AFP® ASSOCIATION FOR FINANCIAL PROFESSIONALS

Underwritten by PNC®

CASH AND TREASURY MANAGEMENT
COUNTRY REPORT

RUSSIA

Executive Summary

Banking

The Central Bank of the Russian Federation (CBR) is an independent institution under the constitution of the Russian Federation charged with supporting government monetary policy and maintaining the stability of the ruble. As well as serving as lender of last resort and issuer of notes and coins, the CBR supervises Russia's banking system and has oversight of the country's payments system.

Under the Federal Law on the Central Bank of the Russian Federation and its amendments, all transfers between resident and non-resident bank accounts must be reported to the CBR. The CBR also administers a number of exchange controls.

Residents and non-residents may hold local and foreign currency accounts both domestically and abroad. Domestic currency accounts are convertible into foreign currency. Residents must register with the relevant tax authorities before opening foreign currency accounts abroad.

The Russian banking system is dominated by two large state-owned banks, Sberbank (Savings Bank of the Russian Federation) and Vneshtorgbank (Bank for Foreign Trade). Many of Russia's remaining 551 banks are very small. Foreign banks have an increasing presence both through acquisition and establishing branches.

Payments

The CBR's payment system is composed of the BESP RTGS system and an electronic net settlement system. The CBR processes the majority of cashless payments and maintains a network of 74 processing centers across nine time zones. The majority of retail payments are effected across Sberbank's circa 16,300-strong branch network.

Cash is still used for the majority of transactions in Russia, but changes to the tax system and increasing confidence in the banking system have led to increased use of cashless payment methods, most notably payment cards and electronic credit transfers.

Liquidity Management

Among the investment alternatives offered by the Russia market, demand deposits are particularly popular. Veksels, a form of short-term promissory note, are commonly issued by Russian companies at comparatively high levels of interest.

Domestic notional pooling and cash concentration are both available in Russia, however both lack a clear legal framework. Exchange controls restrict the use of cross-border liquidity management techniques.

Trade Finance

Importers and exporters must observe Russia's exchange control requirements for any foreign exchange transactions required to support trade. In general, a passport of transaction must be issued before a foreign exchange transaction can be authorized.

Russia operates 19 special economic zones where customs duties are not applied. The Eurasian Economic Union (EEU), comprising Armenia, Belarus, Kazakhstan and Russia, was launched on January 1, 2015. Kyrgyzstan joined the EEU on August 12, 2015, after the accession agreement had been ratified by the other EEU member states. There are no remaining customs border controls between EEU member states. Russia is also a signatory of the Commonwealth of Independent States Free Trade Agreement (CISFTA) alongside Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan. The CISFTA has thus far been ratified in all signatory countries except Tajikistan.

PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.
- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.[1]

Economic Updates

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

(1) Information compiled from Freedom of Information Act resources.

Return to **Contents** page

Contents

Executive Summary 2
PNC's International Services 4
Financial Environment 9
Country Information 9
Geographical Information 9
Business Information 9
Country Credit Rating 10
Economic Statistics 11
Economics Table 11
Sectoral Contribution as a % of GDP 12
Major Export Markets 12
Major Import Sources 12
Political and Economic Background 13
Economics 13
Interest Rate Management Policy 13
Foreign Exchange Rate Management Policy 13
Major Economic Issues 13
Politics 14
Government Structure 14
Major Political Issues 15
Taxation 17
Resident/Non-resident 17
Tax Authority 17
Tax Year/Filing 17
Corporate Taxation 17
Advance Tax Ruling Availability 18
Withholding Tax (Subject to Tax Treaties) 18
Tax Treaties/Tax Information Exchange Agreements (TIEAs) 19
Transfer Pricing 19
Thin Capitalization 19
Controlled Foreign Companies 20
Disclosure Requirements 20
Stamp Duty 21
VAT/Sales Taxes (including Financial Services) 21
Capital Gains Tax 23
Financial Transactions/Banking Services Tax 23
Cash Pooling 23
Property Tax 23
Land Tax 24
Payroll and Social Security Taxes 24
Cash Management 26

Banking System . . . 26
Banking Regulation . . . 26
Banking Supervision . . . 26
Central Bank Reporting . . . 26
Exchange Controls . . . 27
Bank Account Rules . . . 28
Anti-money Laundering and Counter-terrorist Financing . . . 28
Banking Sector Structure . . . 29
Major Domestic Banks . . . 29
Overall Trend . . . 29
Payment Systems . . . 31
Overview . . . 31
High-value . . . 31
Low-value . . . 32
Payment and Collection Instruments . . . 34
Overview and Trends . . . 34
Statistics of Instrument Usage and Value . . . 34
Paper-based . . . 34
Checks . . . 34
Letters of Credit . . . 35
Electronic . . . 35
Credit Transfer . . . 35
Direct Debits . . . 35
Payment Cards . . . 35
ATM/POS . . . 36
Electronic Wallet . . . 36
Liquidity Management . . . 37
Short-term Borrowing . . . 37
Overdrafts . . . 37
Bank Lines of Credit / Loans . . . 37
Trade Bills – Discounted . . . 37
Factoring . . . 37
Commercial Paper . . . 37
Bankers' Acceptances . . . 37
Supplier Credit . . . 37
Intercompany Borrowing, including Lagging Payments . . . 38
Short-term Investments . . . 38
Interest Payable on Bank Account Surplus Balances . . . 38
Demand Deposits . . . 38
Time Deposits . . . 38
Certificates of Deposit . . . 38
Treasury (Government) Bills . . . 38
Commercial Paper . . . 38

Money Market Funds . . . 39
Repurchase Agreements . . . 39
Bankers' Acceptances . . . 39
Liquidity Management Techniques . . . 39
Cash Concentration . . . 39
Notional Pooling . . . 39
Trade Finance . . . 40
General Rules for Importing/Exporting . . . 40
Imports . . . 41
Documentation Required . . . 41
Import Licenses . . . 41
Import Taxes/Tariffs . . . 41
Financing Requirements . . . 41
Risk Mitigation . . . 41
Prohibited Imports . . . 41
Exports . . . 42
Documentation Required . . . 42
Export Licenses . . . 42
Export Taxes/Tariffs . . . 42
Proceeds . . . 42
Financing Requirements . . . 42
Risk Mitigation . . . 42
Prohibited Exports . . . 42
Information Technology . . . 43
Electronic Banking . . . 43
External Financing . . . 44
Long-term Funding . . . 44
Bank Lines of Credit / Loans . . . 44
Leasing . . . 44
Bonds . . . 44
Private Placement . . . 45
Asset Securitization / Structured Finance . . . 45
Government Investment Incentive Schemes / Special Programs or Structures . . . 45
Useful Contacts . . . 46
National Investment Promotion Agency . . . 46
Central Bank . . . 46
Banks . . . 46
Stock Exchanges . . . 46
Ministry of Finance . . . 46
Ministry of Economy . . . 46
Chamber of Commerce . . . 46
Privatization Agency . . . 46
Bankers' Association . . . 46

Financial Environment

Country Information

Geographical Information

Capital	Moscow
Area	17,098,242 km^2 (not including Crimea)
Population	142.36 million
Official language	Russian
Political leaders	Head of state — President Vladimir Putin (since May 7, 2012) Head of government — Prime Minister Dmitry Medvedev (since May 8, 2012)

Business Information

Currency (+ SWIFT code)	Russian ruble (RUB)
Business/Banking hours	09:00–18:00 (Mon–Fri)
Bank holidays	2017 — June 12, November 6 2018 — January 1-7, February 23, March 8, May 1, 9, June 12, November 5 2019 — January 1-7, February 23, March 8, May 1, 9, June 12, November 4 Source: www.goodbusinessday.com
International dialing code	+ 7

Country Credit Rating

FitchRatings last rated Russia on March 31, 2017 for issuer default as:

Term	Issuer Default Rating
Short	F3
Long	BBB -
Long-term rating outlook	Stable

Source: www.fitchratings.com, May 2017.

