

Additional U.S. Sanctions on Russian Financial Institutions, State-Owned and Private Entities, and Russian Individuals Deemed Close to Putin (February 24)

On February 24, the United States responded to the Russian-Ukraine conflict by blocking certain Russian financial institutions and individuals, and imposing varying degrees of sanctions prohibitions on other listed Russian banks and entities, including their subsidiaries pursuant to the 50 Percent Rule.

Blocking Sanctions on Certain Russian Banks

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) blocked four Russian financial institutions pursuant to Executive Order 14024, including VTB Bank, the second largest Russian bank by assets, which reported a record net profit equivalent to USD 4.1 billion in 2021. These actions block all property and interest in property currently in the United States or that later enters the jurisdiction of the United States and prohibits any dealings involving the bank absent an exemption or authorization from OFAC. The blocked banks include:

- VTB Bank
- Otkritie
- Novikom
- Sovcombank

OFAC VTB Bank, Otkritie, and Sovcombank General Licenses

OFAC issued general licenses concurrently with the sanctions on VTB Bank, Otkritie, and Sovcombank authorizing the following transactions and dealings otherwise prohibited by sanctions:

- "Wind down" transactions involving VTB Bank, Otkritie, and Sovcombank until March 26, 2022 (GL No. 11)
- Rejection (rather than blocking) of certain transactions involving VTB Bank, Otkritie, and Sovcombank until March 26, 2022 (GL No. 12)

Blocking Sanctions on Certain Russian Individuals and Moscow-based Real Estate Companies

OFAC imposed blocking sanctions pursuant to Executive Order 14024 on seven Russian "elites" and two real estate companies owned by a concurrently sanctioned VTB Bank executive. These blocked individuals and entities include:

- Sergei Sergeevich Ivanov (the current CEO of Alrosa and board member of Gazprombank and son of Sergei Borisovich Ivanov)
- Andrey Patrushev (son of sanctioned individual Nikolai Platonovich Patrushev)

- Ivan Igorevich Sechin (son of sanctioned individual Igor Ivanovich Sechin)
- Alexander Aleksandrovich Vedyakhin (First Deputy Chairman of the Executive Board of Sberbank)
- Andrey Sergeevich Puchkov (VTB Bank executive)
- Yurly Alekseyevich Soloviev (VTB Bank executive)
- Galina Olegovna Ulyutina (wife of Yurly Alekseyevich Soloviev)
- Limited Liability Company Atlant S (owned or controlled by Andrey Sergeevich Puchkov)
- Limited Liability Company Inspira Invest A (owned or controlled by Andrey Sergeevich Puchkov)

CAPTA and Rejection Sanctions on Sberbank

OFAC imposed correspondent account and payable-through account (CAPTA) sanctions and rejection sanctions on Sberbank, the largest Russian financial institution by assets. These sanctions do not block Sberbank, but prohibit U.S. financial institutions from maintaining or opening accounts, as well as processing transactions for the bank and its non-U.S. financial institution subsidiaries as of March 26, 2022.

New Debt and New Equity Restrictions on Certain Russian Entities

OFAC also imposed new debt and new equity sanctions on a number of Russian entities, which similarly to existing restrictions under Directive 1 of Executive Order 13662, as amended, prohibit U.S. persons from dealings in new debt of longer than 14 days maturity or new equity of entities issued on or after March 26, 2022. In assessing the application of the debt restrictions, consideration should be given as to which party has the obligation to repay the subject debt – the prohibition applies to debt of the sanctioned parties, rather than debt involving those entities. Additionally, loan agreements that predate the sanctions effective date and are not modified on or after the sanctions effective date do not need to carry repayment terms of 14 days or less.

