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Biden Administration Imposes "First Tranche" of Sanctions in Response to Russian Actions in Ukraine

February 24, 2022

On February 22 and 23, 2022, the Biden Administration announced additional sanctions on Russia. The first group of sanctions was announced on February 22, following Russia's recognition of the so-called Donetsk and Luhansk People's Republics (DNR and LNR) as "independent" states covering Ukraine's entire Donbas region and Russia's decision to deploy additional forces into Ukrainian territory. The White House described these sanctions as part of the "first tranche" of sanctions designed to impose "swift and severe costs on Russia" for its actions in Ukraine. The Administration coordinated its sanctions with the European Union, United Kingdom, Canada, Japan, and Australia.

These new measures, described in detail below, include new blocking sanctions against Russian banks (including their subsidiaries and vessels) and five Russian individuals with close ties to Russian President Vladimir Putin, as well as additional restrictions on dealings in Russia's sovereign debt. The White House also announced sanctions on the Nord Stream 2 natural gas pipeline as well as one of its executives.

Sanctions Against Russian Banks and Their Subsidiaries/Vessels

Pursuant to Executive Order (EO) 14024 of April 15, 2021, OFAC designated as Specially Designated Nationals (SDNs) the following Russian banks, which the U.S. government views as integral to Russia's ability to raise funds and finance Russia's defense sector:

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Corporation Bank for Development and Foreign Economic Affairs Vnesheconombank (VEB), which formerly was only subject to more limited, sectoral new debt/equity restrictions, and **Promsvyazbank Public Joint Stock Company (PSB)**.

Additionally, the following 42 subsidiaries of VEB and PSB, along with five PSB-owned vessels, were designated as SDNs:

Designated VEB Subsidiaries

- **Bank BELVEB OJSC** (bank in Belarus)
- **VEB Leasing OJSC** (leasing company in Russia)
- **Prominvestbank** (bank in Ukraine)
- **VEB Capital** (financial company in Russia)
- **VEB Engineering LLC** (investment project services company in Russia)
- **JSC Infraveb** (investment project support company in Russia)
- **JSC VEB.DV** (investment project support company in Russia)
- **VEB Asia Limited** (financial company in Hong Kong)
- **LLC Infrastructure Molzhaninovo** (electric energy company in Russia)
- **LLC Resort Zolotoe Koltso** (real estate and construction company in Russia)
- **JSC Russian Export Center** (export company in Russia)
- **LLC VEB Ventures** (financial company in Russia)
- **LLC VEB Service** (business and management advisory company in Russia)
- **LLC Special Organization for Project Finance Factory of Project Finance** (financial company in Russia)
- **LLC SIBUGLEMET Group** (coal mining company in Russia)
- **JSC ANGSTREM-T** (technology company in Russia)
- **LLC NM-TEKH** (technology company in Russia)

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Practice Areas

Export Controls and
Economic Sanctions
International Trade
National Security

- **JSC SLAVA** (real estate company in Russia)
- **JSC PFC CSKA** (sporting activities company in Russia)
- **LLC Torgovy Kvartal-Novosibirsk** (property leasing company in Russia)
- **LLC Baikal Center** (construction company in Russia)
- **LLC Progorod** (infrastructure company in Russia)
- **LLC VEB.RF Asset Management** (financial company in Russia)
- **Eximbank of Russia JSC** (export support institution and commercial bank in Russia)
- **Russian Agency for Export Credit and Investment Insurance OJSC** (insurance agency in Russia)

Designated PSB Subsidiaries and Vessels

- **Alkes Treid OOO** (financial company in Russia)
- **Antares OOO** (financial company in Russia)
- **Elitnye Doma OOO** (real estate company in Russia)
- **PSB Innovations and Investments Limited Liability Company** (technology company located in Russia)
- **Era Fund Limited Liability Company** (technology company in Russia)
- **PSB-Foreks OOO** (financial company in Russia)
- **Kholtsvud OOO** (financial company in Russia)
- **Kourf OOO** (financial company in Russia)
- **Management Company Promsvyaz LLC** (investment company in Russia)
- **Paskal OOO** (management consulting services company in Russia)
- **PSB Biznes OOO** (hospitality company in Russia)
- **Saint-Petersburg International Banking Conference LLC**

(financial company in Russia)

- **Sergievo-Posad Lend OOO** (financial company in Russia)
- **PSB Avializing OOO** (financial company in Russia)
- **Tekhnosoft OOO** (technology company in Russia)
- **Trinitex OOO** (real estate company in Russia)
- **PSB Lizing OOO** (financial company in Russia)
- **Baltic Leader** (IMO 9220639)
- **Linda** (IMO 9256858)
- **Pegas** (IMO 9256860)
- **Fesco Magadan** (IMO 9287699)
- **Fesco Moneron** (IMO 9277412)

OFAC's SDN designations mean that these Russian financial institutions and other entities are effectively cut off from the U.S. market and financial system, and all property and interests in property of VEB, PSB, and their designated subsidiaries/vessels that come within the possession of U.S. persons are blocked and must be reported to OFAC. U.S. persons also are generally prohibited from engaging in transactions with these individuals and entities, as well as any other entities 50% or more directly or indirectly owned by VEB or PSB (even if not listed above).