Economic Statistics

Economics Table

	2011	2012	2013	2014	2015
GDP per capita (USD)	13,356	14,239	14,675	13,058	9,443
GDP (RUB billion)	56,288	62,922	66,984	71,877	82,556
GDP (USD billion)	1,916	2,040	2,104	1,873	1,355
GDP volume growth* (%)	+ 4.3	+ 3.4	+ 1.3	+ 0.6	NA
BoP (goods, services & income) as % GDP	5.4	3.8	2.0	3.5	5.5
Consumer inflation* (%)	+ 8.4	+ 5.1	+ 6.8	+ 7.8	+ 15.5
Population (million)	143	143	143	143	143
Unemployment (%)	6.6	5.5	5.5	5.2	5.6
Interest rate (local currency MMR)† (%)	3.93	5.50	6.10	8.52	12.82
Exchange rate‡ (RUB per USD)†	29.382	30.840	31.837	38.378	60.938

	2016				
	Q1	Q2	Q3	Q4	Year
GDP per capita (USD)	–	–	–	–	–
GDP (RUB billion)	–	–	–	–	NA
GDP (USD billion)	–	–	–	–	–
GDP volume growth* (%)	NA	NA	NA	NA	NA
BoP (goods, services & income) as % GDP	–	–	–	–	–
Consumer inflation* (%)	+ 8.4	+ 7.4	+ 6.8	+ 5.8	+ 7.1
Population (million)	–	–	–	–	NA
Unemployment (%)	5.9	5.6	5.2	5.4	5.5
Interest rate (local currency MMR)† (%)	10.93	10.81	10.29	10.17	10.55
Exchange rate‡ (RUB per USD)†	74.646	65.884	64.618	63.075	67.06

*Year on year. †Period average. ‡Official rate.

Sources: *International Financial Statistics*, IMF, May 2017 and 2016 Yearbook.

Sectoral Contribution as a % of GDP

Agriculture – 4.7%

Industry – 33.1%

Services – 62.2% (2016 estimate)

Major Export Markets

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

Major Import Sources

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

Political and Economic Background

Economics

Interest Rate Management Policy

The Central Bank of the Russian Federation (CBR) executes monetary policy in line with the government's objective of currency stability.

Foreign Exchange Rate Management Policy

Russia operates a floating exchange rate regime and the exchange rate of the ruble is determined by market factors. The central bank has retained the right to intervene in the interbank markets in case of financial stability threats.

Major Economic Issues

Despite continuing waves of economic reform and a large-scale sell-off of government assets in the 1990s, Russia's economy is highly centralized and influenced by government policy. Many assets remain in the public sector and the economy is highly dependent on natural resources, especially oil, gas and minerals. The state and government-owned firms account for about 50% of GDP.

A banking crisis in 1998 accelerated economic reforms, notably to tax and pensions, but foreign investment – and the further development of a market economy – has been hampered by the need for additional administrative and legal reforms as well as investment in Russia's transport system and other vital public infrastructures.

According to the IMF, Russia's GDP contracted by 7.8% in 2009. However, the Russian economy recorded growth of 4.5% in 2010, 4.3% in 2011 and 3.4% in 2012 as the price of oil rebounded and Russia's industrial output increased. Growth weakened in 2013 (1.3%) and 2014 (0.6%) as a result of Western economic sanctions and a fall in oil prices. The crisis in neighboring Ukraine resulted in capital flight from Russia exceeding USD 60 billion in Q1 2014 and the RUB falling by 8% against the USD. With the price of oil falling to below USD 50 a barrel, GDP contracted by a revised 2.8% in 2015 and by a further 0.2% in 2016. The IMF expects growth of 1.4% in 2017, helped by increases in commodity prices.

On December 15, 2014, the Bank of Russia increased the key interest rate from 10.5% to 17% due to the risk of high inflation; however, it has since been cut to 9.25%. Inflation in 2015 stood at a significant 15.5%, but fell to 4.1% in April 2017, slightly above the central bank's 4% target. Unemployment stood at 5.5% in 2016. Around 25% of Russia's workforce is employed in the public sector.

Politics

Government Structure

The Russian Federation is a federal republic in which executive power is shared by the directly elected president (head of state) and appointed prime minister (head of government). In addition to the national executive and legislative institutions, Russia is governed by a complex tier of regional administration. The Russian Federation consists of 85 administrative entities or "subjects" (although two - the Republic of Crimea and the city of Sevastopol - are internationally recognized as part of Ukraine), each of which has different levels of autonomy from central government and its own executive and/or legislative structures. There are nine federal districts (eight excluding Crimea) which are overseen by a governor appointed by the federal government.

Executive

The head of state (president) is elected by popular vote for a six-year term and may serve no more than two terms in office. The next presidential election is scheduled for March 2018.

The head of government (prime minister) is appointed by the president and the decision is ratified by the Duma, the directly elected chamber of the federal assembly.

The president and the prime minister share executive authority in a dual structure.

Legislature

Russia's bicameral federal assembly (Federalnoye Sobraniye) consists of the Federation Council (Sovet Federatsii) and the State Duma (Gosudarstvennaya Duma).

The Federation Council's 170 members represent Russia's 85 regional administrative entities or "subjects"; i.e. 22 republics (including Crimea), 46 oblasts, nine krais, three federal cities (including Sevastopol), four autonomous districts, and one autonomous oblast). Two senators represent each subject, the first elected by the district legislature, the second by the district executive authority. Members are elected for four-year terms.

All 450 members of the State Duma are elected for five-year terms. The next election to the State Duma is scheduled for 2021. For the 2016 election, 225 members were directly elected by simple majority vote and 225 by proportional representation for five-year terms.

International memberships

Russia holds one of the five permanent seats on the United Nations Security Council and is a member of the Commonwealth of Independent States (CIS), the Eurasian Economic Union (EEU), the Council of Europe, the Bank for International Settlements (BIS), the Organization of the Black Sea Economic Cooperation (BSEC), Collective Security Treaty Organization (CSTO), and the World Trade Organization.

Russia was excluded from the G-8 forum by the seven other members in March 2014, following its involvement in the 2014 Crimea crisis in Ukraine.

Major Political Issues

Russia continues to face a number of political and economic challenges as it forges a new role, separate from its post-World War Two position of communist military superpower. Russia plays a major role in international politics, but endures difficult relationships with a number of its CIS neighbors, formerly governed directly from Moscow in the Soviet era, as well as several of the semi-autonomous regions within the Russian Federation.

Economic reforms since the collapse of the Soviet Union in 1991 have been substantial, but the privatizations that created a number of super-rich oligarchs – and continuing stark income inequality – have resulted in a cautious approach to the development of a full market economy. In addition, a Soviet-era reliance on government bureaucracy in the absence of a clear and robust legal system, as well as official interference in the media and the judiciary, has made some foreign investors wary of committing substantial investment to the country.

Vladimir Putin spent the maximum two concurrent terms as president until 2008, during which he steadily increased his grip on political power. Putin was prime minister for one term, during which time he was replaced as president by his political ally Dmitry Medvedev. Putin was once more elected president as the United Russia candidate in the March 2012 presidential election (receiving 64% of the vote), as he was again eligible for the presidency. Medvedev re-assumed the role of prime minister after replacing Putin at the top the list of the United Russia party, which acquired a slim majority (and below 50% of the vote) in the December 2011 Duma election.

Georgia removed its opposition to Russia joining the World Trade Organization in 2011 after Russia agreed to the international monitoring of trade along the borders of Abkhazia and South Ossetia. Russia subsequently acceded to the World Trade Organization on August 22, 2012 and is thus expected to phase out trade barriers protecting it domestic industries by 2018.

The same month, the presidents of Russia, Belarus and Kazakhstan signed an agreement on establishing the Eurasian Economic Union (EEU), a new economic and political union, from January 1, 2015. The Eurasian Customs Union, Eurasian Economic Space and Eurasian Economic Commuinity (EurAsEC) ceased to exist on January 1, 2015, to coincide with the launch of the EEU which, after an enlargement treaty was signed in October 2014, also includes Armenia. Kyrgyzstan also joined the EEU on August 12, 2015, after its accession agreement had been ratified by the other EEU member states.