The Russia-related entities to which these new debt and new equity prohibitions apply are as follows:

- Credit Bank
- Gazprombank
- Alfa-Bank
- Russian Agricultural Bank
- Sovcomflot
- Russian Railways
- Alrosa
- Gazprom
- Gazprom Neft
- Rostelecom
- Rushydro
- Sberbank
- Transneft

Additional General Licenses

On February 24, OFAC issued a number of general licenses authorizing the following transactions otherwise prohibited by Executive Order 14024:

GL No.	Authorized Activities
5	Transactions for the conduct of the official business of certain international organizations
6	Transactions Related to the Exportation or Reexportation of Agricultural Commodities, Medicine, Medical Devices, Replacement Parts and Components, or Software Updates, or the Coronavirus Disease 2019 (COVID-19) Pandemic
7	Overflight Payments, Emergency Landings, and Air Ambulance Services
8	Transactions Related to Energy (until June 24, 2022) Authorization applicable to the following banks: <ul style="list-style-type: none"> • VEB • Otkritie • Sovcombank • Sberbank • VTB Bank
9	Transactions Related to Dealings in Certain Debt or Equity (until May 25, 2022) Authorization applicable to the following banks: <ul style="list-style-type: none"> • VEB • Otkritie • Sovcombank • Sberbank • VTB Bank
10	Certain Transactions Related to Derivative Contracts (until May 25, 2022) Authorization applicable to the following banks: <ul style="list-style-type: none"> • VEB • Otkritie • Sovcombank • Sberbank • VTB Bank

U.S. Sanctions on the Nord Stream 2 Pipeline (February 23)

On February 23, President Biden removed a national security waiver and imposed blocking sanctions on Nord Stream 2 AG and its CEO, Matthias Warnig. That action, in concert with the German declaration on February 22 that it would cease certification, effectively prevents Nord Stream 2 from becoming operational.

OFAC issued General License No. 4 authorizing certain “wind down” transactions involving Nord Stream 2 AG until March 2, 2022.

By way of background, in May 2021, the U.S. Department of State identified Nord Stream 2 AG – the Switzerland-based project company established to plan, construct, and operate the 750-mile natural gas pipeline owned by Gazprom – and Matthias Warnig in a sanctions-related report to Congress regarding construction of the Nord Stream 2 pipeline. Concurrent with those identifications, President Biden issued a national security waiver on the sanctions that would otherwise have been imposed against Nord Stream 2 AG and Matthias Warnig arising from their inclusion in that report.

Determination Targeting the Financial Services Sector of Russia; Blocking Sanctions on Vnesheconombank, Promsvyazbank, and Individuals Deemed Close to Putin, and Enhanced Sovereign Debt Restrictions (February 22)

Blocking of Vnesheconombank and Promsvyazbank

On February 22, the Secretary of the Treasury made a determination pursuant to Executive Order 14024 authorizing sanctions against any person determined to operate in the financial services sector of the Russian economy. OFAC then blocked the Corporation Bank for Development and Foreign Economic Affairs Vnesheconombank (VEB) and Promsvyazbank Public Joint Stock Company (PSB) pursuant to a determination that those banks operate in the financial services sector of the Russian economy. Following that action, any property or interests in property of these banks in the United States, or that later enters the jurisdiction of the United States must be blocked and reported to OFAC.

Although these banks are not commercial financial institutions, which limits the overall impact and disruption, OFAC specifically sanctioned 42 subsidiaries of the two banks, and even identified five vessels as blocked property of one such subsidiary. The sanctioned subsidiaries include entities in a wide variety of industries, including financial services, technology, extraction, real estate, business and management advisory, and construction, among others.

VEB General Licenses

OFAC issued two General Licenses applicable to dealings involving VEB authorizing the following transactions and dealings otherwise prohibited by sanctions:

- Certain transactions involving VEB related to servicing certain Russian sovereign debt (GL No. 2)
- “Wind down” transactions involving VEB until March 24, 2022 (GL No. 3)

Blocking Sanctions on Certain Russian Individuals

OFAC also sanctioned three individuals identified as “elites and families close to Putin.” Like other blocking sanctions, these sanctions require that property or interests in property in the United States, or that later enters the jurisdiction of the United States be blocked and reported to OFAC. These

OFAC imposed blocking sanctions pursuant to Executive Order 14024 on three Russian individuals identified as “elites and families close to Putin.” These blocked individuals include:

