



**U.S. DEPARTMENT OF THE TREASURY
OFFICE OF FOREIGN ASSETS CONTROL**



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**OFAC Imposes \$7,139,305 Penalty on Gracetown, Inc.
for Violating Ukraine-/Russia-Related Sanctions and Reporting Obligations**

The Office of Foreign Assets Control (OFAC) has issued a Penalty Notice imposing a \$7,139,305 penalty on Gracetown, Inc., a property management company based in New York, for violating OFAC's Ukraine-/Russia-Related sanctions and for failing to file reports of blocked assets. Between April 2018 and May 2020, Gracetown received 24 payments on behalf of a company ultimately owned by a sanctioned Russian oligarch, Oleg Deripaska, despite having received explicit prior notice from OFAC that direct and indirect dealings with Deripaska were prohibited. Gracetown also failed to report blocked assets in its possession and control for over 45 months. The penalty amount reflects OFAC's determination that the violations were egregious and were not voluntarily self-disclosed.

In 2013, Gracetown began receiving payments on behalf of a British Virgin Islands-based company affiliated with Gracetown through then-common ownership of Deripaska. OFAC sanctioned Deripaska in 2018 and notified Gracetown that dealings with Deripaska and his property were prohibited and could result in a monetary penalty. Gracetown nevertheless received 24 more payments on behalf of its affiliate company, which it knew was owned by Deripaska.

Description of the Violations

Gracetown's Receipt of Payments on Deripaska's Behalf Prior to Designation

Gracetown was established in 2006 for the purpose of managing three luxury real estate properties in New York and Washington, D.C., which Deripaska purchased around the same time through various legal vehicles. To manage the three properties, Gracetown relied on funds and direction from Deripaska-affiliated Russian individuals who oversaw its operation. From 2006 to 2018, Deripaska was the ultimate beneficial owner of Gracetown. In the months leading to Deripaska's designation as a blocked person, a relative and known associate of Deripaska, became the ultimate beneficial owner of Gracetown. Throughout all relevant times, Gracetown employed a property manager based in New York, who managed Gracetown's bank accounts based on instructions from its Russia-based stakeholders.

In 2013, Baufinanz, a British Virgin Islands-based company also owned by Deripaska, entered into a settlement agreement with an unrelated U.S. person over a loan dispute. Pursuant to the agreement, Gracetown was to receive regular monthly payments from the U.S. person that were due to Baufinanz. In November 2013, Deripaska's relative and known associate informed Gracetown of the initial incoming payment and initiated an arrangement for Gracetown to account for the payments as a loan from Baufinanz and to use the funds to manage the New York and D.C. properties. Gracetown's property manager did as instructed, received and deposited the payments to Gracetown's bank account as a loan from Baufinanz beginning on December 19, 2013. In early

2018, just prior to Deripaska's designation, Deripaska's relative and known associate became the ultimate beneficial owner of Gracetown.

Gracetown's Dealings with Deripaska Post-Designation

On April 6, 2018, OFAC added Deripaska to the Specially Designated Nationals and Blocked Persons (SDN) List for acting as or on behalf of a senior official of the Government of the Russian Federation and for operating in the energy sector of the Russian Federation economy.¹ Consequently, all of Deripaska's property and interests in property in the United States or in the possession or control of any U.S. person became blocked. Because Deripaska was the ultimate beneficial owner of Baufinanz during this time period, all of Baufinanz's property and interests in property became blocked as well.

That same day, OFAC also issued Gracetown a Notification of Blocking (the "Notification") via certified mail, which Gracetown's registered agent received on April 10, 2018. The Notification formally notified Gracetown that Deripaska—its former owner, from 2006 to early 2018—had been designated, and that, as a result, all property and interests in property of Deripaska were blocked as of that date. The Notification explained to Gracetown that this meant all unauthorized dealings with Deripaska, his property or interest in property, or any other blocked person, would be unlawful and may result in a monetary penalty. The Notification further informed Gracetown of its legal obligation to block all property in its possession in which Deripaska had an interest and report such property to OFAC within 10 business days.

