

Ukraine Crisis Update: US Imposes New Sanctions on Major Russian Banks and Energy Companies

US announces “sectoral” sanctions on major banks and energy companies, adds to the Specially Designated Nationals list; European Council considers additional sanctions.

On July 16, 2014, the U.S. Department of the Treasury announced “sectoral sanctions” against two Russian banks (Vnesheconombank and Gazprombank) and two Russian energy firms (Rosneft and Novatek). The targeted sanctions, imposed through two “Directives” issued pursuant to [Executive Order 13662](#), bar certain activities by US persons or within the United States involving newly issued debt and equity for the named banks and newly issued debt for the named energy companies, including entities owned 50 percent or more by these firms. The four firms targeted operate within particular “sectors” of the Russian economy (here, financial services and energy) identified as potential targets for sanctions in [Executive Order 13662](#).

In addition to these sectoral sanctions, the Office of Foreign Assets Control (OFAC) added [five individuals and 11 entities](#) to the [Specially Designated Nationals](#) (SDN) list. The Commerce Department’s [Bureau of Industry and Security](#) also added these parties to the [Entity List](#), which generally bars exports and reexports of US-origin items to listed parties.

While the European Union (EU) has not implemented additional sanctions, in a special meeting of the European Council (EC) on July 16, 2014, EU leaders agreed to consider targeting Russia with additional sanctions, which may be imposed by the end of July.

Scope and Impact of New Measures

New U.S. Department of the Treasury Directives

The U.S. Department of the Treasury issued two Directives pursuant to [Executive Order 13662](#):

- Directive 1 prohibits certain activities by US persons or within the United States relating to newly issued debt and equity for firms operating in Russia’s financial sector that are named under the Directive (specifically, Vnesheconombank and Gazprombank). Directive 1 prohibits US persons from “transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or new equity for these [banks], their property, or their interests in property.” [Directive 1 Pursuant to EO 13662](#).
- Directive 2 applies to named persons operating in Russia’s energy sector (specifically, Rosneft and Novatek). Unlike Directive 1, however, Directive 2 only prohibits certain activities by US persons or

within the United States relating to newly issued debt (and not newly issued equity) for firms operating in Russia's energy sector that are named under the Directive. Specifically, Directive 2 prohibits US persons from "transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity for these persons, their property, or their interests in property." [Directive 2 Pursuant to EO 13662](#).

The companies named in these Directives have been added to the new [Sectoral Sanctions Identifications List](#) (SSI List). Notably, the prohibitions apply not only to the parties identified on the new [SSI List](#), their property, and their interests in property, but also "includes entities owned 50 percent or more" by persons on the [SSI List](#) and accordingly may reach subsidiaries of the listed persons. See [OFAC FAQ No. 373](#).

OFAC's [Frequently Asked Questions](#) provide additional guidance regarding the scope of the new sanctions.

- Companies on the SSI List have not been placed on the SDN list, and the property and interests in property of SSI-listed companies are not subject to blocking if in the possession or control of a US person. See OFAC FAQ No. 370.
- US persons should "reject" requests to be involved in the types of transactions and dealings prohibited under the Directives. See OFAC FAQ No. 370. US persons may need to report rejected transactions to OFAC within 10 business days, if required under 31 CFR 501.604 (the Reporting, Procedures and Penalties Regulations).
- The prohibition on "dealing in" new debt or new equity contained in the Directives extends to the "provision of services in support of such new debt or new equity." See OFAC FAQ No. 371.
- US persons are permitted to transact in, provide financing for, or otherwise deal in any debt or equity issued prior to July 16, 2014, for, on behalf of, or for the benefit of parties on the SSI List. See OFAC FAQ No. 370.
- US financial institutions may continue to maintain correspondent accounts and process US dollar-clearing transactions for parties on the SSI List, provided those activities do not involve transacting in, providing financing for, or otherwise dealing in prohibited new debt and/or new equity transactions. See OFAC FAQ No. 371.
- The term "debt" includes bonds, loans, extensions of credit, loan guarantees, letters of credit, drafts, bankers acceptances, discount notes or bills or commercial paper. See OFAC FAQ No. 371.
- The term "equity" includes stocks, share issuances, depository receipts, or any other evidence of title or ownership. See OFAC FAQ No. 371.

In addition, OFAC has issued [General License 1](#), which authorizes transactions by US persons worldwide and transactions within the United States relating to derivative products that are linked to long-term debt of the parties added to the [SSI List](#).

Agreement to Expand EU Sanctions Targeting Russia

In a special EC meeting on July 16, EU leaders agreed to expand Russia-related sanctions maintained by the EU. The [European Council Conclusions on External Relations](#) calls for the following:

- Publishing, by the end of July, a new list of entities and persons, including from the Russian Federation, identified as supporting actions that threaten or undermine the sovereignty, territorial integrity, and independence of Ukraine.
- Potentially targeting individuals or entities who have actively provided support to Russian decision-makers responsible for the annexation of Crimea or destabilization of Eastern Ukraine.
- Suspending the European Investment Bank's new financing of operations in the Russian Federation.
- Reassessing and potentially suspending the implementation of bilateral EU and regional cooperation programs with the Russian Federation.
- Preparing additional measures restricting investment in Crimea and Sevastopol.

Potential for Additional Sanctions

The new sanctions described above and the threat of further measures in the days ahead are creating complex challenges for an expanding range of companies doing business in or with Russia. We are continuing to monitor the evolving legal and policy environment and will publish updates in response to new developments.

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