- Denis Aleksandrovich Bortnikov (Deputy President of VTB Bank, Chairman of the VTB Bank Management Board, and son of Aleksandr Vasilevich Bortnikov)
- Petr Mikhailovich Fradkov (Chairman and CEO of PSB, and son of Mikhail Efimovich Fradkov)
- Vladimir Sergeevich Kiriyyenko (First Deputy Chief of Staff of the Presidential Office and son of Sergei Vladilenovich Kiriyyenko)

Enhanced Foreign Debt Restrictions

On February 22, OFAC also issued Russia-related Directive 1A under Executive Order 14024, which amends and supersedes the prior version of the directive to extend the prior primary market sovereign debt prohibitions to cover participation of U.S. financial institutions in the secondary market for bonds (ruble or non-ruble denominated) issued after March 1, 2022 by the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, or the Ministry of Finance of the Russian Federation.

U.S. Sanctions on the Donetsk People’s Republic (DNR) and Luhansk People’s Republic (LPR) regions of Ukraine (February 21)

On February 21, President Biden responded to Russia’s recognition of the so-called Donetsk People’s Republic (DNR) and Luhansk People’s Republic (LPR) regions of Ukraine by issuing Executive Order 14065. This new authority is substantially similar to the sanctions imposed on the Crimea region of Ukraine following its purported annexation by Russia.

Prohibitions under Executive Order 14065

As of February 21, U.S. persons (companies and entities organized in the United States and their foreign branches, and natural persons physically in the United States, as well as citizens and Green Holders irrespective of their physical location) are prohibited from the following, absent a license from (OFAC):

- New investment in the DNR or LPR regions;
- Importation into the United States of goods, services, or technology from the DNR or LPR regions;
- Exportation, reexportation, sale or supply from a U.S. person of goods, services, or technology to the DNR or LPR regions; and
- Facilitation of the above transactions conducted by non-U.S. persons.

Unfortunately, like the sanctions prohibitions involving the Crimea region, the relevant sanctions regulations do not currently incorporate the new Executive Order. In absence of explicit definitions and guidance provided by OFAC to the contrary, it is reasonable to interpret these prohibitions as having the same general contours as those in other sanctions programs. For example, prohibited “new investment” is defined in other sanctions programs as “a commitment of contribution of funds or other assets; or a loan or other extension of credit,” and it would be reasonable to apply that definition to dealings involving the DNR or LPR regions. We note that OFAC has previously interpreted property abandoned in war torn regions as not being “new investments” under other sanctions programs, but any U.S. company that must leave behind significant property in the DNR or LPR regions should consider providing notification to OFAC.

Executive Order 14065 Sanctions Designation Criteria

Executive Order 14065 grants OFAC authority to impose blocking sanctions on any individual or company determined to

- Operate or have operated in the DNR or LPR regions since February 21, 2022;
- Be a leader, official, senior executive officer, or member of the board of directors of an entity operating in the DNR or LPR regions; or
- Be owned or controlled by, have acted for or on behalf of, or have provided support to any individual or entity sanctioned pursuant to the Order.

OFAC DNR and LPR Region General Licenses

OFAC issued a series of General Licenses concurrently with the Executive Order authorizing the following transactions and dealings that would otherwise be prohibited:

- “Wind down” transactions involving the DNR or LPR regions (until March 23, 2022) (GL No. 17)
- Exportation or reexportation of agricultural commodities, medicine, medical devices, and COVID 19-related transactions (GL No. 18)
- Telecommunications and Mail (GL No. 19)
- Official Business of certain International organizations and entities (GL No. 20)
- Noncommercial, personal remittances and the operation of accounts (GL No. 21)
- Exportation of certain services and software incident to internet-based communications (GL No. 22)

Executive Order 14065 Compliance Considerations

The sanctions targeting the DNR or LPR regions are substantially similar to those involving the Crimea region. U.S. companies, as well as non-U.S. companies that engage in dealings with U.S. persons, the U.S. financial system, or U.S. origin goods and technology, should therefore consider applying the same procedures established to maintain compliance with those prohibitions. Depending upon the specific risk profile of a given company, this generally includes the following:

- Ensuring that economic sanctions compliance screenings include the full postal codes of all Russian and Ukrainian counterparties;
- Identification of customers who are “ordinarily resident in” the DNR or LPR regions; and
- Due diligence review of distributors/resellers who sell into the DNR or LPR regions to identify those that sell predominantly into those regions and those who may special order shipments for those areas, as opposed to selling from their general inventory.

