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No New Sanctions at CAATSA Deadline, But Russia Remains High Risk

Russia still poses a high sanctions risk even though the Trump Administration did not announce any new sanctions on the January 29, 2018 deadline to implement a provision of the Countering America's Adversaries Through Sanctions Act (CAATSA).¹ The State Department on January 29, 2018 said that CAATSA was an effective deterrent and that additional sanctions were not necessary, according to press reports.² In addition, the Treasury Department issued a congressionally mandated report naming wealthy and politically connected Russians but did not impose new sanctions on any of them.³

Nonetheless, the risk associated with doing business in Russia remains high because of existing U.S. and European sanctions and associated anti-money laundering requirements.

- ▶ Persons who conduct significant transactions with the entities on the State Department's October 2017 defense and intelligence sector list risk being sanctioned under the State Department's CAATSA program.⁴ In addition, about half of the defense sector entities and five of the six intelligence sector entities on the State Department's list are Specially Designated Nationals (SDNs) under Treasury sanctions programs.⁵ These entities were sanctioned under authorities to which CAATSA added secondary sanctions in August 2017.⁶
- ▶ The Treasury Department's report lists 114 senior Russian political figures and 96 wealthy Russians.⁷ Some of the people on the lists already are subject to sanctions. Financial institutions are not required to block or reject transactions involving those who are not sanctioned,⁸ but they should apply their policies for dealing with Politically Exposed Persons to the people listed, because they are senior political figures or Russian business leaders who are on the U.S. government's radar. Some also have relationships with sanctioned persons.
- ▶ Treasury's Russia-Ukraine program remains active. On January 26, 2018, the Treasury Department sanctioned 21 individuals and nine entities under Russia-Ukraine authorities. The new listings focused on misappropriation of Ukrainian state assets, Ukrainian separatists, and Russian entities operating in Crimea.⁹

Russian efforts to neutralize U.S. sanctions, the activities of Russian transnational criminal organizations, and other programs that implicate Russia amplify the illicit finance risk emanating from Russia. Congress enacted Section 228 of



CAATSA – which passed the House of Representatives 419-3 and the Senate 98-2 – to address Russian sanctions evasion and is likely to remain focused on Russia as a leading U.S. national security threat.¹⁰

- ▶ Russia is creating a state bank to service the defense sector, according to press reports. Russia decided to create the defense bank because large Russian banks were concerned about being sanctioned under CAATSA for servicing the defense sector, according to the same press reports.¹¹ Russia has not yet named the bank. When the defense bank is named, financial institutions should determine the extent of their direct and indirect exposure to it.
- ▶ Russia also is reportedly seeking to neutralize U.S. sanctions by creating its own digital currency, according to press reports,¹² and the Panama Papers¹³ and Mirror Trading¹⁴ scandals revealed that politically connected and wealthy Russians have sophisticated money laundering capabilities that could help them evade sanctions.
- ▶ On December 22, 2017, Treasury designated the “Thieves-in-Law” as a transnational criminal organization under Executive Order 13581.¹⁵ All of the individuals and entities sanctioned for participating in the Thieves-in-Law were Russian.¹⁶
- ▶ In addition, the Magnitsky Act¹⁷ and Global Magnitsky Act¹⁸ also affect Russian actors and interests, and Russian entities have been designated recently under Treasury’s North Korea authorities.¹⁹

CAATSA also required the Administration to send two other reports to Congress on January 29, one on sovereign debt and the other on Russian illicit finance.²⁰

Neither of those reports has been released publicly.



Endnotes

- 1 "Countering America's Adversaries Through Sanctions Act (CAATSA), PL 115-44, Aug. 2, 2017, <https://www.congress.gov/bill/115th-congress/house-bill/3364/text>.
- 2 "White House to Congress: Russia sanctions not needed now," Politico, Jan. 29, 2018, <https://www.politico.com/story/2018/01/29/russia-sanctions-white-house-congress-376813>.
- 3 "Read the full Russia 'oligarch list' released by the US Treasury," CNBC, Jan. 30, 2017, <https://www.cnbc.com/2018/01/30/read-the-full-oligarch-list-of-top-russian-business-leaders.html>.
- 4 "Public Guidance/FAQ," Oct. 27, 2017, <https://www.state.gov/t/isn/caatsa/275118.htm>.
- 5 "CAATSA Section 231(d) Defense and Intelligence Sectors of the Government of the Russian Federation," Oct. 27, 2017, <https://www.state.gov/t/isn/caatsa/275116.htm>.
- 6 "Countering America's Adversaries Through Sanctions Act (CAATSA), PL 115-44, Sec. 228, Aug. 2, 2017, <https://www.congress.gov/bill/115th-congress/house-bill/3364/text>.
- 7 "Read the full Russia 'oligarch list' released by the US Treasury," CNBC, Jan. 30, 2017, <https://www.cnbc.com/2018/01/30/read-the-full-oligarch-list-of-top-russian-business-leaders.html>.
- 8 "OFAC FAQs: Other Sanctions Programs," FAQ No. 552, Jan. 30, 2017, https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_other.aspx#552.
- 9 "Treasury Sanctions Additional Individuals and Entities in Connection with the Conflict in Ukraine and Russia's Occupation of Crimea," Jan. 26, 2017, <https://home.treasury.gov/news/press-releases/sm0266>.
- 10 "Countering America's Adversaries Through Sanctions Act (CAATSA), PL 115-44, Aug. 2, 2017, <https://www.congress.gov/bill/115th-congress/house-bill/3364/text>.
- 11 "Russia launches new defense bank to shield lenders from sanctions," Reuters, Jan. 18, 2018, <https://www.reuters.com/article/us-russia-sanctions-defence-bank/russia-launches-new-defense-bank-to-shield-lenders-from-sanctions-idUSKBN1F71TJ>.
- 12 "Russia and Venezuela's Plan to Sidestep Sanctions: Virtual Currencies," New York Times, Jan. 3, 2018, <https://www.nytimes.com/2018/01/03/technology/russia-venezuela-virtual-currencies.html>.
- 13 "Revealed: the \$2bn offshore trail that leads to Vladimir Putin," The Guardian, April 3, 2016, <https://www.theguardian.com/news/2016/apr/03/panama-papers-money-hidden-offshore>.
- 14 "Deutsche Bank's \$10-Billion Scandal," The New Yorker, Aug. 29, 2016, <https://www.newyorker.com/magazine/2016/08/29/deutsche-banks-10-billion-scandal>.
- 15 "Treasury Targets the 'Thieves-in-Law' Eurasian Transnational Criminal Organization," Dec. 22, 2017, <https://home.treasury.gov/news/press-releases/sm0244>.
- 16 "Transnational Criminal Organizations Designations, Designations Removals, and Designations Updates; Kingpin Act Designations Updates," Dec. 22, 2017, <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20171222.aspx>.
- 17 "The Magnitsky Sanctions," <https://www.treasury.gov/resource-center/sanctions/Programs/pages/magnitsky.aspx>.
- 18 "Global Magnitsky Sanctions," <https://www.treasury.gov/resource-center/sanctions/Programs/pages/glomag.aspx>.
- 19 "Treasury Targets Chinese and Russian Entities and Individuals Supporting the North Korean Regime," Aug. 22, 2017, <https://www.treasury.gov/press-center/press-releases/Pages/sm0148.aspx>.
- 20 "Countering America's Adversaries Through Sanctions Act (CAATSA), PL 115-44, Sec. 241-243, Aug. 2, 2017, <https://www.congress.gov/bill/115th-congress/house-bill/3364/text>.