United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
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Rob Portman, Chairman
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THE ART INDUSTRY AND U.S. POLICIES THAT UNDERMINE SANCTIONS

STAFF REPORT

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

UNITED STATES SENATE

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TABLE OF CONTENTS

THE ART INDUSTRY AND U.S. POLICIES THAT UNDERMINE SANCTIONS

I. EXECUTIVE SUMMARY

The United States government imposes economic sanctions on foreign adversaries in attempt to change their behavior. In theory, sanctions are simple. U.S. persons and companies are prohibited from doing business with sanctioned persons and entities. This prohibition should bar access to the world's largest economy. The United States imposes sanctions for a wide range of reasons. For example, the United States has imposed sanctions on Russia for election interference, human rights abuses, providing support to Venezuela and Syria, but mainly in response to Russia's invasion of Ukraine.

This report focuses, in particular, on a case study documenting how certain Russian oligarchs appear to have used transactions involving high-value art to evade sanctions imposed on them by the United States on March 20, 2014 in response to Russia's invasion of Ukraine and annexation of Crimea.

Arkady Rotenberg and Vladimir Putin (Photo Credit: The New Yorker)

Specifically, the Subcommittee traced purchases of high-value art back to anonymous shell companies linked to sanctioned individuals Arkady and Boris Rotenberg, two Russian oligarchs, and Arkady's son, Igor. It appears the Rotenbergs continued actively participating in the U.S. art market by purchasing over $18 million in art in the months following the imposition of sanctions on March 20, 2014. Shell companies linked to the Rotenbergs also transferred over $120 million to Russia during a four-day window between President Obama's March 16, 2014 executive order stating that the U.S. would be sanctioning certain Russian individuals and the Treasury Department specifically naming the Rotenbergs as sanctioned on March 20, 2014. In addition, certain Rotenberg-linked shell companies continued transacting in the U.S. financial system long after Arkady and Boris Rotenberg were sanctioned. The Subcommittee determined these Rotenberg-linked shell companies engaged in over $91 million in transactions post-sanctions.

While Russia-related sanctions, including those against the Rotenbergs, were set to expire in March 2020, President Trump extended them for another year. The effectiveness of these sanctions, however, is in question. To date, Russia has not withdrawn from Crimea and has even expanded its military operations in

surrounding waters. The Subcommittee sought to understand why the sanctions have not been more effective and, after reviewing a number of suspect transactions, launched a narrow investigation into high-value art. If wealthy Russian oligarchs can purchase millions in art for personal investment or enjoyment while under sanction, it follows that their businesses or hidden resources could also continue accessing the U.S. financial system.

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The Subcommittee's investigation uncovered a complex set of facts involving shell companies with hidden owners, intermediaries who mask purchasers and sellers, and lax money laundering safeguards in the U.S. art industry.

The art industry is largely unregulated. The art industry is considered the largest, legal unregulated industry in the United States. Unlike financial institutions, the art industry is not subject to Bank Secrecy Act's ("BSA") requirements, which mandate detailed procedures to prevent money laundering and to verify a customer's identity. While the BSA does not apply to art transactions by art dealers and auction houses, sanctions do. No U.S. person or entity is allowed to do business with a sanctioned individual or entity.

The art industry has been enjoying a boom. According to the 2019 Art Basel and UBS Global Art Market Report, world-wide art sales hit $64.1 billion in 2019. That report found the United States was the world's largest art market comprising 44 percent of global sales, or around $28.3 billion. The art industry is generally divided into sales at public auctions and by private dealers. In 2019, sales at auction houses made up 42 percent of total art sales, while the remaining 58 percent of sales were through private dealers. The four biggest auction houses by sales—Sotheby's, Christie's, Phillips, and Bonhams—are selling art for sizeable amounts. In November 2017, Leonardo da Vinci's *Salvator Mundi* sold at auction at Christie's in New York for over $450 million. In May 2019, Christie's New York sold Jeff Koon's *Rabbit* for over $91 million, the highest price ever paid for a piece by a living artist. Even during the COVID-19 pandemic, an online auction at Sotheby's brought in $234.9 million in total sales, including $84.55 million for *Triptych Inspired by the Oresteia of Aeschylus* by Francis Bacon. In turn, the auction houses report large annual sale numbers. Sotheby's reported $4.8 billion in sales for 2019, while Christie's reported $2.8 billion in sales for just the first six months of 2019.

Investors have taken notice. Deloitte's 2019 Art and Finance Report noted that "artnet's Index for Top 100 Artists produced an 8 percent Compound Annual Growth Rate between 2000 and 2018, compared with 3 percent for the S&P 500." For example, Banksy's *Devolved Parliament* sold at Sotheby's in London on October

3, 2019 for around $12.2 million; the artist's previous record for a painting sold at auction was $1.87 million for *Keep It Spotless* in 2008.

Secrecy is pervasive in the art industry. While the art market is not regulated by the BSA, it is governed by unwritten rules. A large number of art sales happen through intermediaries referred to as "art advisors" who can represent both purchasers and sellers. In a typical transaction, a purchaser may not ask who owns the piece of art they are purchasing; the seller may not ask for whom it is being purchased or the origin of the money. And in general an art advisor would be reluctant to reveal the identity of their client for fear of being cut out of the deal and losing the business.

Auction houses have voluntary AML polices. Because the art industry is not subject to BSA requirements, when a piece of art is sold, there is no legal requirement for the selling party to confirm the identity of the buyer or that the buyer is not laundering money through the purchase. While the four biggest auction houses have voluntary anti-money laundering ("AML") programs, the employees who facilitated art purchases in the Subcommittee's case study said they never asked the art advisor the identity of his client. Instead, the auction houses considered the art advisor the principal purchaser and performed any due diligence on the art advisor, even when it was well-known that the ultimate owner was someone else. With regard to the funds used to purchase art, the auction houses told the Subcommittee they rely on financial institutions to ensure the integrity of the funds, even though the auction houses interact directly with the buyer. But these voluntary AML policies are just for sales through the auction houses. As stated above, the majority of art sales are private transactions. A private dealer interviewed by the Subcommittee stated she had no written AML policies, tries to work with people she knows and trusts, looks for red flags, and relies on her gut. She also explained that her practices have significantly changed over the years and that she also relies on advice from AML lawyers.

Secrecy, anonymity, and a lack of regulation create an environment ripe for laundering money and evading sanctions.

Tracing the ownership of anonymous shell companies, including those involved in high-value art transactions, is difficult. That difficulty continues even though corporate secrecy suffered a blow in the spring of 2016 when the International Consortium of Investigative Journalists ("ICIJ") shocked the world by releasing information on 214,488 offshore entities from the Panamanian law firm Mossack Fonseca (the "Panama Papers"). One email chain included among the Panama Papers and made public described links between nine offshore companies to the Rotenbergs. The email chain listed Boris Rotenberg as the ultimate beneficial owner ("UBO") of Highland Ventures Group Limited ("Highland Ventures") and Arkady Rotenberg's son Igor as the UBO of Highland Business

Group Limited ("Highland Business"). The email copied London-based attorney Mark Omelnitski, who used his firm the Markom Group to establish and maintain shell companies for the Rotenberg family.

The true ownership of the listed shell companies was not, however, as straightforward as the Panama Papers email chain suggested. For example, based on financial information reviewed by the Subcommittee during its investigation, Arkady Rotenberg appeared to be the UBO of Highland Ventures, not his brother Boris. That information included non-public wire transfers showing multi-million dollar transfers from a company owned by Arkady Rotenberg to Highland Ventures. In 2012 and 2013, that company—Milasi Engineering—transferred over $124 million marked as annual dividends to Highland Ventures. The December 31, 2014 Financial Report for Milasi Engineering listed Arkady Rotenberg as its UBO, making it clear that Highland Ventures received its funding from a company owned by an individual the U.S. would later sanction. Milasi Engineering also held shares in Stroygazmontazh, a gas pipeline company sanctioned in April 2014 by the United States due to its ownership by Arkady Rotenberg.

Arkady Rotenberg transferred his business interests to his son, Igor. In July 2014, four months after the United States sanctioned Arkady, Mr. Omelnitski's firm, the Markom Group, executed paperwork that appeared to transfer Arkady's interest in Milasi Engineering to his son, Igor, who was not sanctioned at the time. Milasi Engineering was owned by two other holding companies. The Markom Group transferred the ownership of those two companies to Highland Ventures, which it asserted had always been owned by Igor. Therefore, from July 2014 to April 2018, when Igor was finally sanctioned by the United States, Milasi Engineering was owned on paper by an unsanctioned individual. A report by a bank investigator produced to the Subcommittee determined the transfer of Milasi Engineering from Arkady to Igor was done solely to evade sanctions, and the Markom Group "intentionally structured [the ownership of these shell companies] to be opaque in order to hide the identities of true beneficiaries." In response, the bank closed all accounts associated with the Markom Group. This included closing accounts held by art advisor Gregory Baltser.

Art advisor Gregory Baltser facilitated purchases for the Rotenbergs. Intermediaries played a central role in the Rotenbergs' art purchases in the United States. As previously explained, Mr. Omelnitski and his company, the Markom Group, established and maintained shell companies for the Rotenbergs to mask their identities. The Rotenbergs also employed art advisor Gregory Baltser, who facilitated the purchase and sale of high-value art both before and after sanctions without disclosing the names of his clients.

Mr. Baltser is a U.S. citizen, who must comply with U.S. sanctions laws, but his business is based in Moscow. Prior to sanctions, funds Mr. Baltser used to

purchase art linked to the Rotenbergs followed a unique and recognizable financial path: Mr. Baltser bid on specific artworks at auction, purchased the art, and then assigned the title to the art to a Belize company named Steamort Limited ("Steamort"). Steamort paid for the art using funds the Subcommittee traced back to Highland Business.

Mr. Baltser, however, was not the owner of Steamort; he had a contract with Steamort to serve as a consultant to purchase art on behalf of the company. A copy of that contract was produced to the Subcommittee by Christie's. Both the contract and financial records showed that Steamort paid Mr. Baltser $9,500 a month for his services. In total, between March 2010 and October 2018, financial records show Mr. Baltser received $1,116,000 in fees for his consulting services under the Steamort Agreement.

Company documents obtained by the Subcommittee listed Steamort's only director and shareholder as Jason Hughes. According to a report by ICIJ, Mr. Hughes was associated with over 200 other companies as a nominee director—an individual who masks the true UBO of a shell company.

The owner of Steamort remains unknown. In 2012, Christie's questioned Mr. Baltser about who owned Steamort, and asserted that Mr. Baltser could no longer bid at auctions until he provided Steamort's UBO. Initially, Mr. Baltser responded that he did not know who owned Steamort. When pressed and threatened with missing the opportunity to bid at an upcoming auction, Mr. Baltser verbally told Christie's that Steamort was owned by "Luisa Brown." Christie's accepted this verbal assertion, conducted AML checks on Ms. Brown, found no derogatory information, and cleared Mr. Baltser to continue bidding at auctions. Mr. Baltser never provided any documentary evidence of Steamort's ownership by Ms. Brown. The Subcommittee was unable to confirm if an individual named Luisa Brown was the UBO for Steamort, or if she even existed at all.

Mr. Baltser opened an auction agency and club in Moscow. In late 2012, Mr. Baltser announced he was planning to open BALTZER Auction Agency and Club. The agency would be located in Moscow and its members would be "the leading Moscow and Russian collectors – the active participants of auction biddings at many world marketplaces." Mr. Baltser proposed to partner with both Christie's and Sotheby's. As part of the proposed agreement, Mr. Baltser stated that he would

BALTZER Auction Agency and Club (Photo Credit: BALTZER)

bid at auctions on behalf of his clients under an account in the name of BALTZER. This allowed Mr. Baltser to guarantee on his website that "we can give you complete anonymity." Under the proposed agreement, Mr. Baltser pledged to conduct all AML and sanctions checks on his clients and provide an annual certification to the auction houses that no member of BALTZER was engaged in money laundering. Mr. Omelnitski served as BALTZER's chief AML officer and represented Mr. Baltser in contract negotiations with the two auction houses. To be clear, Mr. Baltser put the same attorney who established and maintained shell companies to mask the Rotenbergs' ownership in charge of his new venture's AML compliance.

Christie's partnered with BALTZER. Christie's accepted Mr. Baltser's proposal and signed the agreement with BALTZER on February 4, 2014. At the end of 2014, Mr. Omelnitski certified to Christie's that "despite BALTZER having a significant number of Russian clients there were no transactions, which fall under recent sanctions against Russia." Mr. Omelnitski failed to provide another such certification for the next three years, despite repeated requests from Christie's to provide the annual certificate promised in the agreement. In 2018, Christie's renegotiated its agreement with BALTZER to require client due diligence documents after each purchase.

A Sotheby's employee identified Arkady and Boris Rotenberg as Mr. Baltser's clients. Sotheby's also considered Mr. Baltser's business proposal, but ultimately declined. During negotiations, a Sotheby's employee represented to Sotheby's management that Mr. Baltser had told her that his clients included Russian oligarchs. In fact, she told Sotheby's management that Mr. Baltser had identified Arkady and Boris Rotenberg as two of his clients (five months prior to U.S. sanctions). During her Subcommittee interview, however, the same Sotheby's employee said Mr. Baltser had never told her that Arkady and Boris Rotenberg were his clients. Instead, she asserted she fabricated this information in an effort to convince Sotheby's to accept BALTZER's proposal. Despite declining the proposal, Sotheby's continued to conduct business as usual with Mr. Baltser and his new company, BALTZER, and never questioned whether Arkady and Boris Rotenberg were his clients. The Subcommittee independently traced post-sanction purchases by BALTZER to shell companies linked to the Rotenbergs, suggesting the Sotheby's employee was not truthful in her Subcommittee interview.

Mr. Baltser continued to purchase art with funds linked to the Rotenbergs even after March 2014 sanctions. Following the imposition of sanctions by the United States on Arkady and Boris Rotenberg in March 2014, the funds Mr. Baltser used to purchase works of art at auction houses continued to follow the same general financial path as before sanctions. By this time, BALTZER provided another layer of anonymity for the funds used to purchase art. After Mr. Baltser successfully bid at auction, funds were wired from Highland Ventures to Steamort,

just as they had arrived from Highland Business before sanctions. Steamort then wired funds to BALTZER, which paid the auction house and took title of the purchase. All four auction houses considered Mr. Baltser the principal purchaser, rather than an agent for a buyer, and never asked for whom he was purchasing the art. Any client due diligence was performed only on Mr. Baltser and not his undisclosed clients, satisfying the voluntary AML policies at the auction houses.

Highland Ventures purchased a painting through a private art dealer. The funds used to purchase René Magritte's *La Poitrine* for $7.5 million in May 2014 through a private art dealer followed a different path. In this transaction, Highland Ventures took title to the painting and was listed on the invoice as the buyer. Anna Wilkes, an employee of Mr. Omelnitski's Markom Group, signed on behalf of Highland Ventures as its Director. The funds used to pay for the painting were wired to the private dealer from a company named Advantage Alliance. The Subcommittee traced those funds to a company called Senton Holdings. An investigation by a financial institution–produced to the Subcommittee–determined Senton Holdings was owned by Arkady Rotenberg, linking him through the chain of wire transfers to the purchase of the painting.

Art was shipped to Germany for storage. *La Poitrine*, like much of the art traced to companies linked to the Rotenbergs, was shipped to a storage facility in Germany called Hasenkamp. The Subcommittee contacted Hasenkamp and was told the art was originally stored there under the name Highland Business; no individual was named. Later, a company named Taide Connoisseur Selection took over the contract to store the art at Hasenkamp. The only individual named on Taide Connoisseur Selection's website was Mr. Omelnitski.

In August 2019, during the course of the Subcommittee's investigation, the Taide Connoisseur Selection account at Hasenkamp was closed and all art stored under the account was shipped to Moscow.

Art purchases linked to the Rotenberg shell companies totaled millions of dollars. In total, the Subcommittee traced funds for over $18 million in art purchased in the United States from March 2014 to November 2014, both at auction houses and through private sales back to shell companies that appeared to be funded or owned by the Rotenbergs.

Sotheby's agreed to sell Brucke II for Mr. Baltser during the Subcommittee's investigation. Mr. Baltser also sold paintings owned by his clients. In late 2018, he attempted to sell Lyonel Feininger's *Brucke II*. *Brucke II* was originally purchased through Mr. Baltser on February 4, 2014 at an auction at Christie's in London. The painting later appeared on a list of 31 paintings sent to Christie's by a BALTZER employee, who stated that the list represented the collection of one of Mr. Baltser's clients. The Subcommittee traced 16 paintings on the list purchased in the United

States back to suspected Rotenberg shell companies. This suggests that all 31 paintings were owned by the Rotenbergs.

Lyonel Feininger's Brucke II (Photo Credit: Christie's)

When Mr. Baltser attempted to sell *Brucke II* in late 2018, both Christie's and Sotheby's expressed interest in having the painting at their auctions. Ultimately, Mr. Baltser's client chose Sotheby's to sell *Brucke II* at auction in February 2019. At the time, the Subcommittee was actively investigating the auction house and Mr. Baltser. Sotheby's requested Mr. Baltser provide the name of the UBO of the painting, including whether that individual was currently sanctioned. Mr. Baltser said *Brucke II* had been resold since it was purchased at Christie's in February 2014 and now belonged to a company incorporated in the Marshall Islands and provided a Russian passport for the company's UBO. The Subcommittee asked Sotheby's to request the name of the February 2014 purchaser of the painting; Mr. Baltser declined to disclose the name of that purchaser due to a non-disclosure agreement. Sotheby's ultimately pulled the painting from the 2019 auction due to a lack of interest.

The Subcommittee asked to interview Mr. Baltser, but through his attorney, he declined the request and stated he was in Moscow and had no plans to return to the United States. Through his attorney, Mr. Baltser stated that: he has never represented or transacted with Arkady or Boris Rotenberg; Highland Business and Highland Ventures were not listed as sanctioned by the Treasury Department; and he did not have access to the Panama Papers.

A *delay between the 2014 announcement and imposition of sanctions created a window to send U.S. dollars to Russia*. On March 16, 2014, President Obama signed an executive order authorizing the Treasury Department to impose sanctions on individuals for Russia's annexation of Crimea. But the Treasury Department did not name the specific individuals sanctioned under the executive order until March 20, 2014. During this four-day window, Rotenberg-linked shell companies transferred over $120 million through the United States to Russia. On March 18, 2014, Highland Ventures transferred over $39.5 million from its account at The Pictet Group in Switzerland through the U.S. financial system to its account at Gazprombank in Moscow. That same day, Culloden Properties transferred over $82

million from its Pictet Group account in Switzerland through the U.S. financial system to its account in Moscow at the Gazprombank. Both the Panama Papers and documents produced to a financial institution by the Markom Group—and subsequently provided to the Subcommittee—identify Boris Rotenberg as the owner of Culloden Properties.

Rotenberg-linked shell companies transacted in U.S. dollars post-sanctions. Shell companies linked to the Rotenbergs continued conducting transactions through the U.S. financial system even after the imposition of sanctions in March 2014. For example, including its art purchases, Highland Ventures was involved in transactions worth over $16 million. Advantage Alliance was involved in transactions worth over $29 million. And while the UBO of Steamort remains hidden, the company served as an intermediary between Rotenberg-linked shell companies and BALTZER in the purchase of art. Following the imposition of sanctions in March 2014, Steamort was a part of transactions totaling over $22 million. In total, the Subcommittee identified over $91 million in transactions by Rotenberg-linked shell companies after sanctions were imposed on the Rotenbergs in March 2014.

The Subcommittee's Investigation

The Subcommittee initiated its investigation after reviewing a number of suspicious transactions that appeared to involve art purchased through auction houses and private dealers. Funds used in these transactions originated at entities linked to the Rotenberg family through the Panama Papers and other public information. As part of its investigation, the Subcommittee reviewed over one million documents from the four major auction houses, a private art dealer, an independent public gallery, and seven financial institutions. The Subcommittee interviewed current and former employees of Sotheby's, Christie's, Phillips, and Bonhams. The Subcommittee also interviewed a private dealer based in New York and two art advisors located overseas who were all involved in the same multi-million dollar transaction. All entities cooperated with the Subcommittee's requests, except for Mr. Baltser. Through his attorney, Mr. Baltser declined to be interviewed by the Subcommittee and stated he was in Moscow with no plans to return to the United States.

FINDINGS OF FACT AND RECOMMENDATIONS

Findings of Fact

(1) **The art market is the largest legal, unregulated market in the United States**. The art industry is not subject to the BSA and is not required under U.S. law to maintain AML and anti-terrorism financing controls for transactions. However, all U.S. persons and entities are prohibited from transacting with sanctioned individuals or entities as determined by the U.S. Treasury Department Office of Foreign Asset Control ("OFAC").

(2) **Sotheby's, Christie's, Phillips, and Bonhams all have voluntary AML controls in place**. Despite no legal requirement to do so, the four auction houses reviewed by the Subcommittee had established voluntary AML policies.

(3) **Private art dealers are not subject to AML requirements.** One private dealer told the Subcommittee she had no written AML or sanctions policies and instead relied on her gut and worked with people she knew. She also explained that questioning the identity of the buyer and the source of funds in an art transaction was not done in the art industry, nor would the dealer for the purchaser want to provide that information. During an interview with the Subcommittee, she explained that her practices have changed over the years and that she relies on the advice of lawyers with expertise in AML and related areas and looks for potential red flags in transactions.

(4) **The auction houses treated an art agent or dealer as the principal purchaser of art, even if they had reason to believe they were working with an undisclosed client.** This practice enables the auction house to perform due diligence on the art agent or dealer instead of identifying and evaluating the undisclosed client, creating a significant AML vulnerability.

(5) **The United States sanctioned members of the Rotenberg family in March 2014**. On March 16, 2014, President Obama signed Executive Order 13661 imposing sanctions on Russia due to its annexation of Crimea. Arkady and Boris Rotenberg were among the Russian citizens specifically sanctioned on March 20, 2014 due to their close ties to Russian President Vladimir Putin, which included awards of large government contracts to companies they owned. The U.S. Treasury Department later sanctioned specific Rotenberg-owned companies (on April 28, 2014), Boris Rotenberg's son Roman (on June 30, 2016), and Arkady Rotenberg's son Igor (on April 6, 2018). Both Roman and Igor Rotenberg were sanctioned due to their financial ties to their sanctioned fathers.

(6) Information released in 2016 from the law firm of Mossack Fonseca—known as the "Panama Papers"—linked the Rotenbergs to certain shell companies involved in high-value art purchases reviewed by the Subcommittee. The Panama Papers included an email chain made public that listed nine shell companies in the British Virgin Islands ("BVI") linked to Arkady, Boris, and Igor Rotenberg. That email copied attorney Mark Omelnitski and identified Igor Rotenberg as the UBO for Highland Business Group Limited ("Highland Business") and Boris Rotenberg as the UBO for Highland Ventures Group Limited ("Highland Ventures").

(7) Mark Omelnitski is a London-based attorney linked to the Rotenbergs and art advisor Gregory Baltser. Mr. Omelnitski—through his company the Markom Group—assisted the Rotenbergs in establishing and maintaining shell companies. He also assisted art advisor Gregory Baltser in establishing his art agency BALTZER in Moscow. In discussions Mr. Baltser had with Sotheby's and Christie's about partnering with BALTZER, Mr. Omelnitski served as Mr. Baltser's attorney and also represented that he administered Mr. Baltser's AML and sanctions policies as his Money Laundering Reporting Officer.

(8) Both Highland Business and Highland Ventures received funding from companies linked to Arkady Rotenberg. Highland Business received funding from Advantage Alliance Ltd ("Advantage Alliance"), which an internal bank investigation linked to Arkady Rotenberg. Highland Ventures received over $124 million in funding from Milasi Engineering Limited. The 2014 Milasi Engineering Financial Statement listed Arkady Rotenberg as the ultimate beneficial owner of the company.

(9) Gregory Baltser is a Moscow-based art advisor who facilitated art purchases linked to the Rotenbergs. Mr. Baltser purchased art in the United States with funds that the Subcommittee traced back to Highland Business and Highland Ventures. Prior to the implementation of sanctions on Arkady and Boris Rotenberg in March 2014, the funds Mr. Baltser used to purchase certain art followed a pattern: Highland Business wired the funds to purchase the art to Steamort Ltd ("Steamort"). Steamort then wired the funds from its bank account in Estonia to the auction house and took title to the art.

(10) Steamort's UBO remains unknown. In 2012, Christie's questioned Mr. Baltser about the ownership of Steamort, a company formed in Belize. Mr. Baltser told Christie's that he did not know and could not provide the name of the owner. After Christie's threatened Mr. Baltser would be unable to bid at an auction unless he identified the owner of Steamort, Mr. Baltser told Christie's the UBO for Steamort was "Luisa Brown." Christie's accepted this verbal assertion and cleared Mr. Baltser to bid in the auction. Mr. Baltser never

provided any documentation that Luisa Brown was the owner of Steamort. The Subcommittee was unable to determine Steamort's UBO or if Ms. Brown existed.

(11) Mr. Baltser established a private art agency and club called BALTZER in Moscow in 2013. Mr. Baltser used BALTZER to take title and purchase art for his clients. This change altered the payment pattern outlined above to include BALTZER as the entity paying the auction houses for art Mr. Baltser purchased. In addition, following the imposition of sanctions on the Rotenbergs by the United States in March 2014, the Subcommittee traced funds to purchase art to Highland Ventures. Highland Ventures would wire the funds to Steamort; Steamort would wire the funds to BALTZER; and BALTZER would wire funds to the auction house and take title for the art.

(12) Christie's partnered with BALTZER, including allowing Mr. Omelnitski to conduct AML and sanctions checks on BALTZER clients. In the February 2014 agreement, Christie's agreed to rely on BALTZER to conduct due diligence on clients and provide an annual AML compliance certification. Mr. Omelnitski provided the first AML compliance report in December 2014 and confirmed that no BALTZER clients were sanctioned. Mr. Omelnitski did not provide another report until October 2017 when he emailed the amounts associated with BALTZER art purchases; he provided no certification regarding AML or sanctions compliance. Christie's renegotiated the agreement in March 2018 and required BALTZER to produce customer due diligence to the auction house within 10 days of every purchase.

(13) Sotheby's declined the BALTZER proposal, but continued business as usual. While considering Mr. Baltser's proposal, the Sotheby's Baltser Account Representative told Sotheby's management that Mr. Baltser's clients included Russian oligarchs, specifically Arkady and Boris Rotenberg before they were sanctioned by the United States. During her Subcommittee interview, the Baltser Account Representative stated that Mr. Baltser never told her that Arkady and Boris Rotenberg were his clients. Instead, she fabricated this information to convince Sotheby's to agree to the proposal with BALTZER.

(14) Despite having voluntary AML and sanctions policies, auction houses failed to ask basic questions of Mr. Baltser, including for whom he purchased art. This allowed Mr. Baltser to continue to purchase art despite the imposition of sanctions by the United States on the Rotenbergs, completely undermining any action taken by the auction houses to block transactions by sanctioned individuals.

(15) Mr. Baltser purchased over $18 million in art from May to November 2014 using funds traced to Rotenberg-linked shell companies. These transactions included a $7.5 million private sale of René Magritte's *La Poitrine* in which Highland Ventures took title to the painting, and Advantage Alliance wired the purchasing funds. The Subcommittee traced those funds from Advantage Alliance to Senton Holdings Ltd, which one financial institution determined was owned by Arkady Rotenberg. An employee of Mr. Omelnitski's signed the contract for sale on behalf of Highland Ventures.

(16) Mr. Baltser sought to sell art linked to the Rotenbergs. In August 2015, an employee of BALTZER sent Christie's a list of 31 artworks, including 16 works the Subcommittee linked to Rotenberg-related shell companies. The BALTZER employee indicated the 31 pieces belonged to the same collection and sought "any opportunities to promote these works or to make this collection more valuable." That list included René Magritte's *La Poitrine* and Lyonel Feininger's *Brucke II*.

(17) In February 2019, Sotheby's and Christie's competed to sell Lyonel Feininger's *Brucke II*; Sotheby's was selected to sell the painting. Both Sotheby's and Christie's provided enhanced deal terms to sell the painting at auction. Sotheby's planned to auction the painting at its February 26, 2019 Modern Art Evening Sale in London. The painting was estimated to sell for between £4 million and £6 million. Prior to the auction, however, Sotheby's stated it pulled the painting due to a lack of interest.

(18) When questioned by Sotheby's, Mr. Baltser declined to provide the February 2014 purchaser of *Brucke II*. *Brucke II* was purchased by Mr. Baltser on behalf of an undisclosed client at a Christie's auction in February 2014. In April 2019, Sotheby's asked Mr. Baltser to reveal the name of the February 2014 buyer. Mr. Baltser did not reveal the name, but asserted the February 2014 buyer no longer owned *Brucke II*. Instead, he stated the painting now belonged to a Marshall Islands company and provided a Russian passport for the UBO of the company.

(19) During the course of the Subcommittee's investigation, Sotheby's, Christie's, and Phillips stopped transacting with Mr. Baltser and BALTZER.

(20) Rotenberg-linked companies continued to move at least $91 million through the U.S. financial system following the imposition of U.S. sanctions in March 2014. The Subcommittee determined that companies linked to the Rotenbergs continued to have access to the U.S. dollar and the U.S. financial system despite the imposition of sanctions against Arkady and Boris Rotenberg.

RECOMMENDATIONS

(1) Congress should amend the Bank Secrecy Act to add businesses handling transactions involving high-value art. The art industry is currently not subject to AML requirements under the BSA. The European Union recently required businesses handling art transactions valued at €10,000 or more to comply with AML laws, including verification of the identity of the seller, buyer, and UBO of the art.

(2) Congress should require the Treasury Department to collect beneficial ownership information for companies formed or registered to do business in the United States. This information should be available to law enforcement for investigatory purposes. Beneficial owner information maintained by the Treasury Department should include appropriate privacy and security protections.

(3) When imposing sanctions on an individual, the Treasury Department should consider routinely imposing sanctions on the individual's immediate family members. While the U.S. sanctioned Arkady and Boris Rotenberg in March 2014, for example, it did not sanction the brothers' children until later dates. The Treasury Department stated it imposed sanctions on Igor Rotenberg in 2018 because he "acquired significant assets from his father, Arkady Rotenberg, after OFAC designated [Arkady] in March 2014." This allowed Arkady and Boris Rotenberg to evade U.S. sanctions by transferring their interests in companies to their children while maintaining operational control.

(4) The Treasury Department should implement and announce sanctions concurrently. While President Obama announced sanctions for Russia's annexation of Crimea on March 16, 2014, the Treasury Department did not officially impose sanctions on specific individuals and entities until March 20, 2014. During this four-day window, millions of dollars were transferred through the United States and back to Russia. The Treasury Department should take necessary actions to both announce and implement sanctions to avoid creating a window of opportunity for individuals to evade sanctions.

(5) The Treasury Department should lower or remove the ownership threshold for blocking companies owned by sanctioned individuals. According to guidance by the Treasury Department, a company is blocked if it is majority owned by a sanctioned individual. If the sanctioned individual has a minority ownership in a company, that company is not blocked, even if the sanctioned individual owns 49 percent of the company.

(6) The Treasury Department should maximize its use of suspicious activity reports ("SARs") filed by financial institutions. Under the BSA, financial institutions are required to file SARs with the Treasury Department's Financial Crimes Enforcement Network. These reports document financial transactions that appear to involve money laundering or terrorist financing, among other illicit activities. The Treasury Department should more effectively mine SARs for information related to Specially Designated Nationals and add these entities to the Specially Designated Nationals and Blocked Persons List or alert other financial institutions of the risks of transacting with the entities. This would increase the effectiveness of imposing sanctions.

(7) OFAC should issue comprehensive guidance on the steps auction houses and art dealers should take to ensure they are not doing business with sanctioned individuals or entities. That guidance should clarify what steps auction houses and art dealers should take to determine whether a person is the principal seller or purchaser of art or is acting on behalf of an undisclosed client, and which person should be subject to a due diligence review.

(8) OFAC should issue guidance interpreting the informational exception to the International Emergency Economic Powers Act related to "artworks." That guidance should interpret the artworks exception narrowly to encompass matters with informational content, while excluding typical works of art such as paintings, etchings, and sculpture.

II. BACKGROUND

A. U.S. Sanctions Enforcement

Sanctions are a critical tool for combatting national security threats and advancing foreign policy objectives.[1] Sanctions as a U.S. foreign policy tool have grown in recent years, with presidents using sanctions to target terrorist organizations, punish foreign governments, and encourage adversaries to enter negotiations with the United States without resorting to military action.[2] In fact, during his first year in office, President Trump designated approximately 1,000 individuals and entities.[3] This is triple the number listed by President Obama during his first year, and 30 percent more than his last year in office.[4]

1. The U.S. Treasury Department

In 1789, Congress established the Treasury Department ("Treasury" or the "Department") to promote economic prosperity and ensure financial security.[5] Treasury's mission is to "maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combatting threats and protecting the integrity of the financial system, and manage the U.S. Government's finances and resources effectively."[6] This multi-faceted mandate reflects its central role in the U.S. economic and financial system.[7]

A key part of the Department's mission involves the implementation of economic sanctions against foreign actors and entities.[8] Established in 2004, the Department's Office of Terrorism and Financial Intelligence ("TFI") is responsible

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[1] Jack Lew, Secretary, U.S. Dep't of Treasury, Remarks on the Evolution of Sanctions and Lessons for the Future at the Carnegie Endowment for International Peace (Mar. 30, 2016), https://www.treasury.gov/press-center/press-releases/pages/jl0398.aspx.
[2] Kathy Gilsinan, *A Boom Time for U.S. Sanctions*, ATLANTIC (May 3, 2019), https://www.theatlantic.com/politics/archive/2019/05/why-united-states-uses-sanctions-so-much/588625/.
[3] Carol Morello, *Trump administration's use of sanctions draws concern*, WASH. POST (Aug. 5, 2018), https://www.washingtonpost.com/world/national-security/trump-administrations-use-of-sanctions-draws-concern/2018/08/05/36ec7dde-9402-11e8-a679-b09212fb69c2_story.html.
[4] *Id.*
[5] U.S. DEP'T OF TREASURY, *Act of Congress Establishing the Treasury Department*, https://www.treasury.gov/about/history/Pages/act-congress.aspx; U.S. DEP'T OF TREASURY, *Role of the Treasury*, https://home.treasury.gov/about/general-information/role-of-the-treasury.
[6] U.S. DEP'T OF TREASURY, *Role of the Treasury*, https://home.treasury.gov/about/general-information/role-of-the-treasury.
[7] *Id.*
[8] *Id.*

for enforcing economic sanctions as well as developing policy, strategies, and guidance to combat terrorist funding.[9]

The Office of Foreign Assets Control ("OFAC"), a division of TFI, reports directly to the Undersecretary for Terrorism and Financial Crimes.[10] OFAC's sanction authority stems from"[p]residential national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction."[11] Specific sanctions authorities include the Trading with the Enemy Act ("TWEA"), the International Emergency Economic Powers Act ("IEEPA"), and the Global Magnitsky Human Rights Accountability Act ("Magnitsky Act") as described below. OFAC is the office specifically tasked with the administration and enforcement of economic and trade sanctions developed by the President.[12]

The sanction authority tied to presidential emergency power dates back to the TWEA, which prohibits transactions with enemy persons and powers.[13] During the Cold War, TWEA was used "to block international financial transactions, seize U.S.-based assets held by foreign nationals, restrict exports, modify regulations to deter the hoarding of gold, limit foreign direct investment in U.S. companies, and impose tariffs on all imports into the United States."[14]

Since its enactment in 1977, IEEPA has also served as an important sanction authority that the president may exercise "to deal with an unusual and extraordinary threat with respect to . . . a national emergency" that "has its source in whole or substantial part outside the United States."[15] IEEPA has been amended several times since its enactment, but the change most relevant to the art market is the "Berman Amendment" passed in 1988.[16] This amendment exempted

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[9] 31 U.S.C. § 312.
[10] *Id.*; U.S. DEP'T OF TREASURY, *About: Terrorism and Financial Intelligence*, https://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Terrorism-and-Financial-Intelligence.aspx.
[11] *Id.*
[12] U.S. DEP'T OF TREASURY, *Terrorism and Financial Intelligence: Office of Foreign Assets Control (OFAC)*, https://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx.
[13] Trading with the Enemy Act of 1917, Pub. L. No. 65-61, 40 Stat. 411, codified as amended at 50 U.S.C. § 4303 (2018).
[14] CHRISTOPHER A. CASEY ET AL., CONG. RESEARCH SERV., R45618, THE INTERNATIONAL EMERGENCY ECONOMIC POWERS ACT: ORIGINS, EVOLUTION, AND USE SUMMARY (2019), https://www.crs.gov/reports/pdf/R45618.
[15] International Emergency Economic Powers Act of 1977, Pub. L. No. 95-459, 91 Stat. 1626, codified as amended at 50 U.S.C. § 1701 (2018).
[16] Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107, codified at 50 U.S.C. § 1702 (2001); *See* Bruce Craig, *Sleeping with the Enemy? OFAC Rules and First Amendment Freedoms*, PERSPECTIVES ON HISTORY (May 1, 2004), https://www.historians.org/publications-and-directories/perspectives-on-history/may-2004/sleeping-with-the-enemy-ofac-rules-and-first-amendment-freedoms.

information and informational materials from presidential sanction authority under IEEPA and TWEA.[17] The Berman amendment specifically exempted the authority to regulate or prohibit "publications, films, posters, phonograph records, photographs, microfilms, microfiche, tapes, compact disks, CD ROMs, artworks, and new wire feeds."[18]

Additional sanctions authority available to the President is found in the Magnitsky Act.[19] Passed in 2016, the law authorizes the President to impose sanctions on any foreign person "who is responsible for extrajudicial killings, torture, or other gross violations of internationally recognized human rights" committed against individuals seeking to expose corruption or promote human rights.[20] President Trump has used this authority to designate individuals for offenses including wrongful detention, the denial of medical treatment for detainees, and the expropriation of businesses for personal gain.[21]

OFAC implements its sanction authorities in ways "expected to generate the most impact in achieving [U.S.] national security and foreign policy goals."[22] In a 2017 hearing before the House Subcommittee on Monetary Policy, then-OFAC Director John Smith explained that "[w]hen deployed strategically and with precision, sanctions are a highly effective way of pressuring regimes and malign actors to change their behavior."[23] Director Smith further asserted:

> [B]y freezing the assets of illicit actors, cutting them off from the U.S. financial system, and restricting their ability to interface with the international financial system, the choice to them becomes clear: either modify your behavior or accept the isolation and negative economic effects of remaining on our financial blacklist.[24]

In addition to sanctions, OFAC also designates individuals or entities as Specially Designated Nationals ("SDN").[25] The SDN list contains the names of "individuals and companies owned or controlled by, or acting on behalf of, targeted

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[17] Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107, codified at 50 U.S.C. § 1702 (2001).
[18] *Id.*
[19] National Defense Authorization Act of 2017, Pub. L. No. 114-328, 130 Stat. 2000, codified at 22 U.S.C. § 2656.
[20] *Id.*
[21] DIANNE E. RENNACK, CONG. RESEARCH SERV., IF10576, THE GLOBAL MAGNITSKY HUMAN RIGHTS ACCOUNTABILITY ACT (2018), https://www.crs.gov/reports/pdf/IF10576.
[22] Press Release, U.S. Dep't of Treasury, Testimony of John E. Smith, Director of the Office of Foreign Assets Control, (Nov. 30, 2017), https://www.treasury.gov/press-center/press-releases/Pages/sm0226.aspx.
[23] *Id.*
[24] *Id.*
[25] James Kostiw, *OFAC Launches New SDN Search Tool*, U.S.DEP'T OF TREASURY, (Mar. 13, 2013), https://www.treasury.gov/connect/blog/Pages/OFAC-Launches-New-SDN-Search-Tool.aspx.

countries."[26] The list is not limited to state actors and contains non-country specific individuals, groups, and entities.[27] Currently, the list contains approximately 6,400 companies and individuals.[28]

Persons can be added to the SDN list in several ways. In some cases, the President issues an executive order directing the Secretary of the Treasury, in consultation with the Secretary of State, to identify individuals or entities that should be added to the list.[29] In other cases, the President directly identifies individuals or entities to designate as SDNs.[30] Once on the list, U.S. persons and businesses are prohibited from obtaining goods, services, or technology from SDNs, or otherwise transacting with them.[31] This prohibition extends to business conducted through third-party intermediaries.[32] Indeed, "[i]nclusion on the SDN List generally prohibits U.S. banks from maintaining accounts for those listed and U.S persons could face civil or criminal penalties for engaging in business dealing with them."[33]

Under Treasury Department guidance, a sanctioned individual may own a minority interest in a company and still access the U.S. financial system. OFAC's "50 percent rule," states that "any entity owned in the aggregate, directly or indirectly, 50 percent or more by one or more blocked persons is itself considered to be a blocked person."[34] This is significant because an entity meeting this standard incurs SDN restrictions even if the entity itself is not named on the SDN list.[35]

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[26] U.S. DEP'T OF TREASURY, *Specially Designated Nationals and Blocked Persons List (SDN) Human Readable Lists*, (Jan. 21, 2020), https://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx.
[27] *Id.*
[28] U.S. DEP'T OF TREASURY, *Basic Information on OFAC and Sanctions*, https://www.treasury.gov/resource-center/faqs/Sanctions/Documents/faq_all.html.
[29] Exec. Order No. 13,685, 79 Fed. Reg. 77,357 (Dec. 19, 2014); *See also* Exec. Order No. 13,662 31 C.F.R. § 589 (2014).
[30] Exec. Order No. 13,661 31 C.F.R. § 589 (2014).
[31] U.S. person means "any United States citizen or alien admitted for permanent residence in the United States, and any corporation, partnership, or other organization organized under the law of the United States." 22 U.S.C. § 6010; U.S. DEP'T OF TREASURY, REVISED GUIDANCE ON ENTITIES OWNED BY PERSONS WHOSE PROPERTY AND INTERESTS IN PROPERTY ARE BLOCKED (2014), https://www.treasury.gov/resource-center/sanctions/Documents/licensing_guidance.pdf.
[32] U.S. DEP'T OF TREASURY, REVISED GUIDANCE ON ENTITIES OWNED BY PERSONS WHOSE PROPERTY AND INTERESTS IN PROPERTY ARE BLOCKED (2014), https://www.treasury.gov/resource-center/sanctions/Documents/licensing_guidance.pdf.
[33] James Kostiw, *OFAC Launches New SDN Search Tool*, U.S. DEP'T OF TREASURY, (Mar. 13, 2013), https://www.treasury.gov/connect/blog/Pages/OFAC-Launches-New-SDN-Search-Tool.aspx.
[34] U.S. DEP'T OF TREASURY, REVISED GUIDANCE ON ENTITIES OWNED BY PERSONS WHOSE PROPERTY AND INTERESTS IN PROPERTY ARE BLOCKED (2014), https://www.treasury.gov/resource-center/sanctions/Documents/licensing_guidance.pdf.
[35] *Id.*

