The Latest on the Ukraine-Russia Crisis

March 2022

Summary of Recent Financial and Comprehensive Sanctions Related to the Ukraine-Russia Crisis

Key Notes:

- OFAC implemented blocking and other sanctions against major Russian and Belarusian financial institutions.
- OFAC implemented blocking and other sanctions against state-owned enterprises, prominent government officials and other persons or entities.
- OFAC implemented blocking sanctions targeting involvement in the Nord Stream 2 pipeline.
- OFAC implemented sanctions related to Russian government debt.
- The U.S. extended its comprehensive sanctions of Crimea to the so-called Donetsk People's Republic ("DNR") and Luhansk People's Republic ("LNR") regions of Ukraine.
- This bulletin provides an overview of the current financial sanctions imposed against Russia and embargo of certain regions in Ukraine. Additional sanctions have been imposed through export controls and targeted sanctioning of the military industry in Russia. These measures are not covered in this bulletin.

Since the Russian invasion of Ukraine, the United States has imposed a variety of unprecedented sanctions and export controls against Russia and the two regions of Ukraine that Russia has recognized as the so-called Donetsk People's Republic ("DNR") and Luhansk People's Republic ("LNR"). Many of these sanctions have also been imposed on Belarus for its support of the invasion. The European Union, the United Kingdom and other nations have also engaged in a major effort to cut Russia off from global capital markets and limit its access to certain technologies. The sanctions have primarily targeted the financial, defense and intelligence sectors of Russia and Russian-backed regions of Ukraine. In this update, we provide an overview of the first tranche of these sanctions. An update covering export controls and sanctions targeting Russia's defense and oil and gas industries is forthcoming.

In light of increased sanctions and export control risk, all companies should heighten internal controls related to direct or indirect dealings in Russia, Ukraine and Belarus or involving persons from these regions. This should include, at a minimum, scrutinizing all related investments, transactions and other dealings, third-party relationships, and direct and indirect banking arrangements to identify and address applicable sanctions and export controls. Companies should proceed with caution when determining applicable sanctions and general license authorizations and ensure they record all due diligence efforts.

Embargo on the DNR and LNR Regions of Ukraine and Related General Licenses

On February 21, 2022, President Biden issued Executive Order ("EO") 14065[1] imposing comprehensive sanctions prohibiting nearly all transactions involving the DNR or LNR (the "Covered Regions"). The comprehensive sanctions were effective immediately and will be enforced by the U.S.

[1] Executive Office of the President, Executive Order 14065, "Blocking Property of Certain Persons and Prohibiting Certain Transactions With Respect to Continued Russian Efforts to Undermine the Sovereignty and Territorial Integrity of Ukraine" (Feb. 21, 2022).

Department of Treasury's Office of Foreign Assets Control (OFAC).

What is prohibited by the EO 14065 Embargo?

EO 14065 prohibits U.S. persons from engaging in nearly all activity and transactions related to the DNR and LNR, much as the 2014 Executive Orders issued after Russia's annexation of the Crimea region of Ukraine prohibit such activity. Specifically, the EO prohibits U.S. persons from engaging in any of the following:

- New investments in the Covered Regions by U.S. persons;
- The importation into the U.S., directly or indirectly, of any goods, services, or technology from the Covered Regions;
- The exportation, reexportation, sale, or supply, directly or indirectly, from the U.S. by a U.S. person of any goods, services, or technology to the Covered Regions; and
- Any approval, financing, facilitation, or guarantee by a U.S. person, wherever located, of a transaction by a foreign person where the transaction by that foreign person would be prohibited by this section if performed by a U.S. person or within the U.S.

The EO also authorizes blocking sanctions against persons determined to:

- Operate or have operated since the date of the order in the Covered Regions;
- Be a leader, official, senior executive officer, or member of the board of directors of an entity operating in the Covered Regions;
- Owned or controlled by, or have acted for or on behalf of, directly or indirectly, any person whose property and interests in property are blocked pursuant to this order; or
- Have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, any person blocked pursuant to this order.