Despite receiving this Notification, Gracetown nevertheless continued its arrangement with Baufinanz, receiving regular monthly payments on its behalf until May 2020, when the terms of the settlement were fulfilled. As of April 6, 2018, Gracetown had already received and spent—and therefore owed Baufinanz—a total of \$72,500, a debt that became blocked property (and thus required reporting) upon Deripaska's designation. Subsequently, from April 24, 2018, to May 7, 2020, Gracetown received 24 additional payments totaling \$31,250. Consistent with the instructions from Deripaska's relative and known associate, who later became Gracetown's new owner, Gracetown utilized the relevant payments as a loan from Baufinanz to help cover property management-related expenses, resulting in an increased accumulated debt of \$103,750 to Baufinanz.

On January 11, 2022—over 45 months after Gracetown received actual notice from OFAC regarding its sanctions compliance obligations—Gracetown reported to OFAC an accumulated debt to Baufinanz of \$103,750 as blocked property. On the same day, Gracetown submitted a disclosure to OFAC, by which time OFAC or another federal government agency had already become aware of the violative conduct.

After reviewing the facts and circumstances pertaining to this matter, OFAC determined that each of these payments constitutes a violation of the Ukraine-/Russia-Related Sanctions Regulations (URSR). 31 C.F.R. §§ 589.201. Moreover, Gracetown's failure to timely submit a blocking report to OFAC constitutes a violation of section 603(b) of the Reporting, Procedures and Penalties Regulations (RPPR). 31 C.F.R. § 501.603(a)-(b); 31 C.F.R. part 501 app. A(IV)(B).

¹ See [OFAC Press Release](#) on adding Oleg Deripaska to the SDN List, April 6, 2018.

Penalty Calculations and General Factors Analysis

The statutory maximum civil monetary penalty applicable in this matter is \$8,906,358. This figure reflects a statutory maximum civil monetary penalty of \$8,835,264 with respect to the URSR Violations, and a civil monetary penalty of \$71,094 with respect to the RPPR Violations (collectively, “the Violations”). OFAC determined that Gracetown did not voluntarily self-disclose the Violations and that the Violations constitute an egregious case. Accordingly, under OFAC’s Economic Sanctions Enforcement Guidelines (“Enforcement Guidelines”), 31 CFR part 501, app. A., the base civil monetary penalty applicable in this matter equals the statutory maximum of \$8,906,358.

The final penalty amount of \$7,139,305 reflects OFAC’s consideration of the General Factors under the Enforcement Guidelines.

OFAC determined the following to be **aggravating factors**:

- (1) Gracetown willfully, or, at a minimum, recklessly, violated U.S. sanctions from April 2018 to May 2020, when it continued to receive monthly payments due to Baufinanz while knowing that Deripaska, a blocked person, owned Baufinanz, and after receiving an actual notice from OFAC that dealings involving Deripaska were prohibited.
- (2) Gracetown was aware that it continued to receive, process, and account for monthly transactions due to Baufinanz after OFAC notified Gracetown of Deripaska’s designation on April 6, 2018. The same Gracetown property manager, who also served as Baufinanz’s point of contact at Gracetown, received all subject payments from 2013 to 2020 and implemented the arrangement for Gracetown to use the funds as a loan from Baufinanz. Gracetown’s new owner, speaking on behalf of both Gracetown and Baufinanz, directed these actions of the Gracetown property manager.
- (3) Gracetown acted contrary to U.S. sanctions objectives when it continued to fulfill its arrangement with Baufinanz, which became a blocked entity after Deripaska’s designation. Gracetown’s conduct benefited Deripaska by collecting and securing a debt on Baufinanz’s behalf.
- (4) Gracetown’s remedial response was deficient. Considering Gracetown’s close relationship with Baufinanz through common management and Deripaska’s joint ownership until 2018, and despite receiving actual prior notice from OFAC upon Deripaska’s designation in 2018 which reminded Gracetown of its compliance obligations, Gracetown continued its unauthorized dealings and failed to report blocked property in its possession or control for over 45 months.

OFAC determined the following to be **mitigating factors**:

- (1) Gracetown signed a Tolling Agreement with OFAC and provided additional information to the agency.