U.K. Sanctions

On February 22, the HM Treasury’s Office of Financial Sanctions Implementation (OFSI) imposed freezing sanctions on three individuals and five financial institutions.

- Gennadiy Nikolayevich TIMCHENKO
- Boris Romanovich ROTENBERG
- Igor Arkadyevich ROTENBERG
- BANK ROSSIYA
- BLACK SEA BANK FOR DEVELOPMENT AND RECONSTRUCTION
- JOINT STOCK COMPANY GENBANK
- IS BANK PUBLIC JOINT STOCK COMPANY PROMSVYAZBANK

In its Financial Sanctions Notice, OFSI instructs U.K. persons as follows:

1. Check whether they maintain any accounts or hold any funds or economic resources for the persons set out in the Annex to this Notice;
2. Freeze such accounts, and other funds or economic resources and any funds which are owned or controlled by persons set out in the Annex to the Notice
3. Refrain from dealing with the funds or assets or making them available (directly or indirectly) to such persons unless licensed by the Office of Financial Sanctions Implementation (OFSI);
4. Report any findings to OFSI, together with any additional information that would facilitate compliance with the Regulations; and
5. Provide any information concerning the frozen assets of designated persons that OFSI may request. Information reported to OFSI may be passed on to other regulatory authorities or law enforcement.

On February 24, Prime Minister Johnson announced an upcoming comprehensive set of economic sanctions, export controls, and Russia-related anti-money laundering enhancements following the Russian-Ukraine conflict. Some of the announced measures as described by Prime Minister Johnson will require legislation or multilateral cooperation. As the precise measures become clear, Squire Patton Boggs will provide analysis accordingly.

- An immediate freeze against VTB Bank, with upcoming asset freezes against “all major Russian banks”
- Legislation that will as of March 1 prevent all major Russian companies from raising finance on U.K. markets, and also prohibiting the Russian state from raising sovereign debt on U.K. markets.
- Sanctions on over 100 individuals, entities and their subsidiaries
- Imminent ban on Aeroflot (the largest Russian airline) planes landing in the U.K.
- Immediate ban on exports of dual-use goods
- Legislation within days to prohibit a range of “hi-tech exports” (e.g., semiconductors, aircraft parts, goods for the extractive industries)
- Legislation to limit the amount of deposits Russian nationals can hold in U.K. bank accounts
- Application of all Russia-related sanctions to Belarus
- Accelerate passage of an economic crime bill to target illicit Russian money in the U.K.

European Union Targeted Restrictive Measures, Restrictions on Economic Relations, and Financial Restrictions

On February 23, the EU Council announced actions in response to the declaration of independence of the Donetsk and Luhansk regions and subsequent incursion of Russian troops.

The EU announced restrictive measures on all 351 members of the Russian State Duma, who unanimously authorized Putin’s recognition of the “independent republics.” The EU Council announcement references targeted restrictive measures on an additional 27 “high profile individuals and entities” and generally describes certain government officials, oligarchs, senior military officers, and individuals responsible for disinformation, but announcement does not provide the identities of the sanctioned parties. The restrictive measures on these individuals and entities include an asset freeze, a prohibition from making funds available, and a travel ban.

The EU also imposed import ban on goods from the non-government controlled areas of the Donetsk and Luhansk regions, restrictions on trade and investments related to certain economic sectors, a prohibition to supply tourism services, and an export ban for certain goods and technologies. The announcement does not provide an explanation of the targeted economic sectors, or the goods and technologies subject to the export ban.

Lastly, the EU announced the introduction of a sectoral prohibition to restrain “the ability of the Russian state and government to access the EU’s capital and financial markets and services.” The EU did not provide the specifics of the prohibition that would attain those goals in its announcement.

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