2. Sanctions Following the Russian Federation's Invasion of Crimea

In 2014, President Obama issued a series of Executive Orders ("EO") that authorized Treasury to sanction individuals, assets, and companies in the Russian Federation ("Russia") following Russia's annexation of Crimea. On March 6, 2014, President Obama issued EO 13660 instructing Treasury to sanction any individual who "[undermined] democratic processes and institutions in Ukraine."[36] On March 16, 2014, President Obama authorized additional sanctions on "persons contributing to the situation in Ukraine" through EO 13661.[37] Under the authority of EO 13661, on March 20, 2014, Treasury designated 16 Russian government officials and four members of President Putin's inner circle, which included Arkady and Boris Rotenberg.[38] The European Union imposed similar restrictions in response to what it perceived as Russia's "deliberate destabilization of Ukraine."[39]

a. The Russian Invasion of Crimea

In early 2014, Russia invaded Crimea following a period of political turmoil in Ukraine.[40] This turmoil stemmed from Ukrainian President Viktor Yanukovych's November 2013 refusal to sign a "political association and free trade agreement with the European Union."[41] By February 22, 2014, the Ukrainian parliament voted unanimously to remove President Yanukovych.[42]

After his removal, Yanukovych fled to Russia.[43] Shortly thereafter, Moscow deployed forces to Crimea and declared the region as part of the Russian Federation.[44] This invasion was significant not only because of Crimea's

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[36] Exec. Order No. 13,660 31 C.F.R. § 589 (2014).
[37] Exec. Order No. 13,661 31 C.F.R. § 589 (2014).
[38] Press Release, U.S. Dep't of Treasury, Treasury Sanctions Russian Officials, Members Of The Russian Leadership's Inner Circle, And An Entity For Involvement In The Situation In Ukraine, (Mar. 20, 2014), https://www.treasury.gov/press-center/press-releases/Pages/jl23331.aspx.
[38] *Id.*
[39] *EU restrictive measures in response to the crisis in Ukraine*, COUNCIL OF THE EUROPEAN UNION (Dec. 19, 2019), https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/.
[40] Steven Lee Myers & Ellen Barry, *Putin Reclaims Crimea for Russia and Bitterly Denounces the West*, N.Y. TIMES (Mar. 18, 2014), https://www.nytimes.com/2014/03/19/world/europe/ukraine.html.
[41] Vladimir Isachenkov and Maria Danilova, *Roots and Consequences of Ukraine's Violence*, ASSOCIATED PRESS (Feb. 20, 2013), https://web.archive.org/web/20140221000303/http://hosted.ap.org/dynamic/stories/E/EU_UKRAINE_NEWS_GUIDE?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT.
[42] William Booth, *Ukraine's parliament votes to oust president; former prime minister is freed from prison*, WASH. POST (Feb. 22, 2014), https://www.washingtonpost.com/world/europe/ukraines-yanukovych-missing-as-protesters-take-control-of-presidential-residence-in-kiev/2014/02/22/802f7c6c-9bd2-11e3-ad71-e03637a299c0_story.html?utm_term=.af74a8230f13.
[43] Andrew E. Kramer, *Ukraine's Ex-President Is Convicted of Treason*, N.Y. TIMES (Jan. 24, 2019), https://www.nytimes.com/2019/01/24/world/europe/viktor-yanukovych-russia-ukraine-treason.html.
[44] CORY WELT, CONG. RESEARCH SERV., R45008, UKRAINE: BACKGROUND, CONFLICT WITH RUSSIA, AND U.S. POLICY, 9 (2019), https://www.crs.gov/reports/pdf/R45008.

strategically important geographic location, but also because it "violated the terms of a diplomatic agreement to respect Ukraine's borders, and placed Russia on a war footing with one of the few states in the post-Soviet world that has managed to hold free elections."[45] The Crimean parliament then voted to secede from Ukraine and join Russia, scheduling a referendum for ten days later.[46] When the referendum was held, 97 percent voted in favor of secession.[47] Two days later, Russian President Vladimir Putin signed a treaty of accession with the new leaders of Crimea.[48] Putin delivered an address in conjunction with the signing, asserting that Crimea was a part of Russia and confirming his disregard for an international border that was recognized for 23 years.[49] The United States, European Union, and Ukraine refused to recognize the annexation.[50] While maintaining that the annexation was illegal, the Ukrainian government withdrew military personnel and their families from Crimea.[51]

Since that time, Russia "has significantly increased its military presence in Crimea and suppressed local dissent."[52] Ukrainian officials now estimate 30,000 Russian troops are stationed in the region.[53] During the Russian occupation, the Office of the United Nations High Commissioner for Human Rights "documented 'multiple and grave' human rights violations in Crimea and said that minority Crimean Tatars, who are generally opposed to Russia's occupation, have been 'particularly targeted.'"[54]

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[45] Catherine Boyle, *Crimea referendum: Why it's so important*, CNBC (Mar. 14, 2014), https://www.cnbc.com/2014/03/14/crimea-referendum-why-its-so-important.html; Charles King, *Crimea, the Tinderbox*, N.Y. TIMES (Mar. 1, 2014), https://www.nytimes.com/2014/03/03/opinion/crimea-the-tinderbox.html?searchResultPosition=4.
[46] Alissa de Carbonnel & Luke Baker, *Crimea votes to join Russia, Obama orders sanctions*, REUTERS (Mar. 5, 2014), https://www.reuters.com/article/us-ukraine-crisis/crimea-votes-to-join-russia-obama-orders-sanctions-idUSBREA1Q1E820140306.
[47] Steven Lee Myers & Ellen Barry, *Putin Reclaims Crimea for Russia and Bitterly Denounces the West*, N.Y. TIMES (Mar. 18, 2014), https://www.nytimes.com/2014/03/19/world/europe/ukraine.html?module=inline.
[48] *Id.*
[49] *Id.*
[50] *Id.*
[51] David Herszenhorn & Andrew Kramer, *Ukraine Plans to Withdraw Troops From Russia-Occupied Crimea*, N.Y. TIMES (Mar. 19, 2014), https://www.nytimes.com/2014/03/20/world/europe/crimea.html.
[52] CORY WELT, CONG. RESEARCH SERV., R45008, UKRAINE: BACKGROUND, CONFLICT WITH RUSSIA, AND U.S. POLICY, 9 (2019), https://www.crs.gov/reports/pdf/R45008.
[53] *Id.*
[54] *Id.* at 9–10.

b. U.S. and E.U. Sanctions Following the Invasion of Crimea

In response to Russia's invasion of Crimea, both the United States and the European Union imposed sanctions against several key Russian individuals.[55] Since these Crimea-related sanctions, the United States has imposed additional sanctions on Russia for a range of offenses, including human rights abuses, election interference, cyberattacks, weapons proliferation, trade with North Korea, support for the Syrian government, and use of a chemical weapon.[56] As of July 2020, the list of individuals and entities sanctioned by the U.S. government related to Russia's annexation of Crimea stood at 701.[57]

On March 6, 2014, the United States imposed sanctions on Russia, when President Obama issued an executive order under IEEPA and announced coordinated sanctions with the United Kingdom in response to Russia's "violation of Ukraine's sovereignty and territorial integrity."[58] That EO 13660 did not specifically reference Russia by name, but it did target those whose "actions or policies…undermine democratic processes or institutions in Ukraine."[59] President Obama further noted that the planned referendum would violate the Ukrainian constitution, as well as international law, and noted that the Ukrainian government must be included in any discussion of Crimea's future.[60]

Following Crimea's referendum, the White House issued a statement saying, "the international community will not recognize the results of a poll administered under threats of violence and intimidation from a Russian military intervention that violates international law."[61] President Obama then signed EO 13661 on March 16, 2014, finding that Russia's deployment of military forces to Crimea undermined the "democratic processes and institutions in Ukraine; threaten its peace, security, stability, sovereignty, and territorial integrity; and contribute to the

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[55] Aleksandar Vasovic & Adrian Croft, *U.S., EU set sanctions as Putin recognizes Crimea "sovereignty"*, Reuters (Mar. 16, 2014), https://www.reuters.com/article/us-ukraine-crisis/u-s-eu-set-sanctions-as-putin-recognizes-crimea-sovereignty-idUSBREA1Q1E820140317.
[56] CORY WELT ET. AL, CONG. RESEARCH SERV., R45415, U.S. SANCTIONS ON RUSSIA, 7 (2020), https://www.crs.gov/reports/pdf/R45415.
[57] U.S. DEP'T OF TREASURY, *Sanctions List Search*, https://sanctionssearch.ofac.treas.gov/.
[58] Dan Roberts & Ian Traynor, *US and EU impose sanctions and warn Russia to relent in Ukraine standoff*, THE GUARDIAN (Mar. 6, 2014), https://www.theguardian.com/world/2014/mar/06/us-eu-sanctions-obama-russia-ukraine-crimea; *See also* U.S. DEP'T OF TREASURY, Ukraine/Russia-Related Sanctions Program 3 (2016), https://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine.pdf.
[59] Exec. Order No. 13,660 31 C.F.R. § 589 (2014).
[60] Alissa de Carbonnel and Luke Baker, *Crimea votes to join Russia, Obama orders sanctions*, REUTERS (Mar. 5, 2014), https://www.reuters.com/article/us-ukraine-crisis/crimea-votes-to-join-russia-obama-orders-sanctions-idUSBREA1Q1E820140306.
[61] Press Release, The White House, Statement by the Press Secretary on Ukraine, (March 16, 2014), https://obamawhitehouse.archives.gov/the-press-office/2014/03/16/statement-press-secretary-ukraine.

misappropriation of its assets, and thereby constitute an unusual and extraordinary threat to the national security and foreign policy of the United States."[62]

EO 13661 authorized sanctions against several specifically listed Russian government officials and instructed OFAC to identify additional individuals who "have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of a senior official of the Government of the Russian Federation."[63] Pursuant to the order, on March 20, 2014, OFAC designated 16 Russian government officials and 4 members of President Putin's inner circle, including Arkady and Boris Rotenberg.[64] President Obama later issued additional executive orders on March 20, 2014 and December 19, 2014, expanding the scope of the sanctions.[65]

In addition to executive branch actions, Congress passed two laws sanctioning Russian individuals and entities in 2014: (1) Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act and (2) Ukraine Freedom Support Act.[66] These laws permitted sanctions against any person "the President determines has perpetrated, or is responsible for ordering, controlling, or otherwise directing, significant acts of violence or gross human rights abuses in Ukraine."[67] They also included "potentially wide-reaching secondary sanctions against foreign individuals and entities that facilitate significant transactions for Russia sanctions designees, help them to evade sanctions, or make significant investments in certain oil projects in Russia."[68]

Like the United States, the European Union also issued economic sanctions against Russia for its invasion of Ukraine.[69] These restrictions included bans on "goods originating in Crimea . . . unless they have Ukrainian certificates," and export prohibitions on "[g]oods and technology for the transport,

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[62] Exec. Order No. 13,661 31 C.F.R. § 589 (2014).
[63] *Id.*
[64] Press Release, U.S. Dep't of Treasury, Treasury Sanctions Russian Officials, Members Of The Russian Leadership's Inner Circle, And An Entity For Involvement In The Situation In Ukraine, (Mar. 20, 2014), https://www.treasury.gov/press-center/press-releases/Pages/jl23331.aspx.
[65] Exec. Order No. 13,662, 31 C.F.R. § 589 (2014); Exec. Order No. 13,685, 79 Fed. Reg. 77,357 (Dec. 19, 2014).
[66] Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014, Pub. L. No. 113-95, 22 U.S.C. §8901; Ukraine Freedom Support Act of 2014, Pub. L. No. 113-272, 22 U.S.C. § 8921.
[67] Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014, Pub. L. No. 113-95, 22 U.S.C. §8901; CORY WELT ET. AL, CONG. RESEARCH SERV., R45415, U.S. SANCTIONS ON RUSSIA, 13 (2020), https://www.crs.gov/reports/pdf/R45415.
[68] CORY WELT ET. AL, CONG. RESEARCH SERV., R45415, U.S. SANCTIONS ON RUSSIA, 13 (2020), https://www.crs.gov/reports/pdf/R45415.
[69] *EU restrictive measures in response to the crisis in Ukraine*, COUNCIL OF THE EUROPEAN UNION (Dec. 19, 2019), https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/.

telecommunications and energy sectors."[70] The European Union's sanctions also froze the assets and imposed travel restrictions against persons who "undermined Ukraine's territorial integrity, sovereignty, and independence."[71]

c. U.S. Sanctions Targeting Russian Oligarchs

The U.S. and E.U. sanction regimes did not target the entire Russian economy.[72] Instead, the sanctions designated key individuals, including several Russian oligarchs, and entities associated with important Russian policymakers.[73]

The term "oligarch" was popularized during the privatization of the Russian economy following the collapse of the Soviet Union.[74] Oligarchs are individuals who used political power to obtain control over former state assets in industries like oil, gas, timber, aluminum, and other natural resources.[75] Oligarchs formally assumed control over former state-owned companies through government auctions and "loans for shares" schemes.[76] Russians reportedly began referring to privatization as "prikhvatizatsiya" or "grabification," to describe a process whereby state authorities handed well-connected businesspersons and bankers control of previously government-controlled assets.[77]

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[70] *The EU non-recognition policy for Crimea and Sevastopol: Fact Sheet*, EUROPEAN UNION EXTERNAL ACTION (Dec. 12, 2017), https://eeas.europa.eu/headquarters/headquarters-Homepage/37464/eu-non-recognition-policy-crimea-and-sevastopol-fact-sheet_en.
[71] *EU restrictive measures in response to the crisis in Ukraine*, COUNCIL OF THE EUROPEAN UNION (Dec. 19, 2019), https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/.
[72] CORY WELT, CONG. RESEARCH SERV., R45008, UKRAINE: BACKGROUND, CONFLICT WITH RUSSIA, AND U.S. POLICY, 36 (2019), https://www.crs.gov/reports/pdf/R45008.
[73] *Id.*; Andrew Higgins, Oleg Matsnev, & Ivan Nechepurenko, *Meet the 7 Russian Oligarchs Hit by the New U.S. Sanctions*, N.Y. TIMES (Apr. 6, 2018), https://www.nytimes.com/2018/04/06/world/europe/russian-oligarchs-sanctions.html.
[74] Z. Byron Wolf, *Russia's oligarchs are different from other billionaires*, CNN (Apr. 6, 2018), https://www.cnn.com/2018/04/06/politics/oligarch-russia-billionaires-government-putin-sanctions/index.html.
[75] *Id.*
[76] Adam Taylor, *How the 2003 Arrest of the Richest Man in Russia Changed Everything—And What Happens Next*, BUSINESS INSIDER (Oct. 24, 2013), https://www.businessinsider.com/ten-years-after-mikhail-khodorkovskys-arrest-2013-10. Under the "loans for shares" plan, Kremlin-favored banks would lend the government money in exchange for the opportunity to buy cheap shares in government assets. The banks would hold the shares in trust, giving the government the opportunity to repay the loan. In most cases, the banks would sell the shares within two years on the open market, creating windfall profits. Alessandra Stanley, *Russian Banking Scandal Poses Threat to Future of Privatization*, N.Y. TIMES (Jan. 28, 1996), https://www.nytimes.com/1996/01/28/world/russian-banking-scandal-poses-threat-to-future-of-privatization.html?pagewanted=all&src=pm.
[77] Alessandra Stanley, *Russian Banking Scandal Poses Threat to Future of Privatization*, N.Y TIMES (Jan. 28, 1996), https://www.nytimes.com/1996/01/28/world/russian-banking-scandal-poses-threat-to-future-of-privatization.html?pagewanted=all&src=pm.

Following Vladimir Putin's election to the Russian presidency in 2000, existing power structures began to shift, facilitating the rise of a new generation of oligarchs.[78] Prior to becoming president, Putin promised to dismantle the existing class of oligarchs who prospered under his predecessor Boris Yeltsin.[79] In 2003, under Putin's direction, the government began to acquire some of Russia's wealthiest companies.[80] True to his word, Putin replaced the older generation of oligarchs with men from his inner circle and offered them valuable government contracts.[81] Loopholes in Russian law used to limit competition enabled these oligarchs to "build themselves into the state system," as they continued to gain access to state contracts.[82]

d. Arkady and Boris Rotenberg are Sanctioned by the United States

Brothers Arkady and Boris Rotenberg are among the oligarchs who have received billions of dollars from Putin-enabled government contracts.[83] Four days after President Obama's March 16, 2014 EO 13661 sanctioning "any individual or entity that is owned or controlled by, that has acted for or on behalf of, or that has provided material or other support to, a senior Russian government official," OFAC officially designated Arkady and Boris Rotenberg.[84] OFAC described Arkady and Boris Rotenberg as "members of the Russian leadership's inner circle."[85] This position made them both beneficiaries of a Russian economy that frequently enriched Putin loyalists.[86] That designation highlighted their close personal ties to President Putin. The Treasury announcement specifically stated:

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[78] Andrew Meier, *Who Fears a Free Mikhail Khodorkovsky?*, N.Y. TIMES (Nov. 18, 2009), https://www.nytimes.com/2009/11/22/magazine/22khodorkovsky-t.html.
[79] Steven Meyers, Jo Becker & Jim Yardley, *Private Bank Fuels Fortunes of Putin's Inner Circle*, N. Y. TIMES (Sept. 27, 2014), https://www.nytimes.com/2014/09/28/world/europe/it-pays-to-be-putins-friend-.html?module=inline.
[80] Andrew Meier, *Who Fears a Free Mikhail Khodorkovsky?*, N.Y. Times (Nov. 18, 2009), https://www.nytimes.com/2009/11/22/magazine/22khodorkovsky-t.html.
[81] Steven Meyers, Jo Becker & Jim Yardley, *Private Bank Fuels Fortunes of Putin's Inner Circle*, N. Y. TIMES (Sept. 27, 2014), https://www.nytimes.com/2014/09/28/world/europe/it-pays-to-be-putins-friend-.html?module=inline.
[82] Joshua Yaffa, *Putin's Shadow Cabinet and The Bridge to Crimea*, NEW YORKER (May 22, 2017), https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea.
[83] *Id.*
[84] *Id.*; *See also* Exec. Order No. 13,661 31 C.F.R. § 589 (2014).
[85] Press Release, U.S. Dep't of Treasury, Treasury Sanctions Russian Officials, Members Of The Russian Leadership's Inner Circle, And An Entity For Involvement In The Situation In Ukraine, (Mar. 20, 2014), https://www.treasury.gov/press-center/press-releases/pages/jl23331.aspx.
[86] Steven Meyers, Jo Becker & Jim Yardley, *Private Bank Fuels Fortunes of Putin's Inner Circle*, N. Y. TIMES (Sept. 27, 2014), https://www.nytimes.com/2014/09/28/world/europe/it-pays-to-be-putins-friend-.html?module=inline.

> **Arkady Rotenberg and Boris Rotenberg** have provided support to Putin's pet projects by receiving and executing high price contracts for the Sochi Olympic Games and state-controlled Gazprom. They have made billions of dollars in contracts for Gazprom and the Sochi Olympic Winter Olympics awarded to them by Putin. Both brothers have amassed enormous amounts of wealth during the years of Putin's rule in Russia. The Rotenberg brothers received approximately $7 billion in contracts for the Sochi Olympic Games and their personal wealth has increased by $2.5 billion the last two years alone.[87]

Arkady Rotenberg directly benefited from the annexation of Crimea, including through his companies receiving multi-million dollar contracts to build the Kerch Bridge and a railway linking Russia to the annexed region of Ukraine.[88] The Treasury Department imposed additional sanctions on Rotenberg-related entities under EO 13661 on April 28, 2014.[89] These sanctions included the following entities:

> **InvestCapitalBank** and **SMP Bank** [which] are controlled by Arkady and Boris Rotenberg who were designated on March 20, 2014 pursuant to E.O. 13661 for acting for or on behalf of or materially assisting, sponsoring, or providing financial, material or technological support for, or goods and services to or in support of, a senior official of the Government of the Russian Federation.
>
> **Stroygazmontazh** (SGM Group) [which] is a gas pipeline construction company owned or controlled by Arkady Rotenberg. Rotenberg created SGM Group in 2008 after acquiring multiple Gazprom contractors.[90]

On July 30, 2014, the European Union added Arkady Rotenberg to the E.U. sanctions list.[91] In September 2014, Italy's financial law enforcement agency seized

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[87] Press Release, U.S. Dep't of Treasury, Treasury Sanctions Russian Officials, Members Of The Russian Leadership's Inner Circle, And An Entity For Involvement In The Situation In Ukraine, (Mar. 20, 2014), https://www.treasury.gov/press-center/press-releases/pages/jl23331.aspx.
[88] *Id.*; s*ee also* Christopher Harress, *Moscow to Build Bridge From Russian Mainland to Crimea Across Kerch Strait*, INT'L BUS. TIMES (Jun. 30, 2015), https://www.ibtimes.com/moscow-build-bridge-russian-mainland-crimea-across-kerch-strait-1990907.
[89] Press Release, U.S. Dep't of the Treasury, Announcement of Additional Treasury Sanctions on Russian Government Officials and Entities (Apr. 28, 2014), https://www.treasury.gov/press-center/press-releases/Pages/.
[90] *Id.*
[91] 2014 O.J. (L 226) 17, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:226:FULL&from=EN#page25. As a Finnish citizen, Boris Rotenberg avoided inclusion on the European list. Anne Kauranen & Jussi Rosendahl, *Russian oligarch under U.S. sanctions files suit against Nordic banks*, REUTERS (Oct. 22, 2018), https://www.reuters.com/article/us-finland-russia-sanctions/russian-oligarch-under-u-s-sanctions-files-suit-against-nordic-banks-idUSKCN1MW1AJ.

almost $40 million of Arkady Rotenberg's assets, "including a luxury hotel in Rome and two villas in Sardinia."[92] Following the seizure, the Russian government endorsed legislation that would reimburse those whose overseas assets were seized by foreign authorities.[93] However, that legislation, known as "the Rotenberg law," never became law.[94]

i. Arkady Rotenberg

Arkady Rotenberg first met Vladimir Putin at the age of twelve, when they joined the same judo club.[95] After Arkady Rotenberg finished college, he worked as a judo trainer and continued to practice judo with Putin and others from the class.[96] Arkady Rotenberg then started a cooperative that organized sporting competitions and later became the general director of a professional judo club in St. Petersburg, where Putin served as vice-mayor of the city.[97] After Putin became President of Russia, Arkady and Boris Rotenberg invested in companies that serviced Gazprom, the major Russian gas company which is majority-owned by the Russian government.[98] The Rotenberg brothers also founded SMP Bank, which they used "to acquire stakes in construction, gas, and pipe companies."[99]

In 2008, Gazprom sold Arkady Rotenberg five construction and maintenance companies, which he merged into one company he named Stroigazmontazh ("SGM"). SGM became the chief contractor for Gazprom.[100] The company earned more than $2 billion in revenue during its first year of operations.[101] It handled construction work for the oil and gas industry, including onshore and offshore pipeline construction.[102]

Three years later, in March 2011, Gazprom sold Gazprom Burenie to Milasi Engineering Limited ("Milasi Engineering"), a Cypriot company owned by Arkady

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[92] James Politi & Courtney Weaver, *Italy seizes Putin ally Arkady Rotenberg's property assets*, FIN. TIMES (Sept. 23, 2014), https://www.ft.com/content/f1293172-4340-11e4-be3f-00144feabdc0; *See also Italy Freezes Assets of Sanctioned Russian Billionaire Arkady Rotenberg*, MOSCOW TIMES (Sept. 23, 2014), https://themoscowtimes.com/articles/italy-freezes-assets-of-sanctioned-russian-billionaire-arkady-rotenberg-39683.

[93] *Italy Freezes Assets of Sanctioned Russian Billionaire Arkady Rotenberg*, MOSCOW TIMES (Sept. 23, 2014), https://themoscowtimes.com/articles/cabinet-wants-to-compensate-russian-victims-of-illegal-asset-seizures-abroad-40020.

[94] Joshua Yaffa, *Putin's Shadow Cabinet and The Bridge to Crimea*, NEW YORKER (May 22, 2017), https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea.

[95] *Id.*

[96] *Id.*

[97] *Id.*

[98] *Id.*

[99] *Id.*

[100] *Id.*

[101] *Id.*

[102] *SMG Group of Companies*, STROYGAZMONTAZH, http://www.ooosgm.com/company/structure/.

Rotenberg.[103] Gazprom Burenie subsequently became Gazprom's main drilling contractor and is currently one of the largest drilling contractors in Russia.[104] Gazprom Burenie's operations focus on oil and gas wells construction, including drilling, geological exploration, well construction, well overhaul, and inactive well recovery services.[105]

The Russian government awarded Gazprom Burenie and SGM several high-profile projects in Russia. For example, it contracted with SGM to build portions of the $12 billion Nord Stream undersea gas pipeline; the Russian government paid the Arkady Rotenberg-controlled company a profit margin of 30 percent for its work on the project.[106] The Russian government also awarded SGM a contract to build a 110-mile gas pipeline around the Russian city of Sochi, as part of the Russian government's 2014 Winter Olympics construction program.[107] The gas pipeline cost five times its original budget.[108] One estimate stated that 15 percent of the total Olympics budget went to Rotenberg-led projects.[109] In defending his personal relationship with President Putin, Arkady Rotenberg has argued "unlike a lot of other people, I don't have the right to make a mistake."[110] He has also asserted, "I have great respect for Putin and I consider him sent to our country from God."[111]

Gazprom Burenie has also played an important role in the Russian energy industry. Between 1997 and 2013, Gazprom Burenie completed the construction of 3,669 wells, drilling through more than 7 million meters of rock.[112]

In January 2015, the Russian government announced that Arkady Rotenberg, through SGM, would build the bridge connecting the Russian-annexed

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[103] GAZPROM, FINANCIAL REPORT 2011: REACHING NEW HORIZONS 58 (2011), https://www.gazprom.com/f/posts/43/588793/financial-report-2011-eng.pdf.
[104] *Company Profile: Gazprom Bureniye, Russian Drilling Company*, GAZPROM BURENIYE, https://www.burgaz.ru/landing/.
[105] *Id.*
[106] Gleb Bryanski, *Putin's judo partner jumps in Russia's rich list,* REUTERS (Feb. 13, 2011), https://www.reuters.com/article/russia-rich/putins-judo-partner-jumps-in-russias-rich-list-idUSLDE71C02X20110214; Aviezer Tucker, *The New Power Map*, FOREIGN AFFAIRS (Dec. 19, 2012), https://www.foreignaffairs.com/articles/north-america/2012-12-19/new-power-map.
[107] Thomas Grove, *Special Report: Russia's $50 billion Olympic gamble*, REUTERS (Feb. 21, 2013), https://www.reuters.com/article/us-russia-sochi/special-report-russias-50-billion-olympic-gamble-idUSBRE91K04M20130221; *Dzhubga–Lazarevskoe–Sochi gas pipeline*, STROYGAZMONTAZH, http://www.ooosgm.com/projects/construction/gazoprovod-dzhubga-lazarevskoe-sochi/.
[108] Anna Pukas, *Sochi: Is it Russia's disaster Winter Olympics?*, EXPRESS (Feb. 3, 2014), https://www.express.co.uk/news/world/457632/Sochi-Is-it-Russia-s-disaster-Winter-Olympics.
[109] Neil MacFarquhar & Ivan Nechepurenko, *Putin's Bridge to Crimea May Carry More Symbolism Than Traffic*, N.Y. TIMES (Nov. 11, 2017), https://www.nytimes.com/2017/11/11/world/europe/vladimir-putin-russia-crimea-bridge.html.
[110] Joshua Yaffa, *Putin's Shadow Cabinet and the Bridge to Crimea*, NEW YORKER (May 22, 2017), https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea.
[111] *Id.*
[112] *History of the Company*, GAZPROM BURENIE, *http*://www.burgaz.ru/company/about/history/.

Crimean Peninsula to the Russian mainland.[113] In May 2018, the 12-mile bridge opened for traffic at a final cost of $3.7 billion.[114] According to news reports, the bridge opened six months ahead of schedule. The bridge reportedly can "carry up to 40,000 cars per day [and] its span is greater than that of Vasco da Gama in Portugal, previously the longest in Europe."[115] President Putin was on site to open the bridge to traffic.[116]

In September 2019, a news article stated that Gazprom had purchased 100 percent of SGM for 70 billion to 95 billion rubles, the equivalent of $1.1 billion to $1.5 billion.[117]

Forbes has estimated that Arkady Rotenberg is worth $2.8 billion.[118]

ii. Boris Rotenberg

Boris Rotenberg is also a childhood friend of Vladimir Putin.[119] Along with his brother Arkady, Boris Rotenberg and Putin have "sparred and trained in the same gym since they were teenagers in the 1960s."[120] Their former judo coach, Anatoly Rakhin, commented on the friendship between the brothers and Putin saying, "[Putin] didn't take the Petersburg boys to work with him because of their pretty eyes, but because he trusts people who are tried and true."[121]

In 2001, Boris and Arkady Rotenberg founded SMP Bank. [122] The brothers then used the bank to acquire interests in important industries such as construction, gas, and gas pipelines.[123] By the mid-2000s, these acquisitions allowed them to become one of Russia's "main suppliers of large-diameter gas pipes."[124]

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[113] Joshua Yaffa, *Putin's Shadow Cabinet and the Bridge to Crimea*, NEW YORKER (May 22, 2017), https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea.
[114] Andre Roth, *Putin opens 12-mile bridge between Crimea and Russian mainland*, GUARDIAN (May 15, 2018), https://www.theguardian.com/world/2018/may/15/putin-opens-bridge-between-crimea-and-russian-mainland.
[115] *Id.*
[116] *Id.*
[117] Bne IntelliNews, *Russia's Gazprom Buys Out its Biggest Subcontractor*, THE MOSCOW TIMES (Sept. 27, 2019), https://www.themoscowtimes.com/2019/09/27/russias-gazprom-buys-out-its-biggest-subcontractor-a67475.
[118] *Real Time Net Worth, No. 877, Arkady Rotenberg*, FORBES, https://www.forbes.com/profile/arkady-rotenberg/#671573b62baa.
[119] Simon Shuster, *Putin's Powerful Friends Rally Around Russian President Despite Sanctions*, TIME (Mar. 27, 2014), https://time.com/38632/putin-friends-rally-around-him/.
[120] *Id.*
[121] *Id.*
[122] Joshua Yaffa, *Putin's Shadow Cabinet and the Bridge to Crimea*, NEW YORKER (May 22, 2017), https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea.
[123] *Id.*
[124] *Id.*

When Boris Rotenberg's ex-wife, Irene Lamber, was asked to comment on the business impact of Putin's friendship with the Rotenberg brothers, she remarked, "[t]hey were friendly in childhood, and those relationships were never broken, so logically you can presume some sort of advice was given, at a minimum, and perhaps help here and there."[125]

Boris Rotenberg holds a Finnish passport and therefore "is not subject to European sanctions over Russia's role in Ukraine."[126] Boris Rotenberg secured Finnish citizenship after moving to the country with his ex-wife Irene in the late 1990s.[127] Although he is not directly subjected to the E.U's sanctions, several Nordic banks refused to process his payments because "European banks must comply with . . . U.S. sanctions in order to do business with American banks."[128] In response, Boris Rotenberg filed a discrimination suit against Nordea, Danske Bank, Handelsbanken, and OP Bank for violation of "his right to equal treatment as an EU citizen."[129] A Finnish court rejected the suit on January 13, 2020.[130]

Forbes estimates that Boris Rotenberg's net worth is $1.2 billion.[131]

e. Roman and Igor Rotenberg are Sanctioned by the United States

On February 12, 2015, the *Wall Street Journal* reported that Arkady and Boris Rotenberg sold lucrative assets to their children in an apparent effort to avoid sanctions by the United States.[132] The sales included Arkady selling his 79 percent stake in Gazprom Drilling LLC to his son Igor, and Boris's sale of the Finnish

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[125] *Id.*
[126] Anne Kauranen & Jussi Rosendahl, *Russian oligarch under U.S. sanctions files suit against Nordic banks*, REUTERS (Oct. 22, 2018), https://www.reuters.com/article/us-finland-russia-sanctions/russian-oligarch-under-u-s-sanctions-files-suit-against-nordic-banks-idUSKCN1MW1AJ.
[127] Joshua Yaffa, *Putin's Shadow Cabinet and the Bridge to Crimea*, NEW YORKER (May 22, 2017), https://www.newyorker.com/magazine/2017/05/29/putins-shadow-cabinet-and-the-bridge-to-crimea.
[128] Anne Kauranen & Jussi Rosendahl, *Russian oligarch under U.S. sanctions files suit against Nordic banks*, REUTERS (Oct. 22, 2018), https://www.reuters.com/article/us-finland-russia-sanctions/russian-oligarch-under-u-s-sanctions-files-suit-against-nordic-banks-idUSKCN1MW1AJ.
[129] Anne Kauranen & Tarmo Virki, *Finnish court rejects Rotenberg's suit against Nordic banks*, REUTERS (Jan. 13, 2020), https://www.reuters.com/article/finland-russia-sanctions/finnish-court-rejects-rotenbergs-suit-against-nordic-banks-idUSL8N29I260.
[130] *Id.*
[131] *Real Time Net Worth, No. 1941, Boris Rotenberg*, FORBES (Feb. 26, 2020), https://www.forbes.com/profile/boris-rotenberg/#49cf806c126a.
[132] Rachel Ensign, *Russian Asset Sales Muddy Sanction Compliance*, WALL ST. J. (Feb. 12, 2015), https://www.wsj.com/articles/russian-asset-sales-muddy-sanction-compliance-1423784903.

Langvik Congress Wellness Hotel to his son Roman.[133] The Rotenbergs described the sales as nothing more than a long-planned "generational change."[134]

i. Roman Rotenberg

In response to the transfers described above, on July 30, 2015, under EO 13661, OFAC added Roman Rotenberg to the list of sanctioned individuals.[135] A Treasury press release noted Roman Rotenberg was "linked to the provision of material support" to Boris Rotenberg.[136]

ii. Igor Rotenberg

On April 6, 2018, three years after sanctioning Arkady and Boris Rotenberg, OFAC also sanctioned Arkady's son Igor.[137] This round of sanctions targeted Russia's so-called "golden youth" and also included sanctions against Putin's son-in-law Kirill Shamalov.[138] Just prior to OFAC's imposition of sanctions, *Forbes* included Igor Rotenberg on its list of 259 new billionaires.[139] OFAC's announcement of the new sanctions credited Igor's designation to his activities in the Russian energy sector, noting that Igor had acquired significant assets from his father post-sanctions.[140]

From 2002 to 2003, Igor Rotenberg served as the deputy head "of the Property Department of the fuel and energy complex of the Ministry of Property and

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[133] *Id.*; *see also* Bill Chappel, *U.S. Hits Russian Oligarchs And Officials With Sanctions Over Election Interference*, NPR (Apr. 6, 2018), https://www.npr.org/sections/thetwo-way/2018/04/06/600083466/u-s-hits-russian-oligarchs-and-officials-with-sanctions-over-election-interferen.
[134] Rachel Ensign, *Russian Asset Sales Muddy Sanction Compliance*, WALL ST. J. (Feb. 12, 2015), https://www.wsj.com/articles/russian-asset-sales-muddy-sanction-compliance-1423784903.
[135] Press Release, U.S. Dep't of Treasury, Ukraine-related Designations; Sectoral Sanctions Identifications; Dote d'Ivoire Designation Removals; Issuance of an Important Crimea Sanctions Advisory, (Jul. 30, 2015), https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20150730.aspx.
[136] Press Release, U.S. Dep't of Treasury, Treasury Sanctions Individuals and Entities Involved in Sanctions Evasion Related To Russia and Ukraine, (Jul. 30, 2015), https://www.treasury.gov/press-center/press-releases/Pages/jl0133.aspx.
[137] Press Release, U.S. Dep't of Treasury, Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity, (Apr. 6, 2018), https://home.treasury.gov/news/press-releases/sm0338.
[138] Anders Aslund, *With New Sanctions the US Treasury Goes after Putin's Inner Circle*, ATLANTIC COUNCIL, (Apr. 6, 2018), https://www.atlanticcouncil.org/blogs/new-atlanticist/with-new-sanctions-the-us-treasury-goes-after-putin-s-inner-circle/.
[139] Chase Peterson-Withorn, *Meet the World's 259 Newest Billionaires*, FORBES (Mar. 6, 2018), https://www.forbes.com/sites/chasewithorn/2018/03/06/meet-the-worlds-259-newest-billionaires-francois-bettencourt-meyers-lynsi-snyder/#502c52683ee9.
[140] Press Release, U.S. Dep't of Treasury, Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity, (Apr. 6, 2018), https://home.treasury.gov/news/press-releases/sm0338.

Land Relations" in Russia.[141] In 2003, Igor Rotenberg was named head of property management and transportation at the Russian Ministry of State Property.[142] In 2004, Igor Rotenberg was named vice-president of JSC Russian Railways, Russia's state-owned railroad company.[143]

Since 2006, Igor Rotenberg has served as Chairman of the Board of Directors for NPV Engineering.[144] NPV Engineering provides management and consulting services in Russia.[145] In 2010, Igor Rotenberg was named Chairman of Mosenergo, "the largest regional power generating company in the Russian Federation."[146] He was also named chairman of Gazprom Burenie, the key construction company beneficially owned by his father.[147]

After his placement on the U.S. sanctions list in 2014, Arkady Rotenberg reportedly transferred certain assets to his son Igor.[148] According to reports, Igor Rotenberg now owns "79 percent of drilling company Gazprom Burenie; 28 percent of road construction company Mostotrest; and 33 percent of TPS Real Estate Holding."[149]

Forbes estimates that Igor Rotenberg's net worth is $1.1 billion.[150]

As explained below, despite the imposition of U.S. sanctions on Arkady and Boris Rotenberg in March 2014, Roman Rotenberg in July 2015, and Igor Rotenberg in April 2018, evidence suggests that the Rotenbergs continued to do business with some U.S. parties.

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[141] Yevgeny Gusev, *The Kings of State Procurement*, HENRY JACKSON SOC. 8 (May 2017), http://henryjacksonsociety.org/wp-content/uploads/2018/06/1705-The-Kings-of-State-Procurement.pdf.
[142] *Id.*
[143] *Id.*
[144] *Id.* at 8–9.
[145] Press Release, U.S. Dep't of Treasury, Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity, (Apr. 6, 2018), https://home.treasury.gov/news/press-releases/sm0338.
[146] *Arkady Rotenberg: We live in conditions of tough competition, but it doesn't scare us,* INTERFAX (Oct. 30, 2014), http://www.interfax.com/interview.asp?id=547794; *About the Company*, MOSENERGO, https://mosenergo.gazprom.com/about/.
[147] *2018 Billionares Net Worth, No. 1999, Igor Rotenberg*, Forbes (Mar. 6, 2018), https://www.forbes.com/profile/igor-rotenberg/#393b87e51ef8.
[148] Rachel Louise Ensign, *Russian Asset Sales Muddy Sanction Compliance*, WALL ST. J. (Feb. 12, 2015), https://www.wsj.com/articles/russian-asset-sales-muddy-sanction-compliance-1423784903.
[149] Stephen Grey & Elizabeth Piper, *Rising stars among children of Russia's elite*, REUTERS (Nov. 10, 2015), https://www.reuters.com/article/us-russia-capitalism-sons/rising-stars-among-children-of-russias-elite-idUSKCN0SZ1DP20151110.
[150] *2018 Billionares Net Worth, No. 1999 Igor Rotenberg*, FORBES (Mar. 6, 2018), https://www.forbes.com/profile/igor-rotenberg/#393b87e51ef8.

B. The Art Market

This section describes the global and U.S. art industry; the U.S. art industry's current exemption from legal safeguards aimed at stopping money laundering and corruption; and the role of shell companies in purchasing high-value art.

The modern global art market—and its U.S. component—has been enjoying a boom. However, critics assert the secrecy found in the art market attracts illicit activity and suspect funds.[151] In 2019, global art sales reached $64.1 billion.[152] In addition, the art market has become a source of reliable return on investment.[153] One report found that since 2000, art has delivered average annual returns of 8.9 percent.[154] In 2019, 86 percent of surveyed wealth managers asserted that "they thought there was a convincing argument for including art in their wealth management service offering."[155] Investors also purchase art to diversify portfolios, and some view individual pieces as financial instruments to be traded like stock.[156] Over the last several years, growth was most pronounced at the top end of the market, with works priced above $10 million outperforming other parts of the market.[157]

The art market is also now more accessible due to globalization and the internet.[158] These two factors have transformed the art market into an international industry with a customer base located around the world.[159] The

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[151] Samuel Rubenfeld, *Art World's Response to Money-Laundering Concerns Draws Critics*, WALL ST. J. (Feb. 27, 2017), https://blogs.wsj.com/riskandcompliance/2017/02/27/art-worlds-response-to-money-laundering-concerns-draws-critics/.
[152] ART BASEL & UBS, *The Art Market 2020* 17 (2020), https://d2u3kfwd92fzu7.cloudfront.net/The_Art_Market_2020-1.pdf; *See also* Daniel Grant, *As Art Collections Grow, So Do the Places That Stash Them*, N.Y. TIMES (Nov. 13, 2018), https://www.nytimes.com/2018/11/13/business/art-storage.html.
[153] Frederik Balfour, *Billionaire's Secrets on How to Make a Bundle in Art*, BLOOMBERG (May 7, 2018), https://www.bloomberg.com/news/features/2018-05-07/top-collectors-reveal-the-secrets-of-how-to-invest-in-art.
[154] *Id.*
[155] DELOITTE, *Art and Finance Report* 84 (6th ED. 2019), https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/artandfinance/lu-art-and-finance-report-2019.pdf.
[156] Cynthia O'Murchu, *Art: A market laid bare*, FIN. TIMES (Apr. 7, 2015), https://www.ft.com/content/a91a1608-d887-11e4-8a23-00144feab7de#axzz3WpTPQ6X2; Michel Martin, *New Documentary Paints a Picture of the Contemporary Art Market Run Amok*, NPR (Nov. 4, 2018), https://www.npr.org/2018/11/04/658920684/new-documentary-paints-a-picture-of-the-contemporary-art-market-run-amok.
[157] Jeni Fulton, *Economist Dr. Clare McAndrew explains why the art market is rebounding*, ART BASEL, https://www.artbasel.com/news/economist-dr-clare-mcandrew-explains-why-the-art-market-is-rebounding.
[158] ART BASEL & UBS, *The Art Market 2020* 48 (2020), https://d2u3kfwd92fzu7.cloudfront.net/The_Art_Market_2020-1.pdf.
[159] *Id.* at 262.