- (2) Gracetown has not received a Penalty Notice or Finding of Violation from OFAC in the five years preceding the earliest date of the transactions giving rise to the Violations. Nonetheless, given the totality of the circumstances in this case, OFAC has determined that no additional reduction in penalty was warranted.

Compliance Considerations

Blocked persons include persons that appear on OFAC's List of Specially Designated Nationals and Blocked Persons (SDN), foreign governments subject to blocking, and persons blocked pursuant to OFAC's "[50 Percent Rule](#)." Here, OFAC added Gracetown's former owner, Oleg Deripaska, to the SDN List on April 6, 2018. Consequently, all of Deripaska's property and interests in property in the United States or in the possession or control of any U.S. person became blocked.

Entities formerly owned by a blocked person or that otherwise continue to work closely, if not within the network of a blocked person, are taking substantial risk² in doing so. This enforcement action highlights the importance of closely monitoring and following OFAC-issued guidance, particularly when a U.S. person receives notice due to its close relationship to a sanctioned individual, as violations of U.S. sanctions can result in substantial monetary penalties.

Due to its close ties with Deripaska, Gracetown received a notice from OFAC, which explicitly alerted Gracetown of its sanctions compliance obligations and risks. Despite receiving an actual notice from OFAC, Gracetown continued the violative conduct involving debts owed to an entity it knew was owned by Gracetown's former owner, which it also knew had become a blocked person as of April 6, 2018. Any U.S. persons who so willfully or recklessly disregard their sanctions obligations may similarly face a significant monetary penalty.

This action also highlights that all U.S. persons, such as Gracetown, are subject to certain reporting requirements involving blocked property and rejected transactions through the [OFAC Reporting System](#). OFAC regulations define the terms "property" and "property interest" to include, among others, assets, funds, indebtedness, contracts of any nature, or interest therein, present, future, or contingent. Notwithstanding, Gracetown allowed over 45 months to pass before it blocked and reported the monthly payments that led to the accumulation of debt towards a blocked person. OFAC requires the timely reporting of blocked property to avoid sanctions violations and late reporting penalties.

Moreover, OFAC encourages anyone who may have violated any OFAC-administered sanctions programs or is aware of potential violations to disclose the apparent or potential violation to OFAC promptly. Here, OFAC or another federal government agency had already become aware of the violative conduct when Gracetown finally disclosed its violations to OFAC, roughly four years after the first violation occurred. OFAC's [Economic Sanctions Enforcement Guidelines](#) explain what constitutes voluntary self-disclosure. OFAC thoroughly reviews any apparent violation, including

² [A Framework for OFAC Compliance Commitments](#) describes risks in sanctions compliance as potential threats or vulnerabilities that, if ignored or not properly handled, can lead to violations of OFAC's regulations and negatively affect an organization's reputation and business.

whether a matter was voluntarily self-disclosed to OFAC. Voluntarily self-disclosing apparent violations to OFAC will result in a reduction in the base amount of any proposed civil penalty.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published [A Framework for OFAC Compliance Commitments](#) in order to provide organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States or U.S. persons, or that use goods or services exported from the United States, with OFAC's perspective on the essential components of a sanctions compliance program. The *Framework* also outlines how OFAC may incorporate these components into its evaluation of apparent violations and resolution of investigations resulting in settlements. The *Framework* includes an appendix that offers a brief analysis of some of the root causes of apparent violations of U.S. economic and trade sanctions programs OFAC has identified during its investigative process.

Information concerning the civil penalties process can be found in the OFAC regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 CFR part 501; and the Economic Sanctions Enforcement Guidelines, 31 CFR part 501, app. A. These references, as well as recent civil penalties and enforcement information, can be found on OFAC's website at <https://ofac.treasury.gov/civil-penalties-and-enforcement-information>.

Sanctions Whistleblower Program

The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) maintains a whistleblower incentive program for violations of OFAC-administered sanctions, in addition to violations of the Bank Secrecy Act. Individuals located in the United States or abroad who provide information may be eligible for awards, if the information they provide leads to a successful enforcement action that results in monetary penalties exceeding \$1,000,000. FinCEN is currently accepting whistleblower tips.

For more information regarding OFAC regulations, please visit: <https://ofac.treasury.gov>.