After the overthrow of President Yanukovych in Ukraine, and installation of a new interim government in February 2014, Russia refused to accept the legitimacy of the new Ukrainian government. Pro-Russian forces subsequently took control of the Crimean peninsula, populated by an ethnic Russian majority. The Crimean parliament then voted to dismiss the Crimean government and call a referendum on Crimea's status. On March 16, the people of Crimea voted in favor of joining Russia over remaining a part of Ukraine. On March 17, the Crimean parliament then declared independence from Ukraine and formally asked to join the Russian Federation. A treaty of accession of the Republic of Crimea and Sevastopol into the Russian Federation was then signed

on March 18. Russia now administers Crimea as two federal subjects, the Republic of Crimea and the federal city of Sevastopol, within the Crimean Federal District. Crimea's status within the Russian Federation is not recognized by the United Nations. The Ukrainian parliament has declared Crimea as a territory temporarily occupied by Russia. In June 2014, the EU prohibited the import of goods originating from Crimea or Sevastopol.

Putin stated his intention to cancel preferential trade tariffs for Ukraine in response to the EU-Ukraine trade pact which legally binds Ukraine to stay out of its Eurasian Economic Union (EEU). The pact entered into force on January 1, 2016. Putin has advocated closer co-operation between the EU and the EEU from 2015.

Russia's support of pro-Russian separatists involved in military conflict in eastern Ukraine has resulted in sanctions being applied by the EU and the US. The sanctions have since been extended until July 31, 2017. Russia subsequently imposed a ban on imports of selected agricultural products and raw materials from the EU, United States, Canada and Australia on August 6, 2014, in response to the broad economic sanctions imposed by the EU and US. The Central Bank of the Russian Federation (CBR) has pledged to support state-owned banks affected by EU and US sanctions. Foreign investors have withdrawn around EUR 60 billion from Russia since the beginning of 2014.

In November 2016, President Putin signed an order to withdraw Russia from the International Criminal Court (ICC). A Ministry of Foreign Affairs spokesman asserted that the ICC is "not a truly independent and authoritative judicial body."

In January 2015, Russia announced that it would cease transporting gas to the EU via Ukraine and would instead transport it via Turkey, i.e. via the TurkStream pipeline, as well as via its already functional NordStream pipeline which runs directly from Russia to Germany. In November 2015, after a Turkish fighter jet shot down a Russian jet in Turkish airspace near the Syria–Turkey border, Russia suspended talks on the TurkStream pipeline as part of a sanction package, including a ban on food exports from Turkey. In December 2015, the project was formally terminated by Turkey. However, on October 10, 2016, Russia and Turkey revived their plans and signed an agreement to build the TurkStream pipeline by the end of 2019.

The Nord Stream 2 gas pipeline from Russia to Germany (via the maritime zones of Finland, Sweden and Denmark) is currently expected to be built by Gazprom by 2019.

On August 4, 2016, the EU imposed anti-dumping duties ranging up to 36.1% on Russian steel following industry complaints from the European Steel Association that Russian companies were selling steel below market cost in the EU.

In December 2016, the US announced a series of punitive measures against Russia for its alleged attempt to interfere with the US presidential election.

Taxation

Resident/Non-resident

An entity is a Russian resident if it is incorporated in Russia, is deemed to be a Russian resident under an applicable tax treaty or its actual place of management is in Russia.

A foreign entity may be subject to taxation in Russia if it receives income from a Russian source or creates a permanent establishment (PE) in Russia. The activity of a foreign entity may be considered as creating a PE in Russia if it regularly engages in business activity in Russia through a fixed place of business. A foreign entity may also be treated as having a PE in Russia if it performs regular commercial activities in Russia through a dependent agent.

Tax Authority

Federal Tax Authority.

Tax Year/Filing

The tax year corresponds to the calendar year.

Resident companies are required to file annual tax returns by March 28 of the year following the tax year.

Russian companies forming a group with 90% (or more) direct or indirect ownership, may file a consolidated tax return if the following conditions are satisfied for the preceding calendar year: tax payments of more than RUB 10 billion, together with revenue and assets of more than RUB 100 billion and RUB 300 billion, respectively, calculated according to Russian Accounting Standards. Until January 1, 2018 there is a moratorium for registration of new consolidated groups of taxpayers, as well as for any changes to existing groups.

In most cases, interim quarterly and monthly returns are also required to be filed for the assessment of advance tax payments. The frequency of filing depends on specific rules imposed by law for each particular type of tax (and the taxpayer's choice where applicable).

Taxpayers may choose to pay tax on either a monthly or a quarterly basis provided this is applied consistently throughout the tax year. If the monthly basis is used, the tax declaration must be filed and the tax paid by the 28th day of the following month. If the quarterly basis is used, monthly payments are made based on one third of the previous quarter's liability, while a tax declaration must be filed, and the balance of taxes paid, by the 28th day of the calendar month following the reporting quarter.

Corporate Taxation

Russian entities are taxed on worldwide income, and foreign entities on income from commercial activities undertaken in Russia and on passive income from Russian sources.

The maximum general corporate profits tax rate is 20%. This comprises a federal tax of 3% and a regional tax of 17% that may be reduced to 12.5%.

There is no surtax or alternative minimum tax.

A rate of 13% is applied to dividends received by Russian corporate shareholders from Russian and foreign companies.

To qualify for the participation exemption with regard to dividend income, a Russian company must hold a participation of at least 50% for at least 365 days in a calendar year. A foreign investee must not be a resident in a "black list" jurisdiction.

A participation exemption applies to capital gains realized on the sale of unlisted shares and participations in Russian companies, and listed shares in high-technology Russian companies (and, until 2023, listed bonds of Russian companies and listed investment units that are considered high-technology) acquired after January 1, 2011 and held for more than five years.

Russian PEs of foreign legal entities are taxable on profits attributable to the activity of the PE under rules which are generally similar to those applied to Russian legal entities.

A number of tax incentives of various types are available in Russia. For example, a reduction in the rate of profits tax to 15.5% (from the standard 20% tax rate), along with other benefits, is available for investment projects in many regions. There also are certain tax preferences (e.g. a reduction of the federal profits tax rate) for residents of territories of advanced social and economic growth. A ten-year profits tax exemption applies to the Skolkovo Innovation Center. Technology and software companies may also receive some social security tax concessions. A profits tax exemption also applies to a range of educational and medical services. A 150% deduction for profits tax purposes is available for qualifying R&D expenditure.

Losses (except for losses derived from activities subject to a 0% profits tax rate) may be carried forward for ten yearsan unlimited period but cannot exceed a cap (for 2017-2020, the cap is 50% of the base of the current period). The carryback of losses is not permitted.

Advance Tax Ruling Availability

Advance tax rulings are not available under domestic tax rules, except for transfer pricing (see below).

There is a possibility of obtaining an advance pricing agreement under the transfer pricing rules.

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Other income	Branch Remittances
Resident companies	0%/15%	13%	None	None	NA
Non-resident companies	20%	15%	20%	10%–20%	None

Withholding tax on other types of Russian-sourced income is payable at 20%, except for income from international freight, which is taxed at the rate of 10%. Specific tax rates are established for certain other types of income.

Reduced rates of withholding tax may be available under a double tax treaty, but require confirmation of the recipient's tax residence status.

Beneficial ownership of income requires analysis when double tax treaty benefits are claimed. Although the concept of beneficial ownership is not well developed, recent court practice is to allow the Russian tax authorities to challenge beneficial ownership in certain circumstances.

Tax Treaties/Tax Information Exchange Agreements (TIEAs)

Russia has exchange of information relationships with 88 jurisdictions through 89 double tax treaties and no TIEAs (www.eoi-tax.org, February 2017).

No double tax treaties are in force with tax havens.

Different rates of withholding tax may be applied to interest, dividends and royalties, depending on the terms of the tax treaty with a particular country.