United States continued to lead the market in 2019 with 44 percent of all sales by value, with the United Kingdom in second place with 20 percent.[160] International art fairs gather dealers, artists, and collectors to display art from different regions around the world.[161] For those unable to travel, the internet enables collectors from Europe, the Middle East, and Asia to easily bid on the same pieces of art.[162]

The art market has attracted criticism because of its lack of transparency. Current rules allow sellers to remain anonymous, and purchasers can use offshore shell companies to conceal ownership and sources of funds.[163] Sellers of artwork at auction are often not required to disclose their identity to the buyer; in some cases, the auction house does not know the name of the original owner or buyer.[164] Anonymity in the market can make it difficult to track sales transactions, art ownership, and determinations regarding authenticity.[165] Concealment of buyer and seller identity also makes art "an attractive instrument to hide illicit assets . . . because the transactions are often private, prices are speculative and an item can easily be smuggled to evade authorities."[166]

Deloitte and ArTactic's *Art & Finance Report 2019* found that 77 percent of wealth managers and 75 percent of collectors cite the art market's lack of transparency as one of the industry's key challenges.[167] Moreover, 75 percent of art professionals identified the market's lack of transparency as a major concern, marking a six percent increase from 2016.[168]

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[160] *Id.* at 37.
[161] Y-Jean Mun-Delsalle, *The Art Fair Boom Is Forever Changing the Way the Art Market Does Business*, FORBES (Apr. 7, 2016), https://www.forbes.com/sites/yjeanmundelsalle/2016/04/07/the-art-fair-boom-is-forever-changing-the-way-the-art-market-does-business/#52d8f7af6c64.
[162] Frederik Balfour, *Billionaire's Secrets on How to Make a Bundle in Art*, BLOOMBERG (May 7, 2018), https://www.bloomberg.com/news/features/2018-05-07/top-collectors-reveal-the-secrets-of-how-to-invest-in-art.
[163] Graham Bowley & William Rashbaum, *Has the Art Market Become an Unwitting Partner in Crime*, N.Y. TIMES (Feb. 19, 2017), https://www.nytimes.com/2017/02/19/arts/design/has-the-art-market-become-an-unwitting-partner-in-crime.html.
[164] *Id.*
[165] *Id.*
[166] Samuel Rubenfeld, *Art World's Response to Money-Laundering Concerns Draws Critics*, WALL ST. J. (Feb. 27, 2017), https://blogs.wsj.com/riskandcompliance/2017/02/27/art-worlds-response-to-money-laundering-concerns-draws-critics/.
[167] DELOITTE, *Art and Finance Report* 16, 171 (6th ED. 2019), https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/artandfinance/lu-art-and-finance-report-2019.pdf.
[168] *Id.* at 207.

1. Money Laundering in the Art Market

A large part of the art market operates in secrecy, allowing participants to conduct transactions anonymously.[169] According to an article quoting Thomas Christ, a board member of the Basel Institute of Governance, "[t]he art market is an ideal playing ground for money laundering."[170] Michael Martin, head of the forensic and anti-money laundering services at Deloitte Luxembourg acknowledged this, saying, "art is one of the asset classes that obviously lends itself to money laundering."[171] Smugglers, drug traffickers, arms dealers, and others have turned to the art market as a means to obscure profits and transfer assets outside the reach of financial regulators.[172]

In recent years, critics note that "[p]art of the reason art has become an attractive vehicle for money laundering is that other channels have been narrowed by tighter regulation," particularly in the financial sector.[173] For example, mortgage brokers, stockbrokers, casinos, banks, and Western Union are subject to federal money laundering statutes requiring them to report suspicious financial activity and perform due diligence to deter money laundering activities and "combat the financing of terrorism."[174] The same requirements do not apply to buyers and sellers of art.[175]

To provide greater transparency and prevent money laundering activities, the European Union adopted its fifth Anti-Money Laundering directive on April 19,

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[169] Graham Bowley & William Rashbaum, *Has the Art Market Become an Unwitting Partner in Crime*, N.Y. TIMES (Feb. 19, 2017), https://www.nytimes.com/2017/02/19/arts/design/has-the-art-market-become-an-unwitting-partner-in-crime.html.
[170] *Id.*
[171] Eric Reguly, *The link between art and money laundering*, GLOBE AND MAIL (May 15, 2018), https://www.theglobeandmail.com/report-on-business/international-business/european-business/economists-urge-tighter-regulations-to-curb-money-laundering-in-art-market/article26217852/.
[172] Patricia Cohen, *Valuable as Art, but Priceless as a Tool to Launder Money*, N.Y. TIMES (May 12, 2013), https://www.nytimes.com/2013/05/13/arts/design/art-proves-attractive-refuge-for-money-launderers.html.
[173] Samuel Rubenfeld, *Art World's Response to Money-Laundering Concerns Draws Critics*, WALL ST. J. (Feb. 27, 2017), https://blogs.wsj.com/riskandcompliance/2017/02/27/art-worlds-response-to-money-laundering-concerns-draws-critics/.
[174] Patricia Cohen, *Valuable as Art, but Priceless as a Tool to Launder Money*, N.Y. TIMES (May 12, 2013), https://www.nytimes.com/2013/05/13/arts/design/art-proves-attractive-refuge-for-money-launderers.html; RENA S. MILLER & LIANA W. ROSEN, CONG. RESEARCH SERV., R44776, ANTI-MONEY LAUNDERING: AN OVERVIEW FOR CONGRESS, SUMMARY (2017), https://www.crs.gov/reports/pdf/R44776.
[175] Kris Hollington, *After Drugs and Guns, Art Theft Is The Biggest Criminal Enterprise in the World,* NEWSWEEK (Jul. 22, 2014), https://www.newsweek.com/2014/07/18/after-drugs-and-guns-art-theft-biggest-criminal-enterprise-world-260386.html.

2018.[176] This directive compels businesses selling art to verify the identity of customers before completing transactions of €10,000 or more.[177] Under the directive, European Union member states were required to implement this new requirement by January 10, 2020.[178] The United Kingdom adopted similar rules in the weeks before its exit from the European Union on January 31, 2020.[179] The United States has yet to follow suit.[180]

2. The Art Industry is the Largest Legal, Unregulated Market in the United States

Today, the art industry is considered the largest legal, unregulated industry in the United States, permitting purchasers to buy pieces without any record of the transactions, even when large amounts of cash are involved.[181] In effect, buyers and sellers can remain anonymous raising the concern that corporate veils are being used "to manipulate markets, evade taxes, [and] launder money."[182]

Illegal activity, including money laundering, in the art market is made possible, in part, because the art market is generally not subject to the transparency requirements of the Bank Secrecy Act ("BSA").[183] The BSA was enacted by Congress in the 1970s to protect the United States from money laundering and corruption by imposing transparency requirements on many types of cash transactions.[184] It includes "requirements for reporting, customer identification and due diligence, recordkeeping, and the establishment and maintenance of BSA/AML compliance programs."[185] The BSA's reporting requirements mandate, for example, that financial institutions file suspicious

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[176] Anna Brady, *European Union tightens anti-money-laundering rules in the art market*, ART NEWSPAPER (Apr. 30, 2018), https://www.theartnewspaper.com/news/eu-extends-anti-money-laundering-rules.
[177] *Id.*
[178] Vera Jourova, *Strengthened EU rules to prevent money laundering and terrorism financing*, EUROPEAN COMMISSION (2018), http://ec.europa.eu/newsroom/just/document.cfm?action=display&doc_id=48935.
[179] Scott Reyburn, *Britain Moves to Regulate Its Art Trade. Bring Your ID.*, N.Y. TIMES (Jan. 10, 2020), https://www.nytimes.com/2020/01/10/arts/design/uk-art-money-laundering.html.
[180] Lawrence Kaye & Howard Spiegler, *The Art Market: Would More Regulation Spoil All the Fun*, ART & ADVOCACY, (Vol. 23 2016), http://www.herrick.com/publications/the-art-market-would-more-regulation-spoil-all-the-fun/.
[181] Kris Hollington, *After Drugs and Guns, Art Theft Is The Biggest Criminal Enterprise in the World,* NEWSWEEK (Jul. 22, 2014), https://www.newsweek.com/2014/07/18/after-drugs-and-guns-art-theft-biggest-criminal-enterprise-world-260386.html.
[182] Scott Reyburn, *What the Panama Papers Reveal About the Art Market*, N.Y. TIMES (Apr. 11, 2016), https://www.nytimes.com/2016/04/12/arts/design/what-the-panama-papers-reveal-about-the-art-market.html.
[183] Bank Secrecy Act of 1982, Pub. L. No. 97-258, codified at 31 U.S.C. § 5304.
[184] *Id.*
[185] RENA S. MILLER & LIANA W. ROSEN, CONG. RESEARCH SERV., R44776, ANTI-MONEY LAUNDERING: AN OVERVIEW FOR CONGRESS, 5 (2017), https://www.crs.gov/reports/pdf/R44776.

activity reports ("SARs") regarding "any suspicious transaction relevant to a possible violation of law or regulation."[186] In addition to SARs, Currency Transaction Reports ("CTRs") must be submitted for "individuals transporting large amounts of cash internationally, persons with large foreign financial interests, and nonfinancial entities conducting large cash transactions."[187]

The art industry in the United States is not required to comply with the requirements of the BSA.[188] Art dealers in the United States continue to operate without any regulated or structured mechanisms for transparently buying or selling art, including mandatory systems for the declaration or transfer of ownership.[189] Moreover, insider-trading rules applicable to the commodities market do not apply to art, allowing collectors to buy works of art based on privileged information.[190] In addition, "there is currently no regulation that specifically targets money laundering in the art market, nor does the art market itself subject professional art intermediaries to any standards of professionalism that directly address money laundering."[191] The lack of regulatory requirements or voluntary industry-wide standards in the United States means "art dealers have little incentive other than good faith to flag possible money laundering schemes involving artwork for law enforcement."[192]

Despite the weaknesses in U.S. AML safeguards for the art market, participants in the art industry may be subject to other restrictions including: import and export regulations; cultural property regulations; data protection and privacy laws; state anti-money laundering laws; tax regulations; and local auction regulations.[193] If they buy or sell art outside of the United States, they may also be subject to non-U.S. anti-money laundering controls.[194]

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[186] *Id.* at 6.
[187] *Id.*
[188] Lawrence Kaye & Howard Spiegler, *The Art Market: Would More Regulation Spoil All the Fun*, ART & ADVOCACY, (Vol. 23 2016), http://www.herrick.com/publications/the-art-market-would-more-regulation-spoil-all-the-fun/.
[189] DELOITTE, *Art and Finance Report* 170 (5th ED. 2017), https://www2.deloitte.com/content/dam/Deloitte/at/Documents/finance/art-and-finance-report-2017.pdf.
[190] Marc Speigler, *Time To Reform the Art Market?,* FORBES (May 30, 2005), https://www.forbes.com/2005/05/30/cx_0530conn_ls.html#69dcd7715f0a.
[191] Alessandra Dagirmanjian, *Laundering the Art Market: A Proposal for Regulating Money Laundering Through Art in the United States*, 29 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 687, 695 (2019).
[192] *Id.* at 696.
[193] SOTHEBY'S, *2019 Annual Report* 56 (2019), https://www.sothebys.com/content/dam/sothebys/PDFs/Sothebys-Annual-Report-12.31.2019.pdf?locale=en.
[194] Vera Jourova, *Strengthened EU rules to prevent money laundering and terrorism financing*, EUROPEAN COMMISSION (2018), http://ec.europa.eu/newsroom/just/document.cfm?action=display&doc_id=48935; Scott Reyburn,

While members of Congress have introduced legislation to add art and antiquities to the list of industries that must comply with the BSA,[195] Congress has not required comprehensive transparency in the art market.[196]

3. The Applicability of the Berman Amendment to High-value Art

Questions have arisen about whether U.S. sanctions policy could help address at least some aspects of the art industry's problems by requiring artists and dealers to ensure they are not engaging in transactions with sanctioned individuals or entities.[197] To gauge the feasibility of that approach, the Subcommittee inquired whether the U.S. sanctions regime applies to high-value art.

As described above, IEEPA allows the President to issue sanctions against specific categories of individuals and entities during a national emergency.[198] IEEPA authority does not, however, allow the President "to regulate or prohibit, directly or indirectly" "the importation from any country, or the exportation to any country … of any information or informational materials, including but not limited to, publications, films, posters, phonograph records, photographs, microfilms, microfiche, tapes, compact disks, CD ROMs, artworks, and news wire feeds."[199]

The Subcommittee asked the Treasury Department how high-value art is treated under IEEPA, including whether it is exempt from IEEPA controls under the informational materials exception in the Berman Amendment. In response, on October 3, 2019, the Treasury Department stated:

> Earlier [in 2019], Treasury undertook a review of the issues related to your inquiry. That review is ongoing and may result in the issuance of new or further pertinent guidance. Accordingly, it would be premature to provide the Subcommittee a formal position on how the Berman Amendment to the International Emergency Economic Powers Act may apply in the context of the matters you raise, particularly since any

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Britain Moves to Regulate Its Art Trade. Bring Your ID., N.Y. TIMES (Jan. 10, 2020), https://www.nytimes.com/2020/01/10/arts/design/uk-art-money-laundering.html.

[195] *See, e.g.*, Coordinating Oversight, Upgrading & Innovating Technology, & Examiner Reform Act, H.R. 2514, 116th Cong. (2019); Wallace Ludel & Margaret Carrigan, *US House of Representatives passes an anti-money laundering bill that could affect art and antiquities dealers*, THE ART NEWSPAPER (Oct. 25, 2019), https://www.theartnewspaper.com/news/us-house-of-representatives-passes-an-anti-money-laundering-bill-that-could-affect-art-and-antiquities-dealers.

[196] Barden Prisant, *The FBI Thinks You're a Money Launderer, And Other Perils of Art Collecting*, FORBES (Jan. 10, 2020), https://www.forbes.com/sites/bardenprisant/2020/01/10/the-fbi-thinks-youre-a-money-launderer-and-other-perils-of-art-collecting/#589067023957.

[197] Alice McCool, *Could Trump put an end to the Iranian art boom?*, CNN (Sept. 25, 2018), https://www.cnn.com/style/article/is-the-iran-art-boom-under-threat/index.html.

[198] 50 U.S.C. § 1703(b)(2).

[199] 50 U.S.C. § 1702(b)(3).

> new or further guidance could have broader implications. Nevertheless, we are taking the concerns you have expressed seriously in the context of that review. We will update you as soon as we are in a position to do so.[200]

On July 22, 2020, the Treasury Department provided the update and stated:

> Our review confirmed that Treasury does not believe the Berman Amendment is a categorical bar to the application of IEEPA-based sanctions to transactions involving artwork. Evaluation of a specific license application relating to designated persons—including one that implicates Berman Amendment materials—must depend on the particular facts and circumstances presented. OFAC intends to issue additional public guidance on this issue in the near term.[201]

The Subcommittee has continued to examine money laundering vulnerabilities in the U.S. art market in order to gauge the extent of the problem, how sanctioned individuals may be exploiting the market's vulnerabilities to launder suspect funds, and what action should be taken to detect, stop, and prevent ongoing misuse of the U.S. art market.

4. Shell Companies

Shell companies play a significant role in contributing to anti-money laundering vulnerabilities in the U.S. art industry. Treasury's Financial Crimes Enforcement Network ("FinCEN") defines shell companies as "typically non-publicly traded corporations or limited liability companies ("LLCs") that have no physical presence beyond a mailing address and generate little-to-no independent economic value."[202]

Shell companies are generally straightforward and inexpensive to create in all 50 states and offshore jurisdictions.[203] This process involves completing online forms and making an online payment, functions that can be executed by

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[200] Letter from Brian T. McGuire, U.S. Dep't of Treasury, Assistant Secretary Office of Legislative Affairs to Chairman Rob Portman (Oct. 3, 2019).
[201] Letter from Frederick W. Vaughan, U.S. Dep't of Treasury, Principal Deputy Assistant Secretary Office of Legislative Affairs to Chairman Rob Portman (Jul. 22, 2020).
[202] U.S. Dep't of Treasury, Advisory on the Iranian Regime's Illicit and Malign Activities and Attempts to Exploit the Financial System, 5 n.12 (Oct. 11, 2018), https://www.fincen.gov/sites/default/files/advisory/2018-10-11/Iran%20Advisory%20FINAL%20508.pdf.
[203] Joe Pinsker, *Are Shell Companies Useful for the People Who Aren't Ludicrously Rich?*, ATLANTIC, (Apr. 8, 2016), https://www.theatlantic.com/business/archive/2016/04/how-rich-do-you-have-to-be-for-a-shell-company-to-be-useful/477384/.

individuals, lawyers, or third parties.[204] Despite a shell company's lack of employees and office space, "formation agents" or "company service providers" can provide packages and operational services including mail forwarding, business licenses, local street addresses, telephone listings, and assistance with opening local and foreign bank accounts.[205]

Individuals and companies can use shell companies for legitimate purposes, such as holding assets, making pooled investments, executing reverse mergers or facilitating transfers.[206] They can also be misused to hide the identities of criminals, move illicit proceeds of crime, and commit a wide range of misconduct, including money laundering, human or drug trafficking, fraud, tax evasion, and corruption.[207]

In the art world, shell companies are frequently used when buying or selling valuable pieces of art.[208] For example, shell companies can serve as an intermediary allowing buyers and sellers to shift funds from one jurisdiction to another.[209] But shell companies can also be used to conceal the identity of the buyers and sellers, the source and control of assets, and move suspect funds. In this way, shell companies can be used as financial conduits for the transfer of funds and assets, at times without alerting financial institutions or law enforcement to the parties behind the transactions.[210]

Shell companies can provide this anonymity because there is no requirement that beneficial owners be identified during the entity's formation, opening of financial accounts, or transfer of funds.[211] Tom Cardamone, managing director of the nonprofit research group Global Financial Integrity, illustrated the efforts some parties make to conceal the individuals behind a shell company stating, "you can

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[204] Malia Wollan, *How to Set Up a Shell Company*, N.Y. TIMES (Nov. 7, 2019), https://www.nytimes.com/2019/11/07/magazine/how-to-set-up-a-shell-company.html.
[205] U.S. Dep't of Treasury, The Role of Domestic Shell Companies in Financial Crime and Money Laundering: Limited Liability Companies, 5–6 (Nov. 2006), https://www.fincen.gov/sites/default/files/shared/LLCAssessment_FINAL.pdf.
[206] Drake Forester, *The Truth About Shell Companies: The Good. The Bad, and the Ugly*, ALL BUSINESS, https://www.allbusiness.com/shell-companies-legitimate-uses-corruption-105041-1.html.
[207] *Combatting Illicit Financing by Anonymous Shell Companies: Hearing Before the S. Comm. on Banking, Housing, & Urban Affairs*, 116th. Cong. (2019) (statement of Steven M. D'Antuono, Act. Dep. Assist. Director, Fed. Bureau of Investigation), https://www.fbi.gov/news/testimony/combating-illicit-financing-by-anonymous-shell-companies.
[208] Scott Reyburn, *What the Panama Papers Reveal About the Art Market*, N.Y. TIMES, (Apr. 11, 2016), https://www.nytimes.com/2016/04/12/arts/design/what-the-panama-papers-reveal-about-the-art-market.html.
[209] Casey Michel, *The U.S. Is a Good Place for Bad People to Stash Their Money*, THE ATLANTIC, (Jul. 13, 2017), https://www.theatlantic.com/business/archive/2017/07/us-anonymous-shell-companies/531996/.
[210] STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 111TH CONG., REP. ON KEEPING FOREIGN CORRUPTION OUT OF THE UNITED STATES: FOUR CASE HISTORIES 2, 72 (Comm. Print 2010).
[211] *Id.* at 72.

create an anonymous shell in one jurisdiction that controls an anonymous trust in a completely different country that also controls a bank account in a third country."[212]

C. The Four Major Auction Houses

High-value art sales generally occur through a private sale or a public auction.[213] Sotheby's, Christie's, Phillips, and Bonhams are among the most well-known auction houses in the world, each dating back to the 1700s.[214] In addition to the largest auction houses, there are over 500 second-tier auction houses that play a significant role in national and international markets, and numerous small auction houses that provide services to domestic markets.[215] Since the highest value transactions are generally processed by the most well-known auction houses, this report concentrates on their role within the U.S. art market.

1. Sotheby's

In 1744, Samuel Baker established Sotheby's in London.[216] At the outset, the company became successful by auctioning books, and later expanded its business to prints, coins, medals, and antiquities.[217] After World War I, Sotheby's began to focus on "the sale of pictures and decorative works of art."[218] In 1964, Sotheby's started a period of global expansion after its purchase of Parke-Bernet, the largest fine art auction house in the United States at the time.[219] Headquartered in New York, Sotheby's currently has ten salesrooms around the world, including in London, Hong Kong, and Paris.[220] Beyond those salesrooms, Sotheby's BidNow program permits remote clients to participate in online auctions around the world.[221] Notable Sotheby's auctions include the 2012 sale of Edvard Munch's *The*

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[212] *All Things Considered: Want To Set Up a Shell Corporation To Hide Your Millions? No Problem,* NPR (Apr. 13, 2016), https://www.npr.org/2016/04/13/474101127/want-to-set-up-a-shell-corporation-to-hide-your-millions-no-problem.
[213] Samuel Rubenfeld, *Art World's Response to Money-Laundering Concerns Draws Critics*, WALL ST. J. (Feb. 27, 2017), https://blogs.wsj.com/riskandcompliance/2017/02/27/art-worlds-response-to-money-laundering-concerns-draws-critics/.
[214] Charlotte Zajicek, *The history of auctions: from ancient Greece to online houses*, THE TELEGRAPH (Oct. 7, 2016), https://www.telegraph.co.uk/art/online-auctions/history-of-auctions/; *Top 5 Auction Houses Around World*, AC. COOPER (Jun. 26, 2019), http://www.ac-cooper.com/top-5-auction-houses-around-world/.
[215] ART BASEL & UBS, *The Art Market 2020* 131 (2020), https://d2u3kfwd92fzu7.cloudfront.net/The_Art_Market_2020-1.pdf.
[216] *About Us: The History of Sotheby's Auction House*, SOTHEBY'S https://www.sothebys.com/en/about/our-history?locale=en.
[217] *Id.*
[218] *Id.*
[219] *Id.*
[220] SOTHEBY'S, *2019 Annual Report* 13, 57 (2019), https://www.sothebys.com/content/dam/sothebys/PDFs/Sothebys-Annual-Report-12.31.2019.pdf?locale=en.
[221] *Id.* at 13.

Scream, as well as the collections of Jacqueline Kennedy Onassis and Andy Warhol.[222] As of 2018, Sotheby's employed 1,713 people.[223] In 2019, Sotheby's produced total revenues of $991,660,000.[224]

Sotheby's business is divided into two parts—an agency segment and a finance segment.[225] The agency segment operates Sotheby's auction and private sale business.[226] The finance segment "earns interest income and associated fees through art-related financing activities by making loans that are secured by works of art."[227] In January 2016, Sotheby's acquired Art Agency Partners which provides art advisory services and strategic guidance to art collectors, artists, and artists' estates.[228]

In June 2019, Sotheby's announced a $3.7 billion merger agreement with BidFair USA, a company owned by the French telecom mogul and art collector Patrick Drahi.[229] Prior to the merger, Sotheby's was the oldest publicly traded company on the New York Stock Exchange ("NYSE"), "predating the [exchange] itself by 48 years."[230] After the deal with BidFair closed, however, Sotheby's returned "to private ownership after 31 years of trading publicly on the NYSE."[231] Sotheby's CEO, Tad Smith, stated the acquisition "will provide Sotheby's with the opportunity to accelerate the successful program of growth initiatives of the past several years in a more flexible private environment."[232]

After Sotheby's announced the merger, two Sotheby's shareholders filed suit against the auction house alleging failure to disclose in Sotheby's proxy statement

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[222] *About Us: The History of Sotheby's Auction House*, SOTHEBY'S https://www.sothebys.com/en/about/our-history?locale=en.
[223] SOTHEBY'S, *2018 Annual Report* 8 (2018), http://www.sothebys.com/content/dam/sothebys/PDFs/2018-annual-report.pdf?locale=en.
[224] SOTHEBY'S, *2019 Annual Report* 8 (2019), https://www.sothebys.com/content/dam/sothebys/PDFs/Sothebys-Annual-Report-12.31.2019.pdf?locale=en.
[225] *Id.* at 3.
[226] *Id.*
[227] *Id.*
[228] *Id.*
[229] Diana Wierbicki et al, *Sotheby's Goes Private: What It Means for the Art Market*, WEALTH MGMT. (Jun. 25, 2019), https://www.wealthmanagement.com/high-net-worth/sothebys-goes-private-what-it-means-art-market.
[230] *Sotheby's Celebrates Its 275th Year With Ringing of the Opening Bell at the New York Stock Exchange*, SOTHEBY'S (Mar. 11, 2019), https://www.sothebys.com/en/articles/sothebys-celebrates-its-275th-year-by-ringing-in-the-new-york-stock-exchange.
[231] Margaret Carrigan, *Sotheby's ceases publicly trading on the New York Stock Exchange as its $3.7bn sale to Patrick Drahi closes*, ART NEWSPAPER (Oct. 3, 2019), https://www.theartnewspaper.com/news/sotheby-s-ceases-publicly-trading-on-the-new-york-stock-exchange-as-its-usd3-7bn-sale-to-patrick-drahi-closes.
[232] Diana Wierbicki et al, *Sotheby's Goes Private: What It Means for the Art Market*, WEALTH MGMT. (Jun. 25, 2019), https://www.wealthmanagement.com/high-net-worth/sothebys-goes-private-what-it-means-art-market.

complete and accurate information regarding the company's valuation and background of the company's proposed sale to affiliates of Mr. Drahi.[233] In that suit, the shareholders claimed Sotheby's filed materially misleading disclosures with the SEC.[234] Sotheby's stated in response that, "the vast majority of all public company mergers over $100 million are the subject of shareholder litigation [and] the lawsuits filed were expected and routine."[235] These cases were subsequently dismissed or settled around 2019.

2. Christie's

Christie's was founded by James Christie in London in 1766.[236] Early in the company's history, Christie's benefited from the instability caused by the French Revolution as many French pieces of art made their way to the British market.[237] In 1824, Christie's gained additional notoriety with the opening of the National Gallery in London, which featured numerous pieces purchased from Christie's.[238] In 1977, Christie's entered the U.S. market, opening a salesroom in New York.[239] Today, Christie's has salerooms in London, New York, Paris, Geneva, Milan, Amsterdam, Dubai, Zurich, Hong Kong, and Shanghai.[240] Each year, the company holds roughly 350 auctions in over 80 categories, including jewelry, fine arts, photographs, and wine.[241] Notable Christie's auctions include Elizabeth Taylor's jewelry collection, George Washington's personal copy of the U.S. Constitution and Bill of Rights, and the $450 million sale of Leonardo da Vinci's *Salvator Mundi*.[242]

In addition to public auctions, Christie's represents clients in private sales.[243] In 2005, Christie's entered the digital market allowing potential buyers to bid online through Christie's Live.[244]

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[233] Bob Van Voris & Katya Kazakina, *Sotheby's Investors Sue to Block $2.7 Billion BidFair Offer*, BLOOMBERG (Jul. 19, 2019), https://www.bloomberg.com/news/articles/2019-07-19/sotheby-s-holders-sue-over-2-7-billion-bidfair-acquisition.
[234] *Id.*
[235] *Id.*
[236] *About Christie's*, CHRISTIE'S, https://www.christies.com/about-us/welcome-to-christies.
[237] *The History of Christie's Auction House*, CHRISTIE'S, https://www.christies.com/auctions/the-history-of-christies-auction-house.
[238] *Id.*
[239] *Id.*
[240] *About Us: The History of Sotheby's Auction House*, SOTHEBY'S https://www.sothebys.com/en/about/our-history?locale=en.
[241] *Id.*
[242] *The History of Christie's Auction House*, CHRISTIE'S, https://www.christies.com/auctions/the-history-of-christies-auction-house.
[243] *About Christie's*, CHRISTIE'S, https://www.christies.com/about-us/welcome-to-christies.
[244] *The History of Christie's Auction House*, CHRISTIE'S, https://www.christies.com/auctions/the-history-of-christies-auction-house.

The company is now owned by French billionaire François Pinault through his holding company Groupe Artémis.[245] In 2018, Christie's led the global art market, generating $7 billion in total sales, "the highest ever in the history of the auction house."[246] In 2019, the company generated $5 billion in auction sales alone.[247]

In recent years, Christie's started its own art storage business through its subsidiary Christie's Fine Art Storage Services with facilities in Singapore and Brooklyn.[248] The company also recalibrated its business model to better accommodate Asian buyers' increased participation in the art market.[249] In 2017, Christie's sales in Asia increased 39 percent, which ultimately represented 31 percent of the global market.[250] In part due to these increases and the expansion of its online activities, Christie's closed its South Kensington branch in London and scaled back activities in Amsterdam.[251]

Beyond its substantial presence in Asia, Christie's has a longstanding relationship with the Russian market that dates back to the 1770s. In 1778, for example, James Christie sold Sir Robert Walpole's art collection to Empress Catherine the Great, and this collection remains in the Hermitage to this day.[252] The strength of this relationship has endured and in 2016, Christie's had a 62 percent share "of the global market for Russian works of art."[253] The company also holds the record for "the highest price ever paid for a Russian painting at public auction – Kazimir Malevich's *Suprematist Composition*, which sold for $85,812,500 in 2018."[254]

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[245] Ted Loos, *Auction Houses Find New Ways to Survive*, N.Y. TIMES (Oct. 12, 2017), https://www.nytimes.com/2017/10/12/arts/christies-sothebys-auctions.html.
[246] *Christie's continues to lead the global art market*, CHRISTIE'S (Feb. 7, 2019), https://www.christies.com/features/Christies-continues-to-lead-the-global-art-market-9681-1.aspx.
[247] Nicky Eaton, *Christie's Global Auction Channel Sales Total £3.9 Billion / US $5.0 Billion in 2019*, ASSOC. PRESS (Dec. 20, 2019), https://apnews.com/Business%20Wire/afa3d55c49974af6ac2a34f377da8c6a.
[248] Kelly Crow, *The Ultimate Walk-In Closet*, WALL ST. J. (Apr. 26, 2010), https://www.wsj.com/articles/SB10001424052748703709804575202083586359768#.
[249] *Christie's sales in 2017 total $6.6 billion*, CHRISTIE'S (Feb. 2, 2018), https://www.christies.com/features/Christies-2017-results-8870-1.aspx.
[250] *Id.*
[251] Scott Reyburn, *Christie's to Close a London Salesroom and Scale Back in Amsterdam*, N.Y. TIMES (Mar. 8, 2017), https://www.nytimes.com/2017/03/08/arts/design/christies-to-close-a-london-salesroom-and-scale-back-in-amsterdam.html.
[252] *The History of Christie's Auction House*, CHRISTIE'S, https://www.christies.com/auctions/the-history-of-christies-auction-house.
[253] CHRISTIE'S, *Russian Art* 1 (2016), https://www.christies.com/media-library/pdfs/2017/russian-art-market-report-2016-rev.pdf.
[254] *50 years of Russian Art masterpieces at Christie's*, CHRISTIE'S (Dec. 11, 2019), https://www.christies.com/features/50-years-of-Russian-art-at-Christies-9747-3.aspx.

3. Phillips

Harry Phillips founded Phillips Auction House ("Phillips") in 1796.[255] Phillips first achieved "international recognition by selling paintings from the estate of Queen Marie Antoinette and household items from Napoleon Bonaparte."[256] The company was eventually passed to Harry's son and remained with the family through the 1880s and into the early 1900s.[257] By the 1970s, Phillips expanded its catalogue to include "fine art, furniture, and estate collections."[258]

In 1999, Phillips was purchased by Bernard Arnualt, chairman of Louis Vuitton Moet Hennessey, who subsequently merged the company with the auction house of private art dealers Simon de Pury and Daniela Luxembourg.[259] In 2001, Phillips and Bonhams & Brooks confirmed they would merge all operations in Great Britain to trade under the name Bonhams.[260] This restructuring allowed Phillips, de Pury & Luxembourg to concentrate on the high end market and transfer their lower-end art sales to Bonhams.[261] In 2002, Simon de Pury took majority control of the company.[262] Six years later, Mercury Group, a luxury retail company, acquired a majority share in the company, and later obtained full control in 2013.[263]

Phillips is headquartered in London, where it conducts sales in a limited number of categories—contemporary art, photographs, furniture, watches, and jewelry—and advertises itself as "the most dynamic and forward-thinking auction house."[264] The company's business also includes special exhibitions, private sales, and advisory and consulting services for private estates, corporate clients, and museums.[265] Phillips has ten locations around the globe, including New York, Hong Kong, Geneva, Moscow, Paris, and Seoul.[266] In 2019, Phillips had total sales revenue of $908 million, "with private sales ending the year at $171.8 million and marking a 34 percent gain from the previous year."[267]

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[255] *About Us*, PHILLIPS, https://www.phillips.com/about.
[256] *Id.*
[257] *Id.*
[258] *Id.*
[259] *Id.*
[260] Julia Finch, *Bonhams and Phillips confirm merger*, THE GUARDIAN (Jul. 13, 2001), https://www.theguardian.com/business/2001/jul/14/6.
[261] *Id; Phillips, de Pury & Luxembourg- Company Profile, Information, Business Description, History, Background Information on Phillips, de Pury & Luxembourg*, REFERENCE FOR BUSINESS, https://www.referenceforbusiness.com/history2/31/Phillips-de-Pury-Luxembourg.html.
[262] *About Us*, PHILLIPS, https://www.phillips.com/about.
[263] *Id.*
[264] *Id.*
[265] *Id.*
[266] *Locations,* PHILLIPS, https://www.phillips.com/locations.
[267] *Phillips' Overall Sales Total $908 Million in 2019*, PHILLIPS (Feb. 4, 2020), https://www.phillips.com/press/release/phillips-overall-sales-total-908-million-in-2019.

4. Bonhams

Thomas Dodd established Bonhams in London in 1793.[268] In the 1850s, George Bonham formed a partnership with Dodd's successor George Jones, calling the company Jones & Bonham.[269] In 2000, after five generations, the company was re-named Bonhams & Brooks following its acquisition by Brooks auction house.[270] Shortly thereafter in 2001, Brooks acquired the British operations of its rival company Phillips.[271] A year later, Bonhams acquired the American auction house Butterfields, further expanding its global reach.[272] In September 2018, the private equity firm Epiris purchased Bonhams for an undisclosed amount.[273]

Bonhams "sells more jewelry lots per year than any other international house," making up more than 40 percent of the company's sales.[274] Outside of jewelry, Bonhams specializes in low to mid-range art and antiquities as well as classic cars.[275] The company holds more than 250 sales each year at auction venues around the world including Edinburgh, Hong Kong, London, New York, and Sydney.[276]

5. Online Auctions during the COVID-19 Pandemic

In March 2020, the United States took steps to respond to the COVID-19 pandemic with a number of jurisdictions issuing stay-at-home orders to prevent the spread of the virus. Sotheby's, Christie's, and Phillips shifted to online auction formats as in-person events were cancelled.[277] To simulate an in-person auction experience, Sotheby's filmed their auctioneer "facing a fleet of television screens so

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[268] *About Us*, BONHAMS, https://www.bonhams.com/about_us/.
[269] *Id.*
[270] *Id.*; Chris Maxwell, *Bonhams auction house*, DIRECTOR UK (Apr. 1, 2014), https://www.director.co.uk/bonhams-auction-house-company-profile-1-april-2014/.
[271] *About Us*, BONHAMS, https://www.bonhams.com/about_us/.
[272] The Art Newspaper, *Bonhams Buys Butterfields*, FORBES (Aug. 6, 2002), https://www.forbes.com/2002/08/06/0806conn.html#493a313732d8.
[273] Anthony DeMarco, *Bonhams Sold To Private Equity Firm*, FORBES (Sept. 4, 2018), https://www.forbes.com/sites/anthonydemarco/2018/09/04/bonhams-sold-to-private-equity-firm/#5318c8261f4b.
[274] *Id.*
[275] Scott Reyburn, *The Art World's Elephant in the Room*, N.Y. TIMES (Sept. 21, 2018), https://www.nytimes.com/2018/09/21/arts/design/elephant-graph-income-inequality.html.
[276] Javier Espinoza & James Pickford, *Bonhams snapped up by private equity group Epiris,* FIN. TIMES (Sept. 4, 2018), https://www.ft.com/content/9052fcee-b064-11e8-8d14-6f049d06439c; *Locations*, BONHAMS, https://www.bonhams.com/locations/.
[277] Kelly Crow, *Sotheby's to Offer $60 Million Painting Online in New Format*, WALL ST. J. (May 29, 2020), https://www.wsj.com/articles/sotheby-s-to-offer-60-million-painting-online-in-new-format-11590769933; Scott Reyburn, *Christie's New Auction Technique: The Global Gavel*, N.Y. TIMES (Jul. 10, 2020), https://www.nytimes.com/2020/07/10/arts/design/christies-auction.html.

viewers could watch as he [fielded] collectors' phone bids placed via colleagues."[278] The auctioneer also considered real-time bids placed on the Sotheby's website.[279]

These online auctions were profitable for all three houses.[280] Some 80,000 people joined Christie's July 10, 2020 auction, which sold 79 paintings and brought in $421 million in overall sales.[281] This includes Roy Lichtenstein's *Nude with Joyous Painting* that sold for $46.2 million to an anonymous bidder, roughly $16 million more than its expected sale price.[282] Sotheby's auction on June 29, 2020 brought in $234.9 million in total sales, including $85 million for a trio of Francis Bacon works, *Triptych Inspired by the Oresteia of Aeschylus*.[283] The three Bacon paintings also sold to an anonymous telephone bidder.[284]

Phillips held their own hybrid in-person and online auction on July 2, 2020 bringing $41 million.[285] Phillips CEO Ed Dolman remarked that the "sale was a resounding statement about the strength of our market, . . . as there's a certain amount of huge pent-up demand if you think about the amount of money that would have been spent in the global art market."[286] Dolman added further, "it's quite obvious to us there's a significant amount of money on the sidelines waiting to get a chance to get back in the art market."[287]

D. Art Dealers, Art Galleries, and Art Fairs

Auction houses are not the exclusive means by which collectors purchase high-value works of art. Buyers also rely on art dealers to build their collections

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[278] Kelly Crow, *Sotheby's to Offer $60 Million Painting Online in New Format*, WALL ST. J. (May 29, 2020), https://www.wsj.com/articles/sotheby-s-to-offer-60-million-painting-online-in-new-format-11590769933

[279] *Id.*

[280] Kelly Crow, *Roy Lichtenstein's Nude Buoys Christie's $421 Million Live-Stream Sale*, WALL ST. J. (Jul. 10, 2020), https://www.wsj.com/articles/roy-lichtensteins-nude-buoys-christie-s-421-million-live-stream-sale-11594419000; *Contemporary Art Evening Auction*, SOTHEBY'S (Jun. 29, 2020), https://www.sothebys.com/en/buy/auction/2020/contemporary-art-evening-auction?locale=en; Nate Freeman, *Phillips Scored $41 Million in a White-Glove Contemporary Evening Sale as the Auction House Got Hip to New Online Landscape*, ARTNET NEWS (Jul. 2, 2020), https://news.artnet.com/market/phillips-evening-july-2020-1892250.

[281] Kelly Crow, *Roy Lichtenstein's Nude Buoys Christie's $421 Million Live-Stream Sale*, WALL ST. J. (Jul. 10, 2020), https://www.wsj.com/articles/roy-lichtensteins-nude-buoys-christie-s-421-million-live-stream-sale-11594419000.

[282] *Id.*

[283] Kelly Crow, *Sotheby's Brings Home the Bacon*, WALL ST. J. (Jun. 29, 2020), https://www.wsj.com/articles/sothebys-brings-home-the-bacon-11593489255.

[284] *Id.*

[285] Nate Freeman, *Phillips Scored $41 Million in a White-Glove Contemporary Evening Sale as the Auction House Got Hip to New Online Landscape*, ARTNET NEWS (Jul. 2, 2020), https://news.artnet.com/market/phillips-evening-july-2020-1892250.