Persons determined to fall within these categories by the Treasury Secretary are designated to the Specially Designated Nationals and Blocked Persons ("SDN") List. All property and interests in property of SDNs, including all entities owned 50% or greater, directly or indirectly, individually or in the aggregate by them, are blocked and cannot be dealt in by any U.S. persons.

What is generally authorized that would otherwise be prohibited by the EO 14038 Embargo?

Unless authorized by a general or specific license issued by OFAC or otherwise exempt, OFAC's regulations generally prohibit all dealings by U.S. persons, wherever located, and their foreign branches, or within (or transiting) the United States that involve the DNR or LNR regions or any blocked persons or their property interests.

OFAC has issued six Ukrainian General Licenses ("GLs") authorizing certain transactions otherwise prohibited by EO 14065 in GLs 17, 18, 19, 20, 21, and 22. The most significant being GL 17, which authorizes very limited wind-down transactions and activities to terminate existing business relationships now prohibited in the DNR and LNR regions until March 23, 2022. The other GLs allow for restricted activities in certain sectors, including agricultural products, medicine, telecommunications transmissions, government and NGO activity, and personal remittances. These general licenses are summarized in the Thompson Hine SmarTrade Update, dated February 22, 2022.

Blocking Sanctions and Sectoral Sanctions Imposed Against Major Russian Financial Institutions, State-Owned Entities (SOEs) and Government Officials

Blocking Sanctions

OFAC has also designated major Russian financial institutions, state-owned entities and government officials to the SDN List as authorized by EO 14024[2] (Russia-related). These blocking sanctions are effective as of the date these persons are designated to the SDN List.

[2] Executive Office of the President, Executive Order 14024, "Blocking Property With Respect To Specified Harmful Foreign Activities of the Government of the Russian Federation" (April 15, 2021).

On February 22, 2022, OFAC designated the Corporation Bank for Development and Foreign Economic Affairs Vnesheconombank ("VEB") and Promsvyazbank Public Joint Stock Company ("PSB"), along with 42 of their subsidiaries, and placed them on the SDN List pursuant to EO 14024. OFAC stated that VEB is crucial to Russia's ability to raise funds and PSB is critical to Russia's defense sector.

On February 24, 2022, OFAC designated one of Russia's largest financial institutions, VTB Bank Public Joint Stock Company ("VTB Bank") to the SDN List also pursuant to EO 14024. Three other significant Russian banks were similarly designated to the SDN List: Public Joint Stock Company Bank Financial Corporation Otkritie ("Otkritie"), Open Joint Stock Company Sovcombank ("Sovcombank") and Joint Stock Commercial Bank Novikombank ("Novikombank").

On February 25, 2022, in a rare move against heads of state, the U.S. government designated the following individuals to the SDN List: President Vladimir Putin, Foreign Minister Sergei Lavrov, Minister of Defense Sergei Shoigu and Chief of the General Staff of the Russian Armed Forces, First Deputy Minister of Defense, and General of the Army Valery Gerasimov.

On February 28, 2022, OFAC also issued sanctions against the Central Bank of Russia ("CBR"), National Wealth Fund of Russia ("NWFR") and the Ministry of Finance of Russia ("MOFR") pursuant to new Directive 4 of EO 14024. Additional entities and persons were also placed on the SDN List pursuant to EO 14024, as noted in Thompson Hine's SmarTrade Update of February 28, 2022.

What is prohibited by the Blocking Sanctions under 14024?

As of the date of their designation by OFAC to the SDN List, all property and interests in property of the SDN including all entities and property owned 50% or greater, directly or indirectly, individually or in the aggregate by the SDN were blocked and could not be dealt in by any U.S. person unless generally or specifically authorized by OFAC.

Sovereign Debt and Sectoral Sanctions on the Financial Industry

OFAC has also issued Directives 1A, 2, 3 and 4 pursuant to EO 14024. These Directives impose what are referred to as sovereign debt restrictions, non-SDN Menu Based Sanctions ("Non-SDN MBS") and correspondent account or payable-through ("CAPTA") sanctions.

What is prohibited by Directives 1-4 under EO 14024?

