

SANCTIONS

Sanctions against Russia

Implementation of the requirements regarding the financial sanctions against Russia in accordance with EU Regulation 2022/263 and 2022/337, and the extended EU sanctions due to Russia's military invasion in Ukraine

Author: msg Rethink Compliance
Version: 1.0
2022/02

© 2022 msg Rethink Compliance GmbH

Amelia Mary Earhart St. 14
60549 Frankfurt/Main
Germany

All rights reserved.

This document contains confidential and proprietary information. No part of this document may be reproduced, processed or duplicated in any form or by any means, electronic or mechanical, for any purpose, without the express written permission of msg Rethink Compliance GmbH. Any dissemination or disclosure to third parties without the express written permission of msg Rethink Compliance GmbH is strictly forbidden.

The information in this document is subject to change without notice.

msg Rethink Compliance GmbH assumes no liability for any damages incurred, directly or indirectly, by using the information contained in this document, including any kind of information which is incomplete or incorrect.

Content

0	Foreword	4
1	Russia sanctions.....	5
1.1	Prohibition of the importation of goods	5
1.2	Freezing of funds and assets	5
1.3	Collection/Custody of Deposits	6
1.4	Providing funding	6
1.5	Acquisition of real estate	7
1.6	Assets of the Russian Central Bank.....	7
1.7	Sale of securities	7
1.8	Exclusion from SWIFT	7
2	Influence on the risk analysis	8
3	Customer risk classification	9
4	Summary of the measures.....	10
4.1	List processing.....	10
4.2	Review of the customer base	10
4.3	Securities and real estate.....	11
4.4	Lending business	11
4.5	Customer monitoring	11
4.6	Contract monitoring	11
4.7	Transaction monitoring	12
5	Issues not considered	13
5.1	Cryptocurrencies	13
5.2	Non-detection of Russia-related transactions.....	13
5.3	Belarus.....	13

0 Foreword

The European Commission has imposed sanctions on Donetsk and Luhansk Oblasts by Regulation No. 2022/263. This was in response to the decree signed by the Russian President recognising the sovereignty and independence of both territories, and the decision to send military units to these territories.

Due to the violation of international law by the invasion of the sovereign territory of the state of Ukraine by the Russian military, the sanctions of the European Union were extended to Russia and tightened on 25 February 2022 and 27 February 2022 respectively. Not all of the sanctions have yet been set out in writing, but there is general agreement that they will come into force. Information on the latest sanction decisions is available on the official website of the [European Union](#).

In this document, the individual sanction measures are highlighted and possible measures and recommendations for action are derived from them.

1 Russia sanctions

The sanctions against Russia include various areas of trade, economy and finance and restrict the ability to act, sometimes massively, sometimes completely. All companies based within the European Union must comply with the sanctions and take measures to prevent them from being flouted or circumvented.

When implementing the sanctions, attention must also be paid to publications of the local regulatory authorities. For example, on 28 February 2022, the [German Central Bundesbank](#) published relevant information regarding the Russia sanctions for German financial institutions and companies.

1.1 Prohibition of the importation of goods

Most goods imports and exports with Russia are subject to general bans or massive restrictions. In particular, trade in dual-use goods is restricted. Therefore, before concluding a deal, the trade papers (documents) must be checked (e.g., letter of credit) to see whether unauthorised goods are part of the trade contract with the Russian partner. This includes the monitoring of transactions, where it must also be checked whether they are carried out in connection with the goods mentioned.



Measures or recommendations for action:

- Before issuing a letter of credit or financing goods, it should be thoroughly checked whether the traded goods are sanctioned goods in the sense of the EU Regulation. The existing processes should be reviewed and adjusted if necessary.
- The existing transaction screening system should be reviewed to see if a corresponding list of goods can be created and included in the screening.

1.2 Freezing of funds and assets

Current bank balances of persons with Russian citizenship or habitual residence in Russia or other assets in custody are to be frozen and may not be disbursed if these persons are on the official EU sanctions list.



Measures or recommendations for action:

- For person and transaction screening, an immediate review of the topicality of all sanctions lists used, especially the EU sanctions list, should be carried out. A review of the existing exclusion list may also be necessary.
- This should be followed by an immediate review of the entire customer database for possible business relationships with persons who are newly on the EU sanctions list due to the Russia-Ukraine conflict.

1.3 Collection/Custody of Deposits

Under the current sanctions, there is a restriction on the acceptance/custody of deposits from Russian nationals or persons (natural or legal) resident or established in Russia. The collection/custody is limited to a total amount of EUR 100,000 per credit institution.