Transfer Pricing

Transfer pricing rules substantially reflect the OECD model rules.

Acceptable transfer pricing methods are the comparable uncontrolled price method, the resale price method, the cost-plus method, the comparable profits method and the profit-split method.

The rules include detailed documentation requirements and allow for the possibility of obtaining an advance pricing agreement.

Thin Capitalization

The thin capitalization rules restrict the deductibility of interest on loans to related legal entities and apply where the lender is:

- A foreign company that owns directly or indirectly more than 20% of the charter capital of a Russian company; or
- A Russian company that is an affiliate of such a foreign company; or
- Any company to which such Russian-affiliated or foreign company itself undertakes to act as a guarantor or to secure in any other way the discharge of the loan by the Russian borrower.

If the loan that is subject to control exceeds more than three times (12.5 times for banks and companies exclusively carrying out leasing activity) the capital of the Russian borrower, interest relating to the excess debt will not be deductible and will be treated as a dividend. Different withholding tax rates apply to interest and dividends paid to foreign companies.

Controlled Foreign Companies

A Russian (corporation or individual) is taxed on the undistributed profits of a controlled foreign corporation (CFC) at a rate of 20% or 13%, respectively. The CFC provisions are applicable where an entity or an individual that is considered a Russian tax resident has an interest of more than 25% (10%, if more than 50% is owned, directly or indirectly, by Russian tax residents) in a non-resident entity.

A threshold exemption for inclusion of a CFC's undistributed profit in the tax base of a Russian entity or individual is set at RUB 10 million.

Where the CFC rules apply, the relevant profits of the CFC are computed based on its stand-alone financial statements, provided a tax treaty is in place between Russia and the CFC's country of residence and the CFC's financial statements are subject to a mandatory audit in accordance with legislation of the country in which the CFC is resident. Otherwise, the CFC's profits are computed in accordance with the general Russian tax rules.

Disclosure Requirements

Certain information must be disclosed to the tax agent on persons exercising rights to certain securities issued by Russian entities and accounted for in the depositary account of a foreign nominee holder (including certain types of shares and bonds), foreign authorized holder or depositary program. This information may be made available to the tax authorities in some cases. Where the information is not dislcosed, a 30% withholding tax may be applied to the income derived from such securities (except dividends).

Russian tax residents are required to notify the Russian tax authorities of the following:

- A direct and/or indirect participation in a foreign company, if the particpation exceeds 10%;
- The establishment of a foreign structure that is not a legal entity, as well as the control over such structures or actual rights to the income received by such structures; and
- Any interest in a CFC in which Russian tax residents exercise control.

In addition, foreign entities owning immovable property in Russia that is subject to property tax are required to disclose information regarding their direct and indirect shareholders to the Russian tax authorities.

Legal entities must determine and maintain information on their ultimate beneficial owners and update the data annually under Russian anti-money laundering legislation.

Russia has committed to the automatic exchange of information under the common reporting standard starting from 2018, with 2017 as the first reporting period.

Non-Russian financial institutions are required to report certain information to the Russian Federal Tax Service on Russian account holders on an annual basis (i.e. Russian FATCA).

Stamp Duty

Stamp duty may be levied on certain transactions/documents, but it is usually nominal.

VAT/Sales Taxes (including Financial Services)

The standard VAT reporting period is the calendar quarter. Businesses are required to pay their quarterly VAT liabilities in three instalments: one third by the 25th day of each of the three consecutive months following the reporting quarter. VAT withheld from payments to foreign legal entities for goods, work and services supplied in Russia should be remitted to the authorities simultaneously with the payment to the supplier.

Generally, VAT applies to companies (including representative offices and branches of foreign companies registered with the Russian tax authorities), individual entrepreneurs and any persons importing goods into Russia.

Russian tax law does not provide for separate VAT registration. Taxpayers obtain a general tax registration which is applicable to all taxes.

Generally, VAT is applicable to the supply of goods, work, services and property rights within the territory of Russia. Taxpayers are entitled to recover (offset) input VAT relating to purchased goods, work, services and property rights, provided the purchases are used to carry out transactions which are subject to VAT, and all other necessary conditions for VAT recovery specified in the Russian Tax Code are met.

Import VAT is applicable to goods imported into Russia unless the import is exempt. Import VAT is generally recoverable provided all necessary requirements for such VAT recovery are met.

The VAT liability arises at the earliest of the following two dates: the date of shipment or transfer of goods, work, services and property rights, or the date of payment or partial payment for a future shipment of goods, performance of work, provision of services or transfer of property rights.

Taxpayers receiving advances should calculate their VAT base twice. The first calculation must be performed when the prepayments are received. The second calculation should be performed when the goods are dispatched, work performed, services rendered or property rights transferred. VAT accounted for on prepayments may subsequently be offset against the full amount of VAT due after the goods are shipped or the work, services or property rights are transferred.

No VAT applies to advances received for the future supply of goods, work and services, which are either exempt from VAT, or zero-rated.

Taxpayers remitting advances for future VAT-able purchases of goods, work, services and property rights may claim the recovery of the corresponding amounts of VAT invoiced to them by sellers provided obligatory conditions for such recovery are met.

Banks, insurance companies and private pension funds may choose to account for VAT on taxable supplies on the cash basis, where the total amount of input VAT paid to their suppliers is not claimed for recovery but instead deducted for profit tax purposes.

Special "place of supply" rules are used to determine whether goods, work and services are supplied in Russia for VAT purposes and therefore subject to Russian VAT or not.

If a foreign company which does not have Russian tax registration, supplies goods, work or services deemed to be supplied in Russia, the remittance of VAT is made through a withholding mechanism. The tax-registered buyer of these goods, work and services is required to account for VAT, withholding it from the amount payable to the foreign supplier and remitting that tax to the budget.

Foreign entities have the right to recover input VAT invoiced by their suppliers in Russia only if they are registered (for all taxes) with the tax authorities.

The standard VAT rate is 18%. A reduced rate of 10% applies to certain foodstuffs, children's goods, medical and pharmaceutical products, and certain printed periodicals and books. Taxpayers should meet certain conditions, including those relating to documentary support, in order to justify the right to apply the 10% rate. 0% rate applies, in particular, to sales of goods exported outside Russia, to certain services connected with the cross-border transportation of passengers and goods, processing services with respect to goods placed under the inward customs processing procedure, etc. Taxpayers must prove that they are entitled to apply the 0% rate by collecting certain documents listed in the Russian Tax Code.

Activities exempt from VAT include, inter alia, the following:

- the lease of office space and accommodation to foreign individuals and foreign companies accredited in Russia;
- banking and insurance services;
- transactions with securities and financial derivatives(excluding the VAT-able supply of the underlying asset of transactions with derivatives);
- monetary and stock lending, including corresponding interest, and "repo" transactions;
- the sale of precious metals in ingots by the Central Bank of Russia and banks to the Central Bank of Russia, banks and to other persons (provided that in the latter case the ingots are stored in the vaults of the Central Bank of Russia and banks);
- the transfer of exclusive rights over certain intellectual property and rights to use such property under a licence agreement;
- the assignment (acquisition) of rights (claims) that arise from credit and loan agreements in monetary form as well as the fulfilment by a borrower of its obligations to a new creditor under the underlying agreement; and
- the sale of land and residential buildings and premises or any interest in such property.

Input VAT cannot generally be reclaimed when incurred on exempt activities, and should instead be capitalized, i.e. included in the cost of the acquired goods, work, services and property rights.

If in a certain tax period the amount of VAT recovered exceeds the amount of output VAT, the taxpayer may submit an amended VAT return within three years after the period and obtain

reimbursement of the excess (in the form of an offset or cash refund). In such cases, the tax authorities would be obliged to carry out an in-house tax audit within three months of the date the taxpayer filed the VAT return showing the reclaim, in order to verify the validity of this claim.

