	DTC	23 Sep 1997	1 Jan 2001	Unreviewed	No	
Estonia	DTC	5 Nov 2002	not yet in force	Yes	No	
Ethiopia	DTC	26 Nov 1999	not yet in force	Unreviewed	No	
Finland	DTC	4 May 1996	1 Jan 2003	Yes	No	
Former Yugoslav Republic of Macedonia	DTC	21 Oct 1997	14 Jul 2000	No	No	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
France	DTC	26 Nov 1996	9 Mar 1999	Yes	No	
Georgia	DTC	4 Aug 1999	not yet in force	Unreviewed	No	
Germany	DTC	29 May 1996	30 Dec 1996	Yes	Yes	
Greece	DTC	26 Jun 2000	20 Dec 2007	Yes	No	
Hungary	DTC	1 Apr 1994	1 Jan 1998	Yes	No	
Iceland	DTC	26 Nov 1999	1 Jan 2004	Yes	No	
India	DTC	25 Mar 1997	11 Apr 1998	No	No	
Indonesia	DTC	12 Mar 1999	17 Dec 2002	Yes	No	
Iran	DTC	6 Mar 1998	1 Jan 2003	Unreviewed	No	
Ireland	DTC	29 Apr 1994	7 Jul 1995	No	No	
Israel	DTC	25 Apr 1994	1 Jan 2001	Yes	No	
Italy	DTC	9 Apr 1996	30 Nov 1998	Yes	Yes	
Japan	DTC	18 Jan 1986	1 Jan 1987	No	No	
Kazakhstan	DTC	18 Oct 1996	1 Jan 1998	Unreviewed	Yes	
Korea, Democratic People's Republic of	DTC	26 Sep 1997	1 Jan 2001	No	No	
Korea, Republic of	DTC	19 Nov 1992	1 Jan 1996	Yes	No	
Kuwait	DTC	9 Feb 1999	1 Jan 2004	No	No	
Kyrgyzstan	DTC	13 Jan 1999	1 Jan 2001	Unreviewed	Yes	
Lao People's Democratic Republic	DTC	15 May 1999	not yet in force	Unreviewed	No	
Latvia	DTC	20 Dec 2010	8 Nov 2012	Unreviewed	No	
Lebanon	DTC	7 Apr 1997	1 Jan 2001	No	No	
Lithuania	DTC	29 Jun 1999	1 Jan 2006	Yes	No	
Luxembourg	DTC	28 Jun 1993	7 May 1997	Yes	Yes	
Malaysia	DTC	31 Jul 1987	4 Jul 1988	No	No	
Mali	DTC	25 Jun 1996	1 Jan 2000	Unreviewed	No	
Malta	DTC	24 Apr 2013	not yet in force	Yes	Yes	
Malta	DTC	15 Dec 2000	not yet in force	Yes	No	
Mauritius	DTC	24 Aug 1995	not yet in force	Yes	No	
Mexico	DTC	7 Jun 2004	2 Apr 2008	Yes	No	
Moldova, Republic of	DTC	12 Apr 1996	1 Jan 1998	No	Yes	
Mongolia	DTC	5 Apr 1995	1 Jan 1998	No	Yes	
Montenegro	DTC	12 Oct 1995	1 Jan 1998	Unreviewed	No	
Morocco	DTC	4 Sep 1997	31 Aug 1999	Unreviewed	No	
Namibia	DTC	31 Mar 1998	1 Jan 2001	Unreviewed	No	
Netherlands	DTC	16 Dec 1996	27 Aug 1998	Yes	No	
New Zealand	DTC	5 Sep 2000	4 Jul 2003	Yes	No	
Norway	DTC	26 Mar 1996	20 Dec 2002	Yes	No	
Oman	DTC	26 Nov 2001	not yet in force	Unreviewed	No	
Philippines	DTC	26 Apr 1995	12 Sep 1997	Yes	No	
Poland	DTC	22 May 1992	1 Jan 1994	No	No	
Portugal	DTC	29 May 2000	1 Jan 2003	Yes	No	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Qatar	DTC	20 Apr 1998	19 Jan 2000	No	No	
Romania	DTC	27 Sep 1993	1 Jan 1996	No	No	
Saudi Arabia	DTC	11 Feb 2007	1 Feb 2010	Yes	No	
Serbia	DTC	12 Oct 1995	1 Jan 1998	Unreviewed	No	
Singapore	DTC	9 Sep 2002	16 Jan 2009	No	No	
Slovakia	DTC	24 Jun 1994	1 May 1997	Yes	No	
Slovenia	DTC	29 Sep 1995	1 Jan 1998	No	No	
South Africa	DTC	27 Nov 1995	1 Jan 2001	No	No	
Spain	DTC	16 Dec 1998	13 Jun 2000	Yes	No	
Sri Lanka	DTC	2 Mar 1999	1 Jan 2003	Unreviewed	No	
Sweden	DTC	15 Jun 1993	1 Jan 1996	Yes	No	
Switzerland	DTC	15 Nov 1995	18 Apr 1997	No	Yes	
Syrian Arab Republic	DTC	17 Sep 2000	1 Jan 2004	No	No	
Tajikistan	DTC	31 Mar 1997	1 Jan 2004	Unreviewed	Yes	
Thailand	DTC	23 Sep 1999	1 Jan 2010	No	No	
Turkey	DTC	15 Dec 1997	1 Jan 2000	No	No	
Turkmenistan	DTC	14 Jan 1998	1 Jan 2000	No	Yes	
Ukraine	DTC	8 Feb 1995	1 Jan 2000	No	Yes	
United Kingdom	DTC	15 Feb 1994	1 Jan 1998	No	No	
United States	DTC	17 Jun 1992	1 Jan 1994	Yes	No	
Uzbekistan	DTC	2 Mar 1994	1 Jan 1996	No	Yes	
Venezuela	DTC	22 Dec 2003	1 Jan 2010	Unreviewed	No	
Viet nam	DTC	27 May 1993	1 Jan 1997	No	No	



## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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