

Insights

ROUND 2: MORE SANCTIONS AGAINST RUSSIA

Feb 23, 2022

As unveiled during President Biden’s press conference on February 22, 2022, the United States has imposed another round of sanctions in response to President Putin’s decision to deploy troops to the so-called Donetsk People’s Republic (DNR) and Luhansk People’s Republic (LNR) regions of Ukraine. The sanctions build on Monday’s initial set of restrictions against activities involving the so-called DNR and LNR (as discussed in our [February 22 alert](#)).

On February 22, the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) added two Russian state-owned banks, Vnesheconombank (VEB) and Promsvyazbank (PSB) – as well as their 42 subsidiaries, to the Specially Designated Nationals and Blocked Persons List (SDN). VEB is critical for Russia’s national economic development, while PSB is known to finance Russia’s defense industry. Five vessels owned by PSB Lizing OOO were also designated as SDNs, along with five Russian elites with close ties to President Putin and the Kremlin, including the Director of the Federal Security Service, the Chairman and CEO of PSB, and former Prime Minister Sergei Kiriyenko. A full list of the sanctioned parties can be found [here](#).

U.S. persons are prohibited from providing funds, goods, or services to or for the benefit of any SDN and from receiving funds, goods, or services from any SDN. Any interests in property of an SDN that are or become within the United States or within the possession or control of a U.S. person must be blocked. The prohibitions and blocking requirements extend to entities that are collectively owned 50% or more, directly or indirectly, by one or more of the SDNs.

The term “U.S. persons” is defined to include the following:

- U.S. citizens, wherever located;
- Permanent resident aliens of the United States, wherever located;
- Entities organized under the laws of the United States or any jurisdiction within the United States, including foreign branches; and
- Any person or entity physically in the United States.

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 business with those persons and entities must cease. General License Number 3 authorizes transactions necessary to wind down business with VEB and its subsidiaries until March 24, 2022. All other activities with other parties must cease immediately for U.S. persons. In addition, financial transactions involving the designated banks are also prohibited (subject to the terms of the wind down general license for transactions involving VEB and its subsidiaries). Moreover, ongoing activities by non-U.S. persons with SDNs may trigger risks under various secondary sanctions.

Separately, and in addition to the designations of SDNs, OFAC issued [Directive 1A](#) under Executive Order 14024, "Prohibitions Related to Certain Sovereign Debt of the Russian Federation." Directive 1A expanded the restrictions concerning Russian sovereign debt to prohibit participation by U.S. financial institutions in the secondary market for Russian-backed bonds that are issued after March 1, 2022. General License Number 2, also issued on February 22, 2022, allows for transactions with VEB and its subsidiaries, necessary to servicing bonds issued prior to March 1, 2022.

Based on the messaging from the White House, we expect there to be additional designations of Russian elites if the situation escalates further. We also note that the sanctions this week have not yet included any additional export control restrictions. However, we expect more restrictions to follow if Russia does not change course with respect to Ukraine.

Companies should review any touchpoints they have with the newly designated persons. 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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