Taxpayers are able to apply for an accelerated VAT reimbursement procedure (in the form of a cash refund or offset within 11 or five working days, respectively), if they submit bank guarantees to the tax authorities along with their relevant applications. The above in-house tax audit is still obligatory and if any violation of Russian tax legislation is identified as a result of this tax audit, a taxpayer is obliged to repay any excessively refunded (offset) VAT as well as interest thereon.

Capital Gains Tax

Capital gains are taxed as ordinary income at the normal corporate rate.

A participation exemption applies to capital gains realised on the sale of unlisted shares and participations in Russian companies, and listed shares in high-technology Russian companies (and, until 2023, listed bonds of Russian companies and listed investment units that are considered high-technology) acquired after January 1, 2011 and held for more than five years.

Financial Transactions/Banking Services Tax

The deductible expenses of Russian banks include expenses for loan loss provisions created in accordance with applicable instructions of the Central Bank of Russia. Income arising from the write back of a loan loss provision is taxable, provided the expense incurred on its creation was previously allowed as a deduction.

Cash Pooling

Russian transfer pricing rules do not contain any specific reference to cash pooling. The general rule requiring related-party transactions to be at arm's length is applicable to cash pooling arrangements.

Property Tax

Property tax is a regional tax imposed under local legislation. The tax base includes immovable fixed assets and certain movable fixed assets owned by the taxpayer, excluding land (which is subject to land tax). Generally, the tax base is calculated based on the depreciated book value of the assets as of the balance-sheet date and the tax rate for the property cannot exceed 2.2%. For certain types of administrative, business and trading premises, real estate owned by foreign companies and not allocated to a permanent establishment in Russia, and certain other premises, the tax base is estimated as the cadastral value of real estate and the tax rate for the property cannot exceed 2%.

There are no transfer taxes.

Land Tax

Land tax is a local tax, and its application is governed by local regulations, as well as by the tax code. The local authorities set the land tax rate. Under the tax code, these rates may not exceed the following limits:

- 0.3% of the cadastral value of land that is either (i) used for agricultural purposes; (ii) occupied by residential properties or utilities; or (iii) acquired for private farming; and
- 1.5% of the cadastral value of other land. The tax base is the cadastral value of the land as determined on January 1 of the reporting year.

Payroll and Social Security Taxes

There is no payroll tax payable by employers.

Payments made by employers to their employees via the payroll are usually subject to personal income tax. Resident taxpayers (i.e. individuals who spend at least 183 days in Russia during a 12-month rolling period) are taxed at a rate of 13% on most types of income, including salary; at 9% on dividends and at 35% on certain other types of income. Non-resident taxpayers are taxed at a rate of 30% on all Russian-sourced income (i.e. income derived from a Russian source or income relating to any activity carried out in Russia), including a salary received for work in Russia. There is an exception for dividends from Russian companies, which are taxed at a rate of 15%. Remuneration paid via the payroll is usually subject to withholding tax at source by the employer. If withholding is performed properly and at the appropriate tax rate, the employees are not required to file a tax return and report income received, unless there are other reasons obliging them to file a tax return (e.g. the sale of property).

The employer is required to make pay-related contributions to pension, social and medical insurance funds. The rates of social security contributions for 2017 are as follows:

- For pension contributions, the rate is 22% of remuneration up to RUB 876,000, plus 10% of any excess over this cap;
- For the social insurance contribution, the rate is 2.9% of remuneration up to RUB 755,000; and
- For medical insurance, the rate is 5.1% of the full amount of remuneration.

Accident insurance contributions are paid by Russian and foreign employers carrying out business activity in Russia on payments made to employees in cash or in kind, in accordance with employment and civil contracts for the services rendered. The contributions are payable on a monthly basis, at rates which vary between 0.2% and 8.5%, depending on the degree of risk inherent in the industry in which the employee works. There are 22 classes of professional risk and the rate is determined for each particular company based on its industry. The lowest risk rate of 0.2% is usually applied to financial institutions.

Income of foreign employees hired under the highly-qualified specialist regime is exempt from social security contributions (only insignificant accident insurance contributions are due).

Most foreign nationals, including citizens of the Eurasian Economic Union are subject to the same contributions as Russian nationals.

Employees are not obligated to pay social security contributions in Russia.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2017 (see www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

Founded on July 13, 1990, the Central Bank of the Russian Federation (CBR) is an independent institution under the constitution of the Russian Federation and the Federal Law on the Central Bank of the Russian Federation. The CBR is charged with supporting government monetary policy and maintaining the stability of the ruble, which also entails managing the country's foreign currency reserves and overseeing the foreign exchange market. As well as serving as lender of last resort to the Russian banking system and issuer of notes and coins, the CBR supervises Russia's banking system and has oversight of the country's payments system.

Other banking supervision bodies

The CBR is responsible for banking supervision and for licensing credit institutions via its Banking Supervision Department and Banking Regulation Department, headed by the bank's First Deputy Chairman. The CBR is responsible for ensuring the stability of the banking system, protecting the interests of creditors and depositors and improving the competitiveness of Russian banks.

The Association of Russian Banks (ARB) was established in 1991 to promote the Russian banking sector, improve banking operations in Russia and enhance interbank cooperation. To this end, the ARB works with the CBR on the development and improvement of banking legislation and is an associate member of the European Banking Federation.

Central Bank Reporting

General

Central bank reporting requirements for balance of payments purposes comply with the Federal Law on the Central Bank of the Russian Federation and its amendments.

What transactions – listed

All transfers between resident and non-resident bank accounts and transactions on resident bank accounts held abroad must be reported to the CBR, with supporting documentation.

Whom responsible

Banks are responsible for reporting details of transfers to the CBR, but the banks' customers are ultimately responsible for the accuracy of the information. Transactions on resident bank accounts held abroad are reported directly to the CBR's relevant regional office.

Additional reporting for liquidity management schemes

There are no additional reporting requirements.

Exchange Controls

Exchange structure

Russia operates a floating exchange rate regime. The central bank has retained the right to intervene in the interbank markets in case of financial stability threats.

Exchange controls for authorized banks are administered by the CBR. Controls for resident companies partaking in international trade are administered by the Federal Service for Fiscal and Budgetary Supervision.

Exchange tax

There is no tax on foreign exchange transactions.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

Forward foreign exchange transactions are permitted by authorized banks. Futures may be traded on Russia's currency and stock exchanges.

Capital flows

Residents must have Financial Markets Service authorization before issuing or selling domestic securities abroad.

Foreign investors are not permitted to purchase controlling stakes in strategically important companies or projects.

Non-resident entities must obtain CBR authorization to establish or acquire more than 10% of a resident credit institution.

Resident banks that acquire capital from banks in Belarus must notify the CBR. Resident banks establishing subsidiaries abroad require CBR authorization; subsidiaries may not be established in countries which are not members of the Financial Action Task Force (FATF).

Loans, interest and repayments

Dividends and interest receipts in favor of residents from non-residents abroad must be paid into foreign exchange accounts held at authorized banks.

Royalties and other fees

There are no restrictions on the payment of royalties and other fees.

Profit remittance

Residents' export proceeds may be held in resident bank accounts abroad in certain cases and must be credited to residents' foreign currency accounts.

Bank Account Rules

Resident entities are either incorporated or have their place of effective management in Russia.

Residents and non-residents may hold local and foreign currency accounts both domestically and abroad. Residents must notify the relevant tax authorities when opening foreign currency accounts abroad. All domestic currency accounts are convertible into foreign currency.

Interest is permitted to be offered on current accounts.