On February 22, 2022, OFAC issued Directive 1A, "Prohibitions Related to Certain Sovereign Debt of the Russian Federation," which prohibits U.S. financial institutions to deal in certain sovereign debt of Russia. As of June 14, 2021, Directive 1A prohibits U.S. financial institutions from lending ruble or non-ruble funds to or participating in the primary market for ruble and non-ruble bonds issued after June 14, 2012 by, the Central Bank of Russia ("CBR"), National Wealth Fund of Russia ("NWFR") or the Ministry of Finance of Russia ("MOFR"). As of March 1, 2022, Directive 1A prohibits U.S. financial institutions from participating in the secondary market for ruble or non-ruble denominated bonds issued after March 1, 2022, by the CBR, NWFR or the MOFR. OFAC issued Frequently Asked Question 965 providing guidance on the scope of Directive 1A.

On February 24, 2022, OFAC issued Directive 2, "Prohibitions Related to Correspondent or Payable-Through Accounts and Processing of Transactions Involving Certain Foreign Financial Institutions," which becomes effective on March 26, 2022, and will prohibit U.S. financial institutions from:

- Opening or maintaining a correspondent account or payable-through account for or on behalf of any entity determined to be subject to Directive 2, or their property or interests in property; and
- Processing transactions involving any entities subject to Directive 2, or their property or interests in property.

Public Joint Stock Company Sberbank of Russia ("Sberbank") and 25 of its subsidiaries were designated to Annex 1 of Directive 2. Consequently, U.S. financial institutions must reject such transactions unless exempt or authorized by

OFAC. OFAC has also issued Frequently Asked Questions (FAQs) 967, 968, 969, 970, 971, 972 and 973 related to Directive 2. FAQ 969 provides that OFAC's 50% rule applies to Directive 2 entities, meaning that entities not listed in Annex 1 that are owned 50% or greater, directly or indirectly, individually or in the aggregate, by one or more, or by any of the designated entities, are subject to the Directive's prohibitions (aka the "50 Percent Rule").

On February 24, 2022, OFAC also issued Directive 3, "Prohibitions Related to New Debt and Equity of Certain Russia-related Entities," becomes effective on March 26, 2022, and will prohibit U.S. persons from engaging in all transactions or dealings in "new debt of longer than 14 days maturity or new equity, where such new debt or new equity" is issued:

- After March 26, 2022, for new debt or new equity of entities listed in Annex 1 of Directive 3 or their property or interests in property; and
- 30 days after an entity is determined to be subject to the Directive 3 or their property or interests, for new debt or new equity of such designated entities or their property or interests in property.

Thirteen Russian entities including, Gazprombank Joint Stock Company and Public Joint Stock Company Gazprom Neft, were designated to Annex 1 of Directive 3. OFAC has issued FAQs 984, 985, 986, 987, 988, and 989 related to Directive 3. Similar to Directive 2, FAQ 985 provides that OFAC's 50% rule applies to Directive 3 entities.

On February 28, 2022, OFAC issued Directive 4. Directive 4, "Prohibitions Related to Transactions Involving the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, and the Ministry of Finance of the Russian Federation," is effective as of February 28, 2022. The Directive prohibits U.S. persons from engaging in any transaction involving the CBR, NWFR or the MOFR, including any transfer of assets to such entities or any foreign exchange transaction for or on behalf of such entities. These sanctions are referred to as Non-SDN Menu-Based Sanctions ("NS-MBS") because while they prohibit nearly all transactions with these entities, they are not blocking sanctions.

What is generally authorized under EO 14024?

Given the expanse of OFAC designations and the related Directives pursuant to EO 14024, OFAC did issue several General Licenses (2-14) authorizing limited activities and transactions that would otherwise be prohibited by EO 14024 involving SDNs designated under EO 14024 or transactions within the scope of Directives 1A, 2, 3 or 4 under EO 14024. These authorizations are limited in scope based on the provisions set forth in each and require careful analysis to determine whether they can be relied upon in any transactions involving Russia.

General Licenses 5, 6, and 7 reference typically authorized activities in countries sanctioned by the United States, that would otherwise be prohibited by EO 14024. GLs 5 and 7 authorize transactions related to the activities of certain international organizations and, certain overflight payments, landings and air ambulance services in Russia.