Concurrent with the SDN designations, OFAC issued General License 3, which permits U.S. persons to engage in transactions necessary to wind down business with VEB or any entity 50% owned by VEB. This authorization expires on March 24, 2022. OFAC also issued General License 2, which allows VEB and its subsidiaries to service bonds issued before 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, provided the transactions are otherwise consistent with the U.S. restrictions on Russian sovereign debt and do not involve other blocked persons. OFAC did not issue parallel general licenses for PSB or its affiliates.

Notably, the Administration may issue another tranche of sanctions against Russian financial institutions, as OFAC is authorized to

sanction additional entities operating in Russia's financial services sector pursuant to EO 14024.

Sanctions on Russian Elites and Their Families

In addition, under EO 14024, OFAC also designated as SDNs five elites close to President Putin, whom the U.S. government believes enrich themselves from their positions of power and government access. Certain of these individuals were previously designated as SDNs, and thus, already subject to U.S. sanctions.

Specifically, the government designated **Aleksandr Bortnikov**, director of the Russian Federal Security Service, and his son **Denis Bortnikov**, who is deputy president of Russian state-owned financial institution VTB Bank. Aleksandr Bortnikov was already designated as an SDN in March 2021.

OFAC also designated **Petr Mikhailovich Fradkov**, chairman and CEO of PSB. **Vladimir Sergeevich Kiriyenko**, first deputy chief of staff of the presidential office and alleged domestic policy curator, and his son **Sergei Vladilenovich Kiriyenko**, CEO of VK Group, the parent company of Russia's top social media platform, VKontakte, were designated as well. Sergei Kiriyenko was previously designated as an SDN in March 2021.

These SDN designations have the same impact as the SDN designations of the financial institutions discussed above. As a result, these individuals are effectively cut off from the U.S. market and financial system, and all property and interests in property of these individuals that come within the possession of U.S. persons are blocked and must be reported to OFAC. U.S. persons also are generally prohibited from engaging in transactions with these individuals, as well as any entities 50% or more directly or indirectly owned by these individuals.

Sovereign Debt Restrictions

OFAC also increased restrictions on dealings in Russia's sovereign debt by replacing the April 15, 2021 Directive 1 under EO 14024 with Directive 1A. As background, under OFAC's separate CBW Act Directive, since August 26, 2019, U.S. banks have been prohibited from participating in the primary market for non-ruble denominated bonds issued by the Russian sovereign, as well as lending non-ruble denominated funds to the Russian sovereign. Separately,

Directive 1 under EO 14024 (not to be confused with the sectoral sanctions Directive 1) prohibited U.S. financial institutions from participating in the primary market for ruble or non-ruble denominated bonds issued after June 14, 2021 by, or the lending of ruble or non-ruble denominated funds to, the Central Bank, the National Wealth Fund, or the Ministry of Finance of the Russian Federation. Directive 1A under EO 14024 expands upon the existing prohibitions to also prohibit, as of March 1, 2022, participation in the secondary market for ruble or non-ruble denominated bonds issued by these entities after March 1, 2022. The prohibitions apply only to the three identified entities, as OFAC's "50 percent rule" does not apply here.

Nord Stream 2 Sanctions

Subsequently, on February 23, 2022, following consultations with Germany, the White House also designated as an SDN Nord Stream 2 AG, which is responsible for planning, constructing, and operating the Nord Stream 2 pipeline. Additionally, OFAC has designated as an SDN Matthias Warnig, Nord Stream AG's managing director.

Like the SDN designations previously discussed, Nord Stream 2 AG and Warnig are effectively cut off from the U.S. market and financial system. Concurrent with the designations, OFAC published General License 4, authorizing the wind down of transactions involving Nord Stream 2 AG and any entity the company owns a 50% or greater interest in through March 1, 2022.

This tranche of sanctions comes immediately after President Biden issued an EO in response to President Putin's ongoing "efforts to undermine the sovereignty and territorial integrity of Ukraine," including Russia's recognition of the so-called DNR and LNR (Covered Regions). That EO, which we wrote about in a previous Alert, effectively places an embargo on the Moscow-backed Covered Regions.

With Russia's invasion of Ukraine on the morning of February 24, President Biden announced the imposition of additional and broader sanctions on Russia as well as entities in Belarus for supporting the Russian invasion of Ukraine. Wiley Alerts on these recent actions are forthcoming. Our team has unparalleled experience and expertise representing a broad range of U.S. and multinational clients in complex sanctions and export control matters.

Should you have any questions about this alert or any national security-related matters, please do not hesitate to contact one of the attorneys listed on this alert.