Anti-money Laundering and Counter-terrorist Financing

- Russia has implemented anti-money laundering legislation (Law RF 115-FZ on Combating Legalisation (Laundering) of Criminally Gained Income and Financing of Terrorism 2002 as amended; The Federal Law on the Introduction of Amendments and Addenda to the Federal Law on Counteracting the Legalisation (Laundering) of Income Obtained by Criminal Means 2003, last amended 2008; Federal Law 35 of 2006; Federal Laws 241-FZ and 121-FZ of 2009; Federal Laws 134-FZ and 251_FZ of 2013 and Article 174 of the Criminal Code, as amended).
- A Financial Action Task Force (FATF) member, it observes most of the FATF+49 standards. Russia is also a member of the Council of Europe MONEYVAL Select Committee and the Eurasian Regional Group on Combating Money Laundering and Financing of Terrorism (EAG).
- Russia has established a financial intelligence unit (FIU), the Federal Service for Financial Monitoring (FSFM), which is a member of the Egmont Group.
- Account operating procedures require formal identification of the customer and beneficial owners.
- Financial institutions are required to regularly update CDD information.
- Anonymous accounts are forbidden.
- All customers must be identified although when carrying out transactions exceeding RUR 15,000 and for all transactions where there is a suspicion of money laundering or terrorist financing.
- Correspondent relationships with legal entities that do not have a physical presence in Russia are not permitted. All foreign financial institutions must operate solely through subsidiaries incorporated in Russia which are subject to domestic supervisory authorities.
- Financial institutions in the broadest sense must record and report suspicious transactions to the FSFM.
- All financial institutions in the broadest sense have to identify clients for transactions over RUR 600,000 involving cash, bank deposits, precious materials, life insurance payments, and gambling. Financial institutions are also required to identify clients for transactions involving entities in certain high-risk countries. These transactions must be reported to FSFM.

- Individuals entering the country must declare all currency (foreign or domestic) exceeding USD 10,000; individuals leaving the country must declare currency between USD 3,000 and USD 10,000.
- Banks are required to keep all records for at least five years from the date of the termination of the relationship.

Data as at February 2017.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2016
Sberbank (Savings Bank of the Russian Federation)	372,382*
VTB Bank (Bank for Foreign Trade)	205,423
Gazprombank	79,640
Vnesheconombank	59,702*
Bank VTB 24	50,441
Otkritie Financial Corporation Bank	44,115
Russian Agricultural Bank	40,194
Alfa Bank	38,247
BM Bank	20,560*
Promsvyazbank	19,982
UniCredit Bank	19,134
Credit Bank of Moscow	16,459

* As at December 31, 2015.

Source: www.accuity.com

Overall Trend

The Russian banking system is dominated by two large state-owned banks, Sberbank (Savings Bank of the Russian Federation) and VTB Bank (formerly Vneshtorgbank Bank for Foreign Trade). All of the country's five largest banks are currently state-controlled. The country's five largest banks accounted for 56.0% of the banking sector's total assets at the end of 2016.

Many of Russia's remaining 551 banks are very small, with some not suitable for consolidation as they act more as funding entities for a group of companies. As such there is currently little competition for the dominant domestic players.

The banking crisis of 1998 halved the number of licensed banks operating in Russia through failure or merger. It also paved the way for tighter regulation. A bill passed in 2003 permits the

central bank to investigate any Russian bank for transparency and risk management reasons. The minimum capital requirement for all banks from January 1, 2015, is RUB 300 million.

In December 2014, the government announced a RUB 1,000 recapitalization plan for the banking sector and acquired retail bank National Bank Trust. Approximately 27 banks were declared eligible for government funding, with around RUB 830 billion expected to be allocated to banks.

Additionally in December 2014, both Gazprombank and VTB Bank were recipients of significant capital injections from the RUB 250 billion Russian National Wealth Fund.

With many small banks in Russia closing, a number of leading commercial banks are buying up smaller banks. Most recently, Bank of Moscow was acquired by and absorbed into VTB Bank in May 2016.

Sberbank dominates domestic cash management through its unrivalled branch network across the Russian Federation, but a number of international cash management banks also serve clients in Russia.

Foreign banks have a relatively small but notable presence in the Russian banking market, both through acquisition of stakes in local institutions and the establishment of branches, typically in large cities such as Moscow. Foreign-controlled banks accounted for 12.7% of the banking sector's total assets at the end of April 2017. There are 90 credit institutions operating in Russia which are majority or wholly foreign-owned and 59 foreign banks have branches in Russia. Although penetration is less extensive than in Central Europe, foreign banks have invested in significant shareholdings or wholly-owned subsidiaries, including Société Générale, UniCredit Group, RZB Group, Deutsche Bank, ING Group, Nordea Group and BNP Paribas.

France's Société Générale is the largest foreign investor in Russia's banking sector and merged all its Russian subsidiaries, i.e. Rosbank, BSGV (Banque Société Générale Vostok), Rusfinance and DeltaCredit, under the Rosbank name in the first half of 2011.

Payment Systems

Overview

The CBR's payment system is composed of the BESP RTGS system and an electronic net settlement system. The CBR processes the majority of domestic payments (both paper-based and electronic items) and maintains a network of 74 processing centers across nine time zones. The CBR is also responsible for establishing and overseeing regulations and standards in Russia's clearing and settlement systems.

The majority of the rest of Russia's payments are effected over Sberbank's circa 16,300-strong branch network, either directly by individuals or corporate clients or by banks who hold accounts at Sberbank for clearing and settlement purposes. In addition, payments are also made across the intrabank clearing and settlement systems of banks and non-bank credit institutions as well as via correspondent banking relationships.

High-value

Name of system	BESP (Bank Electronic Speed Payment) system
Settlement type	Real-time gross settlement
Settlement cycle	Payments are settled irrevocably in real-time with immediate finality.
Links to other systems	-
Payments processed	Large-value and urgent credit transfers
Currency of payments processed	RUB
Value and other limits to processing	There are no specific value thresholds. Minimum thresholds can be set by participant banks.
Operating hours	02:00 to 21:00 Moscow time
System holidays	The system is closed on weekends and bank holidays.
Cut-off times	21:00 Moscow time
Participants	All banks or branches of banks in Russia can participate. At the end of 2016, there were 625 participant credit institutions.
Access to system	A BESP-SWIFT Link Subsystem has been introduced, allowing for the transmission of messages via SWIFT.
Future developments	NA

Low-value

Name of system	Central Bank of the Russian Federation electronic net settlement system
Settlement type	Net settlement system
Settlement cycle	Each of the 74 centers processes payments continuously, with settlement between 16:00 and 21:00 Moscow time. Intraregional transfers are usually available to the beneficiary on the same day; interregional transfers are typically available within two working days.
Links to other systems	-
Payments processed	Largely non-urgent cashless payments. Electronic funds transfers and paper-based instruments are processed.
Currency of payments processed	RUB
Value and other limits to processing	There is no maximum or minimum value threshold.
Operating hours	No standard hours as system operates across nine time zones
System holidays	The system is closed on weekends and bank holidays.
Cut-off times	No standard cut-off time as operates across nine time zones, but settlement is 16:00–21:00 Moscow time.
Participants	All banks or branches of banks in Russia can participate. At the end of 2016, there were 629 participant credit institutions.
Access to system	Payment instructions can be submitted electronically, by tape/disc, or via a paper-based instruction. Most payments are initiated by the presentation of payment instructions at commercial bank branches. The SVK information exchange medium for electronic communications has been adopted by all participant institutions.
Future developments	NA

Name of system	Sberbank
Settlement type	Proprietary intrabank settlement system. Payments are internal transfers between accounts held by different entities via the bank's internal network.
Settlement cycle	NA
Links to other systems	NA
Payments processed	Mainly retail and bulk payments on behalf of individuals and corporate customers as well as other banks.
Currency of payments processed	RUB
Value and other limits to processing	No value threshold
Operating hours	NA
System holidays	The system is closed on weekends and bank holidays.
Cut-off times	NA
Participants	NA
Access to system	Only account holders may access Sberbank's payments system.
Future developments	NA

Payment and Collection Instruments

Overview and Trends

Cash is still used for the majority of transactions in Russia and, as such, effective control of physical cash is an important element of cash and liquidity management.