GL 6 authorizes transactions and dealings involving agricultural commodities, medicines and medical devices, replacement parts and components or software updates to, from, or transiting the Russian Federation. Notably, this GL's scope is broader than other GLs related to agriculture and medical devices of past sanctions programs.

Authorizations related to VEB only – GLs 2 and 3

With respect to VEB only, OFAC has issued GLs 2 and 3. GL 2 authorizes transactions with VEB necessary to servicing bonds issued prior to March 1, 2022, by the Central Bank, the National Wealth Fund or the Ministry of Finance of Russia. GL 3 authorizes very limited wind down transactions and activities to terminate existing activities and transactions involving VEB otherwise prohibited until March 24, 2022.

Authorizations related to CBR, NWF and MoF only – GLs 13 and 14

With respect to CBP, NWF and MoF only, OFAC issued GLs 13 and 14 on March 2, 2022, authorizing certain transactions involving these entities until June 24, 2022. GL 13 authorizes payment of taxes, fees, or import duties, and purchase or receipt of permits, licenses, registrations,

certifications, to the extent prohibited by Russia Directive 4 necessary to day-to-day operations in Russia but not involving the debit of U.S. financial institution account of CBR, NWF or MoF. GL 14 authorizes transactions prohibited by Russia Directive 4 involving CBR, NWF and MoF if their sole function in the transaction is to act as an operator of a clearing and settlement system, provided that: (i) there is no transfer of assets to or from any Directive 4 entity, unless separately authorized; and (ii) no Directive 4 entity is either a counterparty or a beneficiary to the transaction, unless separately authorized.

Authorizations related to some or all of the following VEB, Otkritie, Sovcombank, Sberbank, VTB, CBR NWF and MoF – GLs 8A, 9A, 10A, 11 and 12

With respect to VEB, Otkritie, Sovcombank, Sberbank, VTB and CBR, OFAC issued GL 8A on February 28, 2022, which superseded and replaced GL 8 (only to add CBR to the list of covered entities). This GL authorizes all transactions with these entities that are "related to energy." The term "related to energy" is broadly defined as:

> extraction, production, refinement, liquefaction, gasification, regasification, conversion, enrichment, fabrication, transport, or purchase of petroleum, including crude oil, lease condensates, unfinished oils, natural gas liquids, petroleum products, natural gas, or other products capable of producing energy, such as coal, wood, or agricultural products used to manufacture biofuels, or uranium in any form, as well as the development, production, generation, transmission, or exchange of power, through any means, including nuclear, thermal, and renewable energy sources.

However, Directive 1A sovereign debt restrictions on CBR and Directive 2 CAPTA restrictions on any of these entities are not authorized by GL 8A.

GL 9A was issued on March 2, 2022, and authorizes until May 25, 2022 (but not transactions prohibited by Russia Directive 2 or involving other blocked persons) all transactions:

- Necessary to dealings in debt or equity ("Covered Debt or Equity") of the following banks, provided that any divestment or transfers of the Covered Debt or Equity must be a non-US person: VEB, Otkritie, Sovcombank, Sberbank, VTB and any entity owned 50% or greater by them;
- Necessary to facilitating, clearing, and settling trades of Covered Debt or Equity placed prior to February 24, 2022; and
- Prohibited by Russia Directive 4 necessary to the receipt of interest, dividend, or maturity payments in connection with debt or equity of CBR, NWF and MoF issued before March 1, 2022.

GL 10A was also issued on March 2, 2022, and authorizes until May 25, 2022 (but not transactions prohibited by Russia Directive 2 or involving other blocked persons) all transactions:

- Necessary to wind-down derivative contracts entered into prior to 4pm ET on February 24, 2022 that: (i) include one of the entities as a counterparty ("Covered Entity") or (ii) are linked to debt or equity of a Covered Entity, provided that payments to a blocked persons are made into a blocked account: VEB, Otkritie, Sovcombank, Sberbank, VTB and any entity owned 50% or greater by them; and
- Prohibited by Russia Directive 4 and necessary to the wind down of derivative contracts, repurchase agreements, or reverse repurchase agreements entered into prior to March 1, 2022, that include the CBR, NWF or the MoF.

