

**ALERTS**

# Treasury Identifies Russian Political Figures and Oligarchs

**February 1, 2018**

On Monday, Jan. 29, 2018, the U.S. Department of the Treasury, in consultation with the Secretary of State and the Director of National Intelligence, issued a report to Congress regarding significant senior foreign political figures and oligarchs in the Russian Federation and Russian parastatal entities (“Report”). Although the Report came on the heels of OFAC’s recent update to the Russia/Ukraine-related designations on the SDN and SSI lists on Jan. 26, 2018, it does not impose new sanctions. Instead, as the report itself notes, and as OFAC clarified in an FAQ the following day, the “report is not a ‘sanctions list’” and “in no way should be interpreted to impose sanctions on those individuals or entities.”<sup>[1]</sup>

The Report was issued pursuant to Section 241 of the Countering America’s Adversaries Through Sanctions Act (“CAATSA”), which required the Department of the Treasury, in consultation with the Director of National Intelligence and the Secretary of State, to submit a detailed report on the following within 180 days from CAATSA’s enactment (on July 29, 2017):

1. The most significant senior foreign political figures and oligarchs in the Russian Federation, as determined by their closeness to the Russian regime and their net worth, including an assessment of their relationship with Vladimir Putin or other members of the Russian ruling elites, indices of corruption, their estimated net worth and known sources of income of those individuals and their family members (including spouses, children, parents and siblings), including assets,

- investments, other business interests, and relevant beneficial ownership information and their non-Russian business affiliations;
2. The emergence of Russia parastatal entities and their role in the economy of the Russian Federation, including their leadership structures and beneficial ownership, and the scope of their non-Russian business affiliations[2];
  3. The exposure of key economic sectors of the United States to Russian politically exposed persons and parastatal entities, including, at a minimum, the banking, securities, insurance and real estate sectors;
  4. The likely effects of imposing debt and equity restrictions on Russian parastatal entities, as well as the anticipated effects of adding Russian parastatal entities to OFAC's list of SDNs; and
  5. The potential impacts of imposing secondary sanctions with respect to Russian oligarchs, Russian state-owned enterprises and Russian parastatal entities, including impacts on the entities themselves and on the economy of the Russian Federation, as well as on the economies of the United States and allies of the United States.

Consistent with Section 241, the Report is comprised of two parts: an unclassified Report and a classified Annex. The unclassified portion of the Report identifies 114 senior Russian political figures, including many who are the CEOs of state-owned enterprises, and another 96 "oligarchs." The unclassified portion is mostly limited to this list of names and contains no discussion of the effects of imposing sanctions on these entities, including debt and equity restrictions, or the exposure of key economic sectors of the United States to Russian politically exposed persons and parastatal entities. Firms should take the Report's list of names into account in determining whether they are doing business with Senior Foreign Political Figures or Politically Exposed Persons for purposes of complying with their anti-money laundering and anti-corruption obligations, including those under the USA Patriot Act and the Foreign Corrupt Practices Act.

The unclassified portion of the Report does not provide a list of Russian parastatal entities. It does, however, underscore the prevalence of parastatals in Russia and the extent to which the Russian economy is dependent on them. According to the Report, the Russian government has responded to economic shocks, including those resulting from the Obama Administration's imposition of sanctions, by increasing its role in

the economy and its ownership of parastatals. As of 2016, Russian parastatals accounted for fully one-third of all jobs in Russia and 70 percent of Russia's GDP. These findings highlight the FCPA risks entailed in doing business in Russia.

Despite OFAC's FAQ, which makes clear that the Report is "not a 'sanctions list,'" and "should no way be interpreted to impose sanctions" on those named, Treasury Secretary Steven Mnuchin has stated "[t]here will be sanctions out of this report" and that those sanctions could even be issued within a month.[3] While it is unclear whether additional sanctions will, in fact, be forthcoming as a result of the Report, firms should stay apprised of further developments in this area.

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If you have any questions concerning this *Alert*, please contact your attorney at Schulte Roth & Zabel or one of the authors.

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[1] OFAC FAQ No. 552 (Jan. 30, 2018).

[2] A parastatal entity generally refers to a company that is wholly or partially controlled by the government, and often has some political power. For the purposes of the Report, the Treasury Department included entities that are at least 25 percent owned by the Russian government and that had about \$2 billion or more in revenues in 2016. See Report to Congress Pursuant to Section 241 of the Countering America's Adversaries Through Sanctions Act of 2017 Regarding Senior Foreign Political Figures and Oligarchs in the Russian Federation and Russian Parastatal Entities ("Report") at 2, available here.

[3] "Trump's Stance on Russia Sanctions Angers Both Moscow and Washington," *The New York Times*, Jan. 30, 2018, available here.

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