Changes to the tax system and restored confidence in the banking system have led to increased use of cashless payment methods, notably credit transfers which are overwhelmingly electronic in the corporate sector and payment cards. Checks account for a very small proportion of overall payments traffic and are rarely used by companies. Use of direct debits is generally growing in popularity as a collection tool for companies, while card payments are increasingly widely used for retail and salary payments. Letters of credit and bills of exchange are both available but volumes are relatively low.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (RUB billion)		% change
	2014	2015	2015/2014	2014	2015	2015/2014
Checks	neg	neg	-	neg	neg	-
Credit transfers*	2,840.47	2,772.53	- 2.4	640,798.7	729,689.6	13.9
Debit debits	84.63	77.37	- 8.6	1,843.4	1,933.4	4.9
Debit card payments	6,096.85	8,852.11	45.2	11,018.7	15,201.5	38.0
Credit card payments	714.31	951.36	33.2	1,035.8	1,189.5	14.8
E-money	1,013.58	1,075.41	6.1	861.7	646.9	- 24.9
Other payment instruments	1,895.38	1,855.81	- 2.1	6,571.1	7,535.0	14.7
Total	**12,645.22**	**15,584.59**	**23.2**	**662,129.4**	**756,195.9**	**14.2**

* Including postal transactions.

Sources: Bank for International Settlements, *CPMI Red Book* statistical update, December 2016.

Paper-based

Checks

Checks are not commonly used in Russia, largely because there is no standard check format and no check clearing system. They are primarily used for cash withdrawals. Check formats are agreed between the bank and the issuer.

Clearing is conducted bilaterally and value dates vary according to the internal processes of the remitting and beneficiary banks.

The value of checks drawn fell from RUB 33 billion in 2003 to a negligible amount in 2014, largely due to the increase in electronic instruments such as credit transfer and payment cards.

Letters of Credit

Some companies use promissory notes or letters of credit, but volumes are low.

Electronic

Credit Transfer

Credit transfers accounted for 17.8% of the total volume of non-cash payments and 96.5% of the total value of payments in 2015. Electronic credit transfers accounted for 71.2% of credit transfers in 2015. Electronic transfers are particularly popular for company payments, and are used for vendor payments, pensions, tax and social security payments, salaries and treasury operations.

Credit transfers are typically processed via the CBR net settlement system (usually on a same-day settlement cycle depending on the location of the remitting and beneficiary banks). A small number are also processed via the BESP RTGS system (on a same-day settlement cycle). Credit transfers are also effected via correspondent bank accounts or on an intrabank basis.

Paper-based credit transfers are rarely used in the corporate sector. Most paper-based transfers are postal transactions.

Cross-border

Cross-border payments (including payments within Russia between residents and non-residents) are typically made by correspondent banking arrangements or via banks' international branch networks. All large domestic banks and foreign bank branches have access to SWIFT. Value dates vary according to the arrangements and processes of individual banks. Cross-border payments may require supporting documentation.

Direct Debits

Direct debits are used by consumers and businesses for a number of regular payments, but although usage has risen, they account for a very small proportion of overall payment volumes. Direct debits are usually initiated as payment requests, either "with acceptance" (i.e. non-preauthorized) or "without acceptance" (i.e. preauthorized), with the latter used to effect regular utility bills. In addition, collection orders (similar to payment requests "without acceptance") are used to collect tax payments.

Most direct debits are electronic and are processed by the CBR net settlement system, but can also be cleared via correspondent banking arrangements or intrabank settlement mechanisms.

Paper-based direct debits are available, but rarely used in the corporate sector.

Payment Cards

Use of payment cards is low overall in Russia, but increasingly common in large population centers. There were 224.6 million debit cards and 29.5 million credit in circulation at the end of 2016. Most cards are issued by Sberbank. Most large Russian banks are licensed to issue credit or debit cards, including around half in association with Visa or MasterCard. Some companies make salary payments into employee accounts linked to debit cards to reduce the risk and cost of cash payments.

ATM/POS

The development of ATM networks has grown in accordance with the increasing practice of firms in Russia to effect salary payments electronically to employees' accounts, which can then be withdrawn from ATMs via debit cards. Russia has more operational ATMs than any other European country. There were 201,400 ATMs and 1.77 million POS terminals in Russia at the end of 2016.

Electronic Wallet

There were approximately 42.2 million cards with an electronic wallet function circulating in Russia at the end of 2015.

The Visa Qiwi Wallet is an electronic wallet based on a Visa prepaid account. Approximately 16.7 million consumers use the Visa Qiwi Wallet to pay over 75,000 billers and merchants in Russia.

Liquidity Management

Short-term Borrowing

Overdrafts

Although rare, overdrafts are available from Russian and foreign banks to companies of good credit quality.

Bank Lines of Credit / Loans

Lending in RUB and USD tends to be reserved for long-standing clients.

Foreign banks concentrate on lending to Russian subsidiaries of foreign multinational and Russian natural resource companies. Often a parent guarantee is required for the former.

Interest rates tend to be fixed on loans from Russian banks and floating (Libor-based) from foreign banks.

Trade Bills – Discounted

Russian banks seldom discount trade bills.

Factoring

Factoring in Russia is primarily focused on domestic payments, however import and export factoring are both available. Both recourse and non-recourse factoring is available for RUB and foreign currency receivables. Approximately 30 banks and factoring companies in Russia currently provide factoring services.

Commercial Paper

Unsecured promissory notes (veksels) for one, three and six months are used for commercial paper, but companies increasingly use corporate bonds (see long-term funding), which have a better legal and regulatory standing.

The commercial paper market is unregulated, with no formal credit rating system.

Bankers' Acceptances

Bankers' acceptances do not exist in Russia.

Supplier Credit

Supplier credit is often used to fund the import of equipment and machinery, particularly within the telecommunications and food production sectors.

Intercompany Borrowing, including Lagging Payments

It is illegal for Russian companies to lend money to or borrow money from each other, but this is easily disguised, through methods such as transfer pricing, when companies trade with each other.

Foreign multinationals often fund their Russian subsidiaries, but stricter thin capitalization rules limit the extent of this funding route.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest is permitted on current accounts held by residents and non-residents, with some restrictions, but is rarely offered.

Demand Deposits

Demand deposits are available in Russia and are a popular form of short-term investment. Minimum investment levels vary between banks.

Time Deposits

Time deposits are offered in local and major foreign currencies from the majority of commercial banks. Time deposits typically have maturities of one, three, six and 12 months, but there is increasing demand for maturities exceeding one year.

Certificates of Deposit

Commercial banks can issue certificates of deposit (CDs) with maturities ranging from one day to over a year, but most CDs are for between one and six months.

Treasury (Government) Bills

The Ministry of Finance regularly auctions short-term OFZs (i.e. zero-coupon government bonds) with maturities up to one year, in denominations of RUB 1,000. The bonds are traded on MICEX, but yields are low and demand is small. Domestic banks and institutional investors are the primary investors in OFZs.

The CBR issues short-term deposits through weekly auctions, with maturities of one day, one week, one month or three months. Zero-coupon bonds are also issued by the CBR through regular auctions, with maturities ranging from three to six months.

Commercial Paper

Rather than issuing commercial paper, Russian firms and banks offer veksels, short-term zero-coupon unsecured promissory notes, for investment to banks and other companies. Veksels are issued directly to investors or via brokers. Maturities are for one, three and six months and yields are higher than many other investments, but veksels can also be high risk as the market is not regulated.

Money Market Funds

Money market funds are not widely available at present.

Repurchase Agreements

Repurchase agreements (repos) on corporate and government bonds are traded on MICEX. Repos on government bonds have maturities ranging between one week and one year. Repos on corporate bonds have maturities of up to three months. Repos are traded in RUB and USD.

Bankers' Acceptances

Bankers' acceptances are not used by Russian companies for short-term investment purposes.

Liquidity Management Techniques

A variety of liquidity management techniques are available from domestic and, increasingly, international banks in Russia. However, there is no clear legal framework for liquidity management structures, so independent legal and tax advice should always be sought.

Cash Concentration

Cash concentration and zero-balancing are available from a number of leading cash management banks. Cash concentration structures are only permitted for RUB-denominated accounts.

Accounts held by resident and non-resident entities may participate in the same cash concentration structure. Cross-border cash concentration is permitted but it is not a common practice.

Notional Pooling

Domestic notional pooling is available from a number of leading cash management banks and restricted to RUB-denominated accounts, usually held by the same legal entity.