GL 11 was issued on February 24, 2022, and authorizes until March 26, 2022 all transactions necessary for the wind-down of transactions involving Otkritie, Sovcombank, and VTB and any entity owned 50% or greater by them (not involving any other blocked person).

GL 12 was issued on February 24, 2022, and authorizes until March 26, 2022, rejections of all transactions prohibited by EO 14024 involving Otkritie, Sovcombank, VTB or any entity

owned 50% or greater by them (not involving any other blocked person).

Blocking Sanctions Imposed Against Belarussian Financial Institutions and Nord Stream 2 AG

Blocking sanctions were also imposed pursuant to EOs 14038[3] (Belarus-related) and 14039[4] (Pipeline related). These blocking sanctions against individuals and entities are effective as of the date these persons are designated to the SDN List. On February 22, 2022, OFAC designated two large state-owned banks in Belarus, the Belarussian Bank of Development and Reconstruction Belinvestbank Joint Stock Company ("Belinvestbank") and Bank Dabrabyt Joint-Stock Company ("Bank Dabrabyt") pursuant to EO 14038, that were purported to have supported Russia's efforts in Ukraine.

Further, on February 23, 2022, Nord Stream 2 AG (aka New European Pipeline AG) was placed on the SDN List pursuant to EO 14039.

What is prohibited by the Blocking Sanctions of EO 14038 and 14093?

As of the date of their designation by OFAC to the SDN List, all property and interests in property of the SDNs including all entities and property owned 50% or greater, directly or indirectly, individually or in the aggregate, by the SDNs were blocked and could not be dealt in by any U.S. person unless generally or specifically authorized by OFAC.

What is generally authorized related to EOs 14038 and 14093?

Belarus-related EO 14038

Related to EO 14038 Belarus sanctions, OFAC has also issued Belarus-related GLs 6 and 7 authorizing transactions related to the conduct of official business of U.S. government, and for the official business of certain international organizations. These are summarized in Thompson Hine's SmarTrade Update of February 28, 2022 which provides additional details on these further OFAC sanctions.

Pipeline-related EO 14093

OFAC also issued Russia GL 4 which authorized all transactions that are ordinarily incident and necessary to the wind down of transactions involving Nord Stream 2 AG until March 2, 2022.

These actions are further detailed in Thompson Hine SmarTrade Updates dated February 23, 2022, February 24, 2022, and February 28, 2022.

Blocking Sanctions on "Russian Elites" and "Intelligence-Disinformation Outlets"

On March 3, 2022, OFAC sanctioned an extensive list of "Russian elites" and their family members in an effort to restrict their access to the U.S. financial system and freeze their assets in the United States. These sanctions also include the designation of several aircraft and vessels belonging to these individuals. In addition, the United States has also sanctioned a number of Russian "intelligence-directed disinformation outlets" for "enabling the Government of the Russian Federation's efforts to spread disinformation and influence perceptions as a part of their invasion of Ukraine."

What is Prohibited?

These Russian elites, their family members and disinformation outlets were placed on OFAC's SDN List and the full list is available here. With these designations to the SDN List, all property and interests in property of these persons that are in the United States or in the possession or control of U.S. persons (or their foreign branches) are blocked and must be reported to OFAC. In addition, any entities that are owned, directly or indirectly, individually or in the aggregate, 50% or more by one or more blocked

[3] Executive Office of the President, Executive Order 14038, "Blocking Property of Additional Persons Contributing to the Situation in Belarus" (August 9, 2021).

[4] Executive Office of the President, Executive Order 14039, "Blocking Property With Respect to Certain Russian Energy Export Pipelines" (August 20, 2021).

persons are also blocked. Unless authorized by a general or specific license issued by OFAC, or exempt, all transactions by U.S. persons or within (or transiting) the United States that involve any property or interests in property of blocked persons are generally prohibited.

What is Authorized?

OFAC also issued Russia GL 15 to clarify that the sanctioning and designation of Alisher Burkhanovich Usmanov does **not** impact a U.S. person's ability to engage in transactions with companies owned and controlled by that individual as long as such a company is not also designated by OFAC.

FOR MORE INFORMATION

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