Measures or recommendations for action:

- For all business relations with Russian nationals or natural/legal persons resident or established in Russia, the total credit balance maintained must be recorded. The collection may be authorised by the local Central Bank under certain conditions. These conditions are described in Article 5c of EU Regulation 2022/238.
- Persons who are nationals of an EU member state or who have a temporary or permanent residence permit from an EU member state are exempt from this regulation.

1.4 Providing funding

The sanctions against Russia include a ban on the provision of financing (direct or indirect) in connection with goods and technologies (dual-use goods) that may serve military purposes in particular. The same applies to financing related to goods and technologies in the field of transport, telecommunications, energy and the prospecting, exploration and extraction of oil, gas, and mineral resources.

Furthermore, this also includes the granting of loans or credits as well as the transfer of securities or money market instruments to the Russian government, the Russian Central Bank (Bank Rossii) and other Russian banks.



Measures or recommendations for action:

- When granting new credits and loans, it must be checked in advance whether the requested financing is directly or indirectly related to the above-mentioned goods or technologies and whether these goods or technologies are intended to be supplied to Russia.
- It should be clarified whether at least in the credit control (before granting the credit/loan) such a list of goods is available, based on which the corresponding check can be made.
- There should be an immediate review of the topicality of all sanctions lists used, especially with regards to those Russian banks and governmental organisations sanctioned by the EU. Existing correspondent banking relationships with these banks should be suspended immediately.

1.5 Acquisition of real estate

The sanctions also cover the real estate sector. The acquisition of real estate by persons resident in Russia or companies is prohibited. Corresponding real estate transactions may not be carried out.



Measures or recommendations for action:

- In the context of real estate brokerage or financing, it must be checked in advance whether a relationship exists with a person or company resident in Russia.

1.6 Assets of the Russian Central Bank

The sanctions generally prohibit transactions related to the management of reserves or assets of the Central Bank of Russia (Bank Rossii).



Measures or recommendations for action:

- Inclusion of the Russian Central Bank in the internal blocking register for payment transactions
- Non-execution of transactions with the Central Bank of Russia

1.7 Sale of securities

Under the current sanctions, there is a restriction on the sale of securities to Russian nationals or natural/legal persons resident or established in Russia. No euro-denominated securities or fund shares issued after 12 April 2022 may be sold to these persons.



Measures or recommendations for action:

- Internal regulations are to be created according to which it is to be verified for each securities transaction whether the sale is to be carried out for a Russian national or for a natural/legal person resident/established in Russia.
- In this context, please refer to section 1.3 of this document. Securities balances also fall under the total assets rule of a maximum of EUR 100,000 per credit institution.

1.8 Exclusion from SWIFT

Part of the current sanctions against Russia is the exclusion of certain banks from the SWIFT system. Currently, this includes all banks that have already been sanctioned (see also 1.4).



Measures or recommendations for action:

- Inclusion of (sanctioned) Russian banks in the internal blocking register for payment transactions

2 Influence on the risk analysis

The current sanctions against Russia also have an influence on the risk analysis. According to concurring media reports, the EU Commission classified Russia as a so-called "rogue state" on 1 March 2022, thus making it clear that, in the view of the EU Commission, Russia is almost equivalent to a terrorist state.

This clear assessment and the harsh sanctions by the EU Commission should also be reflected in the institution's risk analysis. Obligated institutions must regularly review and, if necessary, update their risk analysis. The identification of risk-increasing factors should also lead to an immediate adjustment of the risk analysis. The current Ukraine crisis and the resulting sanctions against Russia are to be considered risk-increasing.

When revising the risk analysis, not only the business relationships with Russian nationals, persons and companies based in Russia as well as correspondent banks based in Russia and their branches in Europe must be evaluated. The distribution channels, other services (including the precious metals business), the products and transaction channels must also be included and reassessed under the current circumstances.

Among others, the following are to be re-evaluated:

- Incoming payments from Russia
- Change of residence to Russia
- Exceeding the maximum permissible total credit balance
- Failure to comply with sanctioning regulations
- Incorrect information at customer onboarding
- Settlement of transactions for Russian nationals or companies
- Correspondent bank details

3 Customer risk classification

Based on the results of the risk analysis update, there is also a need to adjust the customer risk classification of the institution or company. Due to the sanctions against Russia, which also include Russian nationals as well as persons domiciled in Russia, it is recommended that the following facts be taken into account in the customer risk classification:



1. Customers domiciled in Russia should be assigned to the highest risk segment. It is irrelevant here what nationality the customer has or whether it is a natural or legal person.
2. Customers with Russian citizenship should be assigned to a higher risk segment if they maintain a balance of more than EUR 100,000. Below this limit, a lower risk rating may be considered sufficient (medium or normal risk). Regardless of the limitations according to Article 5c of EU Regulation 2022/328, an increased risk potential is to be assumed in principle.
3. Customers who have carried out a transaction with Russia should also be assigned to the highest risk segment, irrespective of the amount.