[286] *Id.*

[287] *Id.*

through private sales.[288] In 2019, aggregate dealer sales accounted for 58 percent of the art market by value, in contrast with auction sales, which claimed only 42 percent.[289] In private sales, art dealers serve as a liaison between artists or current owners and potential purchasers.[290] In this role, and in exchange for a percentage of each artwork sold, dealers often "manage an artist's sales, network with collectors and curators, and seek to ensure the longevity of an artist's career by mounting exhibitions" on behalf of their artists.[291]

Traditionally, art dealers conduct private sales through art galleries.[292] In 2019 for example, 50 percent of dealer sales were made in galleries; the remaining 50 percent were divided between art fairs (45 percent) and online purchases (5 percent).[293] Galleries represent artists through promotional activities, hosting exhibitions, and ultimately selling their work.[294] Primary market dealers sell works by living artists while secondary-market dealers re-sell works "on behalf of collectors, institutions, and estates."[295] Because auction houses tend to focus on the secondary market, galleries execute many first-time sales and as a result play an influential role in determining the value of individual pieces.[296]

Nevertheless, the historical dominance of art galleries has declined with the increasing popularity of art fairs. Unlike the traditional gallery, which operates from a fixed location, art fairs allow for collaboration between dealers and gallery owners who come together for a limited time to show a wide range of pieces at different price points.[297] Art fairs provide valuable networking opportunities, increased exposure for artists, and a bolstered image for host cities, which benefit

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[288] ART BASEL & UBS, *The Art Market 2018* 30 (2018), https://www.artbasel.com/about/initiatives/the-art-market.
[289] ART BASEL & UBS, *The Art Market 2020* 32 (2020), https://d2u3kfwd92fzu7.cloudfront.net/The_Art_Market_2020-1.pdf.
[290] Amy Zipkin, *A Lifetime of Making Art, but New to Selling It Online*, N.Y. TIMES (Feb. 9, 2018), https://www.nytimes.com/2018/02/09/business/lifetime-making-art-new-to-selling-online.html.
[291] Zoe Goetzmann, *These Artists Jump-Started Their Careers by Selling Directly to Collectors on Instagram*, Artsy (Nov. 26, 2018), https://www.artsy.net/article/artsy-editorial-artists-jump-started-careers-selling-directly-collectors-instagram.
[292] ART BASEL & UBS, *The Art Market 2018* 178 (2018), https://www.artbasel.com/about/initiatives/the-art-market.
[293] ART BASEL & UBS, *The Art Market 2020* 193 (2020), https://d2u3kfwd92fzu7.cloudfront.net/The_Art_Market_2020-1.pdf.
[294] Anna Louie Sussman, *How Galleries Support Their Artists*, ARTSY (Apr. 18, 2017), https://www.artsy.net/article/artsy-editorial-galleries-support-artists.
[295] ART DEALERS ASSOCIATION OF AMERICA, COLLECTOR'S GUIDE 15 (45th ed. 2007), https://web.archive.org/web/20131008045449/http://www.artdealers.org/dnloads/adaa_guide.pdf.
[296] Allison Schrager, *High-end art is one of the most manipulated markets in the world*, QUARTZ (Jul. 11, 2013), https://qz.com/103091/high-end-art-is-one-of-the-most-manipulated-markets-in-the-world/.
[297] ART BASEL & UBS, *The Art Market 2018* 190–191 (2018), https://www.artbasel.com/about/initiatives/the-art-market.

from increased tourism.[298] Fairs also expose current collectors to many different galleries and artists in one location, therefore avoiding the inconvenience of traveling between different locations.[299] The 2019 Art Basel Miami Beach art fair, for example, hosted 269 galleries from 33 countries in the Miami Beach Convention Center.[300]

E. Voluntary Anti-Money Laundering and Sanctions Programs in the Art Industry

As explained earlier, under current U.S. law, the art industry is not legally required to comply with the same anti-money laundering requirements as certain financial institutions listed in the BSA.[301] The BSA authorizes the Treasury Secretary to require those financial institutions to file "certain reports or records where they have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings, or in the conduct of intelligence or counterintelligence activities, including analysis, to protect against international terrorism."[302] In addition, the BSA states that "in order to guard against money laundering through financial institutions, each financial institution shall establish anti-money laundering programs, including, at a minimum –

(A) the development of internal policies procedures, and controls;
(B) the designation of a compliance officer;
(C) an ongoing employee training program; and
(D) an independent audit function to test programs."[303]

Although the provisions of the BSA do not apply to the art industry, all U.S. citizens and companies must comply with U.S. sanctions programs.[304] Under IEEPA for example, any U.S. citizen or entity that conducts business with a person on the SDN list is subject to criminal and civil liability.[305]

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[298] Y-Jean Mun-Delsalle, *The Art Fair Boom Is Forever Changing the Way the Art Market Does Business*, FORBES (Apr. 7, 2016), https://www.forbes.com/sites/yjeanmundelsalle/2016/04/07/the-art-fair-boom-is-forever-changing-the-way-the-art-market-does-business/#3589bb5d6c64.
[299] James Tarmy, *Art Fairs Are Popping Up Everywhere. Do They Make Any Money?,* BLOOMBERG (Mar. 6, 2018), https://www.bloomberg.com/news/articles/2018-03-06/art-fairs-are-popping-up-everywhere-who-profits.
[300] Annie Armstrong, *Art Basel Miami Beach Will Feature 269 Exhibitors in December*, ART NEWS (Sept. 11, 2019), https://www.artnews.com/art-news/news/art-basel-miami-exhibitor-list-13211/.
[301] For the complete list of entities that fall under the definition of a "financial institution" and therefore must comply with the Bank Secrecy Act, *see* 31 U.S.C. § 5312 (a)(2).
[302] 31 U.S.C. § 5311.
[303] 31 U.S.C. § 5318(h)(1)(A)–(D).
[304] 50 U.S.C. § 1705(a).
[305] 50 U.S.C. § 1705(b)–(c).

Despite not having a legal obligation to implement AML programs under the BSA, the Subcommittee found that the four biggest art auction houses described above all have voluntary AML programs in place. In addition, all four have sanctions compliance programs. This section details the voluntary AML and sanctions programs in place at: (1) Sotheby's; (2) Christie's; (3) Phillips; and (4) Bonhams. The Subcommittee also interviewed one private art dealer who admitted they operated with no AML or sanctions compliance programs in effect.

1. Sotheby's

Sotheby's informed the Subcommittee that it has a compliance department that oversees all issues relating to money laundering, terrorist financing, tax evasion, sanctions policies, and related litigation.[306]

Worldwide Policy on Money Laundering, Terrorist Financing and Tax Evasion. Sotheby's has a detailed, written set of rules to combat money laundering, terrorist financing, and tax evasion. The current policy document (the "2018 AML Policy") "applies to all members of the Board of Directors, employees, consultants, independent contractors, and others providing services to Sotheby's."[307] The document also states that "Sotheby's is committed to strict compliance with all applicable laws regarding anti-money laundering, combatting terrorist financing, and tax evasion."[308] It further states that "if you have any concerns about the activity of a client or legality of a transaction in which Sotheby's is involved you must raise those concerns with the Compliance Department immediately."[309]

The 2018 AML Policy explains that "the single most effective tool in combatting money laundering or terrorist financing is to have adequate knowledge about our clients. We must know who our clients are regardless of whether they are new or existing clients, occasional or regular purchasers or consignors and the volume or value of the transaction activity."[310] The 2018 AML Policy explains that "for ***all*** clients, new or existing, we must: (a) know the **true identity** of the person or entity who owns the property or funds in question; and (b) understand **the source of the client's funds**."[311]

The 2018 AML Policy also outlines how to deal with an agent acting on behalf of an undisclosed principal. The document states, in pertinent part:

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[306] Subcommittee Briefing with Sotheby's Employees (Oct. 25, 2018).
[307] SOT-000054–78.
[308] *Id.*
[309] *Id.*
[310] *Id.*
[311] *Id.* (emphasis in original).

> In the context of ordinary auction and private sale transactions with an agent who you know or believe is acting on behalf of a principal whose identity is not disclosed, we must treat the agent as our client for the purposes of customer due diligence and verification of identification. Before you engage in transactions with agents for undisclosed owners, (e.g., dealers who wish to keep the names of their clients confidential from us), you must ensure that we know and trust the agent concerned . . . In addition, you should confirm that the agent knows personally and/or has conducted appropriate due diligence on its clients' identities and activities.[312]

The 2018 AML Policy also notes "certain clients and transactions by their nature pose a higher risk of money laundering/terrorist financing or tax evasion. You must consider the below risk factors in connection with every transaction, and if you believe that your client falls within any of the following categories you must notify the Compliance Department immediately."[313] The "higher risk indicators" include: "clients residing in or with property/funds sourced from high-risk jurisdictions, which are those jurisdictions listed in Annex B."[314] Annex B lists 38 countries, including Russia.[315] Sotheby's added Russia to the list of high-risk jurisdictions in 2018; Russia was not included as a high-risk jurisdiction in its prior AML policy.[316]

The 2018 AML Policy also requires enhanced due diligence for transactions involving a politically exposed person or "PEP."[317] A PEP is defined in the 2018 AML Policy as "an individual that is, or has, at any time in the preceding year been entrusted with a prominent public function by any state, a European Community institution (such as the European Commission) or an international body…."[318] The definition of PEP also includes immediate family members and any "person known to be a close associate of the PEP (such as a person who is in a close business relationship with a PEP or a trust or company formed for the benefit of a PEP)."[319] The 2018 AML Policy explains that for PEPs "the risk of money laundering is legally presumed to be higher based on his/her position and the greater likelihood that he/she will be exposed to corruption."[320]

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[312] *Id.*
[313] *Id.*
[314] *Id.*
[315] *Id.*
[316] SOT-000419–43.
[317] SOT-000054–78.
[318] *Id.*
[319] *Id.*
[320] *Id.*

The Sotheby's 2018 AML Policy also lists various types of "activity which may cause concern," which it refers to as "red-flags."[321] The 2018 AML Policy states that "Sotheby's may not establish or maintain a business relationship or conclude a transaction with a client if at the time we are suspicious about money laundering, terrorist funding, the client, the source of funds or the property or that the transaction is part of tax evasion."[322] The 2018 AML Policy lists a number of different types of "red-flags," including, but not limited to the following:

- Client is unwilling to present requested identification documents, even after we have given the client reasonable explanations as to why we have asked for this information.
- Client refuses to provide complete and accurate contact information or business affiliations.
- Client gives evasive or incomplete answers to basic, routine questions.[323]

The 2018 AML Policy states that "all employees are required to report any suspicious transactions or suspected fraud to the Compliance Department."[324]

Worldwide Policy on Compliance with Economic Sanctions Programs. Sotheby's 2016 Worldwide Policy Regarding Compliance with Economic Sanctions Programs (the "2016 Sanctions Policy") establishes that "no Sotheby's employee, wherever located, may transact with any blocked party."[325] The 2016 Sanctions Policy explains that OFAC:

> administers and enforces U.S. economic and trade sanctions against targeted foreign countries, terrorists and terrorism-sponsoring organizations, international narcotics traffickers, and others. The regulations and executive orders administered and enforced by OFAC prohibit, among other things, the engagement by U.S. persons in transactions with, or the provision by U.S. persons of services to, certain entities and individuals on the Specifically Designated Nationals and other Blocked Persons List and other OFAC lists (collectively, the "OFAC Lists").[326]

The 2016 Sanctions Policy also states, "Sotheby's must ensure that no actual or potential client, no agent or intermediary, no beneficiary or principal whose name it acquires in the ordinary course of business . . . are named on the OFAC Lists, are owned 50 percent or more by one or more persons on the OFAC Lists, or any other

[321] *Id.*
[322] *Id.*
[323] *Id.*
[324] *Id.* (emphasis in original).
[325] SOT-000104–114.
[326] *Id.*

relevant Blocked Parties list."[327] The document instructs Sotheby's employees to contact the Compliance Department if they "believe that an active Sotheby's client is listed on any relevant Blocked Parties lists."[328]

Sotheby's also "conducts regular screening through an automated tool to ensure that no counterparty is on any relevant Blocked parties list. Sotheby's also reruns the filter against its counterparties following the release of updates to the OFAC Lists and other relevant lists."[329] This process is monitored by the Compliance Department.[330] Sotheby's Compliance Department also conducts due diligence on individual transactions and requires contractual clauses and representations from consignors and purchasers to ensure that such purchases are consistent with Sotheby's compliance requirements and that the real party in interest is not subject to U.S. prohibitions.

Sotheby's Briefing. On October 25, 2018, senior employees from the Sotheby's Compliance Department briefed Subcommittee staff on the company's policies and practices. The briefing was led by Sotheby's former Chief Global Compliance Counsel, Head of Regulatory Affairs ("Chief Compliance Counsel").[331] She explained to the Subcommittee that while the art industry is not technically regulated, many regulatory environments apply to the art business.[332] She continued that Sotheby's has a "mature and well-developed" AML and sanctions compliance program, in which employees use a risk-based approach.[333] She said the higher the value of the art transaction, the more Sotheby's needs to understand about the background of the client or the ability of the client to purchase the item.[334]

The Chief Compliance Counsel explained that, in some cases, dealers will purchase a work of art and may subsequently sell it to another person.[335] In those instances, she stated that Sotheby's "doesn't have a way to get that information" about the person to whom the dealer may subsequently sell the artwork.[336] She stated that, at times, Sotheby's has asked dealers on whose behalf they are purchasing an item, but there is an economic disincentive for dealers to provide that information to Sotheby's.[337] The dealers believe that if Sotheby's knew the identity of their clients, Sotheby's would go straight to their client and cut out the dealer.[338]

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[327] *Id.*
[328] *Id.*
[329] *Id.*
[330] *Id.*
[331] Subcommittee Briefing with Sotheby's Employees (Oct. 25, 2018).
[332] *Id.*
[333] *Id.*
[334] *Id.*
[335] *Id.*
[336] *Id.*
[337] *Id.*
[338] *Id.*

The art dealer's livelihood depends on protecting client information.[339] Should Sotheby's ask a dealer to whom they may intend to resell the artwork following the dealer's transaction with Sotheby's, according to the Chief Compliance Counsel, the dealer would respond, "Are you kidding me? I'm not telling you."[340]

Ultimately, according to the Chief Compliance Counsel, whether to continue and execute a transaction with a dealer who may sell to a subsequent buyer was a judgment call.[341] If the dealer is someone Sotheby's knows; established in the art world; someone Sotheby's has transacted with many times in the past; and is not under investigation, she said Sotheby's is likely to complete the transaction.[342] If the dealer does not meet those criteria, she said Sotheby's would refuse to move forward: "we'll say there's too much smoke here, and we've done that."[343]

The Chief Compliance Counsel stated that in some instances, the Compliance Department offers its counterparties the option of telling Sotheby's Compliance personnel who their principal is, which enhances Sotheby's ability to perform its due diligence and allows counterparties to protect their commercially proprietary information. Sotheby's has been successful in this way in encouraging intermediaries to divulge their clients' identities without risk of losing their business portfolio.[344] She said that Sotheby's "has a lot of success with that," yet some intermediaries still refuse to disclose their principal due to a lack of trust.[345] Sometimes intermediaries request before disclosing the identity of their principal a non-disclosure agreement ("NDA") to provide comfort that Sotheby's would not share the information outside of its Compliance Department.[346]

The Chief Compliance Counsel also discussed Sotheby's sanctions compliance policies.[347] She explained that Sotheby's runs its client list through World-Check on a daily basis to identify possible sanctions violations.[348] This check includes "all the major sanctions from around the world."[349] Any hits on sanctioned entities get flagged to the Compliance Department.[350] For private sales, Sotheby's runs the names for both the buyer and the seller through World-Check to determine if either are sanctioned.[351] World-Check is a database used by financial institutions to

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[339] *Id.*
[340] *Id.*
[341] *Id.*
[342] *Id.*
[343] *Id.*
[344] *Id.*
[345] *Id.*
[346] *Id.*
[347] *Id.*
[348] *Id.*
[349] *Id.*
[350] *Id.*
[351] *Id.*

identify PEPs, SDNs, and other high-risk individuals and organizations.[352] She told the Subcommittee that Sotheby's "has never transacted with an SDN or blocked person."[353] She asserted the company has "never had a hit and never inadvertently transacted with one."[354]

The Chief Compliance Counsel also explained that Sotheby's due diligence at the time associated with the Subcommittee's review into a new client or transaction involved a risk-based analysis, which factored in the value of the transaction, the profile on the person, and the legitimacy of why the person has the artwork or the funds to purchase the artwork.[355] At the time, Sotheby's was aware of the risk that the buyer may not be the UBO and dealt with that risk by reviewing the information to which it had access and kept an eye out for red flags.[356] She noted there is a significant competitive advantage in the art world to having information about who owns what art, and intermediaries in the art world frequently do not want to disclose who their clients are because they do not want to be cut out of the deal.[357] At the relevant time, Sotheby's trusted some clients to do their own KYC of their transactions parties. And Sotheby's will walk away from a deal if it was not comfortable with the responses it received.[358]

2. Christie's

Global Anti-Money Laundering and Anti-Terrorist Financing Policy. Christie's first established an AML policy in December 2008,[359] and updated it in 2014 and 2015.[360] The current AML policy was updated and finalized in March 2018 (the "2018 AML Policy").[361] Christie's former Global Head of Compliance in London explained that the AML policy matured over the years.[362]

The 2018 AML Policy established know your client (or "KYC") procedures as a "key component of Christie's AML Policy. This involves collecting, verifying and keeping records of the identity of all clients."[363] The document states that "Christie's will request sufficient identification documentation from clients to verify their identity using a risk-based approach. Where there is a greater perceived risk

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[352] *See Refinitiv World-Check Risk Intelligence*, REFINITIV, https://www.refinitiv.com/en/products/world-check-kyc-screening.
[353] Subcommittee Briefing with Sotheby's Employees (Oct. 25, 2018).
[354] *Id.*
[355] *Id.*
[356] *Id.*
[357] *Id.*
[358] *Id.*
[359] Christies-PSI-00000286–89.
[360] Christies-PSI-00000294–99 (2014); Christies-PSI-00000300–05 (2015).
[361] Christies-PSI-00000001–006.
[362] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019) (also referred to below as Christie's "Compliance Counsel").
[363] Christies-PSI-00000001–006.

of money laundering or terrorist financing, enhanced due diligence, client risk reviews and KYC checks may be required."[364] The 2018 AML Policy poses two questions for Christie's employees to consider regarding KYC procedures:

- Am I satisfied that the person/entity I am dealing with is the person/entity they claim to be?
- Do the circumstances of the proposed transaction give rise to a suspicion that the property being sold or funds used for payment are derived from criminal activity or may be used to fund terrorism?[365]

The 2018 AML Policy also states "for clients who are legal entities, Christie's must also identify the natural persons in control (e.g., directors and beneficial owners)."[366] Christie's requires certain forms of identification for individuals making purchases or the beneficial owner of a private company, including offshore entities.[367]

Christie's also notes circumstances that are considered "red flags."[368] The document explains that red flags "are indicators of circumstances where [Christie's] may require further information from or about the client" and provides specific examples.[369]

Sanctions Policy. The current Christie's sanctions policy was issued on May 1, 2018.[370] It states that "Christie's is committed to complying with all Sanctions that may apply to its business at any given time."[371] As such, employees and representatives must not "enter into or facilitate any business, dealings, or other activities, directly or indirectly, involving or for the benefit of Sanctioned Parties, except where expressly approved in writing by Compliance."[372]

The Christie's Sanctions Policy delineates certain countries as high risk countries and requires "all potential business and relationships with clients, suppliers and other third parties in High Risk Countries [to] be referred to Compliance prior to any business being conducted or any business relationship being established."[373] The policy also states that "Christie's will ensure that employees in specific regions and departments exposed to dealings with High Risk Countries received appropriate training on Christie's Sanctions obligations."[374]

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[364] *Id.*
[365] *Id.*
[366] *Id.*
[367] Christies-PSI-00000009–13.
[368] Christies-PSI-00000324–26.
[369] *Id.*
[370] Christies-PSI-00000014–19.
[371] *Id.*
[372] *Id.*
[373] *Id.*
[374] *Id.*

Christie's Briefing. Employees from Christie's U.S.-based legal department in New York briefed Subcommittee staff on Christie's anti-money laundering policies and sanctions compliance, led by Christie's General Counsel for Dispute Resolution and Legal Public Affairs ("Christie's General Counsel").[375] According to her, the Legal Department acts as a "helicopter parent," serving as an independent check on Christie's business activities.[376] She noted that the AML policy applies to all employees, including client-facing employees, because Christie's "wants [all employees] to know they are responsible for [compliance] issues."[377] The Legal function serves as "an independent check away from the business to look at all decision being made" to ensure appropriate compliance.[378] The Compliance Manager for the Americas added that there are "conversations between [client-facing] front line staff to alert [Legal] to red flags."[379] He continued that "if a client gives [client-facing staff] pushback it would be an immediate escalation to Legal."[380] Regarding Christie's AML policies, Christie's General Counsel noted that they are applicable to all Christie's employees globally.[381] Additionally, all Christie's employees receive training on the policies.[382]

Christie's General Counsel noted that the Legal Department has the ability to "restrict" clients – such as sanctioned individuals.[383] Restricting a client "blocks" them globally from transacting with Christie's.[384] Only the Legal Department is able to place or remove these restrictions.[385] The decision to restrict someone with derogatory information is simple; the Legal Department can simply say "no" and restrict that individual from transacting with Christie's.[386] If information is less clear, the decision is escalated to the head of the compliance department through a report.[387] If necessary, the issue can subsequently be escalated to the General Counsel in London or further to the Deputy CEO for a decision.[388]

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[375] Subcommittee Briefing with Christie's Employees (Feb. 8, 2019).
[376] *Id.*
[377] *Id.*
[378] *Id.*
[379] *Id.*
[380] *Id.*
[381] *Id.*
[382] *Id.*
[383] *Id.*
[384] *Id.*
[385] *Id.*
[386] *Id.*
[387] *Id.*
[388] *Id.*

3. Phillips

Worldwide Anti-Money Laundering Policy. Phillips provided the Subcommittee with its AML policy (the "Phillips Policy"), which stated that Phillips employees "must report any knowledge or suspicion to the appropriate Phillips Anti-Money Laundering Officer, who then decides whether to make a report to the relevant authority."[389] The Phillips Policy first asks employees to require new clients to submit certain forms of government-issued identification.[390] The Phillips Policy also notes that "key questions to ask include:

- Is the consignor or buyer reluctant to provide personal information?
- Is there any suggestion that the client is evading, has evaded or will evade taxes?
- Who is the beneficial owner of the property if it is consigned by an off-shore company?"[391]

The Phillips Policy also includes a section entitled "Red Flags," which explains "if any of the following 'Red Flags' appear and there is no reasonable explanation for the particular Red Flag such that the employee is concerned about the client or transaction, the matter MUST be referred immediately in writing and by telephone to the appropriate Anti-Money Laundering Officer."[392] The Phillips Policy continues with a list of "what to look for," such as:

- Client provides unusual, inconsistent, or suspicious identification; and
- Clients from certain high risk jurisdictions, particularly if wanting to pay from a local bank (e.g., Iran, North Korea, Algeria, Myanmar, Syria, Indonesia, Yemen).[393]

While the Phillips Policy did not include instructions regarding compliance with sanctions, Counsel for Phillips explained that sanctions compliance was considered a component of Phillips anti-money laundering compliance program, noting Phillips' compliance training from as early as 2011 covered risks and compliance protocols related to sanctions.[394]

Phillips Briefing. Subcommittee staff received a briefing from Phillips General Counsel based in London.[395] He explained that the company's policies have developed over time.[396] He stated that Phillips generally followed what the rest of

[389] PHILLIPS-00401–04.
[390] *Id.*
[391] *Id.*
[392] *Id.* (emphasis in original).
[393] *Id.*
[394] *See* Letter from Counsel for Phillips to Subcommittee staff (Jul. 22, 2020).
[395] Subcommittee Briefing with General Counsel for Phillips (Dec. 11, 2018).
[396] *Id.*

the art industry was doing with regard to AML policy.[397] Looking forward, he noted that Phillips was working on incremental steps towards a better policy—based on some of the same obligations imposed on banks regarding enhanced customer due diligence.[398] He said he believes this will lead to increased transparency from clients.[399] As such, Phillips' General Counsel stated he believed clients will not be surprised when Phillips begins asking for additional due diligence information, including ultimate beneficial owner information.[400]

Anti-Money Laundering, Sanctions & Counter-terrorism Financing Policy. Phillips' General Counsel also explained to the Subcommittee that in late 2018, Phillips was preparing to update its AML policy.[401] The current policy was issued on November 6, 2018 and included instructions on: Money Laundering; Sanctions; Due Diligence Process; Frequently Asked Questions; and Client Identification Checklist and Screening Requirements.[402] Counsel for Phillips stated "the issuance of the policy was then followed by mandatory training in all sale sites in 2018 for all staff."[403] Phillips' counsel continued:

> Phillips currently screens all sellers and buyers—whether existing or new—against sanctions databases. In addition, [art] agents are required to identify their principal and provide Phillips with KYC documentation in relation to themselves and their principal. Phillips insists upon ultimate beneficial ownership (UBO) information for all companies and does not rely upon third parties to carry out KYC—it is all handled in house. Phillips does not pay out to sellers and does not issue invoices to buyers without having full KYC documentation.[404]

4. Bonhams

Summary Controls & Procedures Manual. In April 2018, Bonhams U.S. issued its Bonhams U.S. Group Summary Controls & Procedures Manual (the "2018 Bonhams Manual") to ensure "that Bonhams and our stakeholders reduce the risk of fraudulent transactions and are compliant with all appropriate regulatory and taxation requirements."[405] The 2018 Bonhams Manual explained that the company would employ "a risk-based approach to AML [that] involves assigning different categories of risk (e.g. low, medium, high) to various types of client[s]. We have

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[397] *Id.*
[398] *Id.*
[399] *Id.*
[400] *Id.*
[401] *Id.*
[402] Draft Phillips Anti-money Laundering, Sanctions & Counter-terrorism Financing Policy provided to the Subcommittee; Email from Counsel for Phillips to Subcommittee staff (Mar. 19, 2020).
[403] Email from Counsel for Phillips to Subcommittee staff (Mar. 19, 2020).
[404] *Id.*
[405] BON004674–4700.

adopted such an approach, giving particular regard to our circumstances, such as our commercial activity, our range of clients and the registration process."[406] The 2018 Bonhams Manual identifies the following risk areas:

> **Type of client** – Is the client a private individual or corporate entity? Is the client acting as a principal or agent? Are they an existing or new client? Are you visiting the client in their home or are you seeing them for the first time when they have walked in off the street?
>
> **Type of customer** – Is the customer present at the sale? Does the customer mix business and private transactions?
>
> **Geographical** – Where is the client situated?
>
> **Transaction/Payment type** – How does the buyer settle his/her invoices? How is the vendor paid?
>
> **Ongoing monitoring (Behavior) & other risk factors**
> - Is the transaction consistent with the client's payment history?
> - Is there any unusual or erratic behavior displayed by the client?
> - Are there any indicators that raise concerns that the transaction is suspicious?
> - A combination of the various criteria should help determine the client's risk category?[407]

The 2018 Bonhams Manual continues:

> However, it is ultimately the member of staff's professional judgment that will determine whether a client or particular transaction requires further examination.
>
> The higher the risk level of the client, the more scrutiny should be applied before entering into business relations with a client. If it doesn't "Smell" right, tell us![408]

The 2018 Bonhams Manual also requires that a vendor provide identification. Further, an "agent as consignor…should disclose to [Bonhams] who their 'principal' is (especially if that person is not signing the contract) in…the Master Consignment Agreement (MCA) before the agent signs."[409] The document continues: "Bonhams should request or seek confirmation of agency or representation relationship (as

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[406] *Id.*
[407] *Id.*
[408] *Id.*
[409] *Id.*

between the agent and principal) either by confirming with the principal or requesting documentary support thereof from the agent."[410]

Bonhams Briefing. In a briefing with Subcommittee staff, Bonhams U.S. Counsel, along with outside counsel, explained that prior to the 2018 Bonhams Manual, Bonhams U.S. counsel communicated AML policies to staff during briefings and trainings.[411] Bonhams U.S. Counsel noted that until 2016, most of the Bonhams U.S. staff was based in San Francisco, which made communication much easier.[412] She said there was not a need for PowerPoint presentations on AML compliance because "everyone was sitting around the same desk.[413]"

Bonhams U.S. Counsel told the Subcommittee that, historically, Bonhams U.S. did not check its clients against OFAC's SDN list or any other sanctions lists.[414] Rather, Bonhams U.S. relied on AML and sanctions checks that its financial institutions perform.[415] According to Bonhams U.S. Counsel, the company would not knowingly engage in transactions with family members of sanctioned individuals.[416] Additionally, she represented that Bonhams U.S. would not conduct business with art agents or advisors who were known to represent sanctioned individuals.[417]

5. Private Art Dealer

The Subcommittee also investigated private art sales, as further explained below. In reviewing those transactions, the Subcommittee interviewed a private art dealer based in New York (the "Private Dealer").[418] The Private Dealer has thirty years of experience in the art market, having studied at major universities and worked at many art galleries and major art auction houses

The Private Dealer explained that, at the time the transaction described below took place, she had no written AML or sanctions policies.[419] The Private Dealer explained that she had not received any AML or sanctions-related training at any of the galleries or art auction houses at which she previously worked.[420] When asked whether she had a legal obligation to question the origin of the funds

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[410] *Id.*
[411] Subcommittee Briefing with Bonhams U.S Counsel (Feb. 22, 2019).
[412] *Id.*
[413] *Id.*
[414] *Id.* Bonhams reported that it now routinely screens all clients against the SDN and other sanctions list via a third party screening provider.
[415] *Id.*
[416] *Id.*
[417] *Id.*
[418] Subcommittee interview of Private Dealer (Sept. 7, 2018).
[419] *Id.*
[420] *Id.*

used to purchase a piece of art, the Private Dealer responded that she did not.[421] She explained that in the art industry, questioning the source of funds would be considered contrary to industry standards and norms at the time—although she has done it on occasion—and that art agents and intermediaries would not want to provide that information because of confidentiality and privacy concerns of both the art agents and intermediaries and their clients.[422] She noted, however, that most of her clients are American and that she knows the identity of the ultimate buyer in the "majority" of her transactions.[423]

The Private Dealer explained that over the years, her practices regarding AML have significantly changed, but since the art industry is not regulated in the United States, she has had to self-regulate, rely on the advice of lawyers with expertise in AML and other related areas, and look for potential red flags in transactions, including with respect to the provenance of art pieces, in addition to relying on her gut.[424] To that end, she said that if something does not feel right, or she does not know someone personally or through their reputation, she will not do business with them.[425]

[421] *Id.*
[422] *Id.*
[423] *Id.*
[424] *Id.*
[425] *Id.*

III. ROTENBERG CASE STUDY: USING OFFSHORE COMPANIES, LAWYERS, AND ART ADVISORS TO MASK OWNERSHIP

Evidence examined by the Subcommittee suggests that the Rotenbergs used shell companies to mask their identities in transactions for high-value art both before and after being sanctioned by the United States. To form and manage those shell companies, the Rotenbergs appear to have used the services of attorney Mark Omelnitski and his company, the Markom Group. In addition, they also appear to have relied on art advisor and dealer Gregory Baltser, a U.S. citizen, to act as their representative in the art world to conceal their identities and involvement in particular art transactions, especially after becoming subject to U.S. sanctions.

Due to the lack of transparency in the art industry and in the formation and operation of shell companies, the evidence demonstrating the links between the Rotenbergs, their shell companies, Mr. Omelnitski, the Markom Group, and Mr. Baltser is not completely certain. Throughout the Subcommittee's investigation, witnesses interviewed by the Subcommittee claimed uncertainty and ignorance. One Sotheby's employee even told the Subcommittee she was untruthful to her employer when she previously stated that Mr. Baltser told her he represented Arkady and Boris Rotenberg. Regardless, the transactions outlined below represent the movement of millions of suspect U.S. dollars across international borders to purchase art, the investment of funds in U.S. assets with substantial rates of return, and a successful weakening of the impact of U.S. sanctions.

A. Attorney Mark Omelnitski and the Markom Group

Evidence suggests that the Rotenbergs were assisted in their efforts to evade U.S. sanctions by Mark Omelnitski, one of the founders of the Markom Group. Mark Omelnitski is a British citizen who was born in Moscow, Russia.[426] The Rotenbergs reportedly used Mr. Omelnitski's services to set up a number of offshore shell companies.[427]

In 2019, a Markom Group website identified Mr. Omelnitski as the Head of Compliance and Client Relations and a member of the Management Committee of the Markom Group.[428] That website is no longer active and is only available through internet archives. On the archived website, Mr. Omelnitski was described as "a co-founder of Markom Group, Mark is Managing Director of Markom Management Limited, a founding company of the group. Mark is a member of a

[426] SOT-000353.
[427] Sean O'Neil & Tom Parfitt, *How Putin's cronies moved millions around the world*, LONDON TIMES (Apr. 5, 2016), https://www.thetimes.co.uk/article/how-putins-cronies-moved-millions-around-the-world-jbcgjh9vr.
[428] Markom Group, *Key Staff*, (May 17, 2019), https://web.archive.org/web/20160807231415/http://www.markomgroup.com/key-staff/.

number of professional bodies and has over 20 years' experience in fiduciary services, corporate management, project administration, real estate, investment, and finance."[429]

The archived Markom Group website also stated that the organization was "a group of companies established in 2004, which provides global fiduciary, trust, corporate business management, project administration and real estate investment services."[430] According to the archived website, the Markom Group included Markom Management Limited, described as:

> [T]he founding company of Markom Group. It provides fiduciary, management, administration, bookkeeping, and accounting services relating to the UK, Malta, Hong Kong, Luxembourg, the Isle of Man, British Virgin Islands, and St. Lucia registered companies, partnerships and private equity funds. Markom Management Limited is authorized by [Her Majesty's Revenue and Customs] of the United Kingdom to provide trust and corporate administration services under AML Regulations Act.[431]

In addition to reviewing the archived Markom Group website, during the course of its investigation, the Subcommittee also obtained a copy of the Markom Group of Companies Staff Handbook (5th Edition). That document stated:

> Markom Group is a group of six companies registered in different jurisdictions providing fiduciary, trust, corporate business management, corporate business administration, and real estate services. With headquarters based in Tortola on the British Virgin Islands, we also have offices in the United Kingdom, Cyprus, Spain, and New Zealand, and provide extensive services in more than 30 countries around the world. At Markom Group, we provide a variety of services that go beyond the common concept of corporate and fiduciary services. We bring business services together with the latest financial, corporate, and investment expertise.[432]

The Markom Group handbook includes a Company Price List for the creation of companies in the following jurisdictions: United Kingdom; British Virgin Islands; Marshall Islands; Seychelles; Republic of Panama, and Cyprus.[433] The specific

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[429] *Id.*
[430] Markom Group, (Jul. 26, 2019), https://web.archive.org/web/20160811024803/http://www.markomgroup.com/.
[431] Markom Group, *Markom Companies* (Jun. 11, 2018), https://web.archive.org/web/20160808093702/http://www.markomgroup.com/markom-companies/.
[432] SOT-172224–356.
[433] *Id.*

prices for services provided in the United Kingdom and British Virgin Islands are as follows:[434]

Description	Cost (in Euros)
United Kingdom	
Incorporation of a company in the United Kingdom with standard Memorandum and Articles of Incorporation and standard Share Capital	1000
Annual Management of Company in the United Kingdom and provision of Registered Address	2200
Annual Management of Company in the United Kingdom and provision of Registered Address and Company Officers	3500
Annual Management of Company in the United Kingdom and provision of Registered Address and Company Officers with full admin, invoicing, cash management, and annual filing	From 31,200
Incorporation of a Limited Liability Partnership in the United Kingdom with standard Limited Liability Partnership Agreement	1200
Annual management of Limited Liability Partnership in the United Kingdom and provision of Registered Address	2500
Annual management of Limited Liability Partnership in the United Kingdom and provision of Registered Address and Nominee Members	3750
Annual management of Limited Liability Partnership in the United Kingdom and provision of Registered Address and Nominee Members including full admin, invoicing, cash management, and annual filing	From 31,200

Description	Cost (in Euros)
British Virgin Islands	
Incorporation of a Company in the British Virgin Islands with standard Memorandum and Articles of Incorporation and standard Share Capital	1000
Annual Management of the Company in the British Virgin Islands and provision of Registered Address	1200
Annual Management of Company in the United Kingdom and provision of Registered Address and Company Officers	2500

The Markom Group Handbook also listed prices for creating documents within the United Kingdom, British Virgin Islands, Marshall Islands, and Seychelles.[435] The

[434] *Id.*
[435] *Id.*

specific prices for creating documents in the United Kingdom and the British Virgin Islands are as follows:[436]

Document Price by Jurisdiction	**Cost** (in Euros)
United Kingdom	
Certificate of Incorporation	273.00
Memorandum and Articles of Incorporation	273.00
Certificate of Good Standing	78.00
Nominee Shareholders Declaration	296.00
Nominee Directors Declaration	296.00
Share Certificate	296.00
Contract Creation	From 1200
Contract Review	From 150
Document Creation	75.00
Document/Contract/Instruction Signing	15.00
Legalization of Documents	191.00
Power of Attorney	345.00
British Virgin Islands	
Certificate of Incorporation	340.00
Memorandum and Articles of Incorporation	340.00
Certificate of Tax Exemption	440.00
Certificate of Good Standing	446.00
Certificate of Incumbency	446.00
Nominee Shareholders Declaration	296.00
Nominee Directors Declaration	296.00
Share Certificate	296.00
Contract Creation	From 1200
Contract Review	From 150
Document Creation	75.00
Document/Contract/Instruction Signing	15.00
Legalization of Documents	300.00
Power of Attorney	345.00
Certificate of Legal Validity	1,155.00

In April 2016, *The London Times* reported that, according to the Panama Papers, Arkady and Boris Rotenberg used the Markom Group to set up a number offshore companies.[437] The news article included a quote from Mr. Omelnitski who

[436] *Id.*

[437] Sean O'Neil & Tom Parfitt, *How Putin's cronies moved millions around the world*, LONDON TIMES (Apr. 5, 2016), https://www.thetimes.co.uk/article/how-putins-cronies-moved-millions-around-the-world-jbcgjh9vr.

told the publication: "All our clients' dealings are bona fide transactions in accordance with the law."[438]

1. The Markom Group Established Rotenberg-linked Shell Companies

In spring 2016, the International Consortium of Investigative Journalists ("ICIJ") published information related to a collection of over 11.5 million documents originating from the Panama-based law firm of Mossack Fonseca & Co. ("Mossack").[439] The documents spanned a more than thirty-year period from 1977 to 2015.[440] ICIJ disclosed that Mossack was "one of the world's top creators of shell companies, [which are] corporate structures that can be used to hide ownership of assets."[441] ICIJ explained that the Mossack documents consisted of files that "contained information on 214,488 offshore entities connected to people in more than 200 countries and territories."[442] ICIJ also disclosed that the documents included "emails, financial spreadsheets, passports and corporate records revealing the secret owners of bank accounts and companies in 21 offshore jurisdictions, from Nevada to Singapore to the British Virgin Islands."[443] Those Mossack documents became known as the "Panama Papers."[444]

Rotenberg-related BVI companies. The Panama Papers included an email chain made public by ICIJ and dated August 27, 2010 from Helen Okell at Mossack to Dorota Skowronska at Mossack with a copy sent to Mark Omelnitski under the subject line "BVI companies – audit."[445] The email identified nine companies formed in the British Virgin Islands ("BVI") for the Rotenbergs.[446] For each Rotenberg-related company, the email provided the company name, ultimate beneficial owner, a key contact, and company activities as follows:[447]

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[438] *Id.*
[439] *The Panama Papers: Giant Leak of Offshore Financial Records Exposes Global Array of Crime and Corruption*, INT'L CONSORTIUM OF INVESTIGATIVE JOURNALISTS (Apr. 3, 2016), https://www.icij.org/investigations/panama-papers/20160403-panama-papers-global-overview/.
[440] *Id.*
[441] *Id.*
[442] *Id.*
[443] *Id.*
[444] *Id.*
[445] SGA_PSI_00053–82. The same document is also publicly available and can be accessed through the ICIJ's Organized Crime and Corruption Reporting Project website at: https://cdn.occrp.org/projects/panamapapers/putindeal/P4.1_Earliglow_benefic_owners_contact_person_Protsenko.pdf.pdf.
[446] *Id.*
[447] *Id.*

Company	Ultimate Beneficial Owner ("UBO")	Contact	Activities
Beechwood Associates Inc.	Arkady Rotenberg	Dmitry Protsenko	Investments
Breckenridge Global Management Limited	Arkady Romanovich Rotenberg	Dmitry Protsenko	Investments
Causeway Consulting Limited	Arkady Rotenberg	Dmitry Protsenko	Investments
Culloden Properties	Boris Rotenberg	None	Investments
Highland Business Group Limited	Igor Rotenberg	Dmitry Protsenko	Investments
Highland Ventures Group Limited	Boris Rotenberg	Dmitry Protsenko	Investments
Kendrick Overseas Ltd.	Rotenberg	Dmitry Protsenko	Holding
Stormont Management Limited	Igor Rotenberg	Dmitry Protsenko	Investments
Stormont Systems Limited	Igor Rotenberg	Dmitry Protsenko	Investments

The email chain provides evidence that Mr. Omelnitski, through the Markom Group, had a business relationship with the Rotenbergs.[448] It also provides evidence that Arkady, Boris, and Igor Rotenberg established at least eight BVI companies for use in activities related to "investments" and one holding company.[449] Two of these companies, Highland Business Group Limited and Highland Ventures Group Limited, played key roles in their art investments as described further below.

In addition to the Panama Papers, evidence of links among the Rotenbergs, Mr. Omelnitski, the Markom Group, and the listed shell companies were the subject of an internal investigation performed by Barclays Bank ("Barclays") and provided to the Subcommittee. Following the release of the Panama Papers in 2016, Barclays reviewed the companies formed by Mr. Omelnitski and the Markom Group. A Barclays internal investigatory memorandum concluded:

> Omelnitski and his company, Markom Group, created shell companies for sanctioned individual [Arkady] Rotenberg, a Russian oligarch, who is a close friend of the President of the Russian Federation, Vladimir Putin. Omelnitski is listed as a beneficial owner for the three companies owned by [Arkady] Rotenberg. Omelnitski and his company are nominee directors of multiple unidentifiable shell companies formed in Panama by Mossack Fonseca and the majority of these shell companies are owned by Russian individuals. Markom Group had

[448] *Id.*
[449] *Id.*

> created multiple shell companies for… [the] majority shareholders of Idealbank, which was investigated due to its possible connections to terrorist financing and money laundering concerns and subsequently was stripped of its banking license in Russia.[450]

The same Barclays memorandum noted, "[T]he ownership of these shell companies appears to be intentionally structured to be opaque in order to hide the identity of the true beneficiaries."[451]

Barclays closed all Markom Group and Gregory Baltser-related accounts. Following the investigation, in August 2017, Barclays worked to close all "198 accounts under the Markom relationship," of which 59 were U.S. dollar accounts.[452] Barclays also closed all accounts related to Mr. Baltser.[453] Documents provided to the Subcommittee indicate that in 2018 Baltzer Limited subsequently began paying for art from an account at Ameriabank in Yerevan, Armenia.[454] In 2018, the U.S. State Department listed Armenia as a "major money laundering jurisdiction" and noted that "money laundering crimes in Armenia [would] likely continue to go unreported and undetected."[455]

2. Rotenberg-Linked Shell Companies were Used to Purchase Art

The Subcommittee identified three shell companies connected to the Rotenbergs and used in the purchase of art both before and after the imposition of U.S. sanctions: (1) Highland Business Group Limited; (2) Highland Ventures Group Limited; and (3) Advantage Alliance. The known ties to the Rotenbergs are explained below.

a. Highland Business Group Limited

The Subcommittee traced certain art purchases to Highland Business Group Limited ("Highland Business") prior to the imposition of U.S. sanctions on Arkady and Boris Rotenberg in March 2014. According to ICIJ, Highland Business was incorporated on January 14, 2010 and registered in the British Virgin Islands.[456]

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[450] BARC_006752–61.
[451] *Id.*
[452] BARC_005547–51.
[453] BARC_007036.
[454] *See, e.g.*, SOT_202090–95; Christies-PSI-00066049.
[455] U.S. Dep't of State, Bureau of Int'l Narcotics & Law Enforcement Affairs, *International Narcotics Control Strategy Report*, Vol. II, Money Laundering (Mar. 2019), https://www.state.gov/wp-content/uploads/2019/03/INCSR-Vol-INCSR-Vol.-2-pdf.pdf.
[456] *Highland Business Group Limited*, INT'L CONSORTIUM OF JOURNALISTS, https://offshoreleaks.icij.org/nodes/10139350.

