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U.S. Imposes New Russia Sanctions Targeting Banks, Investments, Services, & Officials; EU Announces Fifth Round of Sanctions

By Robert Slack & Terry Frederic on April 6, 2022

Today, the United States imposed broad new sanctions on Russia in response to the continuing conflict in Ukraine. The new measures include full blocking sanctions on Sberbank and Alfa-Bank, two of the largest banks in Russia, a ban on new investment on any sector of the Russian economy, and blocking sanctions on additional Russian elites. A new Executive Order issued by President Biden authorizes the U.S. Office of Foreign Assets Control (OFAC) to impose a ban on the provision of certain services to Russia in the future, and the White House announced that OFAC would impose additional blocking sanctions on a raft of Russian state-owned enterprises tomorrow.

The European Union announced yesterday that it would impose a fifth round of sanctions on Russia in response to the ongoing war and attacks on the civilian population of Ukraine. The package will contain six elements, including a ban on coal imports, additional sanctions on Russian banks, port and transportation sanctions, export bans on sensitive items, import bans on wood, cement, seafood, and liquor, among other items, and a government procurement ban. We will prepare a more detailed summary once the EU publishes the full measures.

Sanctions on Sberbank and Alfa-Bank

Today, OFAC imposed full blocking sanctions on Sberbank and Alfa-Bank by adding the banks to its List of Specially Designated Nationals (SDN List), effectively barring U.S. persons from conducting business, directly or indirectly, with the banks. Previously, Sberbank was subject to targeted sanctions that prohibited U.S. financial institutions from maintaining correspondent accounts for Sberbank or processing transactions involving the bank, while Alfa-Bank was subject to more limited debt and equity sanctions. The move is a significant escalation of U.S. financial sanctions on Russia, fully blocking the largest public and private banks in the country.

OFAC issued three new general licenses and updated three existing general licenses authorizing limited transactions with the banks for temporary periods. The new general licenses authorize transactions

that are ordinarily incident and necessary to the wind down of Sberbank CIB USA, Inc. until June 7, 2022; transactions ordinarily incident and necessary to the wind down of transactions involving Sberbank until April 13, 2022, other than those that are prohibited by Directive 2 to E.O. 14024; and transactions ordinarily incident and necessary to the wind down of transactions involving Alfa-Bank until May 6, 2022. Existing general licenses authorizing transactions related to energy, the wind down of certain debt and equity, and certain derivative contracts were updated to include Alfa-Bank.

In a statement accompanying the new sanctions, OFAC clarified that Alfa-Bank (Ukraine) is a distinct entity from Alfa-Bank, and that Alfa-Bank (Ukraine) is not subject to U.S. sanctions.

Investment Ban

President Biden's new E.O. imposes a ban on new investment in the Russian Federation by a U.S. person, wherever located. The E.O. does not define the scope of what constitutes a "new investment" in Russia, but prior OFAC guidance on the recently imposed energy investment ban construed the term broadly to be "a commitment or contribution of funds or other assets for, or a loan or other extension of credit to, new energy sector activities (not including maintenance or repair)" in Russia. We expect OFAC to publish additional guidance on the intended scope of the investment ban under the new E.O.

Authority to Ban the Export of Services to Russia

Today's E.O. also provides OFAC with authority to impose new restrictions on the export, reexport, sale, or supply of services from the United States or by U.S. persons to Russia in the future. While the provision does not immediately impose new trading restrictions, it does allow OFAC to identify categories of services that will be prohibited or restricted in the future. OFAC and the Commerce Department have imposed bans on the import and export of goods to and from Russia, but have not yet specifically targeted categories of services.

Russian Officials and Family Members

OFAC sanctioned 25 Russian officials and their family members, including President Putin's daughters, former President and Prime Minister of Russia Dmitry Medvedev, and members of Russia's Security Council by adding the individuals to the SDN List today.

Humanitarian Transactions

The White House reiterated its position today that sanctions are not intended to apply to essential humanitarian activities, including the provision of food, agricultural commodities, medicine and medical devices, telecommunications, and access to the internet, and directed agencies to issue appropriate exemptions and carve outs to ensure that these activities can continue. Companies that provide these essential goods and services may find that practical challenges, including obtaining

cooperation from banks and logistics providers, remains challenging for legally permissible business, even where exemptions or licenses are provided.

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