

Insights

ROUND 3: CONTINUED SANCTIONS AGAINST RUSSIA (AND BELARUS) – FOCUS ON RUSSIAN BANKS

Feb 25, 2022

SUMMARY

In response to the increased escalation in Ukraine, on February 24, 2022, the United States imposed another round of sanctions against Russian financial institutions, state-owned agencies, and Russian elites with close ties to President Putin. The third tranche of sanctions include full blocking sanctions, correspondent and payable-through account sanctions, and restrictions on transactions involving new debt and equity. These sanctions span more industries than the previous sanctions, but still primarily focus on financial institutions. Prior alerts discussed the [February 21 sanctions](#) and [February 22 sanctions](#).

In addition to the sanctions against Russian entities and individuals, the U.S. Government has also issued sanctions against entities and individuals in Belarus's defense and financial sectors.

Asset Blocking Sanctions

The February 24th sanctions included the designation of several financial institutions and elites with close ties to the Kremlin as Specially Designated Nationals and Blocked Persons (SDNs).

To the extent that that you have dealings with any of the newly designated SDNs or any entity owned 50% or more by one or more SDNs, all assets in the United States or within the possession or control of any U.S. person must be blocked immediately (and that blocking reported to OFAC within 10 business days) and transactions with those persons and entities must cease. Activities of non-U.S. persons that are not otherwise subject to the restrictions may nonetheless come within U.S. jurisdiction if those activities involve U.S. persons, such as U.S. financial institutions (including their foreign branches) or U.S. citizens or permanent residents working for non-U.S. companies.

Correspondent and Payable-Through Account Sanctions

[Directive 2](#) issued pursuant to Executive Order (EO) 14024, "Prohibitions Related to Certain Sovereign Debt of the Russian Federation" (the "Russia-related CAPTA Directive") authorized the

imposition of restrictions on correspondent and payable-through account activity by designated financial institutions. OFAC added 25 parties to foreign financial institutions (FFIs) to the List of Foreign Financial Institutions Subject to Correspondent Account or Payable-Through Account Sanctions (CAPTA List) pursuant to Directive 2. The CAPTA List is not the same as the SDN list. In general, U.S. persons are not restricted from doing business with CAPTA List parties and there are no asset blocking requirements. Nonetheless, the breadth of restrictions on U.S. financial institutions interacting with CAPTA FFIs may, as a practical matter, severely limit transactions by U.S. persons involving these CAPTA-designated entities.

Under Directive 2, U.S. financial institutions are prohibited from engaging in the following activities:

- (i) Opening or maintaining correspondent and payable-through accounts for or on behalf of any entity added to the CAPTA list and their property or interests in property; and
- (ii) Processing transactions for any entity added to the CAPTA List and their property or interests in property.

The restrictions under this Directive will take effect on March 26, 2022, for all entities added to the CAPTA List on February 24, 2022, and 30 days after their addition to the CAPTA List for any future designations. Like with SDNs, OFAC's 50% rule applies to CAPTA List entities.

Debt and Equity Restrictions

[Directive 3](#) issued pursuant to EO 14024 prohibits transactions and dealings by U.S. persons or within the United States in new debt of longer than 14 days maturity and new equity where such new debt or new equity is issued on or after March 26, 2022. The prohibitions apply to 13 identified entities. The 13 entities include 11 state-owned entities and two private companies in key sectors within the Russian economy, including more financial institutions.

These restrictions are akin to the restrictions currently in place pursuant to Directive 1 to Executive Order 13662, which focus on financial sector SSIs. U.S. persons are not prohibited from engaging in transactions with entities designated pursuant to Directive 3 under EO 14024, but need to be particularly mindful of the debt maturity provisions. Moreover, General Licenses (GLs) Nos. 9 and 10 permit U.S. persons to engage in certain activities with covered entities until May 25, 2022 that are necessary to wind down transactions involving otherwise prohibited debt and equity.

Key Parties Sanctioned

A full list of the parties subject to the new sanctions can be found [here](#). Below is a list of the restrictions for some key entities.

Public Joint Stock Company Sberbank of Russia

The new restrictions applicable to Sberbank and 25 FFIs that are owned 50% or more by Sberbank as of today are as follows:

- CAPTA list designation: S. financial institutions are restricted from opening or maintaining correspondent and payable-through accounts and from processing transactions involving Sberbank, these FFI affiliates, or any of their property or interests in property.
- Directive 3 to EO 14024: This designation replicates the debt and equity restrictions already in place pursuant to Directive 1 under EO 13662 – U.S. persons cannot engage in transactions or deal in new debt with a maturity of more than 14 days or new equity of Sberbank and its subsidiaries.

VTB Bank Public Joint Stock Company; Public Joint Stock Company Bank Financial Corporation Otkritie; Open Joint Stock Company Sovcombank; Joint Stock Commercial Bank Novikombank

Restrictions introduced for VTB, Otkritie, Sovcombank, and Novikombank and 54 of their subsidiaries include:

- SDN Designation: Imposition of full blocking sanctions and prohibition on transactions by U.S. persons.

Some activities are temporarily permitted pursuant to GLs. GL Nos. 11 and 12 authorize U.S. persons to in engage in activities with VTB, Otkritie, and Sovcombank that are necessary to wind down transactions and to reject prohibited transactions with those entities until March 26, 2022. GL No. 8 authorizes continued transactions related to energy with VEB, VTB, Otkritie, Sovcombank, Sberbank, and their subsidiaries until June 24, 2022. In addition, GL No. 6 authorizes certain exports and reexports related to agricultural commodities, medicines, medical devices, and the COVID-19 pandemic.

Gazprombank Joint Stock Company; Public Joint Stock Company Gazprom; and Public Joint Stock Company Gazprom Neft

Restrictions introduced for Gazprombank, Gazpron and Gazprom Neft and their subsidiaries include:

- Directive 3 to EO 14024: U. persons cannot engage in transactions or deal in new debt with a maturity of more than 14 days or new equity of Gazprombank, Gazprrom, and Gazprom Neft and their subsidiaries. Gazprom was already subject to debt restrictions for debt of greater than 60-day maturity pursuant to Directive 2 under EO 13662, “Blocking Property of Additional Persons Contributing to the Situation in Ukraine.” Now, for any new debt issued on or after March 26, 2022, the debt maturity cannot be longer than 14 days.

Entities in other sectors were also subject to the Directive 3 debt and equity restrictions, including agriculture, petroleum, telecommunications, hydroelectric, diamond mining, freight shipping, and

railroads.

In addition to the entities above, OFAC has added seven individuals to the SDN list that have close ties to President Putin or to certain sanctioned parties, including executives at Sberbank and VTB.

Belarus Sanctions

In addition to the sanctions targeting parties in Russia, OFAC has issued sanctions against certain Belarusian individuals and entities due to their support for and facilitation of Russia's actions in Ukraine. Specifically, OFAC designated as SDNs two Belarusian financial institutions along with 11 entities involved in the defense industry, five executives of those companies, and three other Belarusian Defense Officials in President Lukashenka's inner circle. The full list of parties in Belarus designated as SDNs can be found [here](#). U.S. persons are prohibited from providing funds, goods, or services to or for the benefit of any of the SDNs, and from receiving funds, goods, or services from any of the SDNs, and they must block any property of the SDNs that comes in their possession or control.

Companies should review any touchpoints they have with the newly designated persons and institutions. The U.S. International Trade team will continue to monitor the latest developments and is available to discuss the effect of these new sanctions on your operations.

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