Markom Nominees Limited is listed as a shareholder of Highland Business beginning on January 14, 2010.[457] Mossack is listed as the company's agent.[458]

The Panama Papers email chain described above listed Igor Rotenberg as the ultimate beneficial owner for Highland Business.[459] But other evidence suggests that Highland Business Group received its funding from entities associated with Arkady Rotenberg. For example, $47,000 was transferred from Advantage Alliance Limited ("Advantage Alliance") on March 27, 2012 with the payment details: "as per agency agreement."[460] As explained below, a Barclays' internal investigation linked Advantage Alliance to Arkady Rotenberg.

b. Highland Ventures Group Limited

The Subcommittee traced funds for certain art purchases to Highland Ventures Group Limited ("Highland Ventures") following the imposition of U.S. sanctions in March 2014 on Arkady and Boris Rotenberg. Conflicting evidence collected by the Subcommittee regarding the ownership of Highland Ventures places Arkady, Boris, and Igor Rotenberg as the owners of the company at various points in time. As explained below, the strongest evidence suggests that Arkady Rotenberg funded the shell company, which would make him the UBO.

Evidence of Ownership by Arkady Rotenberg. Wire transfers in U.S. dollars sent by Milasi Engineering Limited ("Milasi Engineering"), a company owned by Arkady Rotenberg to Highland Ventures suggest that the true UBO of Highland Ventures was Arkady Rotenberg.

Arkady Rotenberg owned Milasi Engineering. Documents produced to the Subcommittee as part of an investigation conducted by Barclays included a December 31, 2014 Milasi Engineering Report and Financial Statements.[461] That document listed "Arkadiy Rotenberg" as the company's UBO.[462] That same document stated that Milasi Engineering was incorporated in Cyprus on September 6, 2007 and "the principal activities of the company…are the holding of investments and loan financing."[463]

Milasi Engineering funded Highland Ventures.[464] Wire transfers produced to the Subcommittee show that Milasi Engineering transferred millions of U.S. dollars

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[457] *Id.*
[458] *Id.*
[459] SGA_PSI_00053–82.
[460] BARC_006752–61.
[461] BARC_006014–43.
[462] *Id.*
[463] *Id.*
[464] It should be noted that Barclays determined a minority portion of Milasi Engineering shares were held by Culloden Properties Limited ("Culloden"). *See* BARC_006068–69. Barclay's investigation

to Highland Ventures. According to one wire transfer, on January 30, 2013, Milasi Engineering transferred $69,600,000 from its account at SMP Bank in Moscow to Highland Ventures' account at The Pictet Group, a private bank with offices in Geneva, Switzerland.[465] Payment details for the wire transfer described the funds as "dividends for 2011 year," suggesting Highland Ventures– or its beneficial owner – was one of Milasi Engineering's shareholders.[466] A second wire transfer on December 18, 2013, shows Milasi Engineering transferred $54,451,493.49 from its account at Gazprombank in Moscow to the same Highland Ventures account at The Pictet Group.[467] That wire transfer described the funds as "dividends for 2012 year."[468] Together, the two transfers to Highland Ventures from Milasi Engineering exceeded $124 million.

Three months later, on March 18, 2014, two days after President Obama signed EO 13661, which authorized sanctions on individuals providing material support to the Russian government, Highland Ventures moved $39,588,000 from its account with The Pictet Group in Geneva, Switzerland to its account at Gazprombank in Moscow, Russia.[469] Two days after that, on March 20, 2014, the U.S. Treasury Department designated Arkady and Boris Rotenberg as sanctioned

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determined that Culloden "has always been owned by Boris Rotenberg since it was incorporated" and following sanctions on Boris Rotenberg "Markom continued with the transfer of the company to Cyprus." *See* BARC_006068–69. After the transfer of Arkady Rotenberg's interests, Milasi Engineering was majority owned by Igor Rotenberg who, at the time, was not yet sanctioned by the United States. This was presumably purposeful to comply with the Treasury Department rule that a company is only considered blocked if it is majority owned by a sanctioned individual. *See* U.S. DEP'T OF TREASURY, REVISED GUIDANCE ON ENTITIES OWNED BY PERSONS WHOSE PROPERTY AND INTERESTS IN PROPERTY ARE BLOCKED (2014), https://www.treasury.gov/resource-center/sanctions/Documents/licensing_guidance.pdf. Therefore, the fact that sanctioned Boris Rotenberg owned a minority share did not affect Milasi Engineering's status as a sanctioned entity. As with Highland Ventures, Milasi Engineering made U.S. dollar transfers labeled as dividends to Culloden. On January 30, 2013 Milasi Engineering transferred $63,880,000 from its SMP Bank account in Moscow to Culloden's account at The Pictet Group with the wire instructions "Dividends for 2011 Year." *See* JPMorgan Chase (Nov. 7, 2018), SB981623-FI US Wire Search, Milasi Engineering, line 5. On October 8, 2013, Milasi Engineering sent $15,000,000 from its SMP Bank account to Culloden's Societe Generale account in New York with the same wire instructions. *See* JPMorgan Chase (Nov. 7, 2018), SB981623-FI US Wire Search, Milasi Engineering, line 9. Milasi made two large transfers from its Gazprombank account to Culloden's accounts at The Pictet Group and Societe Generale in New York on January 9, 2014 for $41,711,697.34 and $19,999,963.34, respectively. Both payments included the wire instructions "Dividends for 2012 Year." DBAG00000019, lines 34 & 35. Mr. Omelnitski admitted to Barclays during its investigation that Culloden was owned by Boris Rotenberg, and explained he was in the process of transferring Culloden to Cyprus in May 2016. *See* BARC_006811–17.

[465] JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Highland Ventures Group, line 2.

[466] *Id.*

[467] DBAG0000013, line 10; DBAG00000019, line 32.

[468] *Id.*

[469] DBAG0000013, lines 17–18.

individuals or specifically designated nationals blocked from doing business with U.S. persons.[470]

The multi-million dollar transfers between Milasi Engineering and Highland Ventures are strong evidence of the shell company's link to Arkady Rotenberg.

A United Kingdom government agency determined Arkady Rotenberg owned Highland Ventures. In addition to the fund transfers described above, a 2018 letter by Barclays indicates that a UK government agency concluded that Highland Ventures was owned by Arkady Rotenberg.[471] On May 18, 2018, the Head of Financial Crime Policy at Barclays Bank sent a letter to Alexandre Manfull, the Assistant Director of Sanctions Compliance & Evaluation at OFAC, stating "in August 2017, Barclays was contacted by [a UK government agency] who provided Barclays with a list of entities that [it] believed to be owned or controlled by Arkady Rotenberg, including…Highland Ventures."[472]

A Societe Generale investigation linked Highland Ventures to Arkady Rotenberg. An investigation by Societe Generale determined that an account at another financial institution owned by Highland Ventures was "utilized as a pass-through account for layering activities to channel and conceal a flow of funds…."[473] Further, Societe Generale "was unable to rule out that the processed funds did not originate from a sanctioned individual, the father of Igor Rotenberg," Arkady Rotenberg.[474]

An art purchase through an independent dealer linked Highland Ventures to Arkady Rotenberg. An invoice and transfer of funds associated with a private art purchase investigated by the Subcommittee provided another piece of evidence suggesting Arkady Rotenberg was the UBO of Highland Ventures. As further explained below, the private sale of a famous painting by René Magritte called *La Poitrine* listed Highland Ventures on the invoice as the buyer.[475] The Markom Group assisted with the purchase of *La Poitrine*; Anna Wilkes (Finance Director and Managing Director for the Markom Worldwide Group) signed the invoice as the Director of Highland Ventures.[476] The invoice listed Advantage Alliance as the entity that provided payment for *La Poitrine*, which totaled $7.5 million.[477] As

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[470] Press Release, U.S. Dep't of Treasury, *Treasury Sanctions Russian Officials, Members of the Russian Leadership's Inner Circle, and an Entity for Involvement in the Situation in Ukraine* (Mar. 20, 2014), https://www.treasury.gov/press-center/press-releases/Pages/jl23331.aspx.
[471] BARC_005572−74.
[472] *Id.*
[473] SGA_PSI_01570.
[474] *Id.*
[475] Documents on file with the Subcommittee.
[476] *Id.*
[477] *Id.*

explained below, the Subcommittee traced that $7.5 million payment to another company owned by Arkady Rotenberg, Senton Holdings Ltd.[478]

Barclays also linked Advantage Alliance to Highland Ventures. An internal Barclays' investigation linked Highland Ventures to Advantage Alliance through two wire transfers to Highland Ventures from Advantage Alliance between November 2015 and March 2016, which totaled $381,347.70.[479] Details provided about the payments indicated: "as per agency agreement."[480]

Together, the Milasi Engineering transfers, the UK government agency conclusion, and the facts surrounding the purchase of *La Poitrine* suggest Arkady Rotenberg is the UBO of Highland Ventures.

Evidence of Ownership by Igor Rotenberg. There is also some evidence that the true UBO of Highland Ventures was Arkady's son, Igor Rotenberg. First, a Barclays investigator summarized this finding in an April 6, 2017 email stating:

> Markom Management Ltd have confirmed that Highland Ventures Group Ltd was never owned by Boris Rotenberg. It has in fact always been owned by Igor Rotenberg since it was incorporated on [February 18, 2010] . . . Igor is not subject to the current US sanctions, however, as you are already aware he is the son of Arkady Rotenberg who is a sanctioned individual.[481]

The April 2017 email also pointed to evidence provided by Markom Management that Igor Rotenberg owned Highland Ventures.[482] That evidence included a Trust Deed between Igor Rotenberg and Markom Nominees Ltd dated February 18, 2010 stating that Igor Rotenberg had granted 50,000 shares of Highland Ventures to Markom Nominees Ltd as trustee.[483]

Saffron Nominees Limited held Highland Ventures. In addition, Markom Management provided documents to Barclays that indicated that Igor Rotenberg owned Highland Ventures through another company named "Saffron Nominees Limited."[484] A document titled "Register of Shareholders" for Highland Ventures stated that Markom Nominees Ltd held 50,000 shares from February 18, 2010 to

[478] BARC_000002, lines 24 and 25; BARC_006912–15.
[479] BARC_006752–61.
[480] *Id.*
[481] BARC_006068–71.
[482] *Id.*
[483] BARC_006117–20.
[484] BARC_006068–71.

March 5, 2016.[485] On March 5, 2018, all 50,000 shares were transferred to Saffron Nominees Limited.[486]

Barclays also produced documents from Markom that provided additional information on share ownership. These documents included a "Nominee Declaration" dated August 5, 2016 stating that Saffron Nominees Limited held shares of Highland Ventures for Igor Rotenberg.[487] In addition, Barclays produced a Certificate dated November 21, 2016 and filed with the Cyprus Ministry of Energy, Commerce, Industry, and Tourism Department of the Registrar of Companies and Official Receiver Nicosia that listed Saffron Nominees Limited as the owner of shares of Highland Ventures.[488]

Arkady Rotenberg transferred ownership of Milasi Engineering to Igor Rotenberg. Four months after the United States imposed sanctions on Arkady Rotenberg, Markom Group assisted in transferring Arkady Rotenberg's interest in Milasi Engineering to his son Igor Rotenberg at a time before Igor was subject to U.S. sanctions. Markom Group executed this transfer by transferring shares in two holding companies that, together, owned the majority of shares in Milasi Engineering. The transfer of ownership of the two shell companies from Arkady Rotenberg to Igor Rotenberg amounted to also transferring the ownership of Milasi Engineering, since the two shell companies owned the company.

According to documents provided by Mr. Omelnitski to Barclays, prior to July 2014, Milasi Engineering was owned by Beechwood Associates and Kendrick Overseas.[489] Causeway Consulting owned Kendrick Overseas.[490] Arkady Rotenberg owned both Beechwood Associates and Causeway Consulting.[491] Arkady Rotenberg's ownership of Beechwood Associates and Causeway Consulting was also suggested by information in the Panama Papers email chain cited above.[492] In addition, as previously mentioned, the December 31, 2014 Milasi Engineering Report and Financial Statement listed Arkady Rotenberg as the company's ultimate beneficial owner.[493]

Markom Group facilitated the transfer of ownership for Beechwood Associates and Causeway Consulting. Documents provided by Markom Group to Barclays documented the transfer of Beechwood Associates and Causeway Consulting. On July 28, 2014, Arkady Rotenberg transferred his shares in Beechwood Associates

[485] BARC_00221.
[486] *Id.*
[487] BARC_06116.
[488] BARC_006075–76.
[489] BARC_006013.
[490] *Id.*
[491] BARC_006068–71; BARC_006013.
[492] SGA_PSI_00053–82.
[493] BARC-006014–43.

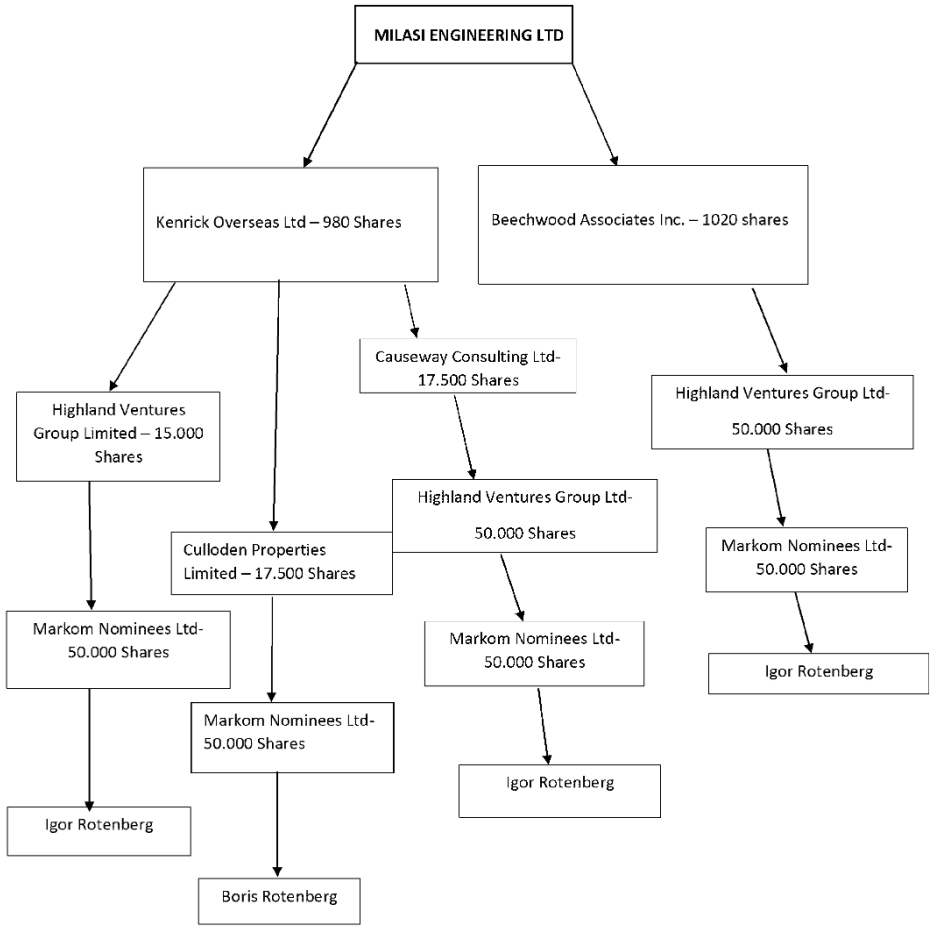
Ltd and Causeway Consulting Ltd to Highland Ventures.[494] To document the transfers, Joseph Amin, Deputy Chairman of the Markom Group, sent letters on Markom Group letterhead to Arkady Rotenberg regarding both companies stating: "following the sale of this company to the third party we hereby inform you of the termination of our services to you in regard to the above mentioned company."[495] The Markom Group asserted the transfer of ownership of these two companies effectively transferred ownership of Milasi Engineering to Igor Rotenberg. The Markom Group provided to Barclays a Deed of Trust dated February 18, 2010, making Markom Nominees the trustee of 50,000 shares of Highland Ventures on behalf of Igor Rotenberg.[496]

The Barclays investigator requested information from Markom Group on the consideration Highland Ventures paid for the shares in Beechwood Associates and Causeway Consulting "to ensure that the companies were not merely being transferred by Arkady to his son Igor."[497] Markom Group responded to the request as follows:

> Both Beechwood Associates and Causeway Consulting had been advanced loans by Highland Ventures Group Ltd. As neither Beechwood nor Causeway were able to repay these loans, the loan liability was converted into Share Purchase Agreements ("SPAs") through which Highland Ventures Group Ltd became the new shareholder of the companies. The overall consideration price for the shares of Beechwood that was paid amounts to 6 billion Rubles [approximately $99,889,020.00]; and the consideration price paid for Causeway was 3 billion Rubles [approximately $49,950,000.00].[498]

The Markom Group provided Barclays with the following chart to explain the ownership structure:[499]

[494] BARC_000227; BARC_006122; BARC_006124 (Causeway Consulting) and BARC_000231; BARC_006126; BARC_006077 (Beechwood Associates).
[495] BARC_006077 (Beechwood Associates); BARC_006124 (Causeway Consulting).
[496] BARC_006046–49.
[497] BARC_006068–71.
[498] BARC_006068–71; BARC_006804–10.
[499] BARC_006013.



The Barclays investigator determined the transfer to Igor Rotenberg was intended to evade U.S. sanctions on Arkady Rotenberg. The investigative report explained:

> It should be noted that A[rkady] Rotenberg was listed as an SDN on or about March 20, 2014, over four months before the ownership of Beechwood and Causeway was transferred to his son. Furthermore, such transfer to a non-SDN close relative taking place at the time of sanctions designation does not appear to be a proper transfer to a bona fide purchaser acting at arm's length as defined by the Office of Foreign Asset Control ("OFAC"). Barclays NY believes the transfer of ownership to I[gor] Rotenberg was intended as circumvention of sanctions.[500]

Barclay's investigation concluded with regard to Mr. Omelnitski and the Markom Group:

[500] BARC_006804–10.

> Companies organized by Omelnitski and his group suggest that Markom may potentially have created numerous companies for Russian oligarchs and close acquaintances of Russian President, Vladimir Putin, who have been previously implicated in questionable undertakings. Furthermore, the ownership of these shell companies appears to be intentionally structured to be opaque in order to hide the identities of true beneficiaries.[501]

Evidence of Ownership by Boris Rotenberg. Finally, evidence also exists that Highland Ventures was owned by Boris Rotenberg. The strongest evidence is the Mossack email chain cited above and released with the Panama Papers, which listed Boris Rotenberg as the UBO of Highland Ventures.[502] According to ICIJ, Highland Ventures was incorporated on January 14, 2010 and registered in the British Virgin Islands using Mossack as an agent.[503] As noted above in the chart, Mossack listed the activities of Highland Ventures as "investments."[504]

Summary of Evidence on Ownership of Highland Ventures Group. The evidence is not conclusive as to whether Arkady, Boris, or Igor Rotenberg, or possibly some combination of the three, qualified as the UBO of Highland Ventures. But the evidence is clear that one or more of the Rotenbergs controlled the company. As a result, the clear implication is that the Rotenbergs directed and funded purchases of high-value art in the United States.

c. Advantage Alliance

In addition to Highland Business and Highland Ventures, the Subcommittee examined the ownership and activities of a third shell company, Advantage Alliance. The Subcommittee became interested in Advantage Alliance due to its role in the purchase of *La Poitrine*, as explained above.[505]

As mentioned above, evidence suggests that Advantage Alliance had ties to Arkady Rotenberg. A 2017 Barclays internal investigation observed that "Advantage Alliance…appears to have received payments from an entity which [the bank] has learned is owned by [Arkady Rotenberg]."[506] Barclays identified the entity that made the payment to Advantage Alliance as Highland Ventures.[507]

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[501] *Id.*
[502] SGA_PSI_00053–82.
[503] *Highland Ventures Group Limited*, INT'L CONSORTIUM OF JOURNALISTS, https://offshoreleaks.icij.org/nodes/10143427.
[504] SGA_PSI_00053–82.
[505] *See infra.*
[506] BARC_005572–95.
[507] *Id.*

Barclays also investigated Advantage Alliance's links to the Markom Group and Mr. Omelnitski. A Barclays investigatory memorandum noted that Advantage Alliance's account with the bank was opened in the name of MP Intermediary Services Limited in 2008.[508] The memorandum continued: "The beneficial owner was listed as Alexander Druzhinin, a Russian national….The third party signatories were listed as [Anna] Wilkes, Joseph Amin, and [Mark] Omelnitski. Internet research identified Amin as the Managing Director of Markom Media and Druzhinin as a director of Markom Partners Plc."[509] Ms. Wilkes is identified in another related Barclays investigation as the Finance Director and Managing Director for the Markom Worldwide Corporation.[510] In short, all three account signatories for Advantage Alliance were Markom Group employees. And other evidence previously described established that the Markom Group formed companies and performed related corporate services for the Rotenbergs.

The Barclays investigation of Mr. Omelnitski also noted that when the Advantage Alliance account was opened at the bank, the expected annual turnover for the account was £3 million or about $3,746,670.[511] Despite this expectation, the account was involved in 129 wire transfers from March 2012 to May 2016 totaling $60,972,491.89.[512] The Barclays investigation found that Advantage Alliance engaged in transactions with a wide range of entities, including traders of cocoa products, a security firm, traders of metals, a sourcing company, a brokerage firm, a construction company in Russia, and a supplier of used cooking oil.[513] The Advantage Alliance transactions also included a payment directly to an art dealer for the purchase of *La Poitrine*, which was sold to Highland Ventures, as further discussed below.[514]

Barclays determined that the wire activity "does not appear to be in line with [Advantage Alliance]'s expected line of business."[515] As such, "the account was closed on October 24, 2016 as Barclays Corporate identified spikes in activity seen during April and May, with large transfers in sent straight out in full as Int[ernational] Payments, which did not match expectations for the nature of the business."[516] Further, Barclays suspected that these funds may be the proceeds of a crime.[517]

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[508] BARC_006752–61.
[509] *Id.*
[510] BARC_006762–65.
[511] BARC_006752–61.
[512] *Id.*
[513] *Id.*
[514] *Id.*
[515] *Id.*
[516] *Id.*
[517] BARC_005514–21.

In the end, although the Subcommittee was unable to determine with absolute certainty the ultimate beneficial owners of Highland Business, Highland Ventures, or Advantage Alliance, the evidence is strong that all three companies were connected to and controlled by the Rotenbergs.

B. Art Advisor Gregory Baltser

In addition to evidence that the Rotenbergs used multiple shell companies to mask involvement in high-value U.S. art transactions, the Subcommittee reviewed evidence that the Rotenbergs attempted to conceal their participation in the U.S. art market by hiding behind a Moscow-based art advisor and dealer, Gregory Baltser.

Background. Gregory Baltser is a naturalized U.S. citizen who resides in Moscow.[518] As a U.S. citizen, he is required to comply with U.S. laws, including U.S. sanctions laws. Mr. Baltser graduated from Moscow State Stroganov Academy of Industrial and Applied Arts.[519] A press release dated March 19, 2019 described Mr. Baltser as "a reputable antique specialist and talented decorator whose reputation extends far beyond the borders of the Russian Federation."[520] One auction house described Mr. Baltser as "the only dealer who buys whole interiors and houses in Europe and brings them to Russia."[521]

Mr. Baltser established the BALTZER Auction Agency and Services in 2014 and the website for the BALTZER Agency states:

> The BALTZER Agency is here to be your representative; whether at an auction house, gallery, art dealer, or private sale or purchase. Our specialists are professionals with experience of working in the world's major auction houses, including Sotheby's, Christie's, and Phillips. Our job is to save you time and effort, and protect you from expensive mistakes.[522]

Mr. Baltser has also established the BALTZER CLUB, described in a press release as:

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[518] SOT-000350.
[519] *Gregory Baltser – Antique Expert, Collector & Decorator*, FINE ART SHIPPERS (Mar. 15, 2019), https://fineartshippers.com/gregory-baltser-antique-expert-collector-decorator/.
[520] Ilya Kushnirskiy, *Introducing BALTZER – Your Personal Guide to Art Collecting*, FINE ART SHIPPERS (Mar. 19, 2019), https://www.einpresswire.com/article/479578592/introducing-baltzer-your-personal-guide-to-art-collecting.
[521] Christies-PSI-00000048–49.
[522] *Baltzer: Your Personal Guide to the World of Art & Collecting*, BALTZER LLC (2020), https://baltzer.com/en/about.

> a private club for art collectors, experts, and all those who are fascinated by beautiful things. This exclusive club is a kind of museum that allows the members to enjoy art and antiques in a comfortable and relaxing atmosphere. Besides, the BALTZER CLUB is known for its elegant educational and social events in one way or another related to culture, arts, and collectibles.[523]

The BALTZER Agency website states the BALTZER CLUB "includes events such as recitals, readings, discussion panels, exhibitions of private collections and lectures on various aspects of art and collecting lead by experts."[524] A prior version of the BALTZER website dated 2018 explained how the BALTZER Agency facilitated an individual's "participation at an auction:"

> We organize your entire auction process, including registering you for a sale, attending an auction on your behalf and handling all of the subsequent stages of the transactions. Our aim is to save you from the red tape of auctions while protecting you from a false step.[525]

The 2018 website continued explaining how the BALTZER Agency assists a buyer in registering for an auction:

> An independent buyer at a sale must register for each new auction separately, going through the tedious verification process again and again. He or she must confirm not only their ability to pay, but also that their funds have not been acquired through unlawful means. Many auction houses have their own requirements regarding documentation, and oftentimes different departments of a single auction house in different cities may require different documents to be submitted. It can take several weeks for this process to be completed. Our clients, however, are freed from this pile of paperwork – our long-standing relationship with many auction houses means that we can simplify the registration process and make it the same for all auctions. By allowing us to handle all of your paperwork, you can even take part in any auction at the last minute.[526]

Notably, the 2018 website also addressed how an individual would participate in an auction, including efforts by BALTZER to provide an individual "complete anonymity:"

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[523] IIya Kushnirskiy, *Introducing BALTZER – Your Personal Guide to Art Collecting*, FINE ART SHIPPERS (Mar. 19, 2019), https://www.einpresswire.com/article/479578592/introducing-baltzer-your-personal-guide-to-art-collecting.
[524] *Baltzer: Your Personal Guide to the World of Art & Collecting*, BALTZER LLC (2020), https://baltzer.com/en/about.
[525] BALTZER, *Participation at an Auction* (2018), document on file with the Subcommittee.
[526] *Id.*

> How, exactly, would you like to take part in an auction? The most enjoyable option is for us to bring you privately to the main hall of our Club, where you can settle yourself comfortably in front of a video screen and watch a live broadcast of the sales in the auction room. You can take part in the auction yourself, if you wish, by telephone. A personal manager from our agency will assist you. If a visit to our premise is not in your plans, the manager will simply ring you during the auction and tell you how things are progressing over the phone, and pass on your bid to the auction room. Finally, you can place an absentee bid. In this case, we will not bother you while the auction is taking place. Instead, a manager will bid for lots at your instruction, having established a maximum beforehand. This is convenient if the sale you wish to participate in takes place on the opposite side of the world. Working on your behalf, we act professionally and exclusively in your interests. If necessary, we can even give you complete anonymity. We remain level-headed and know the auction process inside out.[527]

1. The Auction Houses Viewed Mr. Baltser as the Principal Buyer

A key issue related to Mr. Baltser and his business is whether he acts as a principal or an agent when buying and selling art. The cumulative evidence, as discussed in more detail below, suggests that Mr. Baltser bought art on multiple occasions on behalf of the Rotenbergs, but never disclosed their involvement. Nor did the auction houses ask for whom Mr. Baltser was purchasing art. Even after the imposition of U.S. sanctions, Mr. Baltser failed to disclose his representation of the Rotenbergs, who were prohibited as a result of those sanctions from doing business with U.S. persons and entities. Mr. Baltser took advantage of rules and practices that allowed him to present himself as the "principal" buyer and avoid naming any client that he might be representing in the purchase or sale. This allowed for Mr. Baltser to provide the "complete anonymity" that his 2018 website promised.

Sotheby's. Sotheby's told the Subcommittee that since Mr. Baltser took title to the purchases he made in his name, Sotheby's did not view Mr. Baltser as an agent; Sotheby's viewed him as the principal buyer.

The Chief Compliance Counsel explained to the Subcommittee during a briefing that Mr. Baltser is considered the principal when he makes a purchase: "He buys it and pays for it."[528] She continued, "There are no third party payments,

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[527] *Id.*

[528] Subcommittee Briefing with Sotheby's Employees (Oct. 25, 2018).

the money comes from his account at a major bank."[529] She explained that there are some in the art business who Sotheby's knows are buying for someone else or who actually disclose that they are acting as an agent or nominee on behalf of someone else.[530] She contrasted that scenario with Mr. Baltser stating "he's the principal; he's purchasing the art in his own name with funds in his own bank account."[531] She explained that Sotheby's "cannot ask clients to disclose the source of funds in their bank accounts. Sotheby's has no legal authority to demand such information."[532]

An agent, the Chief Compliance Counsel explained, will buy an item, but not take title.[533] She explained to the Subcommittee that, under Sotheby's policy, Mr. Baltser was not an agent, but instead purchased and took title of the artwork.[534] She explained that "Sotheby's does not know and has no legal right to know to whom he may resell the art once he takes title of the art.[535] She also stated that "when Baltser transacts with Sotheby's, he is the person who takes legal ownership and legal risk as the purchaser."[536] She further asserted that "Baltser is taking a risk because his client could turn around and say, 'I don't want to buy this thing anymore.'"[537]

The Chief Compliance Counsel also told the Subcommittee that Sotheby's staff knew Mr. Baltser well and considered him to be a known-quantity and an important Sotheby's client.[538] She could not recall Sotheby's having concerns about transacting with Mr. Baltser prior to the Subcommittee's investigation and said that he transacted with Sotheby's using accounts at major banks. Sotheby's assigns "Tiers" or "Levels" to clients based upon the amount and frequency of purchases. The highest level is 1 and the lowest level is 9.[539] She said that Mr. Baltser was a "Level 1" Sotheby's client.[540] She explained that these clients are the ones who are "wined and dined" and receive "special attention."[541] In some cases, she said an entire team of Sotheby's employees can be assigned to them.[542] The Chief Compliance Counsel stated that Sotheby's was moving away from using client levels.[543]

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[529] *Id.*
[530] *Id.*
[531] *Id.*
[532] *Id.*
[533] *Id.*
[534] *Id.*
[535] *Id.*
[536] *Id.*
[537] *Id.*
[538] *Id.*
[539] *Id.*
[540] *Id.*
[541] *Id.*
[542] *Id.*
[543] *Id.*

Christie's. Christie's General Counsel stated in a briefing that Mr. Baltser is known to Christie's as an interior decorator who engaged with the auction house in low value, but high volume transactions.[544] She said he would then sell the items purchased at Christie's to his clients or via his membership club.[545] When describing his purchasing history, Christie's General Counsel stated it was apparent Mr. Baltser engaged in fairly low level purchases that fit within Christie's understanding of his profile and operations.[546] She noted that Mr. Baltser purchased wine, as well as interior decoration items and ceramics.[547]

Bonhams. Bonhams U.S. Counsel and outside Counsel for Bonhams stated in a briefing that Bonhams U.S. does not consider Gregory Baltser to be an agent, but rather a dealer given that he is transacting in his own name and with his own funds and thereby assumes all contractual risks.[548] Bonhams U.S. also understood that Mr. Baltser often subsequently resells a purchased item to someone else.[549] Bonhams U.S. outside counsel noted that it is common in the auction world to have counter-parties and that when Bonhams U.S. sells to a dealer, Bonhams knows that the item may be re-sold.[550] While Bonhams U.S. requires bidders (including dealers) to disclose whether they are acting on behalf of a third-party, and to represent that the third-party is not on the SDN or other sanctions list, it does not require that a dealer disclose the identity of a third-party buyer. Bonhams U.S. views Mr. Baltser as the principal buyer.[551] Bonhams U.S. Counsel said that Bonhams U.S was not aware of who Mr. Baltser represented, nor did it matter, since Bonhams U.S. viewed him as the buyer.[552]

Phillips. While Phillips' General Counsel did not discuss Mr. Baltser directly, he explained during a briefing the legal issues surrounding agents in the art industry.[553] According to him, agents often bid on their own behalf to buy items for stock.[554] These dealers often have a shop and sell art privately.[555] He said auction houses have no way of knowing whether dealers are bidding on behalf of themselves or someone else unless the dealer tells the auction house.[556]

Phillips' General Counsel noted that sometimes after a successful bid at an auction, an agent will inform the auction house that they were actually acting on

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[544] Subcommittee Briefing with Christie's Employees (Feb. 8, 2019).
[545] *Id.*
[546] *Id.*
[547] *Id.*
[548] Subcommittee Briefing with Bonhams U.S Counsel (Feb. 22, 2019).
[549] *Id.*
[550] *Id.*
[551] *Id.*
[552] *Id.*
[553] Subcommittee Briefing with General Counsel for Phillips (Dec. 11, 2018).
[554] *Id.*
[555] *Id.*
[556] *Id.*

behalf of someone else.[557] At that point the agent will provide the details of the end purchaser so that Phillips can issue an invoice in the name of the purchaser.[558] According to him this happens for several reasons, including: (1) the agent does not want to pay for the purchased item himself; and (2) agents want any legal liability for the purchase to transfer to the purchaser.[559] Phillips then conducts "know your customer" checks on the actual purchaser.[560]

He acknowledged that there could be circumstances in which an agent may have a principal that pays the agent directly.[561] This would result in what he termed a "back-to-back transaction" whereby the invoice would remain in the name of the agent, and in those instances the auction house would not be aware of the second transaction.[562] He stated that Phillips' preference is to have the person in the room bidding be the person invoiced and responsible for that sale, but sometimes it is not that simple.[563]

2. Mr. Baltser Purchased Art as an Agent for Steamort

Mr. Baltser used a shell company to purchase art, which adds another layer of complexity to the connections between the Rotenbergs and the high-value art market. Prior to the imposition of U.S. sanctions against Arkady and Boris Rotenberg in March 2014, the majority of purchases Mr. Baltser made that the Subcommittee linked to the Rotenbergs were in the name of Steamort Limited ("Steamort"). Steamort was incorporated in Belize on August 28, 2008.[564] Steamort's principal place of business, however, was listed as 10 Great Russell Street; London, England.[565] According to the company's Certificate of Incumbency dated September 12, 2012, Steamort's only director and shareholder is Jason Hughes, a British national residing in Cyprus.[566] The Certificate of Incumbency states that Mr. Hughes holds the company's 50,000 shares.[567] That same Certificate lists ATM Secretaries Limited as the Secretary of Steamort.[568] Steamort has maintained a bank account at Tallinn Business Bank in Estonia since at least April 30, 2009.[569]

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[557] *Id.*
[558] *Id.*
[559] *Id.*
[560] *Id.*
[561] *Id.*
[562] *Id.*
[563] *Id.*
[564] Christies-PSI-00005647.
[565] Christies-PSI-00005647; Christies-PSI-00005637–46.
[566] Christies-PSI-00083483–84; Christies-PSI-00083535–36.
[567] Christies-PSI-00083483–84.
[568] *Id.*
[569] Christies-PSI-00020892.

Jason Hughes was associated with over 200 companies. According to public reporting, Mr. Hughes is associated with more than 200 companies. In 2012, an investigation by ICIJ and *The Guardian* uncovered "a network of individuals willing to appear on official records as directors of companies while acting only on the instructions of its real owners, who stay invisible and off-the-books."[570] The investigative report explained:

> The nominees play a key role in keeping secret hundreds of thousands of commercial transactions. They do so by selling their names for use of official company documents, using addresses in obscure locations all over the world.[571]

The ICIJ investigation identified Mr. Hughes as a nominee director linked to 210 companies, including 64 BVI companies, 144 UK companies, and 2 Irish companies.[572]

Mr. Baltser contracted with Steamort. According to a document produced by Christie's to the Subcommittee, on October 27, 2008, Steamort entered into a services agreement (the "Steamort Agreement") with Mr. Baltser.[573] That agreement referred to Steamort as the "customer" and Mr. Baltser as the "consultant."[574] The Steamort Agreement called for Mr. Baltser to assist Steamort with the search, valuation, acquisition, shipping, and insurance for works of art and interior items.[575] The Steamort Agreement allowed Mr. Baltser on behalf of Steamort to, in part:

- negotiate terms and conditions of acquisition of works of art and/or interior items;
- participate in auctions (including those of Sotheby's and Christie's), make bids at the auctions; and
- conclude sale and purchase, acquisition and ancillary agreements with sellers.[576]

The Steamort Agreement was signed by Mr. Hughes on behalf of Steamort; Mr. Baltser signed for himself.[577]

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[570] James Ball, *Offshore secrets revealed: the shadowy side of a booming industry*, GUARDIAN (Nov. 25, 2012), https://www.theguardian.com/uk/2012/nov/25/offshore-secrets-revealed-shadowy-side.
[571] *Id.*
[572] *Id.*
[573] Christies-PSI-00005637–46.
[574] *Id.*
[575] *Id.*
[576] *Id.*
[577] *Id.*

According to the Steamort Agreement, Steamort would pay Mr. Baltser $9,500 a month for his services.[578] A review of financial records confirmed that from March 25, 2010 to October 31, 2016, Steamort sent 96 wire transfers to Mr. Baltser's account totaling $907,000.[579] Most of these payments were in increments of $9,500.[580] Almost all of the instructions located in the wire transfer information noted "payment for consulting services in antiques by invoice" followed by a date.[581]

Beginning in 2017, Mr. Baltser began receiving $9,500 payments from two companies other than Steamort, Aester Limited[582] and Sinara Company LP.[583] From March 2, 2017 to April 6, 2018, Aester Limited sent Baltser eight wire transfers in $9,500 increments totaling $76,000.[584] From July 7, 2017 to June 18, 2018, Sinara Company sent Baltser 14 wire transfers in $9,500 increments totaling $133,000.[585] In total, between March 2010 and October 2018, it appears Mr. Baltser

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[578] *Id.*
[579] DBAG0000011; BOFA-40684 (wires from 2010 were not available).
[580] *Id.*
[581] *Id.*
[582] Aester Limited was incorporated on December 7, 2016, in England and Wales, with a registered office address of 13 John Princes Street, Second Floor, London, England. *See* Certificate of Incorporation of a Private Limited Company, Company No. 10514112 (Dec. 7, 2016), https://beta.companieshouse.gov.uk/company/10514112. According to its filing history, on March 16, 2018, ATM Secretaries Limited, the same Secretary of Steamort, was appointed as the Secretary of the company. *See* Appointment of Corporate Secretary, Company No. 10514112 (Mar. 16, 2018), https://beta.companieshouse.gov.uk/company/10514112. On January 1, 2018, Oleksandr Baksaliar, a Ukrainian national, was listed as a "person with significant control" of the company. *See* Notice of Individual Person with Significant Control, Company No. 10514112 (Jul. 3, 2018), https://beta.companieshouse.gov.uk/company/10514112. According to the company's confirmation statement filed on December 28, 2018, Aester Limited's principal activity is the "wholesale of furniture, carpets and lighting equipment; wholesale of electronic and telecommunications equipment and parts; wholesale of wood, construction materials, and sanitary equipment; and wholesale of hardware, plumbing and heating equipment and supplies." *See* Confirmation Statement, Company No. 10514112 (Dec. 28, 2018), https://beta.companieshouse.gov.uk/company/10514112.
[583] Sinara Company LP was registered in the United Kingdom as limited partnership ("LP") on January 16, 2017. Just like Aester Limited, the principal place of business was listed as 13 John Princes Street, 2nd Floor, London, England. *See* Application for Registration of a Limited Partnership, Company No. LP17803 (Jan. 16, 2017), https://beta.companieshouse.gov.uk/company/LP017803. The general nature of the business was listed as "tourism and ticketing services." *See* Application for Registration of a Limited Partnership, Company No. LP17803 (Jan. 16, 2017), https://beta.companieshouse.gov.uk/company/LP017803. The partners of Sinara Company LP were listed as Portervale Trading Company and Reox Limited. *See* Application for Registration of a Limited Partnership, Company No. LP17803 (Jan. 16, 2017), https://beta.companieshouse.gov.uk/company/LP017803. On March 30, 2019, Sinara Company LP was dissolved; Portevale Trading Company signed the dissolution document. *See* Statement specifying the nature of a change in the limited partnership, Company No. LP17803 (Mar. 30, 2019), https://beta.companieshouse.gov.uk/company/LP017803.
[584] BOFA-40684.
[585] *Id.*

received $1,116,000 in fees for his consulting services under the Steamort Agreement.[586]

Christie's questioned Steamort's ownership. Prior to U.S. sanctions in March 2014, Mr. Baltser purchased art from the auction houses in Steamort's name. The Christie's client representative for Mr. Baltser ("Baltser Client Advisor") told the Subcommittee that Mr. Baltser introduced himself as someone who purchased art on behalf of other people.[587] The Baltser Client Advisor explained, "one thing's for sure, he's not buying it for himself."[588]

Christie's requested information on Steamort's UBO from Mr. Baltser. On November 29, 2010, following the registration of Steamort's account, Christie's internally requested information regarding the "confirmation of the directors of the company" and "confirmation of who is the ultimate beneficial owner of the company."[589] The request went unanswered until February 7, 2012.[590]

On February 7, 2012, Christie's compliance department emailed the Business Development Manager Business Development Manager about the documentation requested in 2010 for Steamort's company directors and the ultimate beneficial owner.[591] The email noted that Mr. Baltser was listed as Steamort's owner in the client profile, but additional documentation was required.[592] The Business Development Manager responded that she was unable to reach Mr. Baltser due to the time difference between London and Moscow, explaining:

> I have tried to get in touch with the client, but he is probably sleeping as he is supposed to bid very early in the morning our time. Steamort/Grigoriy [sic] Baltser have been regular client of Christies. Just today he participated in a sale in London and is bidding tomorrow as well. He is a very respected businessman and I personally know [him] very well. Is it possible for me to get this documentation to you after the sale. He is bidding on 19 lots![593]

An AML Specialist also from Christie's compliance department responded, "if you could follow up after the sale it would be greatly appreciated."[594]

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[586] *Id.*
[587] Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
[588] *Id.*
[589] Christies-PSI-00059124–27.
[590] *Id.*
[591] *Id.*
[592] *Id.*
[593] *Id.*
[594] *Id.*

The next day, on February 8, 2012, the Business Development Manager informed the AML Specialist that she spoke to Mr. Baltser and explained to him that there were "some outstanding registration documents" required for Steamort.[595] She told the AML Specialist that Mr. Baltser informed her that "he can get me a copy of the company's registration card and the contract that he has with Steamort ltd. He cannot get us the name of the beneficial owner of the company as this information is unavailable to him."[596] In response, the AML Specialist asked to be put "in touch with the person who he has entered into agreement with."[597] He also reminded the Business Development Manager that "beneficial ownership is required for all business clients, and this information has been outstanding for nearly two years already."[598] The Business Development Manager forwarded the AML Specialist's email to the Baltser Client Advisor requesting advice. The Business Development Manager stated that Mr. Baltser said he would "not bother the directors of the company with any questions and he cannot provide us with the information on who the beneficiaries are. I am stuck."[599]

On February 21, 2012, the AML Specialist asked the Business Development Manager for an update regarding the required Steamort documentation.[600] The following day, February 22, 2012, the Business Development Manager informed the AML Specialist that Mr. Baltser asserted he would provide everything the next week.[601]

A month later, on March 22, 2012, the Business Development Manager emailed the AML Specialist documents regarding Steamort, including the Baltser/Steamort 2008 Services Agreement and the Belize Certificate of Incorporation dated August 28, 2008.[602] The AML Specialist replied stating that the documents confirmed the agreement between Baltser and Steamort, but did not "confirm ownership of the Belize Company."[603] The AML Specialist once again requested that the Business Development Manager confirm the owner of Steamort, stressing that "this inquiry has been open since the fall 2010 sales."[604] On March 26, 2012, the AML Specialist emailed "we will need to restrict the account from future bidding pending confirmation of beneficial ownership."[605]

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[595] *Id.*
[596] *Id.*
[597] *Id.*
[598] *Id.*
[599] *Id.*
[600] Christies-PSI-00041928.
[601] *Id.*
[602] Christies-PSI-00041976–87.
[603] *Id.*
[604] *Id.*
[605] Christies-PSI-00042009.