In general, it is irrelevant whether the person is an account holder or person authorised to dispose of the account or otherwise has access rights or is a beneficial owner.



4. The risk classification of the customer should also be transferred to the other persons associated with this customer (beneficial owners, family members, etc.).
5. Customers with contracts in which a bank connection to a Russian bank (incl. its branches in the EU) is specified as a reference or settlement account should also be assigned to the highest risk segment.

Furthermore, it is recommended to form separate peer groups for Russian nationals as well as for persons based in Russia (possibly also in countries close to Russia, such as China, etc.) or to mark them in a suitable form to be able to carry out further analyses in the research system if necessary.

4 Summary of the measures

Due to the sanctions against Russia, it is suggested that the measures listed below be checked for each individual institution if they should be implemented:

4.1 List processing

- Inclusion of Russia in the list of "countries to be monitored closely"
 - As part of the know-your-customer process and the monitoring based on it, measures relating to the risk assessment of countries should also take Russia into account in an automated way.
- Check and, if necessary, load the corresponding goods list into the transaction screening system and, if necessary, adjust the parameters to take this goods list into account.
 - The list of dual-use goods and other goods from the above-mentioned goods classes must be included in transaction monitoring in accordance with the sanctions. Due to the prohibition of the settlement of payments in connection with these goods, the consideration of this list in the transaction screening (embargo/sanctions check) is mandatory.
- Prompt check of all sanctions lists used in person and transaction screening, in particular the EU sanctions list, if they are up to date
 - Compliance with the new sanctions against persons and companies must be immediate. No implementation deadlines apply. The list must be included in both the person check (KYC process) and the transaction monitoring/screening.
- Inclusion of the Russian Central Bank as well as inclusion of the (sanctioned) Russian banks in the internal blocking register for payment transactions and suspension of correspondent banking relations with Russian banks sanctioned by the EU
 - Due to the exclusion from SWIFT and the freezing of assets in the EU

4.2 Review of the customer base

- Immediate review of the entire customer database for possible business relationships with persons who are newly on the EU sanctions list due to the Russia-Ukraine conflict
 - The sanctions provide for both the freezing of assets of certain persons and companies and the restriction or prevention of entering into or continuing business relations with these persons or companies.
 - Furthermore, there is an obligation to identify persons based in Russia or persons of Russian nationality. Likewise, a postal or otherwise recognisable connection to Russia should be taken into account (e.g., telephone number with Russian area code 007 or postal address in Russia, or similar).
- Record the current balance of all business relations with Russian nationals or natural/legal persons resident/established in Russia
 - Assets held for Russian nationals or Russian residents have been limited to a maximum of EUR 100,000. It is currently unclear how to proceed with higher credit balances. Approval from the Central Bank may be required. It is conceivable, however, that such business relationships must at least be reported (e.g., to the local FIU), unless they are persons who are exempt from this regulation according to Article 5c of EU Regulation 2022/328.

4.3 Securities and real estate

- Creation of internal controls regarding the sale of securities to Russian nationals or natural/legal persons resident or established in Russia, as well as implementation of a pre-screening process in the context of real estate brokerage or financing

The restrictions on the sale of securities to Russian nationals or Russian residents are intended to make it more difficult to place funds from Russia in the European financial area. Corresponding internal controls as well as internal processes are required to ensure this sanction. The same applies to the area of real estate brokerage and financing.

4.4 Lending business

- Checking, in the case of new lending and borrowing, whether the requested financing is directly or indirectly related to the non-permitted goods or technologies and whether it involves the supply of such goods or technologies to Russia

The list of dual-use goods and other goods from the goods classes mentioned in the sanctions must also be included when granting loans or credits. Due to the prohibition of conducting business in connection with these goods, consideration of this list is also mandatory in the lending and credit business.

4.5 Customer monitoring

- New customer from Russia or with Russian nationality

Downstream to the person check within customer onboarding for further quantification of the regularity of customer acceptance and for qualitative assessment of the implemented processes

- Change of registered office to Russia

On 01 March 2022, the EU Commission classified Russia as a so-called "rogue state", which is almost equivalent to a classification as a terrorist state – a further indication of Russia's inclusion in the list of high-risk countries. Business relationships with customers from these states are to be particularly evaluated and monitored. A new place of residence in Russia is therefore to be considered a special indication and a possible reason for a new risk assessment as well as a renewed evaluation of the continuation of the business relationship.