Notional pooling is permitted between different legal entities, although firms must act in accordance with Russia's arm's length transfer pricing and thin capitalization rules.

Cross-currency notional pooling is not permitted and cross-border notional pooling is not available.

Interest rate enhancement schemes have been developed as an alternative; they can involve both reisdents and non-residents and can mix currencies.

Trade Finance

General Rules for Importing/Exporting

Importers and exporters must observe Russia's exchange control requirements for any foreign exchange transactions required to support trade. In general, a passport of transaction must be issued by an approved bank before a foreign exchange transaction can be authorized.

Russia operates 19 special economic zones where customs duties are not applied. In addition, Sheremetyevo International Airport operates as an offshore tax regime.

Russia is a signatory of the Commonwealth of Independent States Free Trade Agreement (CISFTA) alongside Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan. The CISFTA has thus far been ratified in all signatory countries except Tajikistan.

The Eurasian Customs Union was launched between Belarus, Kazakhstan and Russia on July 5, 2010, and all remaining customs borders between the countries were removed on July 1, 2011. A single economic space (Eurasian Economic Space) between the three was established on January 1, 2012. The Eurasian Customs Union, Eurasian Economic Space and Eurasian Economic Community (EurAsEC) ceased to exist on January 1, 2015, to coincide with the launch of the Eurasian Economic Union (EEU) which, after an enlargement treaty was signed in October 2014, also includes Armenia. Kyrgyzstan joined the EEU on August 12, 2015, after the accession agreement had been ratified by the other EEU member states. There are no customs border controls between EEU member states.

Imports

Documentation Required

Imports must be accompanied by a customs declaration, a commercial invoice with full description of the imported goods, a bill of lading, a packing list and a certificate of origin.

Import Licenses

Licences are required for imports of various alcoholic products, medicine, military equipment, dual-use items, ozone-depleting substances and industrial waste.

Import Taxes/Tariffs

Imports are subject to duties ranging from 5% to 25%, with some sensitive goods levied at rates of up to 80%. Some imports from developing countries are subject to customs duties at 75% of the standard rate.

A number of goods, including certain pharmaceuticals, printed materials, cotton, various species of animal, raw diamonds, wheelchairs, works of art and articles of cultural or historical value, are exempt from customs duties.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

Russia does not operate a national risk mitigation program for importers.

Prohibited Imports

Russia operates a negative list of products that may not be imported. In particular, it is prohibited to import certain certain goods to protect the safety and health of flora and fauna, and in the interests of national security.

Private imports of ethyl alcohol are also banned.

Russia imposed a one-year ban on imports of selected agricultural products and raw materials from the EU, USA, Canada and Australia on August 6, 2014. The ban has since been renewed for an additional year.

Exports

Documentation Required

Exports must be accompanied by a customs declaration, commercial invoice, packing list, bill of lading and certificate of origin. Resident exporters must submit all relevant documents to an authorized bank.

Export Licenses

Licenses must be obtained from the Ministry for Economic Development for exporting military equipment, armaments, dual-use items, precious stones and metals, rare species of flora and fauna, ethyl alcohol and alcoholic products, as well for additional goods and services in line with international agreements.

Export Taxes/Tariffs

Export tax (of 3.75% in most cases) is payable on over 350 different items and a maximum tariff of 30% is charged on natural gas. In addition, crude oil and petroleum are also subject to specific duties, while some items are subject to combined duties.

Proceeds

Residents' export proceeds may be held in resident bank accounts abroad in certain cases and must be credited to residents' foreign currency accounts

Financing Requirements

There are no particular financing requirements for exports.

Risk Mitigation

Short-term export financing is available from commercial banks.

The large state-owned banks such as VTB Bank (Bank for Foreign Trade) and Vnesheconombank finance exports covered by state export orders or intergovernmental trade agreements. They also provide state guarantees.

Private export credit insurance is available from Euler Hermes and Coface Russia.

Prohibited Exports

Russia operates a prohibited list of exports.

Information Technology

Electronic Banking

Electronic banking services are provided to corporate customers by a number of large Russian and international banks, but overall usage is less common than elsewhere in Europe. As there is no common standard for electronic banking services, multi-bank functionality is very limited and integration with ERP systems can be labor-intensive. The bank-independent MultiCash electronic banking platform is offered by a number of banks. Most banks offer intra-day balance reporting and domestic and cross-border transaction initiation services.

Although internet banking services are offered by most of the country's leading banks, usage has been restricted by the lack of broadband internet access outside Moscow and St Petersburg, and onerous electronic signature legislation. There were 103.1 million internet users in Russia (70.5% penetration) at the end of March 2017.

CyberPoint, Yandex Money and Qiwi are electronic platforms enabling payments to be made and good and services to be purchased electronically and online. Qiwi also has a circa 162,000 terminal network across Russia.

External Financing

Long-term Funding

Bank Lines of Credit / Loans

Russian banks (particularly Sberbank) and foreign banks provide RUB and foreign currency (USD and EUR) term loans, the latter mostly to finance exports and projects with export proceeds to service the loan.

Term funding is reserved for long-standing bank clients and/or large companies of good credit quality.

USD loans are at a margin over the London Interbank Offered Rate (Libor). Interest rates on RUB loans are set by the Russian banks.

Collateral is usually required, and may include real estate, securities, goods, vehicles, government guarantees, and export receivables. While the legal status of land titles remains unclear less reliance is placed on real estate as security.

Term finance is available from multilateral banks such as the European Bank for Reconstruction and Development, the World Bank and the International Finance Corporation.

Leasing

Small and medium-sized companies (SMEs) use leasing to fund equipment purchases because bank debt is difficult to obtain.

Equipment, machinery and vehicles are commonly leased at fixed interest rates comparable to those for bank loans.

Besides the security of the leased asset, lessors also typically require additional collateral or guarantees.

Bonds

Russian companies can issue domestic RUB-denominated bonds and local eurobonds. The former issues are often favored by banks, which prefer to hold corporate paper rather than lend directly to the same company.

Foreign companies may issue RUB-denominated bonds, the proceeds of which may only be spent within the country.

Corporate bond issues are regulated by the Federal Financial Markets Service, with whom bond issues are registered.

Prospectuses have to include the issuer's financial reports and details about itself and its investment goals.

Bank bond issues are regulated by the CBR.

Bonds are also issued by regional and municipal authorities, usually for two to three years. Bonds issued by the City of Moscow usually have interest rates aligned with federal government loan obligations (OFZs). Those issued by other authorities tend to have higher yields.

Private Placement

There are no private placements of debt in Russia.

Asset Securitization / Structured Finance

Russian asset-backed securities account for the majority of those issued in Europe's emerging markets.

The federal Law on Mortgage-Backed Securities has helped the development of a domestic mortgage-backed securities market for bonds and participation certificates.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

The state-owned Vnescheconombank provides funding for infrastructural development projects, and research-and-development projects.

Public-private partnership finance initiatives are a popular source of funding for construction and infrastructural development.

Useful Contacts

National Investment Promotion Agency

National Agency for Direct Investment — www.napi.ru

Central Bank

Central Bank of the Russian Federation — www.cbr.ru

Banks

Sberbank — www.sberbank.ru

VTB Bank — www.vtb.com

Gazprombank — www.gazprombank.ru

Vnesheconombank — www.veb.ru

Stock Exchanges

Moscow Exchange — www.moex.com

Saint Petersburg Currency Exchange (SPCEX) — www.spcex.ru

Saint Petersburg Stock Exchange (SPBEX) — www.spbex.ru

Ministry of Finance

Ministry of Finance — www.minfin.ru

Ministry of Economy

Ministry of Economic Development — www.economy.gov.ru

Chamber of Commerce

Chamber of Commerce and Industry of the Russian Federation — www.tpprf.ru

Privatization Agency

Federal Agency for State Property Management — www.rosim.ru

Bankers' Association

Association of Russian Banks — www.arb.ru

Association of Regional Banks of Russia — www.asros.ru