That same day, March 26, 2012, the Business Development Manager sought the Baltser Client Advisor's advice; Mr. Baltser wanted to bid in an upcoming auction in New York.[606] The Business Development Manager emailed:

> the "beneficiary" issue is still not resolved. [Mr. Baltser] says that even verbally he cannot confirm anything as he himself doesn't know who the ultimate beneficiaries of Steamort are. He is asking if he can still bid in the sale without this document. What can we do?"[607]

The Baltser Client Advisor responded: "let me check, please. As soon as I have some info[rmation], I will let you know."[608] The Baltser Client Advisor responded to the AML Specialist:

> Christie's London can accept the verbal confirmation of the beneficiary owner of the company (as an exception). This is a very important client of ours who actively buys in various Gold Sale categories. We worked very hard to encourage this client to participate in the sales and we feel it's a shame to lose him now. The additional documents were requested in February 2012, the client provided them at his earliest convenience. Please advise if I should contact any other colleagues of ours to discuss this urgent matter.[609]

The Baltser Client Advisor confirmed to the Subcommittee that on certain occasions Christie's would accept verbal confirmation of the beneficial owner.[610]

The AML Specialist emailed and requested that she "kindly disclose the beneficial owners, and Legal can conduct the checks."[611] On March 27, 2012, the Business Development Manager informed the Baltser Client Advisor that she would contact Baltser and "try to ask him to at least verbally confirm, the beneficiaries."[612] On March 28, 2012, the Business Development Manager emailed Christie's compliance and stated that "the sole beneficiary of Steamort is Mrs. Luisa Brown."[613] The AML Specialist responded that same day: "Luisa Brown is clear, and the client is fine to bid in the upcoming sale on April 4th."[614] The AML Specialist continued: "Going forward, please note we require documentary confirmation of beneficial ownership in accordance with our Legal requirements

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606 Christies-PSI-00035437.
607 *Id.*
608 *Id.*
609 Christies-PSI-00042041.
610 Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
611 Christies-PSI-00099753.
612 Christies-PSI-00099719.
613 Christies-PSI-00099753.
614 Christies-PSI-00099787.

when opening new business accounts, and without it a risk review would have to be conducted."[615]

When questioned by the Subcommittee, the Baltser Client Advisor stated that she had no knowledge of Mrs. Brown and did not know of any connection between Mrs. Brown and Mr. Baltser.[616] Mr. Baltser never provided documentary evidence that Luisa Brown was the beneficial owner of Steamort.[617]

3. Mr. Baltser Established BALTZER Auction Agency and Club in Moscow

The creation of Mr. Baltser's art agency and private club, called BALTZER Auction Agency and Club, added another layer of complexity to the purchase of high-value art by shell companies linked to the Rotenbergs. The creation of BALTZER is further described below. Notably, Mr. Baltser's last name is spelled with an "s" and his art agency with a "z."

In November 2012, prior to forming his agency and club, Mr. Baltser contacted Christie's and Sotheby's to discuss a business proposal with him through his new private club in Moscow.[618] Mr. Baltser sent a letter to Christie's explaining "we have conceived a definitive idea of creating a new company with transparent and clear ideology, which would be able to solve many problems of auction life, guaranteeing to the participants the clean title of transaction and services."[619] Mr. Baltser indicated his new company's club would be used by "a whole class of contemporaneous collectors" that he had created and who were "the leading Moscow and Russian collectors – the active participants of auction biddings at many world marketplaces."[620]

a. Christie's Partnered with Mr. Baltser

Beginning in late 2012, Christie's and Mr. Baltser began discussing a potential partnership. On December 17, 2012, the Managing Director of Growth Markets for Christie's in London ("Managing Director"), sent an email to Mr. Baltser to inform him that Christie's has "all of the key people internally at Christi[e]'s together to discuss your interesting proposal. We are consolidating a list of questions which we will have with you by the close of business tomorrow evening and looking forward to continuing discussions with you."[621] The following

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[615] *Id.*
[616] Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
[617] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[618] Christies-PSI-00016692–94; SOT-005728–30.
[619] Christies-PSI-0016692–00016694.
[620] *Id.*
[621] Christies-PSI-00000649.

day, Mr. Baltser emailed the Managing Director that he was glad "we are moving forward with the proposal and I expect way more activity going with the auctions as soon as I get this new structure set….and I will be happy to answer and clarify all the questions in a timely manner. "[622]

On December 18, 2012, the Managing Director provided Mr. Baltser with a list of questions raised by various members of the Christie's team regarding his proposal, including:

- Do you intend to bid on behalf of [the art club] or on behalf of the third party?
- Will you be able to take on responsibility to obtain all necessary KYC/AML (Know your client and Anti money laundering) checks required? What structures are in place to ensure these protocols are met?
- Will we know the names of the clients or will all details be held by you and the company?[623]

Beginning in early 2013, representatives from Christie's began traveling to Moscow to meet with Baltser and his team regarding the proposal.[624] On January 22, 2013, Mr. Baltser sent the Baltser Client Advisor a reply to the Managing Director's questions, stating:

> We are currently in the process of reviewing Russian laws and related legislation pertaining to KYC/AML. One of the key components of the KYC/AML process implies checking the identity of every client and collecting Personally Identifiable Information (PII). According to Russian legislation as well as the Confidentiality Agreement between Company and our clients, [Mr. Baltser's agency] is obligated not to disclose [personally identifiable information] data to any third parties without the Client's consent, except as may be required by law or court order. Considering this, we are ready to accept responsibility for such processes as KYC (know your customer) and AML (anti money laundering).[625]

On March 21, 2013, the Baltser Client Advisor emailed the Managing Director to inform him that she is "in regular contact with Mr. Gregory Baltser regarding various auctions and client purchases" and explained that he:

> keeps on asking if we are ready to proceed with our IT advice and further discussions of his proposed project. Unfortunately, Gregory cannot proceed with ordering any technical equipment and his whole

[622] Christies-PSI-00000651.
[623] Christies-PSI-00000653–54.
[624] Christies-PSI-00000694.
[625] Christies-PSI-00020853–56.

> project is on hold now. Gregory is very much concerned that he is missing all major auctions in May, June and July (and is under impression we [are] no longer interested in cooperation).[626]

On March 22, 2013, the Managing Director replied that he needed "to get [the President of Christie's Europe] to focus on this and will try and do so today and send an appropriate message to Mr. Baltser."[627] On March 27, 2013, the Baltser Client Advisor emailed the President of Christie's Europe requesting his "thoughts on Gregory Baltser's project discussed yesterday and if we could proceed with it on the IT front."[628] On April 12, 2013, the President of Christie's Europe approved moving forward with the project with Baltser "as long as there is no corporate risk."[629]

On April 24, 2013, Christie's representatives met with Mr. Baltser in Moscow to discuss the partnership between Mr. Baltser's art agency and Christie's.[630] Present at the meeting were Mr. Baltser, the Managing Director, the Business Development Manager, and the Baltser Client Advisor.[631] The meeting resulted in a list of action items to move the partnership forward.[632]

i. Mr. Omelnitski Served as the Money Laundering Reporting Officer for BALTZER LLP

The action items noted that Mr. Baltser "further explained that their Trustee in London was familiar with the [KYC] process and they have a system approved by the Russian government."[633] On June 5, 2013, Mr. Omelnitski emailed the Managing Director, stating that Mr. Baltser asked him "to contact [you] in regards to arranging a meeting for purposes of identifying of required [AML/KYC] compliance procedures and policies."[634]

On August 12, 2013, Mr. Omelnitski emailed corporate documents regarding the "new Baltser structure" to Christie's Senior Compliance Counsel ("Compliance Counsel"), including incorporation records pertaining to the newly created Baltzer entities – Baltzer Limited (Cyprus) and BALTZER LLP.[635] The Shareholders Certificate for Baltzer Limited listed Markom Nominees LTD as shareholder.[636]

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[626] Christies-PSI-00036515–16.
[627] *Id.*
[628] Christies-PSI-00036540.
[629] Christies-PSI-00037583–85.
[630] Christies-PSI-00000725–31.
[631] *Id.*
[632] *Id.*
[633] *Id.*
[634] Christies-PSI-00000764.
[635] Christies-PSI-00005845–76.
[636] *Id.*

Baltzer Limited also listed Markom Directors as its Director and Markom Secretaries Limited as its Secretary.[637]

The following day, Mr. Omelnitski emailed Christie's in-house counsel in London a copy of BALTZER's Compliance Procedures Manual.[638] The manual stated:

> In addition to our existing money-laundering measures, BALTZER ("Agency") has entered into an agreement with Markom Management Limited ("Markom"), whereby Markom will independently check, verify and handle information about the Agency's clients.[639]

The manual further stated that BALTZER employees "unclear on the [customer due diligence] steps required when engaging a new client please contact Dr. Mark Omelnitski (the [Money Laundering Reporting Officer]), in the first instance for further advice.[640]

Christie's compliance personnel reviewed the Manual, which identified compliance measures. The Manual indicated that BALTZER had entered into an agreement with Markom for Markom to independently check, verify, and handle information about BALTZER clients.[641] The Manual states that BALTZER clients are required to comply with AML legislation, and identifies obligations arising under the UK's 2007 Money Laundering Regulations.[642] The Manual also included BALTZER's customer due diligence measures, including customer identification procedures for individuals and entities, and provided for enhanced due diligence where the client is a politically exposed person.[643] In addition, Christie's compliance personnel noted that Markom was listed on the HMRC-Her Majesty's Revenue & Customs-Supervised Businesses Register of companies that have registered with HRMC under the UK Money Laundering Regulations.[644]

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[637] *Id.*
[638] Christies-PSI-00001179–1237.
[639] *Id.*
[640] *Id.*
[641] *See* Christies-PSI-00001190.
[642] *See* Christies-PSI-00001194.
[643] *See* Christies-PSI-00001194–95.
[644] *See* Letters from Counsel for Christie's to Subcommittee staff (Mar. 5, 2019 and Jul. 22, 2020).

ii. Christie's Agreed to Allow Mr. Baltser to Conduct Anti-Money Laundering and Sanctions Checks on His Own Clients

Mr. Omelnitski represented Mr. Baltser and BALTZER LLP in contract negotiations with Christie's as Mr. Baltser and Christie's exchanged drafts of the agreement.[645] On February 4, 2014, Christie's and BALTZER LLP entered into a letter agreement that established the terms of the two entities' relationship.[646] Mr. Baltser signed on behalf of BALTZER LLP; the Managing Director signed on behalf of Christie's.[647] As part of the agreement, Christie's agreed to supply BALTZER LLP with a number of bidding paddles under one account.[648] As stated in the contract, this enabled BALTZER LLP to "bid in Christie's auctions simultaneously."[649]

Regarding customer due diligence, the agreement established that:

- BALTZER LLP will conduct customer due diligence on its members to the standards required by the EU Money Laundering Directive, consents to Christie's relying on such customer due diligence and will retain for a period of not less than 5 years, the documents and records evidencing the same. Where these documents or records are held outside the UK, copies will be made available to Christie's or relevant enforcement agencies or regulators under court order or relevant mutual assistance procedure.

- BALTZER LLP will further certify to Christie's, at the end of every trading year that it has conducted customer due diligence in accordance with these requirements and that it has no reason to suspect that any of its members are engaged in money laundering activities.[650]

Christie's former Global Head of Compliance explained these provisions mirrored language she previously used as an attorney for a large U.S. financial institution in agreements between financial institutions.[651] She also confirmed to the Subcommittee that this was the first time Christie's allowed another entity to perform these types of customer due diligence checks.[652]

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[645] Christies-PSI-00001516–21.
[646] Christies-PSI-00000032–34.
[647] *Id.*
[648] *Id.*
[649] *Id.*
[650] *Id.*
[651] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[652] *Id.*

iii. BALTZER LLP Failed to Provide Anti-money Laundering and Sanctions Compliance Certifications Required by the Agreement with Christie's

As stated above, the agreement between BALTZER LLP and Christie's required BALTZER LLP to certify annually that it conducted customer due diligence and did not suspect its clients were engaged in money laundering.[653] Obtaining that certification, as scheduled and with the proper assertions regarding anti-money laundering, became a challenge for Christie's over the course of the relationship due to a lack of responsiveness by Mr. Omelnitski, despite numerous attempts by Christie's to obtain the certification. As explained below, Christie's later revised the agreement with BALTZER, in part because of Mr. Omelnitski's failure to provide the required compliance certifications. The new agreement required Mr. Baltser to identify all winning bidders to the Christie's Legal Department to perform KYC checks.

2014. Christie's Compliance Counsel emailed Mr. Omelnitski on September 26, 2014 requesting "to refresh [Christie's] due diligence in relation to the BALTZER arrangements, particularly around sanctions screening."[654] She confirmed to the Subcommittee she was referring to the increasing number of sanctions imposed by the United States and the European Union on Russian individuals and entities in response to the annexation of Crimea.[655]

On October 15, 2014, the Compliance Counsel emailed Mr. Omelnitski regarding the certification required in the February 2014 Letter Agreement.[656] She explained that "[g]iven the rapidly evolving sanctions landscape in Russia, we are asking all our business partners to certify that they have complied and will continue to comply with relevant AML regulations including ongoing sanctions screening against…EU, UN, OFAC, etc. lists."[657] The Compliance Counsel emailed Mr. Omelnitski on October 31, 2014 to again request the report.[658] Mr. Omelnitski responded and assured her that "we are preparing the report…I shall have it for you within a week."[659] On November 22, 2014, Mr. Omelnitski emailed the Compliance Counsel stating, "I am really sorry for [the] delay with the report. I am traveling extensively over the last two months. I shall be ready with it next week. Once again apologies for [the] delay."[660]

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[653] Christies-PSI-00000032–34.
[654] Christies-PSI-00098744.
[655] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[656] Christies-PSI-00098749–52.
[657] *Id.*
[658] *Id.*
[659] *Id.*
[660] Christies-PSI-00088125.

Mr. Omelnitski provided the certification to the Compliance Counsel on December 2, 2014 titled, "AML Report on behalf of 'Baltzer' for period October 2013 through November 2014."[661] The document stated:

> I can confirm that our investigation did not reveal any irregularities, which were concerning. I can further confirm that despite BALTZER having a significant number of Russian clients there were no transactions, which fall under recent sanctions against Russia.[662]

The former Global Head of Compliance told the Subcommittee this language satisfied the certification requirement in the February 14, 2014 Letter Agreement.[663]

2015. A year later, on December 3, 2015, the Compliance Counsel emailed Mr. Omelnitski asking, "could you please let me have a compliance report for this year?"[664] Mr. Omelnitski did not provide the requested compliance report.[665]

2016. The Compliance Counsel emailed Mr. Omelnitski on June 7, 2016 and again asked, "would you please be able to send me a compliance certification again similar to the report you so kindly provided at the end of 2014?"[666] Mr. Omelnitski did not provide the requested report.[667] On June 28, 2016, the Compliance Counsel again requested that Mr. Omelnitski "confirm when we can expect to receive your compliance certification?"[668] Mr. Omelnitski failed to provide the requested compliance report.[669]

2017. On July 13, 2017, the Compliance Counsel emailed Mr. Omelnitski stating, "we will need the compliance certificate from you as per our agreement."[670] On October 9, 2017, Mr. Omelnitski emailed information regarding BALTZER's purchases.[671] Mr. Omelnitski's email stated that for "transactions September 2016-September 2017," Baltzer's agency "had the turnover of £3,269,457.30, Euro 5,775,449.40 and USD 1,402,661.60."[672] The email broke down those amounts between auction houses, clients, and suppliers.[673] The email did not provide any certifications regarding compliance with AML policies as required by the Letter

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[661] Christies-PSI-00035361–62.
[662] *Id.*
[663] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[664] Christies-PSI-00098858.
[665] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[666] Christies-PSI-00098961.
[667] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[668] Christies-PSI-00098976.
[669] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[670] Christies-PSI-00093620–23.
[671] Christies-PSI-00093885–87.
[672] *Id.*
[673] *Id.*

Agreement.[674] In response, the Compliance Counsel alerted Mr. Omelnitski that "we need to talk and review the approach to client due diligence."[675]

The Compliance Counsel asked Mr. Omelnitski to "clarify the relationship between BALTZER and Markom" on October 20, 2017.[676] She raised the fact that "BALTZER is both a client who outsources client due diligence and compliance to Markom Group as well as a related entity due to Markom Group being a director/shareholder."[677] She also addressed the issue of Mr. Baltser's clients and suggested that "the Compliance Department is able to keep the identity of clients securely within a private and confidential file that is not accessible by anyone other than Compliance/Legal."[678] The Compliance Counsel asserted the information would "be provided solely to me in order to enable Christie's to comply with our KYC procedures and relied on solely for this purpose."[679] She explained to the Subcommittee that she never received answers to her questions about the Markom Group's relationship to Mr. Baltser's companies.[680]

2018. The parties negotiated the terms of a new agreement, which was signed on March 19, 2018.[681] The new agreement contained additional requirements, which the former Global Head of Compliance explained gave Christie's additional control and comfort regarding purchases by BALTZER.[682] For purposes of customer due diligence, the new agreement required that, "For all successful bidders, BALTZER will make the customer due diligence documentation (including any originals) promptly available to Christie's for inspection within 10 working days after the auction and in any event, prior to the release of the relevant lot."[683] The new terms also stated that "BALTZER warrants on a continuing basis while this agreement remains in force that:

i. any bid on behalf of its Members does not facilitate tax evasion or tax fraud;
ii. any bid on behalf of its Members does not violate or facilitate a violation of sanctions including those administered or enforced by the US Department of Treasury's OFAC, US Department of State, the UN Security Council, the EU, Her Majesty's Treasury or the Hong Kong Monetary Authority;

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[674] *Id.*
[675] *Id.*
[676] Christies-PSI-00094167–68.
[677] *Id.*
[678] *Id.*
[679] *Id.*
[680] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[681] Christies-PSI-00005015–27.
[682] Subcommittee interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[683] Christies-PSI-00099306–14.

iii. it does not know, and has no reason to suspect that any buyer is under investigation for, charged with or convicted of money laundering, terrorist activities or other crimes; and
iv. any shipping of lots on which Baltzer has successfully bid will be done in compliance with all applicable export and import laws.[684]

The new agreement was dated March 19, 2018.[685] The former Global Head of Compliance explained that with the new agreement, the BALTZER account was restricted until the company provided Christie's the required customer documentation.[686] She told the Subcommittee that BALTZER complied with the new requirement and provided the customer information, but continued to pay for purchases from his bank account.[687] Therefore, financially, Christie's was unable to look beyond BALTZER's bank account to determine the source of the funds used to make purchases.[688]

b. Sotheby's Declined to Sign an Agreement with BALTZER LLP, but Continued to Transact with Mr. Baltser

Mr. Baltser also approached Sotheby's to enter into an agreement with BALTZER LLP. While Sotheby's considered the proposal, the auction house ultimately declined. According to a document produced by Sotheby's to the Subcommittee, during the course of the negotiations with Mr. Baltser, the Sotheby's account representative for Mr. Baltser ("Baltser Account Representative"), represented to Sotheby's leadership that Mr. Baltser's clients were Russian oligarchs.[689] She also specifically identified Arkady and Boris Rotenberg as two of Mr. Baltser's clients.[690] But when asked by the Subcommittee to confirm that Arkady and Boris Rotenberg were Mr. Baltser's clients, she said she had fabricated the information to encourage Sotheby's to agree to Mr. Baltser's proposal.[691] The Subcommittee questions her truthfulness in her interview, given the Subcommittee traced funds used to purchase art by Mr. Baltser back to shell companies linked to the Rotenbergs.

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[684] *Id.*
[685] *Id.*
[686] Subcommittee Interview of Christie's former Global Head of Compliance (Jul. 15, 2019).
[687] *Id.*
[688] *Id.*
[689] SOT-015933.
[690] SOT-018689–93.
[691] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).

i. Mr. Baltser Purchased Art from Sotheby's on Behalf of Steamort

As with Christie's, Mr. Baltser purchased art from Sotheby's on behalf of Steamort, signing invoices on behalf of the company as early as 2011.[692] The Baltser Account Representative told the Subcommittee that Mr. Baltser used Steamort to purchase items from Sotheby's.[693] She explained that it was common for purchasers to use various companies when purchasing art.[694] The Baltser Account Representative asserted Steamort preceded BALTZER LLP and she did not believe Steamort existed anymore.[695] She did not know why Mr. Baltser made the switch from Steamort to BALTZER LLP, but she thought that Mr. Baltser created BALTZER LLP around the time that he established his art agency. She also recalled that Mr. Baltser provided BALTZER LLP's incorporation and compliance due diligence documents to Sotheby's.[696]

ii. Mr. Baltser Approached Sotheby's on his Business Proposal with BALTZER LLP

In early 2013, Mr. Baltser also approached Sotheby's about a business proposal with his art agency. On February 11, 2013, the Baltser Account Representative emailed Sotheby's Chief Operating Officer in Europe, and other Sotheby's associates (in pertinent part):

> Level 1, top transacting Russian client, Mr. Gregory Baltser (Steamort Ltd) is setting up a private club in Moscow for his friends and clients, Russian oligarchs. This club's activity will be centered around auction house activities. He wants to involve the club members into buying at auctions.
>
> Some of these clients have already started transacting through him.[697]

The Baltser Account Representative explained to the Subcommittee that Mr. Baltser's club would allow club members to view a live stream of an auction taking place outside of Moscow.[698] She also noted that using the word "oligarch" at the time meant a high net worth Russian individual.[699] She purposefully used the word "oligarch;" it was her job to sell Mr. Baltser's ideas to her superiors.[700]

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[692] SOT-000406–07; SOT-006167.
[693] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[694] *Id.*
[695] *Id.*
[696] *Id.*
[697] SOT-015933.
[698] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[699] *Id.*
[700] *Id.*

An internal Sotheby's meeting invitation dated March 25, 2013 explained how Mr. Baltser's club would work:

> The client [Mr. Baltser] would have members bid on his account. He could have members bidding against each other but under the same account, on different paddles. He would remain liable to Sotheby's for any bids his members provide – he would control that his end to effectively manage his risk…Mostly his members would pay him and he would pay us. His members may wish to be invoiced directly – in which case, if not already known to us, our KYC rules apply and they set up an account and we invoice directly – although in the event of non-payment he knows he can't "excuse himself"…. We'd have/keep the veto – e.g. would not allow a transfer to a No Bid client.[701]

The Baltser Account Representative explained that Sotheby's invoiced Mr. Baltser directly and would divide his purchases into multiple invoices if he requested.[702] She asserted Mr. Baltser was the client: "That's how he bid and that's how he paid. As far as I'm concerned the client is Greg Baltser."[703] The Baltser Account Representative made clear that she could not register a bid for Mr. Baltser unless the payment would be coming from his company.[704] However, she also explained that Mr. Baltser "would almost never tell us on behalf of who he is bidding for."[705]

The Baltser Account Representative continued to advocate partnering with Mr. Baltser and forwarded several documents from Mr. Baltser to her colleagues regarding his club on May 31, 2013.[706] One of the documents noted that Mr. Baltser would "obtain all the necessary KYC/AML checks required."[707] The document also noted "one of the key components of the KYC/AML process implies checking the identity of every client and collecting personally identifiable information."[708] The Baltser Account Representative recalled there were extensive discussions internally at Sotheby's about Mr. Baltser performing the KYC checks on his own because Sotheby's wanted to know who his clients were for KYC purposes.[709] Sotheby's asked him to reveal the identity of his clients, which "obviously made him very uncomfortable as a dealer would never do this normally."[710] She explained that Mr. Baltser was reluctant to do this, but Sotheby's was unsure how it could satisfy itself

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[701] SOT-115602.
[702] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[703] *Id.*
[704] *Id.*
[705] *Id.*
[706] SOT-172699–711.
[707] *Id.*
[708] *Id.*
[709] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[710] *Id.*

that his clients were compliant.[711] She recalled that Mr. Baltser provided additional company and compliance documents to address Sotheby's KYC concerns. She explained that dealers and art galleries never disclose who their clients are. However, she noted that any gallery owner was responsible for running its own client due diligence.[712] She stated that Sotheby's did due diligence on Mr. Baltser as the client, but Mr. Baltser would perform the due diligence on his own clients.[713]

In summer 2013, Mr. Baltser continued to push regarding a partnership between himself and Sotheby's.[714] Through the Baltser Account Representative, Mr. Baltser requested a meeting to "address all the questions and issues we have with" his proposal.[715] In the same June 6, 2013 email, the Baltser Account Representative noted that "this week Gregory has set up a record for a Russian painting at auction buying Nichols Roerich's canvas at Bonhams for [£7.88 million]," referring to Mr. Baltser's purchase of the *Madonna Laboris*.[716]

iii. The Baltser Account Representative Claims Arkady and Boris Rotenberg were Mr. Baltser's Clients before they were Sanctioned

As part of her continued advocacy on behalf of Mr. Baltser, and his business proposal to Sotheby's, the Baltser Account Representative created a document in advance of a meeting on October 9, 2013 that showed Mr. Baltser's clients included, Arkady and Boris Rotenberg.[717] The Baltser Account Representative sent an email to her assistant that attached Forbes biographies of the men.[718] The Deputy Chairman of Sotheby's Europe and Chairman of Sotheby's Russia ("Chairman of Sotheby's Russia") told the Subcommittee during an interview that when he saw the list that included Arkady and Boris Rotenberg, he thought, "It looked quite impressive to me—to have [] oligarchs on the list."[719] He confirmed that he believed the compliance department and the managing director of Sotheby's would have seen the client list at the time, which was before sanctions were imposed on Arkady and Boris Rotenberg.[720]

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[711] *Id.*
[712] *Id.*
[713] *Id.*
[714] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019); SOT-172576–78.
[715] SOT-172576–78.
[716] *Id.*
[717] SOT-018689–93.
[718] SOT-018689–93.
[719] Subcommittee interview of the Deputy Chairman of Sotheby's Europe and Chairman of Sotheby's Russia (May 30, 2019).
[720] *Id.*

However, the Baltser Account Representative stated in her Subcommittee interview that Mr. Baltser never represented to her that Arkady and Boris Rotenberg were his clients.[721] She stated she fabricated the fact the Rotenbergs were clients of Mr. Baltser to convince her employer, Sotheby's, there was "significant business potential" in the agreement with Mr. Baltser.[722] She stated she located the two Rotenbergs by googling Russians on the Forbes list.[723] The biographies attached to her email listed Arkady Rotenberg as number 1,153 on the Forbes list and number 30 in Russia.[724] The biography for Boris Rotenberg listed him as number 1,031 on the billionaires list and number 69 in Russia.[725] The Subcommittee questions the truthfulness of Baltser Account Representative's answer given that funds used by Mr. Baltser to purchase art were traced back to shell companies linked to the Rotenbergs.

In order to facilitate a decision on Mr. Baltser's proposal, the Baltser Account Representative and the Chairman of Sotheby's Russia drafted a list of pros and cons.[726] Once they both agreed on the list, they sent the list to the then Managing Director for Sotheby's Europe ("Managing Director") on October 15, 2013.[727] The list included the following positive points they associated with the proposed business arrangement with Mr. Baltser:

1. Baltser has a client base that wants to buy in our sales and have already been buying using Baltser's services. We encourage his bids and he pays on time.
2. He declared his plans willingly and honestly to us. He is regulated by the Russian authorities and before accepting to deal with any of his potential clients he has to go through KYC and do all due diligence.
3. His logistics operation, to make buying in auction houses easy and fun, appeals to a number of wealthy Russians who trust him. Among his clients are Forbes list businessmen.
4. On several occasions the identity of his clients has been revealed to us and we set up personal accounts for these clients. Some have already started transacting with us directly.[728]

The list also included "concerns:"

1. We do not always know who his clients are. We do however know Baltser well and we have transacted with him for a number of years.

[721] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[722] *Id.*
[723] *Id.*
[724] SOT-018689–93.
[725] *Id.*
[726] SOT-051481–82.
[727] SOT-018663–64.
[728] *Id.*

> He is well known to the dealer community for the last 15 years. We assume we are happy that he transacts as usual, if we decide not to recognize his new plans.
> 2. He can manipulate a market by a ring. There is no evidence at all to support this. Anyway this is not in his interest as the more clients he gets to bid the more fees he can charge.
> 3. His business becomes too powerful and he dictates terms to us. We don't think that will happen as we do not see this business growing into 100s of clients. Exclusivity is important to Russians. Also there are too many factions between the powerful elite who will always use different agents and dealers. There are many more powerful buyers in the market and full [buyer's premium] is paid by all.[729]

The email to the Managing Director continued:

> Whilst we must be fully compliant it does seem duplicitous that we allow him to bid today but have worries when he explains his ambitions. Furthermore we allow other European and US agents that bid on behalf of clients and we do not demand to know who their clients are.[730]

The email then asked the question: "Should we be partners?"[731] And concluded, "In our opinion, no. If Baltser has more clients bidding in our sales we benefit anyway. If his business succeeds and we think this is a winning formula we should then consider changing our office model."[732]

As with Christie's, Mr. Omelnitski provided documentation of anti-money laundering and client due diligence policies and procedures to Sotheby's on behalf of Mr. Baltser, including a 50-page BALTZER LLP compliance procedures manual and customer due diligence measures, as well as BALTZER LLP incorporation documents.[733] He also advocated for Mr. Baltser saying "Gregory is really anxious to commence co-operation with Sotheby's" on October 11, 2013.[734] The Baltser Account Representative told the Subcommittee she understood that Mr. Omelnitski was Mr. Baltser's representative in the United Kingdom and that his role appeared mainly to involve helping Mr. Baltser set up BALTZER LLP.[735]

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[729] *Id.*
[730] *Id.*
[731] *Id.*
[732] *Id.*
[733] SOT-005232–82.
[734] SOT-004597–99.
[735] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).

On October 28, 2013, the Chairman of Sotheby's Russia emailed the Managing Director to request a date to meet with Mr. Baltser in Moscow.[736] He responded, "sure but not before I have heard your convincing arguments as to how we protect our position re 'his' clients!"[737] The Chairman of Sotheby's Russia responded referencing his October 15, 2013 email of positive points and concerns and noted "I saw [Mr. Baltser] last week with [the Baltser Account Representative] and he has agreed to reveal the names of his clients."[738]

iv. Sotheby's Declined Mr. Baltser's Business Proposal

Sotheby's corporate headquarters in New York ultimately decided not to sign an agreement with Mr. Baltser.[739] The Chairman of Sotheby's Russia told the Subcommittee that one of the reasons Sotheby's declined Mr. Baltser's business proposal was due to concern over his undisclosed clients.[740] The concerns extended beyond the identity of his clients to their potential to manipulate market prices by coordinating their bids at Sotheby's auctions.[741] He also explained that Sotheby's wanted to have more control over the transactions by directing them to occur directly with Sotheby's, and Mr. Baltser's proposal overall was more advantageous for Mr. Baltser than Sotheby's.[742]

Even though Sotheby's declined Mr. Baltser's proposal, Mr. Baltser continued to bid in auctions and purchase art from the auction house. The Chairman of Sotheby's Russia explained the only difference was that Sotheby's declined Mr. Baltser's business proposal to create a direct cable for broadcasting high quality images of items being auctioned by Sotheby's into Mr. Baltser's private art club.[743]

c. Mr. Baltser Purchased Art with Funds Traced to Rotenberg-linked Shell Companies

The evidence indicates that the Rotenbergs used Mr. Baltser as their art adviser and agent both before and after the imposition of U.S. sanctions in March 2014. Each purchase followed the same pattern. Mr. Baltser purchased the art and took title either through Steamort or later, his own company BALTZER LLP. Then, one of the shell companies highlighted above (Highland Business or Highland Ventures) would wire funds to Steamort to pay for the piece of art. Prior to U.S.

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[736] SOT-018624.
[737] *Id.*
[738] *Id.*
[739] SOT-201809–11; SOT-01893; Subcommittee interview of the Deputy Chairman of Sotheby's Europe and Chairman of Sotheby's Russia (May 30, 2019).
[740] Subcommittee interview of the Deputy Chairman of Sotheby's Europe and Chairman of Sotheby's Russia (May 30, 2019).
[741] *Id.*
[742] *Id.*
[743] *Id.*

sanctions, Mr. Baltser routinely purchased art in the name of Steamort; Steamort would also wire the funds directly to the seller.

Following the imposition of U.S. sanctions, which coincided with the establishment of BALTZER, Mr. Baltser added a step. Steamort generally wired funds to purchase the art to BALTZER LLP. Mr. Baltser would then take title for the purchased artwork in the name of BALTZER LLP and wire the funds to the auction house from his BALTZER LLP account.

There were exceptions to this post-sanctions practice. One such exception documented below involved Highland Ventures taking title to a $7.5 million Magritte painting, while another shell company linked to Mr. Omelnitski (Advantage Alliance) wired the payment directly to the dealer. The Subcommittee traced those funds to a company owned by Arkady Rotenberg.

4. Examples of Pre-Sanctions Art Purchases

Several examples of how the Rotenbergs purchased art pre-sanctions through the services of Mr. Baltser follow.

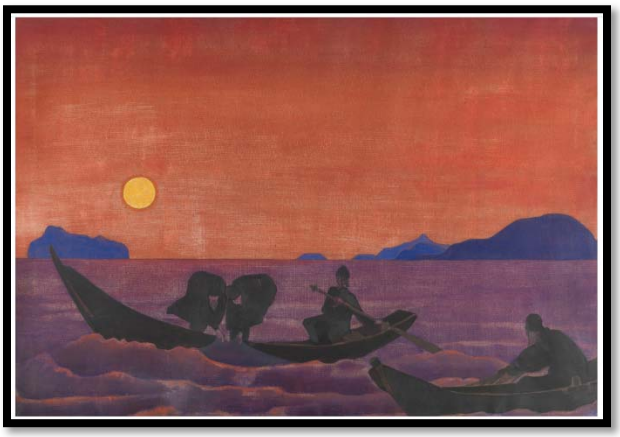
a. Nicholas Roerich's *And We Continue Fishing*

Date of Sale	November 1, 2011
Price	$1,426,500
Auction House	Sotheby's New York
Purchaser of Record	Steamort Limited

Transaction background. On November 1, 2011, Sotheby's held an auction entitled "Important Russian Art."[744] Nicholas Roerich's *And We Continue Fishing* from the Bolling Family Collection was part of that sale and was projected to sell for between $1.2 million and $1.5 million.[745] The Sotheby's website noted that the painting was "the fourth of six paintings in Roerich's *Sancta* series."[746] Further, the website stated, "These allegorical paintings are meant to represent a spiritual journey, and they are unique within the artist's 1920s oeuvre for their distinctively Russian setting and imagery."[747]

[744] *Important Russian Art*, SOTHEBY'S (Nov. 1, 2011), https://www.sothebys.com/en/auctions/ecatalogue/2011/important-russian-art/lot.18.html; SOT-000299–301.
[745] *Id.*
[746] *Id.*
[747] *Id.*

Mr. Baltser purchased the painting for $1,426,500 in the name of Steamort.[748] Following the purchase, Sotheby's invoiced Steamort for the net amount of $1,426,500.[749] That amount included the $1,200,000 hammer price as well as the $226,500 buyer's premium.[750]



Nicholas Roerich's And We Continue Fishing (Photo Credit: Sotheby's)

Origin of funds used for purchase. On November 16, 2011, Highland Business wired $1,496,862.12 from its account with Societe Generale to Steamort's Tallinn Business Bank account.[751] The notes for the wire transfer stated "payment under finder agreement [dated October 26, 2011]."[752] Five days later, on November 21, 2011, Steamort wired $1,415,808.20 from its Tallinn Business Bank account to Sotheby's New York account at JPMorgan Chase.[753] The wire transfer instructions stated "[payment] by statement of account [dated November 2, 2011], Account N 51245607 for subjects of interior."[754]

Owner. When questioned, the Sotheby's Baltser Account Representative told the Subcommittee that she did not know for whom Mr. Baltser purchased this painting, nor did she recall asking him to reveal the identity of the buyer.[755]

b. Pierre-August Renoir's *Nature Morte aux Fruits*

Date of Sale	May 14, 2012
Price	$1,750,000
Auction House	Sotheby's New York
Purchaser of Record	Steamort Limited

Transaction background. On May 14, 2012, Mr. Baltser purchased Renoir's *Nature Morte aux Fruits* for $1,750,000 on behalf of Steamort through a private

[748] SOT-000406–07.
[749] *Id.*
[750] *Id.*
[751] SGA_PSI_00506–29, transaction no. 19453397.
[752] *Id.*
[753] DBAG0000024, line 256; JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Steamort, line 62.
[754] *Id.*
[755] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).

sale.[756] The invoice noted the sale was for Sotheby's sale number: "NOPT12-2012."[757]

Origin of funds used for purchase. On May 16, 2012, Highland Business wired $1,989,000 from its Societe Generale account to Steamort's Tallinn Business Bank Account.[758] The wire transfer instructions noted that the payment was "according to finder agreement dated [May 14, 2012]."[759] On May 21, 2012, Steamort wired $1,750,000 from its Tallinn Business Bank account to Sotheby's New York account at JPMorgan Chase.[760] The wire transfer instructions noted the payment was for "Sale: NOPT12 -2012, Lot 0128 for subjects of interior."[761]

Owner. When questioned, the Sotheby's Baltser Account Representative told the Subcommittee that she did not know for whom Mr. Baltser purchased this painting, nor did she recall asking him to reveal the identity of the buyer.[762]

Shipment. Art Courier managed the shipment of the painting by Dietl to Germany for storage at the Hasenkamp art storage facility.[763]

c. Pierre-Auguste Renoir's *Femmes dans un Paysage*

Date of Sale	June 11, 2012
Price	$2,800,000
Auction House	Sotheby's Hong Kong
Purchaser of Record	Steamort Limited

Transaction background. In May 2012, the Sotheby's Baltser Account Representative learned of a private sale of Pierre-Auguste Renoir's *Femmes dans un Paysage* in Hong Kong.[764] The seller wanted $3,300,000 for the painting.[765] On June 7, 2012, the Baltser Account Representative said in an email that her client "seems to be interested however he is not ready to pay 3.3. His offer is 2.7 USD."[766] On June 8, 2012, the Sotheby's representative for the seller in Hong Kong emailed the Baltser Account Representative confirming that "we have a go ahead to sell at $2.8

[756] SOT-006167.
[757] *Id.*
[758] SGA_PSI_00506–29, transaction no. 20892304.
[759] *Id.*
[760] DBAG0000024, line 320; JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Steamort, line 72.
[761] *Id*.
[762] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[763] Dietl Production (Jun. 28, 2018) (409911 Air Export JFK to FRA).
[764] SOT-043264–67.
[765] *Id.*
[766] *Id.*

million."[767] The email continued "we can bill in [Hong Kong] where there is no tax."[768] However, the Baltser Account Representative responded that "the buyer – Steamort Ltd – would like the deal to be done in [New York]."[769] She then emphasized "it is very important to the buyer. The lot will then be shipped to Europe or Russia."[770] The Baltser Account Representative told the Subcommittee she did not recall why it was important for the deal to be done in New York.[771]

On June 11, 2012, Mr. Baltser – on behalf of Steamort – purchased the painting for $2,800,000.[772]

Origin of funds used for purchase. On June 20, 2012, Highland Business wired $3,396,600 from its account at Societe Generale to Steamort's Tallinn Business Bank account.[773] The wire transfer instructions noted: "according to finder agreement."[774] On June 22, 2012, Steamort transferred $2,800,000 from its Tallinn Business Bank to Sotheby's Hong Kong account at HSBC Hong Kong.[775] The payment notes for the wire transfer stated: "for subjects of interior."[776]

Owner. When questioned, the Sotheby's Baltser Account Representative told the Subcommittee that she did not know for whom Mr. Baltser purchased this painting, nor did she recall asking him to reveal the identity of the buyer.[777]

Shipment. Art Courier managed the shipment of the painting by Dietl for "temporary storage at [Cologne]," Germany at the Hasenkamp art storage facility.[778]

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[767] *Id.*
[768] *Id.*
[769] *Id.*
[770] *Id.*
[771] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[772] SOT-006071; SOT-002387–91.
[773] SGA_PSI_00506–29, transaction no. 21173983.
[774] *Id.*
[775] DBAG0000024, line 339.
[776] *Id.*
[777] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[778] SOT-041359–60; SOT-041364.

d. René Magritte's *Le Rendez-Vous* and Salvador Dali's *Papillons*

Date of Sale	November 7, 2012
Price	$869,000
Auction House	Sotheby's New York
Purchaser of Record	Steamort Limited

Transaction background. On November 7, 2012, at Sotheby's Impressionist & Modern Art Sale, Mr. Baltser purchased René Magritte's *Le Rendez-vous* and Salvador Dali's *Papillons* in the name of Steamort.[779] *Le Rendez-vous* sold for $662,500, which included the hammer price of $550,000 and buyer's premium of $112,500.[780] *Papillons* sold for $206,500, which included the hammer price of $170,000 and buyer's premium of $36,500.[781] Together the cost of the two paintings totaled $869,000.[782]

Origin of funds used for purchase. On November 13, 2012, Highland Business wired $903,180.11 from its account at Societe General to Steamort's Tallinn Business Bank account.[783] The wire transfer instructions noted: "according to finder agreement."[784] On the same day, Steamort wired $869,000 from its Tallinn Business Bank to Sotheby's New York account at JPMorgan Chase.[785] The wire transfer noted it was "for subjects of interior."[786]

René Magritte's Le Rendez-Vous (Photo Credit: Sotheby's)

Owner. When questioned, the Sotheby's Baltser Account Representative told the Subcommittee that she did not know for whom Mr. Baltser purchased these paintings, nor did she recall asking him to reveal the identity of the buyer.[787]

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[779] SOT-000402–05.
[780] *Id.*
[781] *Id.*
[782] *Id.*
[783] SGA_PSI_00-00506–29, transaction no. 22320799.
[784] *Id.*
[785] DBAG0000024, line 394; JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Steamort, line 87.
[786] *Id.*
[787] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).