- Exceeding the maximum total assets

By limiting the total assets to a maximum of EUR 100,000 per business relationship, it must be ensured that any exceeding of this limit is detected immediately. Even if internal rules are created for this purpose, the establishment of an immediate control in the compliance area is advisable.

4.6 Contract monitoring

- Right of disposal/benefit from contract for a person domiciled in Russia or of Russian nationality

Possible detection of straw man accounts for Russian nationals or persons domiciled in Russia who can dispose of accounts in the country without being the account holder themselves

Identification of insurance or savings contracts with beneficiaries at certain points in time in which a person domiciled in Russia or of Russian nationality is a beneficiary and could dispose of the capital (at a certain point in time)

Contracts where the deposited reference account is held with a Russian bank or a bank in a neighbouring/ friendly country (e.g., China, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan or Turkmenistan)

- Leasing of higher-value goods – due to the limitation of maximum assets to EUR 100,000 per business relationship with Russian nationals or residents, assets could be invested in movable assets, including in the form of leasing for higher-value goods in combination with a correspondingly high down payment

Contracts where the deposited reference account is held with a Russian bank or a bank in a neighbouring country or a country known to be close to Russia (e.g., China, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan or Turkmenistan)

Contracts in which the contracting party is a Russian national or has a registered office in Russia or otherwise shows a connection with Russia

- Factoring with Russian companies

Factoring customers with Russian citizenship or a registered office in Russia

Debtors of a factoring client with a registered office in Russia

Goods on submitted invoices are on the list of dual-use goods as well as other goods according to the sanctions. Due to the prohibition of processing payments in connection with these goods, consideration of this list is also necessary in the factoring business.

4.7 Transaction monitoring

- Transfer of assets from other states by Russian nationals

The sanctions restrictions may lead Russian nationals to redistribute their assets to avoid being caught by the sanctions and a possible freezing of assets. Reallocation from other countries is also conceivable.

- Incoming or outgoing payments with Russia

Downstream review of transactions with Russia that were not stopped in transaction screening, as no sanction-relevant connection was initially identified

- Payments to/from China or other states related to Russia

Transaction behaviour known from the Iran sanctions, the so-called "rerouting" of transactions via neighbouring/friendly third countries: This scenario is also conceivable with regards to the Russia sanctions. Payments are made via China, Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan or Turkmenistan (non-exhaustive list).

- Non-execution of transactions with the Central Bank of Russia

Transactions with, or the taking or distribution of assets of the Central Bank of Russia held in accounts in the EU are prohibited. Any reallocations to other accounts or even transfers back to Russia are prohibited.

5 Issues not considered

The current sanctions against Russia are far-reaching, but do not cover all possible value transfer systems on the financial markets. Currently, the financial market-related sanctions against Russia refer to fiat money and in part also to commodity money (gold, silver, raw materials, etc.). Cryptocurrencies are not taken into account at all. Furthermore, it should be noted that in the case of forwarded payments, the information about the country from which the payment originates may no longer be available.

5.1 Cryptocurrencies

It can be assumed that many Russian citizens and companies will switch to cryptocurrencies to circumvent the financial sanctions on the "normal" capital market. To this end, a decisive course was set in Russia as recently as February 2022. According to the [generally available information](#), the government has drafted a law on the legalisation of cryptocurrencies.

The challenge in monitoring crypto transactions lies in the fact that this market is completely unregulated and there are no generally valid identification features by which crypto transactions can be detected (such as transaction keys, currency codes, etc.). Added to this are the different settlement options for crypto transactions. Depending on the crypto platform chosen, payments can be made via payment service providers such as PayPal or Payward or via direct payment from one's own current account. There are also individual providers on the market who offer to maintain own accounts directly with the crypto platform operator and process the transactions directly via this account (e.g., the German crypto platform "flatex" of flatex DEGIRO Bank AG Frankfurt a. M.).

5.2 Non-detection of Russia-related transactions

International payments are processed by means of correspondent banks. For incoming payments from abroad, the domestic correspondent of the foreign bank forwards the payment to the recipient's bank. Under certain circumstances, the information on the country of origin of the transaction is lost when these payments are forwarded, so that it is no longer possible to recognise a Russia transaction using the standard country information. This complicates the implementation of the sanctions.

5.3 Belarus

Due to the political closeness of the government in Belarus to the Russian government and the obvious Belarusian support for Russia in the war against Ukraine, it can be assumed that the sanctions already decided will be extended to Belarus. Great Britain has already begun this step.

If you have any questions about the Russia sanctions, please contact us personally at +49 69 580045-0.