Shipment. Art Courier managed the shipment for both the paintings by Dietl to Germany for storage at the Hasenkamp art storage facility.[788]

e. Salvador Dali's *Monstruo Blando Adormecido*

Date of Sale	December 13, 2012
Price	$2,350,000
Auction House	Sotheby's London
Purchaser of Record	Steamort Limited

Transaction background. On December 13, 2012, Sotheby's London invoiced Steamort through Mr. Baltser for the purchase of Salvador Dali's *Monstruo Blando Adormecido* for $2,350,000 in a private sale.[789] The invoice was numbered: 92179804.[790]

In past instances, Mr. Baltser signed the purchase contract on behalf of Steamort. For this purchase, however, the purchase contract was signed by "A. Solovyeva."[791] The Baltser Account Representative emailed Mr. Baltser: "Sorry, this is not your signature. The accountants cannot accept it. Please sign it yourself and send me again."[792] Instead, Mr. Baltser sent a document that listed Alevtina Solovyeva as holding the power of attorney for Steamort.[793] He also provided Ms. Solovyeva's Russian passport.[794]

Origin of funds used for purchase. On December 14, 2012, Highland Business wired $3,113,550 from its Societe Generale account to Steamort's account at Tallinn Business Bank.[795] The wire transfer noted: "according to finder agreement."[796] On December 17, 2012, Steamort wired $2,350,000 from its Tallinn Business Bank to Sotheby's London account at HSBC London.[797] The wire transfer noted: "pmt by invoice 92179804 [dated December 13, 2012] for subjects of interior."[798]

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[788] DIETL 409911 (Air Export JFK to FRA).
[789] SOT-005674–76.
[790] *Id.*
[791] SOT-005630–31.
[792] SOT-005690.
[793] SOT-005686–87.
[794] SOT-5681–82.
[795] JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Highland Business Group, line 15.
[796] *Id.*
[797] DBAG0000024, line 409.
[798] *Id.*

Owner. When questioned, Sotheby's Baltser Account Representative told the Subcommittee that she did not know for whom Mr. Baltser purchased this painting, nor did she recall asking him to reveal the identity of the buyer.[799]

Shipment. A November 29, 2012 letter from Sotheby's London to Mr. Baltser confirmed the export license for the painting and also noted, "The next step is for the painting to be shipped to Cologne as per your discussions with [Sotheby's Baltser Account Representative]."[800] Art Courier managed the shipment of the painting to Germany for storage at the Hasenkamp art storage facility.[801]

f. Lyonel Feininger's *Brucke II*; Salvador Dali's *Sans Titre*: New Accessories; and Man Ray's *Le Trop-Plein*

Date of Sale	February 4, 2014
Auction House	Christie's London
Purchaser of Record	Baltzer Limited

Transaction background. On February 4, 2014, Christie's London held its Impressionist/Modern Evening Sale.[802] During that sale, Mr. Baltser purchased Lyonel Feininger's *Brucke II* for £4,786,500.[803] Baltser Limited took title of the painting.[804] In another Christie's sale that same day, The Art of the Surreal, Mr. Baltser purchased Salvador Dali's *Sans Titre: New Accessories* and Man Ray's *Le trop-plein*.[805] Baltzer Limited took title for those two paintings as well.[806]

Origin of funds used for purchase. The Subcommittee did not receive wire information regarding the above paintings since Mr. Baltser purchased the paintings in British pounds in London. However, as explained below, it is likely Mr. Baltser purchased these paintings on behalf of the Rotenbergs. On August 30, 2015, an employee of Mr. Baltser emailed a Christie's employee a list of "links of our Client's works."[807] Mr. Baltser's employee explained "If you see any opportunities to promote these works or to make this collection more valuable please let me know."[808] The list of 31 works included *Sans Titre*, *Le Trop-Plein*, and *Brucke II*.[809]

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[799] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[800] SOT-015974
[801] SOT-005713–14.
[802] *Sale 1505: Impressionist/Modern Evening Sale*, CHRISTIE'S (Feb. 4, 2014), https://www.christies.com/salelanding/index.aspx?intsaleid=24583&saletitle=.
[803] Christies-PSI-00046436; *see also Sale 1505: Impressionist/Modern Evening Sale, Lot 36,* CHRISTIE'S (Feb. 4, 2014), https://www.christies.com/lotfinder/lot/lyonel-feininger-5766388-details.aspx?from=salesummery&intobjectid=5766388.
[804] Christies-PSI-00046436.
[805] Christies-PSI-00046433–35.
[806] *Id*.
[807] Christies-PSI-00062223–26.
[808] *Id.*
[809] *Id.*

The Subcommittee traced funds used to purchase 16 of these paintings to Rotenberg-linked shell companies. Specific to *Brucke II*, Mr. Baltser's employee noted "The client wants to send this painting to an exhibition. Do you have any ideas? Do you have any news re Brucke 0? Is it possible to make an offer to the owner?"[810]

Owner. The Christie's Baltser Client Advisor told the Subcommittee Mr. Baltser bid for these paintings over the phone with her.[811] She stated someone was with Mr. Baltser during the bidding, but she did not recognize the individual's voice or ask who was with Mr. Baltser.[812] She did not know for whom Mr. Baltser purchased the paintings.[813]

As explained below, Mr. Baltser attempted to sell the *Brucke II* five years later at an auction at Sotheby's in February 2019.[814] However, prior to the auction, Sotheby's withdrew *Brucke II* from the auction due to a lack of interest in bidding on the painting.[815]

5. The United States Sanctioned Arkady and Boris Rotenberg on March 20, 2014

As stated above, the United States government imposed sanctions on certain "Russian government officials and members of the inner circle" on March 20, 2014 in response to Russia's annexation of Crimea, including Arkady and Boris Rotenberg.[816] Despite these sanctions, Mr. Baltser's business model did not change. He continued to purchase art just as he did before the United States imposed sanctions on the Rotenbergs and several entities associated with them.[817] This continued despite the auction houses taking actions to block transactions by sanctioned individuals.

Sotheby's. Boris Rotenberg and his wife, Karina, were listed in the Sotheby's client directory.[818] Sotheby's records reflect only one transaction

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[810] *Id.*
[811] Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2015).
[812] *Id.*
[813] *Id.* Counsel for Christie's explained that this is consistent with historic practice for an auction house not to routinely ask dealers for the identity of dealers' clients because of concerns that auction houses would poach dealers' clients. *See* Letter from Counsel for Christie's to the Subcommittee (Jul. 22, 2020).
[814] SOT-202107–09.
[815] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[816] Press Release, U.S. Dep't of Treasury, Treasury Sanctions Russian Officials, Members of the Russian Leadership's Inner Circle, and An Entity for Involvement in the Situation in Ukraine, (Mar. 20, 2014), https://www.treasury.gov/press-center/press-releases/pages/jl23331.aspx.
[817] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019); Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
[818] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).

regarding Boris or Katrina Rotenberg, which was Karina's art purchase for approximately £3,000 in May 2012.[819] In February 2014, the month before U.S. sanctions were imposed, the Baltser Account Representative requested that Sotheby's consider Boris and his wife "level 2" collectors.[820] Sotheby's considered clients given this designation "high value clients or collectors" with "a total transaction value greater than or equal to $5 [million], but less than $25 [million] in the last three years" or "a documented collection value of between $5 and 25 [million]."[821]

When asked by a Sotheby's colleague over email about Boris and Karina Rotenberg's collection interests, the Baltser Account Representative replied that they collected "Russian [works of art]" and "Sculpture (bronze)."[822] The Baltser Account Representative told the Subcommittee she could not remember why she requested that Sotheby's upgrade the Rotenbergs to level 2 clients when they had not made any purchases in the past two years before the request.[823] She commented she believed moving them to a level 2 client better reflected their significant potential to purchase artwork because of their wealth, and would give them access to preferred events.[824] The Baltser Account Representative said she never worked directly with Karina or Boris Rotenberg or met them in person.[825]

Internal emails indicate that Sotheby's blocked Boris Rotenberg from purchasing or consigning with the auction house following the March 20, 2014 sanctions.[826] On March 21, 2014, a Sotheby's employee emailed the Baltser Account Representative the list of 16 newly sanctioned Russian individuals from the U.S. Treasury Department that included Arkady and Boris Rotenberg and stated, "There are some familiar names on this list. I hope it won't effect [*sic*] the rest of our business."[827] In another email to the Baltser Account Representative, another Sotheby's employee noted, "quite a few of our clients are affected by this."[828] According to the Baltser Account Representative, transactions with Boris Rotenberg were subsequently blocked.[829]

Christie's. Christie's General Counsel explained to the Subcommittee that following the imposition of U.S. sanctions on Russia in March 2014, Christie's immediately recognized these sanctions posed a new "high risk" for them.[830] She

[819] SOT-38579–85; SOT-038569–70.
[820] SOT-061223.
[821] SOT-059764–65.
[822] SOT-061223.
[823] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[824] *Id.*
[825] *Id.*
[826] SOT-202066–69.
[827] SOT-202071–74.
[828] SOT-202066–69.
[829] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[830] Subcommittee Briefing with Christie's Employees (Feb. 8, 2019).

observed that Christie's has a lot of Russian clients who are high net worth individuals.[831] In response to the imposition of sanctions, Christie's Compliance Manager for the Americas added that Christie's screened their client lists against the revised SDN lists and restricted any accounts they identified in their system.[832] He noted that Christie's increased its scrutiny of Russian art sales in the United Kingdom.[833] Neither Christie's General Counsel nor the Compliance Manager for the Americas were aware of any specific guidance provided to Christie's employees in response to the March 2014 sanctions.[834]

A Christie's employee circulated the U.S. Treasury Department's announcement of the April 28, 2014 sanctions to a group with the note "I thought it might [be] interesting to read."[835] Another Christie's employee responded "not good news unfortunately."[836] Still another Christie's employee, Managing Director of Christie's Russia, on the email chain responded:

> No. The message internally though should I think focus on the fact that there is huge amounts of money currently being repatriated to Russia from overseas. This will lead to a lot of money needing to be invested in 'safe' assets which means being able to sell [post sanctions] locally becomes increasing interesting. And hence the need for the new office is crucial. It's also a strong message of support from Senior management that even in this economic climate Christie's is still investing in its Russian operation by going ahead with the new office. So look at the positives.[837]

While another Christie's employee responded that "its just more familiar faces are on the sanctions list," the Managing Director of Christie's Russia agreed, but wrote "I'm just telling you what I'm telling everyone in London…to fend off the 'poor you' 'poor russia' chat!"[838]

On May 19, 2014, Christie's blocked Arkady and Boris Rotenberg from Christie's spring exhibition marketing.[839]

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[831] *Id.*
[832] *Id.*
[833] *Id.*
[834] *Id.*
[835] Christies-PSI-00035164–69.
[836] *Id.*
[837] *Id.*
[838] *Id.*
[839] Christies-PSI-00101137–74.

6. Examples of Post-Sanctions Art Purchases

Despite blocking Arkady and Boris Rotenberg from buying or selling directly with their businesses, U.S. auction houses continued to do business with Mr. Baltser, even though he was known to be participating in art deals with wealthy Russian oligarchs, who could be subject to U.S. sanctions. In particular, the Sotheby's Baltser Account Representative told Sotheby's management that Arkady and Boris Rotenberg were Mr. Baltser's clients.[840] The Subcommittee also identified transactions with a private dealer and a public gallery based in New York linked to Rotenberg shell companies. In total, the Subcommittee identified $18,405,625 in art purchased in the months following the Rotenbergs being sanctioned by the United States. Examples of post-sanctions transactions facilitated by Mr. Baltser linked back to the Rotenbergs follow.[841]

a. Sotheby's New York Impressionist and Modern Art Day Sale: Multiple Works

Date of Sale	May 8, 2014
Price	$6,806,125
Auction House	Sotheby's New York
Purchaser of Record	BALTZER LLP

Transaction background. On May 8, 2014, less than two months after the United States imposed sanctions on Russia, Sotheby's New York held its Impressionist & Modern Art Day Sale.[842] The sale brought in $66 million, "marking a new record result for this auction in New York."[843] At that sale, Mr. Baltser purchased the following items listed on invoice number 92320018:[844]

[840] As explained above, in June 2019, the Sotheby's Account Representative told the Subcommittee she fabricated this information in an effort to convince Sotheby's management to accept Mr. Baltser proposal. *See infra*, pgs. 101-103.

[841] While art is the focus of this report, the Subcommittee also reviewed transactions related to Mr. Baltser purchasing wine through the auction houses. In one instance, Mr. Baltser facilitated Christie's shipment of wine directly to a residence linked to Igor Rotenberg after Igor was sanctioned by the United States. In August 2018, an employee of Mr. Baltser requested that Christie's ship $32,000 worth of wine to the following address: Case dell'Olmo in Monte Argentario, Italy. *See* Christies-PSI-00080314. Public information suggests this residence belongs to Igor Rotenberg. *See* Enea LandArt LLC Invoice, *Mr. and Mrs. Rotenberg, Casa dell Olmo, Monte Argentario, Italy*, https://novayagazeta.ru/storage/b/2014/09/26/Dok4.pdf.

[842] *Impressionist & Modern Art Day Sale*, SOTHEBY'S (May 8, 2014), https://www.sothebys.com/en/auctions/2014/impressionist-modern-art-day-sale-n09140.html.

[843] *Id.*

[844] SOT-028595–98.

Description	Hammer Price	Buyers Premium	Total
Henry Moore, *Figures*	$500,000	$105,000	$605,000
Marc Chagall, *Femme et Enfant*	$980,000	$201,000	$1,181,000
Lyonel Feininger, *Ulla*	$170,000	$39,000	$209,000
Lyonel Feininger, *Yellow Ship on Red Sea*	$60,000	$15,000	$75,000
Lyonel Feininger, *Steile Strasse*	$200,000	$45,000	$245,000
Georges Braque, *Pichet et Journal*	$2,500,000	$465,000	$2,965,000
Tsuguharu Foujita, *Portrait de Jeune Femme (Hanka Zborowska)*	$290,000	$63,000	$353,000
Maurice de Vlaminck, *La Seine à Chatou*	$475,000	$100,000	$575,000
Tamara de Lempicka, *Le Coquillage*	$450,000	$95,000	$545,000

Tsuguharu Foujita's, Portrait de Jeune Femme/Hanka Zborowska (Photo Credit: Sotheby's)

The invoice number 92320018 reflected the total purchase of art by Mr. Baltser as $6,753,000.[845] Mr. Baltser also purchased Emile Othon Friesz's *La sieste* for $53,125, which included a hammer price of $42,500 and a buyer's premium of $10,625.[846] Sotheby's numbered the invoice for *La sieste* as 92320019.[847] Together, both invoices totaled $6,806,125.

The Sotheby's Baltser Account Representative told the Subcommittee that Mr. Baltser had participated in the auction over the telephone with her.[848]

Origin of funds used for purchase. On May 27, 2014, Steamort wired $3,956,825 from its Tallinn Business Bank account to BALTZER LLP's Barclays account.[849] The wire transfer noted it was "part payment by invoice 40 [dated May 16, 2014] for subjects of interior."[850] And on June 3, 2014 Steamort wired $2,965,000 from its Tallinn Business Bank account to BALTZER LLP's Barclays account.[851] That wire transfer stated, "payment by

[845] *Id.*
[846] SOT-028593–94.
[847] *Id.*
[848] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[849] DBAG0000024, line 559; BARC_006850, line 10.
[850] *Id.*
[851] DBAG0000024, line 561; BARC_006850, line 11.

invoice 40 [dated May 16, 2014] for subjects of interior."[852] Together the wires totaled $6,921,825.

On June 3, 2014, BALTZER LLP wired $6,806,125 from its Barclays bank account to Sotheby's New York JPMorgan Chase account.[853] The payment details noted that the wired funds were for invoices "92320018" and "92320019."[854]

George Braque's Pichet et Journal (Photo Credit: Sotheby's)

Owner. When asked about these purchases, the Sotheby's Baltser Account Representative stated she assumed Mr. Baltser was purchasing these lots on behalf of one or more of his clients.[855] She recalled hearing Mr. Baltser talking to his client on the phone call during the auction and described "another Russian male voice in the background."[856] She did not know, however, with whom Mr. Baltser interacted during the auction.[857]

Shipment. Art Courier managed the shipment of the paintings by Dietl to Germany for storage at the Hasenkamp art storage facility.[858]

b. Works by Yakov Georgievich Chernikhov

Date of Sale	June 4, 2014
Price	$598,000
Auction House	Bonhams New York
Purchaser of Record	BALTZER LLP

Transaction background. On June 4, 2014, Bonhams held an auction in New York titled, "The Story of the 20th Century."[859] The auction examined "the last century from several angles, including history & politics, art & literature and science & technology, closing with a private collection of materials related to the

[852] *Id.*
[853] JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Baltser, Line 11; BARC_006850, line 12.
[854] *Id.*
[855] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[856] *Id.*
[857] *Id.*
[858] DIETL 45253 (Air Export JFK to CGN).
[859] Press Release, Bonhams, The Story of the 20th Century (Jun. 4, 2014), https://www.bonhams.com/press_release/16539/.

history of computing."[860] The description of the auction continued: "The Arts & Literature section is anchored by an important graphic archive of Soviet architect and futuristic visionary, Yakov Chernikov, consisting of more than 1,000 original and richly detailed illustrations (estimate $350,000-450,000)."[861] The auction was held in Bonhams' Madison Avenue salesroom in New York.[862]

At the auction, Mr. Baltser purchased Lot 28 for $425,000, which included the $350,000 hammer price and a $75,000 buyer's premium.[863] Lot 28 included architectural drawings and sketches by Chernikhov.[864] Mr. Baltser also purchased Lot 29 for $173,000, which included the $140,000 hammer price and a $33,000 buyer's premium.[865] Lot 29 included Chernikhov's "unpublished journals, sketchbooks, and treatises."[866] Bonhams invoiced BALTZER LLP for both lots.[867] The invoice noted "auction details: BOK14061NY – 21652" and the Client number for BALTZER LLP as 20353471.[868]

Origin of funds used for purchase. On June 16, 2014, Highland Ventures wired $612,950 from its Gazprombank account in Moscow to Steamort's Tallinn Business Bank account.[869] The wire transfer noted, "as per invoice 50 [dated June 9, 2014]."[870] On June 20, 2014, Steamort wired this same amount from its Tallinn Business Bank account to BALTZER LLP's Barclays bank account.[871] That wire transfer noted, "payment by invoice 61 [dated June 19, 2014] for subjects of interior."[872]

On July 8, 2014, BALTZER LLP wired $598,000 from its Barclays bank account to Bonhams' account at City National Bank.[873] The wire instructions noted "as per invoice 19146328 for sale BOK14061NY-21652 Client ID 20353471."[874]

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[860] *Id.*
[861] *Id.*
[862] *Id.*
[863] BON000569.
[864] *Lot 28, Yakov Georgievich Chernikhov*, BONHAMS (Jun. 4, 2014), https://www.bonhams.com/auctions/21652/lot/28/?category=list&length=186&page=1.
[865] BON000569.
[866] *Lot 29, Yakov Georgievich Chernikhov*, BONHAMS (Jun. 4, 2014), https://www.bonhams.com/auctions/21652/lot/29/?category=list&length=12&page=3.
[867] BON000569.
[868] *Id.*
[869] DBAG0000024, line 565.
[870] *Id.*
[871] DBAG0000024, line 568; BARC_006850, line 20.
[872] *Id.*
[873] BARC_006850, line 28.
[874] *Id.*

Shipment. Art Courier handled the shipment for both Chernikhov lots, which were shipped by Dietl to Germary for storage at the Hasenkamp art storage facility.[875]

c. René Magritte's *La Poitrine*

Date of Sale	June 2014
Price	$7,500,000
Private Sale	Private Art Dealer
Purchaser of Record	Highland Ventures Group Limited

Transaction background. Magritte's *La Poitrine* was sold through a private art dealer located in New York City ("Private Dealer"). The Private Dealer explained to the Subcommittee during her interview that the sale of *La Poitrine* started like most of her sales, in that the seller's agent reached out to her to ask if she knew anyone interested in buying the painting.[876] Initially, the painting was located in Pittsburgh, Pennsylvania, but was transported to Cirkers Warehouse in New York City where the Private Dealer viewed it.[877] The Private Dealer explained that she did extensive due diligence to ensure the provenance of the painting. That due diligence included researching the artwork using well-established industry resources, viewing the painting herself, confirming based on information available to her and an analysis of the label on the back of the painting that the seller was the owner and the work was authentic, and consulting legal counsel.[878]

The Private Dealer explained to the Subcommittee that she contacted Art Advisor 1 to see if she knew of an interested buyer for *La Poitrine* because she had known Art Advisor 1 was looking for a Magritte.[879] The Private Dealer told the Subcommittee that she knew Art Advisor 1 from her time previously working for another gallery.[880] The Private Dealer stated that Art Advisor 1 was well known to that gallery, as well as in the industry, and had made a number of purchases there.[881] However, the Private Dealer had never sold a piece to Art Advisor 1 before contacting her regarding *La Poitrine*.[882]

The Private Dealer emailed Art Advisor 1 on May 9, 2014: "[A]ttached is a poor photo of the Magritte that has been offered to me for $9,500,000. I think it is a very good picture but too expensive. If you have interest I can see if there is

[875] DIETL 458323 (Air Export JFK to FRA).
[876] *Id.*
[877] *Id.*
[878] *Id.*
[879] *Id.*
[880] *Id.*
[881] *Id.*
[882] *Id.*

flexibility. It is in NYC as well!"[883] Following several emails regarding negotiations on price, the Private Dealer emailed Art Advisor 1 on May 19, 2014: "I believe the owner will take $6,750,000 if payment is fast so we can close at $7.5 if you can get him to agree."[884] Art Advisor 1 emailed the Private Dealer to inform her that she should issue the invoice to:

> HIGHLAND VENTURES GROUP LTD
> Akara bldg., 24 De Castro str.
> Wickhams Cay 1 Road Town
> Tortola, BVI[885]

The Private Dealer issued the invoice to Highland Ventures on May 30, 2014.[886]

On June 5, 2014, Art Advisor 1 emailed the Private Dealer and relayed that "[t]he client want[s] the guarantee or certificate that it's exact Magritte from catalogue reasonee….He wants guarantee that [] its exact[ly] this work from catalogue. And he send money."[887] Art Advisor 1 continued, "can we do just certifyed [*sic*] of the back photos by his lawyer? just easy 2 photos and certify that its original?"[888] In response, the Private Dealer emailed Art Advisor 1 "an image of the back of the painting with the Carnegie Museum label and name of the owner covered" and a picture of "the loan letter from Carnegie (also name of owner covered)."[889]

At the request of the Private Dealer, a New York Law Firm describing itself as "a boutique law firm with a practice focused on art matters," provided an opinion letter on *La Poitrine* dated June 5, 2014.[890] The New York Law Firm addressed the opinion letter to "Undisclosed Potential Purchaser" at "Undisclosed Address."[891] The opinion letter explained that a client of the law firm "requested that we view and confirm that the painting…is located in New York and ready to ship."[892] The letter stated that two attorneys, including the letter's signatory, had viewed the painting and included two pictures of the front of the painting and one of the back (or *verso*).[893] The letter stated that the attorneys were "provided with what appear to be copies of (i) an invoice reflecting the sale of the Artwork in 1965 (as described in the Catalogue Raisonne excerpt), (ii) 1981 correspondence with the editor of the

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[883] DEALER000002–04.
[884] DEALER000007.
[885] DEALER0000018.
[886] DEALER0000026.
[887] DEALER000030.
[888] DEALER000033.
[889] DEALER000034–37.
[890] DEALER000040–43.
[891] *Id.*
[892] *Id.*
[893] *Id.*

Catalogue Raisonne, and (iii) museum documents with a name matching that on the *verso* of the painting."[894] The letter concluded:

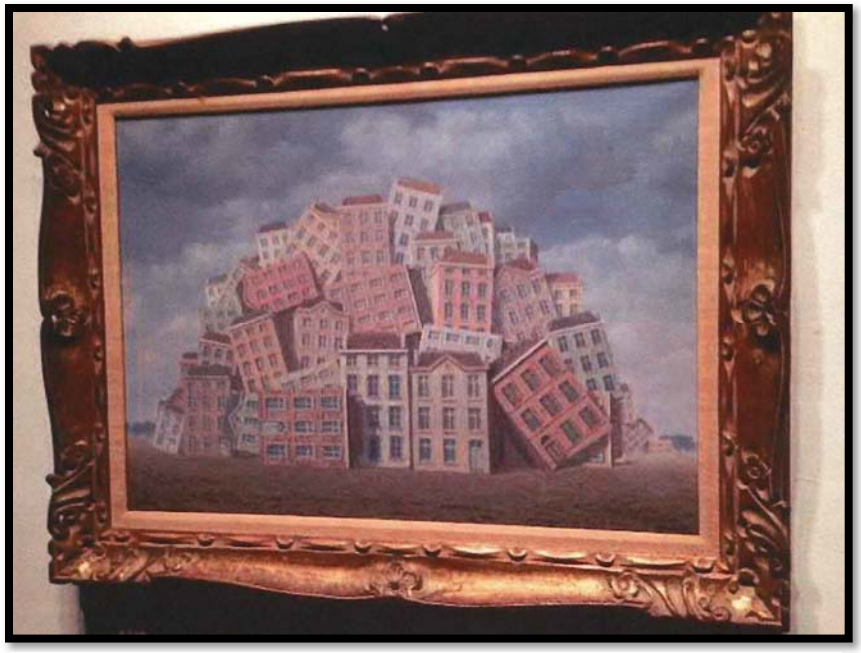
> While we, as attorneys, cannot provide warranties or legal advice to an undisclosed potential purchaser, we can and do confirm that the facts set forth above based on our personal knowledge are accurate and that we did today view and photograph the painting as described above. We are also advised that the current owner of the painting is, in connection with its sale, prepared to represent and warrant without qualification or reservation of any kind that the painting is an authentic work of art created by Rene Magritte.

On June 10, 2014, the Private Dealer emailed Art Advisor 1 the executed purchase agreement dated May 28, 2014. The purchase agreement listed Highland Ventures Group Limited as the buyer, while the Private Dealer was listed as the agent for the "Undisclosed Owner" for the purchase price of "US$7,500,000 (to be paid in equivalent Euros (€) with rate determined on the date of payment)."[895] The Private Dealer signed on behalf of her company as the Managing Member; Anna Wilkes signed on behalf of Highland Ventures as the company's Director.[896]

The purchase agreement attached wire transfer instructions that stated $7,500,000 was sent from Advantage Alliance's account at Barclays to the Private Dealer's account at First Republic Bank.[897] On July 7, 2014, the Private Dealer wired Art Advisor 1's mother $400,000 for "[f]ixed agreed introduction commission fees on purchase of the painting by the client" to her LGT Group Bank account.[898]

[894] *Id.*
[895] Private Dealer Production on file with the Subcommittee (Apr. 11, 2018).
[896] *Id.*
[897] Private Dealer Production on file with the Subcommittee (Apr. 11, 2018).
[898] *Id.*; Subcommittee interview of Private Dealer (Sept. 7, 2018).

The Private Dealer kept $237,500 and wired the remaining $6,862,500 to the seller's agent.[899] The Private Dealer told the Subcommittee she never questioned the involvement of Highland Ventures or Advantage Alliance in the transaction, nor would it occur to her to question the involvement of either entity.[900] She stated she had relied, in part, on the advice of outside legal counsel and the involvement of established financial institutions in connection with the transaction.[901] She explained she also took comfort in the fact that the buyer was represented by a well-known person in the industry who had previous dealings with well-established galleries and art auction houses.[902]



René Magritte's La Poitrine (Photo Credit: Private Dealer)

Both the buyer and the seller remained confidential for the duration of the sale.[903] The Subcommittee also interviewed Art Advisor 1, who reported that she did not know the buyer's identity.[904] Art Advisor 1 told the Subcommittee she was working for Art Advisor 2, who she believed knew the name of the buyer.[905] The Subcommittee interviewed Art Advisor 2 and asked her for the name of the buyer of *La Poitrine*.[906] Art Advisor 2 declined to give the Subcommittee the name of the buyer without the buyer's consent; Subcommittee staff asked Art Advisor 2 to request the buyer allow her to provide their name to the Subcommittee.[907] Subcommittee staff also emailed Art Advisor 2 and asked for the name of the buyer.[908] She initially replied that she was still waiting for her client to answer the

[899] Subcommittee interview of Private Dealer (Sept. 7, 2018).
[900] *Id.*
[901] *Id.*
[902] *Id.*
[903] *Id.*
[904] Subcommittee interview of Art Advisor 1 (Jun. 14, 2019).
[905] *Id.*
[906] Subcommittee interview of Art Advisor 2 (Jul. 12, 2019).
[907] *Id.*
[908] Email to Art Advisor 2 from Subcommittee Staff (Jul. 22, 2019).

request to reveal his or her identity.[909] Subcommittee staff emailed Art Advisor 2 again a month later; she did not respond.[910]

Origin of funds used for purchase. The Subcommittee traced the payment for *La Poitrine* to Senton Holdings Limited ("Senton Holdings").[911] A Barclays's investigation found that Senton Holdings is a company that is ultimately owned by Arkady Rotenberg.[912] The Barclays investigatory memorandum explained that Senton Holdings was an offshore entity operated by AKM Associates Ltd on behalf of Estate Managers (Surrey) Ltd, which is owned by Arkady Rotenberg.[913]

On June 17, 2014, Senton Holdings wired $7,555,000 from its Gazprombank account in Moscow to Advantage Alliance's Barclays account in the United Kingdom.[914] The following day on June 18, 2014, Advantage Alliance sent $7,500,000 from its Barclays bank account to the Private Dealer's account at First Republic Bank with the wire instructions, "as per purchase confirmation [dated May 28, 2014]."[915]

Shipment. A BALTZER employee coordinated the shipment of the painting through Dietl International.[916] The painting was shipped to the Hasenkamp storage facility in Germany.[917]

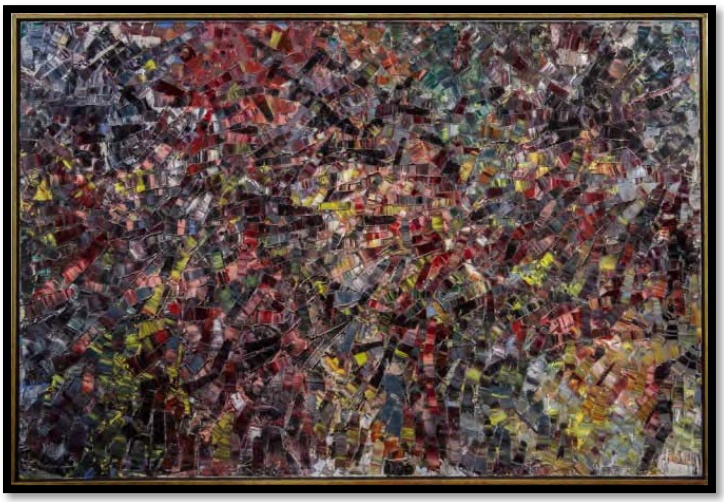
d. Jean-Paul Riopelle's *Ombre d'Espace*

Date of Sale	June 23, 2014
Price	$1,750,000
Private Sale	Public Art Gallery in New York
Purchaser of Record	Igor Rotenberg; BALTZER LLP

Transaction background. In June 2014, a public art gallery located in New York (the "Gallery") exhibited works for sale at the annual Art Basel art fair in Switzerland.[918] The exhibit included a "large canvas by Jean-Paul Riopelle, a leading member of the European Abstract Expressionist movement."[919] The Gallery described Riopelle's *Ombre d'Espace* as "a thrilling juxtaposition of vivid reds, blues,

[909] Email from Art Advisor 2 to Subcommittee Staff (Sept. 6, 2019).
[910] Email from Subcommittee Staff to Art Advisor 2 (Oct. 10, 2019).
[911] BARC_000002, lines 24 and 25.
[912] BARC_006912–15.
[913] *Id.*
[914] BARC_000002, line 24.
[915] BARC_000002, line 25.
[916] DEALER000055; DEALER000070.
[917] DIETL 456047 (Air Export JFK to FRA).
[918] Website on file with the Subcommittee.
[919] *Id.*

yellows and greens in a rich, thick impasto. The painting flashes with energy, representing the dynamic action of the painter."[920]



Jean Paul Riopelle's Ombre d'Espace

On June 17, 2014, representatives from the Gallery met Igor Rotenberg at the Art Basel exhibit in Switzerland.[921] Igor Rotenberg gave the Gallery representative his business card, which indicated he was the Chairman of the Board for NPV Engineering.[922] According to notes taken by the Gallery representative on Mr. Baltser's business card, Mr. Baltser accompanied Igor Rotenberg as his art advisor and translator.[923] The notes also indicated a city and state where Mr. Baltser lived.[924]

Later that day, June 17, 2014, a Gallery representative emailed Igor Rotenberg, "Congratulations on your decision to acquire the extraordinary painting *Ombre d'Espace*, 1954, by Jean Paul Riopelle for your collection."[925] The email attached the invoice for the painting stating the price of $1,750,000.00 and addressed the invoice to:

> Igor Rotenberg
> Chairman of the Board of Directors
> NPV Engineering
> 5, B Strochenovsky Pereulok
> Moscow 115054 RUSSIA[926]

This was the same address found on Igor Rotenberg's business card.[927]

On June 19, 2014, a Gallery representative emailed Mr. Baltser: "I understand from your conversation with [the Gallery owner] that information for the invoice for the Riopelle painting needs to be changed. Kindly send to us as soon

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[920] *Id.*
[921] GALLERY PSI 0029.
[922] GALLERY PSI 0054.
[923] *Id.*
[924] *Id.*
[925] GALLERY PSI 0045–47.
[926] *Id.*
[927] GALLERY PSI 0054.

as possible the updated details."[928] Mr. Baltser responded that same day with the updated information, which requested the invoice be changed to BALTZER LLP.[929] Mr. Baltser requested, "Please issue an invoice to BALTZER LLP using our London address."[930] As requested, the Gallery representative updated the invoice with the following address:

> BALTZER LLP
> Suite 9, 68 South Lambeth Road
> London, UNITED KINGDOM[931]

Origin of funds used for purchase. On June 24, 2014, Highland Ventures wired $1,785,000.00 from its Gazprombank account to Steamort's account at Tallinn Business Bank.[932] The associated wire transfer instructions noted: "as per invoice no 65 [dated June 23, 2014]."[933] On June 26, 2014, Steamort wired $1,785,000.00 from its Tallinn Business Bank account to BALTZER LLP's Barclay's account.[934] The wire transfer instructions stated, "payment by invoice 65 [dated June 23, 2014] for subjects of interior."[935] That same day, BALTZER LLP sent $1,750,000 from its Barclay's account to the Gallery's account at Citibank.[936] The wire instructions noted, "invoice 11116 [dated June 17, 2014] client BALTZER LLP."[937]

Shipment. In July 2014, *Ombre d'Espace* was shipped to the Gallery's warehouse in New York located at Crozier Fine Arts.[938] Internal Gallery emails indicated that Mr. Baltser "asked us to keep the Riopelle in the US for Igor until his home in Italy is finished. He said that they would probably have it delivered in September when the home is ready."[939] On October 20, 2014, a Gallery representative emailed Crozier Fine Arts and requested that *Ombre d'Espace* be released to Dietl.[940] Dietl, in turn, requested that the painting be released to Tiffany Transport on October 22, 2014.[941] The airway bill indicated that the painting was shipped to the Hasenkamp art storage facility in Germany.[942]

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[928] GALLERY PSI 0073.
[929] GALLERY PSI 0075–76. The updated BALTZER LLP information for the invoice was on Markom Management letterhead.
[930] GALLERY PSI 0089–90.
[931] GALLERY PSI 0125–26. According to public filings, this was the same address for Markom Management Ltd at this time. Markom Management Ltd, Company No. 05291280, Annual Return, (Feb. 13, 2014), https://beta.companieshouse.gov.uk/company/05291280.
[932] DBAG0000024, line 571.
[933] *Id.*
[934] DBAG0000024, line 572.
[935] *Id.*
[936] BARC_006850, line 22; CITI0000628, 1811141 wires, Baltzer LLP, line 1 (Nov. 15, 2018).
[937] *Id.*
[938] GALLERY PSI 0218–20.
[939] GALLERY PSI 0223.
[940] GALLERY PSI 0257.
[941] GALLERY PSI 0265.
[942] GALLERY PSI 0306.

e. Ormond Gigli's *Girls in the Windows,* New York City, 1960

Date of Sale	September 29, 2014
Price	$32,500
Auction House	Christie's New York
Purchaser of Record	BALTZER LLP

Transaction background. On September 29, 2014, Christie's New York held a photography auction that included Ormand Gigli's photograph *Girls in the Windows,* New York City, 1960.[943] At that auction, Mr. Baltser purchased *Girls in the Windows* for $32,500.[944] That price included a $26,000 hammer amount and a $6,500 buyer's premium.[945] The invoice was issued to BALTZER LLP in Moscow, Russia and was numbered: "DB 14002121."[946] The condition report for the photograph stated:

> Vibrantly colored chromogenic print on semi-glass paper with margins and flush-mounted on aluminum. Very minor bumps to print corners not affecting image, visible under close inspection only. A beautiful print in excellent condition.[947]

Ormond Gigli's Girls in the Windows, New York City, 1960 (Photo Credit: Christie's)

Origin of funds used for purchase. On October 6, 2014, Highland Ventures wired $33,312.50 from its Gazprombank account to Steamort's Tallinn Business Bank account.[948] The wire noted "per request DD October 2, 2014 (Ref. Christie's 20/21 Photographs."[949] On October 30, 2014, BALTZER LLP wired

[943] *Lot 119: Girls in the Windows,* CHRISTIE'S (Sept. 29, 2014), https://www.christies.com/lotfinder/Lot/ormond-gigli-b-1925-girls-in-the-5827326-details.aspx.
[944] *Id.*
[945] Christies-PSI-00034727–29.
[946] *Id.*
[947] Christies-PSI_00040866.
[948] DBAG0000024, line 587.
[949] *Id.*

$32,500.00 to Christie's New York account at JPMorgan Chase with the note "invoice no DB 14002121 [dated September 29, 2014]."[950]

Owner. The Christie's Baltser Client Advisor stated that since Christie's New York auctioned the photograph, she was not on the phone with Mr. Baltser when he bid for it.[951] She did not know for whom Mr. Baltser purchased the photo, nor did she ever ask him to reveal the identity of the buyer.[952]

f. Tamara De Lempicka's *Un Port Sous La Lune*

Date of Sale	November 6, 2014
Price	$665,000
Auction House	Christie's New York
Purchaser of Record	BALTZER LLP

Transaction background. On November 6, 2014, at Christie's New York Impressionist & Modern Day Sale, BALTZER LLP successfully purchased Tamara De Lempicka's *Un port sous la lune* for $665,000, which included the hammer price of $550,000 and a buyer's premium of $115,000.[953] Christie's issued an invoice numbered: DB 14005218.[954] The condition report for the painting stated:

> Oil on canvas. Wax-lined. There is frame abrasion to the extreme edges with associated losses in the upper corners. There are horizontal and vertical stretcher-bar marks. There are lines of stable craquelure to the canvas. There are surface abrasions to the right of the bird and above the hammer. There are pin-points of paint loss near the center right edge. Examined under ultra-violent light. There are scattered strokes of inpainting, predominantly to the aforementioned stretcher-bar marks and to the wall on the left.[955]

Origin of funds used for purchase. On November 26, 2014, Highland Ventures sent three wires totaling $721,369.98 from its Gazprombank account in Moscow to Steamort's Tallinn Business Bank account.[956] These three wires were in

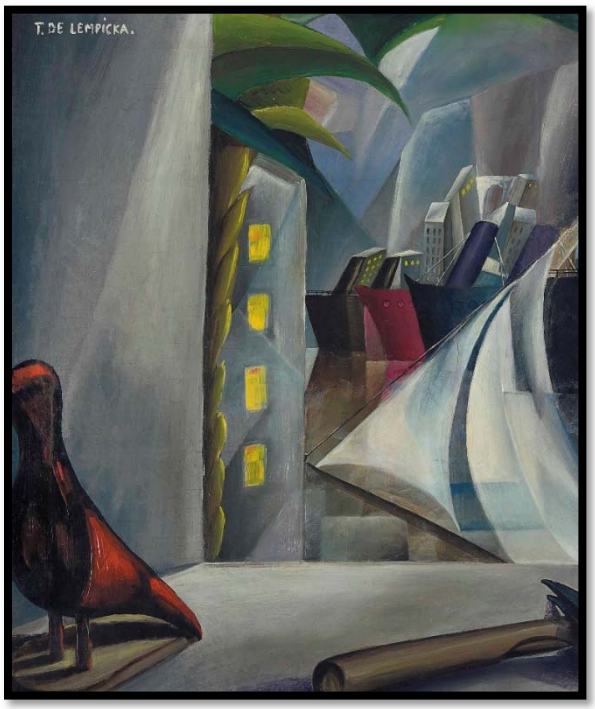
[950] BARC_006850, line 41; JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Baltzer, line 27.
[951] Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
[952] *Id.* As noted above, Counsel for Christie's stated this was consistent with historic industry practice for an auction house not to routinely ask dealers for the identity of their clients because of concerns that auction houses would poach dealers' clients. *See* Letter from Counsel for Christie's to the Subcommittee (Jul. 22, 2020).
[953] Christies-PSI-00071575–76.
[954] *Id.*
[955] Christies-PSI-00041703.
[956] DBAG0000024, lines 600, 601, and 602.

the following increments: $681,685; $15,435; and $24,249.98.[957] All three wires referenced a request or invoice dated November 24, 2014.[958]

On December 1, 2014, Steamort wired $697,120.00 from its Tallinn Business Bank account to the BALTZER LLP's Barclays bank account.[959] On December 3, 2014, BALTZER LLP wired $665,000 to Christie's New York.[960] The wire noted it was for "invoice [number] DB 14005218 DD [November 6, 2014]."[961]

Owner. When asked, the Christie's Baltser Client Advisor stated she did not know for whom Mr. Baltser purchased the painting, nor did she ask Mr. Baltser to reveal the identity of the buyer.[962]

Shipment. Art Courier managed the shipment of *Un port sous la lune* by Dietl to the Hasenkamp art storage facility in Germany.[963]



Tamara De Lempicka's Un Port Sous La Lune (Photo Credit: Christie's)

g. Andreas Gursky's *James Bond Island I* and *Niagara Falls*

Date of Sale	November 13-14, 2014
Price	$1,054,000
Auction House	Phillips New York
Purchaser of Record	Steamort Ltd

Transaction background. On November 13, 2014, Mr. Baltser purchased Andreas Gursky's *James Bond Island I* at the Phillips Contemporary Art auction (Sale NY010714, Lot 14) in New York for $725,000.[964] This amount included the

[957] *Id.*
[958] *Id.*
[959] DBAG0000024, line 605; BARC_006850, line 54.
[960] BARC_006850, line 55; JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Baltzer, line 35.
[961] *Id.*
[962] Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
[963] DIETL 46653 (Air Export JFK to FRA).
[964] PHILLIPS-00441.

$600,000 hammer price and the $125,000 buyer's premium.[965] The next day, November 14, 2014, Mr. Baltser purchased Gursky's *Niagara Falls* at the same auction (Sale NY010814, Lot 228) for $329,000.[966] That amount included the $270,000 hammer price and the $59,000 buyer's premium.[967] Phillips originally invoiced BALTZER LLP for both pieces of art on November 19, 2014.[968] The two purchases together totaled $1,054,000.

Origin of funds used for purchase. On November 21, 2014, Highland Ventures wired $743,185 from its Gazprombank account in Moscow to Steamort's Tallinn Business Bank account.[969] The same day, Highland Ventures also wired $337,285 from its Moscow-based Gazprombank account to Steamort's Tallinn Business Bank account.[970] The amounts together totaled $1,080,470.

However, instead of Steamort forwarding the payment to BALTZER LLP, Steamort paid Phillips directly. An employee of Mr. Baltser's emailed Phillips that Mr. Baltser's client wired the money for the paintings to the wrong account.[971] Mr. Baltser's employee asked Phillips to re-invoice to a third party, Steamort.[972] Prior to re-invoicing to Steamort, consistent with Phillip's then-controlling policy, Phillips required Steamort to establish an official account with Phillips. It was within this process that Phillips obtained Steamort's certificate of incorporation and a letter of authorization,[973] which were provided.[974] The letter stated:

> STEAMORT LTD, a company incorporated under the laws of Belize under registration number 77,269 on the 28th of August 2008, (hereinafter referred to as the "Company") hereby confirms that the Company has effected the payment of $1,054,000 (one million and fifty four thousand US dollars zero cents) with regard to the purchase of the artworks by BALTZER LLP who was acting as an agent of the Company at Phillips' Contemporary Art auctions held on 13 and 14 November 2014 in New York. The details of the purchased works of are as follows:

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965 *Id.*
966 PHILLIPS-00442.
967 *Id.*
968 PHILLIPS-08282–84.
969 DBAG0000024, line 598.
970 DBAG0000024, line 597.
971 PHILLIPS-08266–68; PHILLIPS-08280.
972 *Id.*
973 *Id.*
974 PHILLIPS-08255–60.

Lot No. 14. – Andreas Gursky, James Bond Island I (Invoice No. NY10714/1025/1)

Lot No. 228 – Andreas Gurksy, Niagara Falls (Invoice No. NY010814/1109/1).[975]

Andreas Gursky's James Bond Island I (Photo Credit: Phillips)

The letter was electronically signed by Steamort Director Jason Hughes.[976] Phillips changed the purchaser on the invoice to Steamort for both works.[977]

On December 1, 2014, Steamort wired $725,000 and $329,000 from its Tallinn Business Bank account in two separate wires to Phillips' account at Citibank.[978] The wire transfer instructions noted the payment was for "payment by invoice…for subject of interior."[979] The instructions specifically referenced NY010714, Lot 14 and NY010814, Lot 228.[980]

Owner. The Phillips Baltser Account Representative stated she did not know for whom Mr. Baltser purchased these photographs or the owner of Steamort.[981]

Shipment. The photographs were separated for shipment. *James Bond Island I* was shipped to Moscow with Alexander Dobrovskiy listed on the invoice on Phillips letterhead.[982] *Niagara Falls* was shipped to Hasenkamp art storage facility in Germany with BALTZER LLP listed on the invoice.[983] Art Courier managed the shipments handled by Dietl.[984]

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[975] *Id.*
[976] *Id.*
[977] PHILLIPS-00441–42.
[978] DBAG0000024, lines 603, 604.
[979] *Id.*
[980] *Id.*
[981] Subcommittee interview of Phillips Baltser Account Representative (Apr. 4, 2019).
[982] DIETL 465442 (Air Export JFK to MOW). While Phillips created invoices listing both BALTZER LLP and Steamort as the owner of *James Bond Island I*, Dietl's shipping records included the invoice on Phillips letterhead indicating Alexander Dobrovskiy had purchased and taken title for the painting. After an internal investigation, Phillips found no record of this version of the invoice in its files, nor were any Phillips employees aware of the invoice listing Mr. Dobrovskiy as the owner of *James Bond Island I*. *See* Letter from Counsel for Phillips to Subcommittee staff (May 6, 2019).
[983] DIETL 46653 (Air Export JFK to FRA).
[984] DIETL 465442 (Air Export JFK to MOW); DIETL 46653 (Air Export JFK to FRA).

7. Mr. Baltser Shipped Art Purchased by Rotenberg-linked Companies to the Hasenkamp Storage Facility in Germany

A number of pieces of art examined by the Subcommittee were shipped to Hasenkamp in Germany for storage. As such, the Subcommittee requested information from Hasenkamp on the pieces of art maintained there in storage related to Mr. Baltser or BALTZER LLP.[985] In response, a Hasenkamp representative initially stated that he would need Mr. Baltser's consent to release that information.[986] Later, the Hasenkamp representative sent an email indicating that he had determined that Mr. Baltser only managed the art stored at the facility.[987] The name on the contract with Hasenkamp to store the art was Highland Business Limited, which was later replaced by Taide Connoisseur Selection.[988] The Hasenkamp representative could not provide the name of the individual behind Highland Business Limited, since the contract was signed in the company's name.[989]

A website that is no longer publicly available stated, "Taide Connoisseur Selection Limited was incorporated on 5th October 2016 with registration number 2016-00336 and is licensed by Financial Services Regulatory Authority as Private Mutual Fund (number IMF (PF)/025 as characterized by The International Mutual Act 12.16."[990] A tab for "Key Staff" listed only one person: Dr. Mark Omelnitski.[991]

In August 2019, during the course of the Subcommittee's investigation, the Taide Connoisseur Selection account at Hasenkamp was closed and all art stored under the account was shipped to Moscow.[992]

The Subcommittee documented at least one purchase by Taide Connoisseur during the course of its investigation. That purchase was of Joseph Albers's *Embedded Linear Construction II.*

a. Joseph Albers's *Embedded Linear Construction II*

Date of Sale	September 28, 2017
Price	$47,500
Auction House	Christie's New York
Purchaser of Record	Baltzer Limited

[985] Email from Subcommittee staff to Hasenkamp representative (Jun. 25, 2019).
[986] Email from Hasenkamp representative to Subcommittee staff (Jun. 28, 2019).
[987] Email from Hasenkamp representative to Subcommittee staff (Jul. 16, 2019).
[988] *Id.*
[989] Email from Hasenkamp representative to Subcommittee staff (Jul. 26, 2019).
[990] Screenshots of website on file with the Subcommittee.
[991] *Id.*
[992] Email from Hasenkamp representative to Subcommittee staff (Jul. 23, 2020).

Transaction background. Josef Albers's *Embedded Linear Construction II* was offered for sale on September 28, 2017 as part of Christie's Post-War and Contemporary Art sale in New York, sale number 13892.[993] The work was Lot 17. The condition report provided by Christie's noted that, "The work is structurally sound and in working order. Faint abrasions, small spots of discoloration and minute accretions are visible occasionally to the metal. A few faint handling marks are to the glass."[994] Mr. Baltser bought the work in the name of Baltzer Limited with a hammer price of $38,500 and a buyer's premium of $9,500 for a total of $47,500.[995]

Origin of funds used for purchase. On November 14, 2017, Taide Connoisseur sent $50,129.88 from its Gazprombank account in Moscow to Baltzer Limited's account at Ameriabank.[996] On November 16, 2017, Baltzer Limited sent $47,500 to Christie's account at JPMorgan Chase in New York with the wire instructions "Sale no 13892 [dated September 28, 2017] Lot 17."[997]

Shipment. A BALTZER employee emailed Christie's on November 28, 2017 and requested that the auction house "organize shipping of this lot from New York to Frankfurt."[998] The BALTZER employee referred Christie's to an Art-Courier employee who explained that "Christie's will need to organize export from the USA and airfreight to [Frankfurt Airport] airport only, uncleared. We will handle supervision in Germany, collection of the crate from [Frankfort Airport] and local delivery under bond to our bonded warehouse by ourselves."[999] The contact for Christie's at the Frankfort Airport was an employee of Hasenkamp art storage facility located in Cologne.[1000] BALTZER paid Christie's the shipping costs of $2,575 on January 12, 2018.[1001]

Joseph Alber's Embedded Linear Construction II (Photo Credit: Christie's)

[993] Christies-PSI-00026831.
[994] Christies-PSI-00026828.
[995] Christies-PSI-00058908–09.
[996] CITI000628, 1811141 wires, Baltzer Limited, line 6 (Nov. 15, 2018).
[997] JPMorgan Chase (Nov. 7, 2018), SB981623-F1 US Wire Search, Baltzer, line 166.
[998] Christies-PSI-00078529.
[999] Christies-PSI-00078545–50.
[1000] Christies-PSI-00078604–11.
[1001] Christies-PSI-00079041–61.

8. Mr. Baltser Attempted to Sell Art Purchased with Funds Traced to Rotenberg-linked Companies

Information provided to the Subcommittee indicates that Mr. Baltser has also sought to sell pieces of art owned by his clients. His efforts in 2015 to generate interest among potential buyers in 31 high-value paintings provides further evidence of Mr. Baltser's business relationship with the Rotenbergs.

a. Mr. Baltser Sent Christie's a List of Works in the Rotenberg's Collection

On August 30, 2015, one of Mr. Baltser's employees emailed Christie's stating: "Please find below the links of our Client's works….If you need any extra information for any of these works, please feel free to ask. If you see any opportunities to promote these works or to make this collection more valuable please let me know."[1002] Mr. Baltser's employee continued: "I also have more clients with some [impressionist] works they are ready to sell."[1003]

The email listed 31 paintings by Giorgio de Chirico, Salvador Dali, René Magritte, Pierre-Auguste Renoir, Man Ray, Lyonel Feininger, Tsuguharu Foujita, Tamara de Lempicka, Henry Moore, Marc Chagall, Maurice de Vlaminck, Georges Braque, and Yves Tanguy.[1004] The list read as stated below and included the following paintings, 16 of which are also highlighted above:[1005]

1. Giorgio de Chirico
Le Muse Inquietanti
Ettore e Andromatica

2. Salvador Dali
Nu de Dos, Gala
Bataille Autour d'un Pissenlit (This work is available for sale)
Sans Titre
Ampurdanese Yang and Yin
Papillons, 1950
Soft Monster, 1976

3. Renee Magritte
The Pleasure Principle
La Generation Spontanee, 1937 (This work is available for sale)

[1002] Christies-PSI-00062223–26.
[1003] *Id.*
[1004] *Id.*
[1005] *Id.*

La Poitrine, 1960
Le Renez-Vous
La Traversee Difficile II
Le Prince Charmant
Towards Pleasure

4. Pierre-Auguste Renoir
Femme dans un paysage
Still Life with Fruits

5. Man Ray
Le Trop-plein, 1937

6. Lyonel Feininger
Brucke II
The Clients wants to send this painting to an exhibition. Do you have any ideas?
Do you have any news re Brucke 0? Is it possible to make an offer to the owner?
Steep Street
Ulla
Sailing ship on Red Sea

7. Tsuguharu Foujita
Hanka Zborowska

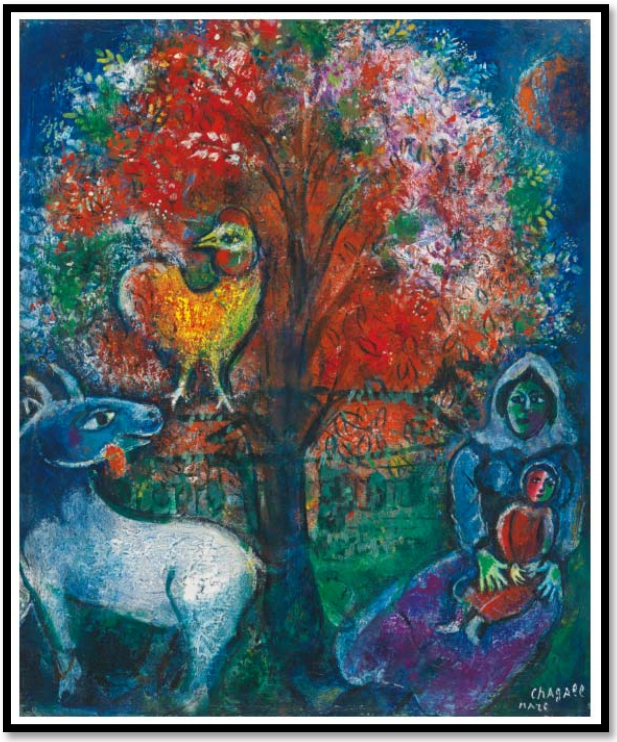
8. Tamara De Lempicka
Le Coquillage, 1939
Nature Morte avec Lys et Photo
New York Harbor
All these three works are in Turin till tomorrow (August 31) and then they move to Verona for the exhibition.

9. Henry Moore
Three Figures

10. Marc Chagall
Scène champêtre

11. Maurice de Vlaminck
La Seine a Chatou, 1909

12. Georges Braque
Pichet et Journal



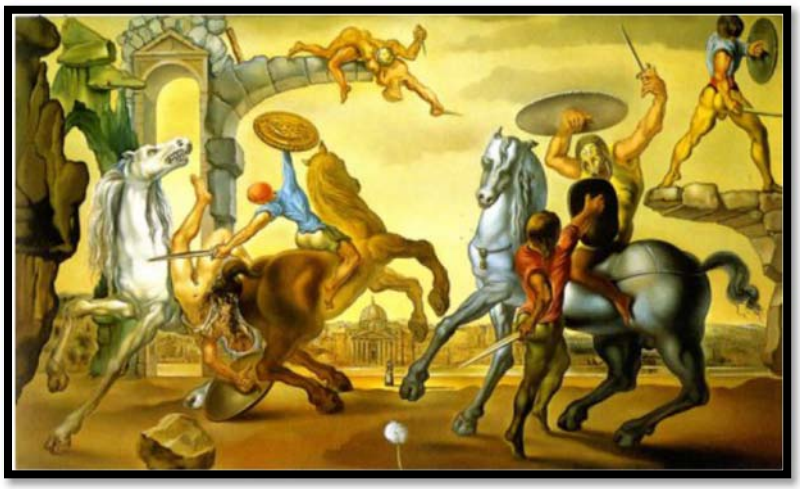
Marc Chagall's Scene Champetre/Femme et enfant (Photo Credit: Sotheby's)

13. Yves Tanguy
The Speeding Bow

When the Subcommittee showed the email containing the above list of works to her, the Christie's Baltser Client Advisor noted that the email was not addressed to her, and she did not know who owned the collection of works.[1006] As explained above, the Subcommittee traced funds used to purchase 16 of the 31 listed paintings back to Rotenberg-linked shell companies suggesting the Rotenbergs were the "client" of Mr. Baltser's who owned the collection.[1007]

b. Mr. Baltser Attempted to Sell *Brucke II*

In late 2018, Mr. Baltser approached Christie's and Sotheby's about selling two works that were part of the collection listed above. Those two works were Salvador Dali's *Bataille Autour d'un Pissenlit* ("Battle around a dandelion") and Lyonel Feininger's *Brucke II*.[1008] Both auction houses provided estimates for the auction of the paintings and deal terms. Mr. Baltser



Salvador Dali's Battle Around a Dandelion (Photo Credit: Fundacio Gala Salvador Dali)

[1006] Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
[1007] The 16 paintings the Subcommittee traced funds used to purchase the paintings to Rotenberg-linked shell companies include: (1) Salvador Dali's *Papillons* and (2) Soft Monster (*Monstruo Blando Adormecido*); (3) Renee Magritte's *Le Rendez-Vouz* and (4) *La Poitrine*; (5) Pierre-Auguste Renoir's *Femme dans un paysage* and (6) *Still life with fruits* (*Nature Morte aux fruits*); (7) Lyonel Feininger's *Steep Street* (*Steile Strasse*), (8) *Ulla*, and (9) *Sailing ship on Red Sea*; (10) Tsuguharu Foujita's *Hanka Zborowska* (*Portrait de Jeune Femme*); (11) Tamara de Lempicka's *Le Coquillage* and (12) *New York Harbor* (*Un Port Sous la Lune*); (13) Henry Moore's *Three Figures*; (14) Marc Chagall's *Scene Champetre* (*Femme et Enfant*); (15) Maurice de Vlaminck's *La Seine a Chatou*; and (16) Georges Braque's *Pichet et Journal*.
[1008] As noted above, Dali's *Battle around a dandelion* (*Bataille Autour d'un Pissenlit*) was included in the list of 31 works sent by Mr. Baltser's employee to Christie's. *See* Christies-PSI-00062223–26. The provenance provided by Mr. Baltser to Christie's stated the current owner purchased the painting in July 2013 at ARTEXPO SA. Christies-PSI-0073512–13. Financial records provide support for this purchase. On July 11, 2013, Steamort sent $7,000,000 from its Tallinn Business Bank account to ARTEXPO SA's UBS account in Geneva, Switzerland. DBAG0000024, line 462. The wire instructions stated: "Payment by invoice GB-130702 [dated July 4, 2013] for subject of interior." *Id.* The fact that Christie's only estimated the painting would sell for between £2 million and £3 million explains why the painting was not considered for auction.

chose Sotheby's to auction *Brucke II*, but the painting was ultimately pulled from the auction due to lack of interest. At the time, the Subcommittee was investigating both auction houses and Mr. Baltser.

i. Mr. Baltser Approached Christie's to Sell *Brucke II*

An employee of Mr. Baltser emailed Christie's Baltser Client Advisor on December 7, 2018 to alert Christie's that one of Mr. Baltser's clients was interested in selling Salvador Dali's *Bataille Autour d'un Pissenlit* and Lyonel Feininger's *Brucke II*.[1009] The email noted that both of the paintings were located in Germany for storage.[1010] She responded to Mr. Baltser's employee on December 21, 2018 that Christie's suggested an offering price for Feininger's *Brucke II* between £4 million and £6 million and an offering price between £2 million and £3 million for Dali's *Bataille Autour d'un Pissenlit*.[1011]

On January 14, 2019, Christie's Director, Head of Evening Sale for Impressionist and Modern Art emailed Mr. Baltser the terms the auction house would provide if Mr. Baltser chose Christie's to consign and sell *Brucke II*.[1012] The email documented what Christie's would offer with regard to "Sale date and Context:

- Our Impressionist & Modern Art Evening Sale will be held on the 27th February.
- The market for German art is incredibly strong at the moment, so now is a very good time for your client to offer the work. **Your work would be a highlight of the German section of the sale**.
- You will recall the work was acquired from us by your client, so it is a work we know very well, and we also know the under-bidders of the work when it was sold to your client. **This is a unique knowledge advantage that Christie's has**.
- This February sale season will be one of the strongest ever at King Street – we have an incredible single owner collection 'Hidden Treasures' which will be before the Evening Sale, and a number of masterpieces confirmed for the Evening Sale. I attach an overview of these works, and also the related press releases. As a result, **all top Impressionist & Modern collectors will be at Christie's this season**.

[1009] Christies-PSI-00081879–83.
[1010] *Id.*
[1011] Christies-PSI-00096106–26.
[1012] Christies-PSI-00082059–66.

- These works already consigned are very complementary to your work – **and nothing we have consigned will compete with your work**."[1013]

The email also described the marketing Christie's would offer stating, "We can provide the following:

1. Feature window banner at King Street
2. Frontispiece detail inclusion in the Impressionist & Modern Art Evening Sale
3. Tour to New York as part of February's sale preview (early February)
4. Eight pages in the catalogue including a fold-out illustration
5. Inclusion in Christie's Magazine as a highlight of the Impressionist & Modern Art Evening Sale
6. Inclusion in the Chinese language sale ebrochure
7. Online highlight of the sale
8. Postcard at front of House"[1014]

Financially, Christie's offered "an enhanced hammer of **106%**."[1015] Regarding timing, Christie's noted, "We will be printing the catalogue around the 31st [of] January, so we have around two weeks to finalise everything. The timing will be tight, but it is all possible."[1016]

Two days later, on January 16, 2019, Christie's offered to increase the hammer level to 107.5 percent explaining, "This is beyond our normal level for this value but we are keen to work with you on this project and to work again with this fantastic picture."[1017]

The Baltser Client Advisor explained that Christie's was eager to have the *Brucke II* for the evening sale, but the consignment was very competitive.[1018] She noted that Mr. Baltser was also talking to Sotheby's about selling the painting.[1019] Ultimately, Mr. Baltser consigned *Brucke II* with Sotheby's to sell, but the Baltser Client Advisor stated that Mr. Baltser did not make the decision.[1020] She explained that Mr. Baltser told her the lawyer for his client who owned the painting made the decision to consign the painting to Sotheby's.[1021]

[1013] *Id.* (emphasis in original).
[1014] Christies-PSI-00082059–66.
[1015] *Id.* (emphasis in original).
[1016] *Id.*
[1017] Christies-PSI-00065736.
[1018] Subcommittee interview of Christie's Baltser Client Advisor (Jul. 15, 2019).
[1019] *Id.*
[1020] *Id.*
[1021] *Id.*

ii. Sotheby's Agreed to Sell *Brucke II*

Mr. Baltser also contacted the Baltser Account Representative at Sotheby's about consigning and selling *Brucke II*. She emailed Mr. Baltser that Sotheby's estimated the painting would bring between £4 million and £6 million at auction.[1022] In an internal Sotheby's email, she confirmed that "the estimate was fine (around the same as offered by other auction houses)."[1023] She also noted, "this client has an important collection which might be potentially for sale in the future:

> 4 works by Magritte
> 3 works by Dali
> several De Chirico(s)
> several De Lempicka"[1024]

Brucke II was added to Sotheby's Impressionist and Modern Art Evening Sale in London scheduled for February 26, 2019.[1025] Two versions of the contract to consign and sell the painting existed. The first contract was dated January 15, 2019.[1026] The terms of the contract made clear that Sotheby's estimated *Brucke II* would sell for between £4,000,000 and £6,000,000 at auction.[1027] The contract also established that Sotheby's would pay Mr. Baltser "7.5 [percent] of the hammer price achieved for the [*Brucke II*]."[1028] Mr. Omelnitski signed on behalf of BALTZER LLP, but Sotheby's did not execute this version.[1029]

Sotheby's did sign a version of the contract with the same terms dated January 18, 2019.[1030] However, this version was not signed by Mr. Omelnitski on behalf of Mr. Baltser. Instead, Markom Directors (Cyprus) LTD signed the January 18, 2019 version of the contract on behalf of Mr. Baltser.[1031] The Baltser Account Representative did not know why there were two versions of the contract, or why Sotheby's only signed the January 18, 2019 version of the contract.[1032] Following the execution of the contract, the Baltser Account Representative coordinated the shipment of *Brucke II* from Cologne to London.[1033]

[1022] SOT-202506.
[1023] SOT-202405.
[1024] *Id.*
[1025] *A Century of Bauhaus: School of Modernity*, SOTHEBY'S (Feb. 12, 2019), https://www.sothebys.com/en/articles/a-century-of-bauhaus-school-of-modernity.
[1026] SOT-202176–78.
[1027] *Id.*
[1028] *Id.*
[1029] *Id.*
[1030] SOT-202107–09.
[1031] *Id.*
[1032] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[1033] SOT-202532–33.

Sotheby's requested information related to sanctions compliance. In light of the Subcommittee's ongoing investigation, Sotheby's sent due diligence questions to Mr. Baltser regarding the proposed transaction and his general compliance program.[1034] In the email attaching the questions, the Baltser Account Representative explained to Mr. Baltser, "There is additional scrutiny being placed on transactions with clients in certain regions and we are therefore asking for this additional information."[1035] The Baltser Account Representative told the Subcommittee this was the first time she had seen Sotheby's request such information from a client.[1036]

Sotheby's questioned Mr. Baltser regarding the February 2014 purchaser of Brucke II. As part of Sotheby's due diligence questions to Mr. Baltser regarding the *Brucke II* proposed consignment, Sotheby's requested that Mr. Baltser respond to a series of questions regarding compliance with sanctions laws entitled, "Sotheby's Sanctions Questionnaire."[1037] Sotheby's asked: "When you purchased Lyonel Feininger, *Brucke II*, from Christie's on 4 February 2014, were you acting as a bidding or buying agent on behalf of another individual or entity? If yes, on whose behalf were you acting?"[1038] Mr. Baltser responded:

> The purchase was made on May 14, 2014. Yes, we were acting on behalf of our client, the legal entity. However, our Finder agreement with the client contains a non-disclosure provision, which legally prohibits us to disclose the client's identity to anyone without the client's consent. Further to the below explanations, please note that after all appropriate checks by us at that time, we are able to confirm absence of any sanctions of any country in relation to that client.[1039]

The Subcommittee subsequently requested that Sotheby's provide it with a copy of those due diligence questions and answers and told Sotheby's that it had no objection to Sotheby's notifying Mr. Baltser at that time of the Subcommittee's request for those documents. After the Subcommittee reviewed those materials, which disclosed the identity of the company and individual Mr. Baltser stated currently owned *Brucke II*; it did not disclose the name of the previous owner who purchased *Brucke II* at a Christie's auction on February 4, 2014 due to a non-disclosure agreement. The Subcommittee requested that Sotheby's ask Mr. Baltser to request that his previous client consent to disclosing his or her name to

[1034] SOT-202154–55.
[1035] *Id.*
[1036] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[1037] SOT-202045–89.
[1038] *Id.*
[1039] *Id.*

Sotheby's.[1040] Sotheby's requested the information, but as of the publishing of this report, Sotheby's has been unable to obtain the requested consent.[1041]

In addition, recognizing the disparity in the public sale date and the sale date provided by Mr. Baltser in his response to Sotheby's due diligence questions, the Chairman of Sotheby's Russia emailed Mr. Baltser on April 1, 2019 and pointed out "the Christie's sale occurred in February, and not in May."[1042] Mr. Baltser responded, "My apologies, you are indeed correct and the sale date was on 4 February 2014."[1043]

Mr. Baltser did not provide the name of the February 2014 purchaser. As stated above, Mr. Baltser asserted that he could not reveal the name of the individual or entity that purchased the *Brucke II* on February 4, 2014 due to a non-disclosure provision in the relevant contract.[1044] Mr. Baltser stated, however, "Yes, we have identified the ultimate beneficial owner of the purchasing entity, and determined that neither the entity nor the ultimate beneficial owner of the entity were on any sanctions list or blocked persons list in any jurisdiction."[1045]

Sotheby's also asked Mr. Baltser: "Are you now selling on behalf of another individual or entity or does any other individual or entity have a financial interest in the sale?"[1046] Mr. Baltser responded to that question, "Yes, we are selling on behalf of our current client (who is different from, and not associated with, the previous client), whose details are presented below."[1047] The attachments asserted that the *Brucke II* now belonged to a company incorporated in the Marshall Islands.[1048] In response to further questioning by Sotheby's, Mr. Baltser confirmed ultimate beneficial owner of the Marshall Island company and provided a Russian passport for that individual.[1049] He continued, "We confirm that appropriate sanctions checks have been done for [the UBO] and [the UBO] is not subject to sanctions in any jurisdiction."[1050]

Sotheby's also questioned Mr. Baltser about his other clients and asked, "Have you done all appropriate checks to ensure that none of the individuals or entities on whose behalf you have acted for in prior transactions with Sotheby's were subject to any sanctions by the U.S., UK, EU or other country?"[1051] In

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[1040] Email from Subcommittee Staff to Counsel for Sotheby's (Jul. 18, 2019).
[1041] Email from Counsel for Sotheby's to Subcommittee Staff (Jul. 18, 2019).
[1042] SOT-202045–89.
[1043] *Id.*
[1044] *Id.*
[1045] *Id.*
[1046] *Id.*
[1047] *Id.*
[1048] *Id.*
[1049] *Id.* (including a Russian passport for the named UBO at SOT-202083).
[1050] *Id.*
[1051] *Id.*

response, Mr. Baltser stated, "Yes, we have done such checks and none of these check found any sanctions applicable to the persons on whose behalf we have acted for in prior transactions with Sotheby's."[1052]

Brucke II was in storage at Hasenkamp art storage facility in Germany.[1053] The transport of the painting to London was managed by Art Courier.[1054] The Baltser Account Representative explained that the *Brucke II* was removed from the auction because Sotheby's was not able to identify any potential bidders before the day of the sale.[1055]

9. Mr. Baltser Did Not Cooperate with the Subcommittee's Investigation

During the course of its investigation, the Subcommittee asked to interview Mr. Baltser.[1056] Through his counsel, Mr. Baltser declined the interview request and stated that he was in Moscow with no plans to return to the United States. On August 23, 2019, Mr. Baltser's counsel wrote to the Subcommittee on behalf of Baltzer Limited (the "August 2019 Letter") following a discussion of the Subcommittee's findings. The August 2019 letter stated, in part:

> Baltzer [Limited], a Cyprus company, is one of many art dealerships that offer services to individuals and entities who wish to purchase or sell fine art in private sales or at auctions. Some of Baltzer [Limited]'s clients are Russian nationals and entities, and Russian law allows such individuals and entities to engage Baltzer [Limited] on a basis which affords them confidentiality and prohibits Baltzer [Limited] from disclosing their identities without their consent under pains of administrative, civil, or criminal penalties. As such, Russian law severely limits the information that Baltzer [Limited] would be able to provide your Subcommittee.
>
> Baltzer [Limited] can confirm, however, that it has never, at any time, represented or transacted in any way with Boris or Arkady Rotenberg. Baltzer [Limited] strongly denies any suggestion to the contrary.[1057]

In another letter from his attorney on July 13, 2020 letter (the "July 2020 Letter"), Mr. Baltser stated that BALTZER LLP was dissolved in 2017, but never dealt with

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[1052] *Id.*
[1053] SOT-202710–11; SOT-202727–28.
[1054] SOT-202727–28.
[1055] Subcommittee interview of Sotheby's Baltser Account Representative (Jun. 27, 2019).
[1056] Subcommittee conference call with David Vicinanzo, Counsel for Baltzer Limited (Jul. 23, 2019).
[1057] Letter from David Vicinanzo, Counsel for Baltzer Limited to the Subcommittee (Aug. 23, 2019).

Arkady or Boris Rotenberg.[1058] The July 2020 Letter also stated that Mr. Baltser's agreement with Steamort required him to maintain the confidentiality of Steamort's clients, but he "has personal knowledge that he was never involved in any transaction involving Steamort Ltd. that constituted any transaction with any person or entity that appear on the OFAC list at the time of the transaction."[1059] The July 2020 Letter also stated that Mr. Baltser could not confirm whether he ever dealt with Igor Rotenberg due to Russian law.[1060]

Neither letter addressed whether Highland Business or Highland Ventures were clients of Baltzer Limited, BALTZER LLP, or Steamort. Despite ICIJ publishing information surrounding the Panama Papers since the spring of 2016, the July 2020 Letter stated that Baltzer Limited had:

> no access to or knowledge of the Panama Papers and is unaware of anyone who does. Accordingly, Baltzer has and must reasonably rely on the U.S. Department of Treasury's own determination through the OFAC list. That list – the government's own official position – confirms that Highland [Business and Highland Ventures are] not sanctioned. Additionally, the most widely-accepted commercial sanctions list check services, Visual Compliance and Thompson Reuters World-Check, do not list Highland entities as owned by Boris or Arkady Rotenberg.[1061]

As noted above, Barclays used the information found in the Panama Papers to conduct an extensive investigation of its accounts related to Mr. Omelnitski. This investigation determined that Mr. Omelnitski and his company "created shell companies for sanctioned individual [Arkady] Rotenberg…intentionally structured to be opaque in order to hide the identity of the true beneficiaries."[1062] The investigation led to the bank closing all Mr. Omelnitski's accounts, including accounts related to Mr. Baltser.[1063]

10. During the Course of the Subcommittee's Investigation Phillips, Christie's, and Sotheby's Stopped Transacting with Mr. Baltser

During the Subcommittee's investigation Phillips, Christie's, and Sotheby's reported that the auction houses would no longer transact with Mr. Baltser or BALTZER LLP due to the Subcommittee's investigation. Counsel for Phillips told

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[1058] Letter from David Vicinanzo, Counsel for Baltzer Limited to the Subcommittee (Jul. 13, 2020).
[1059] *Id.* (noting that Nixon Peabody, Mr. Vicinanzo's firm, did not represent BALTZER LLP or Steamort Ltd.).
[1060] *Id.*
[1061] Letter from David Vicinanzo, Counsel for Baltzer Limited to the Subcommittee (Jul. 13, 2020).
[1062] BARC_006752–761.
[1063] BARC_005547–51; BARC_007036.

the Subcommittee it stopped transacting with Mr. Baltser when it received the Subcommittee's initial request.[1064] Christie's stopped transacting with Mr. Baltser during the course of the Subcommittee's investigation.[1065] And counsel for Sotheby's reported the auction house added Mr. Baltser to its "all transactions blocked" list, which requires an analysis of each transaction before it is executed.[1066] Counsel for Sotheby's reported the auction house made this determination after reviewing documents from another auction house used by Subcommittee staff during its interview of a Sotheby's employee.

Counsel for Baltser Limited addressed the auction houses blocking Mr. Baltser in his August 2019 Letter response to the Subcommittee:

> Despite Baltzer's innocence, the inquiries posed by this Subcommittee to the art dealership and auction community have already severely impacted Baltzer's ability to conduct the legitimate business in which it has engaged for several decades. This has done substantial collateral damage to Baltzer and its employees, and has forced Baltzer to largely suspend operations.[1067]

Counsel for Bonhams U.S. reported that the auction house has continued to transact with the BALTZER Agency in a limited capacity.[1068] Specifically, Bonhams U.S. has accepted bids from the BALTZER Agency, but has not accepted consignments.[1069] With respect to each bidding registration, the BALTZER Agency has been asked to confirm, prior to bidding, whether they are acting as an agent or principal.[1070] If the BALTZER Agency has responded that it is acting as an agent, it must provide (and has provided) as a condition of being permitted to bid: (i) the full name, address and date of birth of the principal; (ii) a copy of the passport of the principal; (iii) a letter of authorization from the principal; and (iv) a completed bidding registration form, signed by the principal.[1071]

[1064] Email to Subcommittee staff from Counsel for Phillips (Mar. 6, 2020).
[1065] Conference call with Counsel for Christie's (Mar. 18, 2020).
[1066] Conference call with Counsel for Sotheby's (Mar. 23, 2020).
[1067] Letter from David Vicinanzo, Counsel for Baltzer Limited to the Subcommittee (Aug. 23, 2019).
[1068] Email from Counsel for Bonhams to Subcommittee staff (Jul. 25, 2020).
[1069] *Id.*
[1070] *Id.*
[1071] *Id.*

IV. ADDITIONAL U.S. DOLLAR TRANSACTIONS BY ROTENBERG-LINKED SHELL COMPANIES

While the Subcommittee investigation concentrated on certain high-value art purchases involving the Rotenberg-related shell companies Highland Business and Highland Ventures, those companies did not limit their activities to art transactions. Records indicate that the companies were also used for other purposes and conducted other transactions in U.S. dollars after Arkady and Boris Rotenberg were sanctioned in March 2014.

Between the announcement of sanctions by President Obama on March 16, 2014 and the addition of Arkady and Boris Rotenberg to the SDN list on March 20, 2014, shell companies linked to the Rotenbergs repatriated $121,966,500 to Russia. As explained below, these companies and others continued conducting transactions—including art purchases—in U.S. dollars totaling $91,554,202.30 after the imposition of U.S. sanctions on Arkady and Boris Rotenberg on March 20, 2014.

Steamort. Although the UBO of Steamort is unknown, it is clear the company served as an intermediary between Rotenberg-linked shell companies and BALTZER LLP in the purchase of art. Following the imposition of sanctions on March 20, 2014, Steamort was a part of 160 transactions totaling $22,643,828.05.[1072] The most recent transaction was dated May 15, 2017.[1073]

Highland Ventures. Highland Ventures sent $39,588,000.00 from its account at The Pictet Group in Switzerland to its Gazprombank account in Moscow on March 18, 2014, two days after President Obama announced sanctions on Russia related to its annexation of Crimea, but before Arkady and Boris Rotenberg were added to the SDN list on March 20, 2014.[1074]

Highland Ventures continued to operate in U.S. dollars through U.S.-based financial institutions post-March 20, 2014.[1075] Bank wire information shows that the company was involved in 36 transactions amounting to $16,433,804.16; most of these transactions were payments made by Highland Ventures to a variety of parties, including Steamort, Advantage Alliance, Ernst and Young, and other art galleries.[1076]

Advantage Alliance. Advantage Alliance also participated in U.S. dollar transactions through U.S.-based financial institutions following the imposition of U.S. sanctions in March 2014. From April 3, 2014 to June 6, 2016, Advantage

[1072] DBAG0000024, line 548–707.
[1073] DBAG0000024, line 707.
[1074] DBAG0000013, lines 17–18.
[1075] DBAG0000013, lines 19–54.
[1076] *Id*.

Alliance was involved in 87 transactions totaling $29,048,139.65.[1077] Those transactions included the receipt of $16,033,224.30 and the payment of $13,014,915.35.[1078] Despite dealing in U.S. dollars, the counterparties to these transactions were not always located in the United States.[1079]

Other Rotenberg-related shell companies listed in the Panama Papers engaged in high-dollar transactions unrelated to art after March 2014.

Causeway Consulting. The Panama Papers linked Arkady Rotenberg to Causeway Consulting.[1080] An investigation by Barclays confirmed Arkady Rotenberg owned the shell company.[1081] Causeway Consulting sent $14,663,000 from its Gazprombank account in Moscow through a U.S.-based financial institution to entities located outside of the United States from January 13, 2015 to April 8, 2015.[1082]

Culloden Properties. The Panama Papers identified Boris Rotenberg as the owner of Culloden Properties.[1083] An investigation by Barclays confirmed Boris Rotenberg was the UBO for the company.[1084] Culloden Properties sent $82,378,500 from its Pictet Group account to an account at Gazprombank in Moscow on March 18, 2014, two days after President Obama announced sanctions on Russia for its occupation of Crimea, but before sanctions were imposed on March 20, 2014 on Arkady and Boris Rotenberg.[1085] Culloden sent $255,800 in two transactions on March 11, 2015 and August 12, 2015 from its Gazprombank account in Moscow to entities located outside of the United States.[1086]

Other companies linked to the Rotenbergs also continued to transact in U.S. dollars post-sanctions on Arkady and Boris Rotenberg:

Milasi Engineering. As explained above, the 2014 Financial Statement for Milasi Engineering listed Arkady Rotenberg as the UBO.[1087] Post March 20, 2014 sanctions on Arkady Rotenberg, Milasi Engineering sent $99,700 on March 13, 2015 to a shell company located in BVI.[1088]

[1077] BARC_000002, lines 23–109.
[1078] BARC_000002.
[1079] *Id.*
[1080] SGA_PSI_00063–82.
[1081] BARC_006124.
[1082] DBAG00000008, lines 3–5.
[1083] SGA_PSI_00063–82.
[1084] BARC_006068–69.
[1085] DBAG0000010, line 5.
[1086] DBAG0000010, lines 6–7.
[1087] BARC_006014–6043.
[1088] DBAG0000019, line 37.

Senton Holdings. An investigation by Barclays determined that Arkady Rotenberg was the UBO for Senton Holdings.[1089] After March 20, 2014, Senton Holdings was a part of transactions worth $8,409,930.44, with the most recent wire transfer dated June 26, 2018.[1090] The largest transfer of $7,555,000, as mentioned above, was tied to the purchase of *La Poitrine* by René Magritte.[1091]

[1089] BARC_006912–15.
[1090] DBAG0000022, lines 5–15.
[1091] DBAG0000022, line 5.

V. CONCLUSION

As Congress and the Executive Branch consider ways to ensure the effectiveness of sanctions, the role that shell companies play in allowing UBOs to remain anonymous must be considered. While there are legitimate business reasons to retain confidentiality, offshore entities with nominee directors and shareholders pose a significant threat to the success of U.S. efforts to block sanctioned individuals from engaging in prohibited transactions.

The Subcommittee's investigation also makes clear that the voluntary programs in place at auction houses are not enough. Further, there is a lack of transparency in private art sales. As such, Congress should add high-value art to the list of industries that must comply with BSA requirements. Given the intrinsic secrecy of the art industry, it is clear that change is needed in this multi-billion-dollar industry.