Throughout January 2019, international diplomatic and economic pressure on Venezuela’s Maduro regime has continued to increase, and the rapidly evolving situation – especially the dual claims to leadership of the government – presents increasingly complicated challenges for financial institutions and investors. The United States and several other countries recognized Venezuelan opposition leader Juan Guaidó as Venezuela’s “interim president” and announced new sanctions targeting Venezuelan corruption and the oil sector.1,2,3,4

- On January 23, Canada and many Latin American nations joined the United States in recognizing Guaidó.5,6 Likewise, on January 31, the European Parliament voted to recognize Guaidó as the interim president.7

- On January 28, the United States designated Venezuelan oil parastatal Petróleos de Venezuela, S.A. (PDVSA) while licensing certain transactions related to PDVSA, its U.S.-incorporated subsidiary Citgo, and other Venezuelan entities.8

- These new measures target PDVSA and Venezuela’s key oil-related revenue stream, but provide the interim government with access to certain Venezuelan government accounts held in the United States. These measures are part of a larger effort to limit the Maduro regime’s ability to access funds, while legitimizing and supporting the Guaidó regime.

These latest developments and financial measures are part of a sustained campaign by several nations to pressure the Venezuelan regime on democracy, corruption, and human rights.9,10

- On January 8, the United States designated seven individuals and 23 entities for their role in a corrupt foreign exchange scheme that generated billions of dollars in illicit proceeds.11,12 The United States previously identified the oil and exchange house sectors as sources of corrupt proceeds.13

- Members of the United Nations Security Council have drawn a direct connection between the political and humanitarian situations in Venezuela, and U.S. sanctions explicitly connect the Venezuelan government’s corruption, theft, and concealment of wealth, with the suffering of the Venezuelan people.14,15,16
More broadly, corruption and human rights have become an increasing focus of sanctions in the United States, Canada, the EU, and the UK, in the Venezuela context and in other sanctions programs.\textsuperscript{17,18,19,20,21,22,23}

**A Multi-Pronged Campaign**

The overlap between the January 8 U.S. designations and judicial enforcement actions in the United States and Europe illustrate how prosecutions play a complementary role in a multi-pronged pressure campaign. Such investigations also underscore the growing enforcement scrutiny surrounding illicit Venezuelan financial transactions, assets, and networks. Over the last few years, there have been several high-profile prosecutions of former Venezuelan officials in the United States on charges of corruption, money laundering, and conspiracy, including for allegedly embezzling funds from PDVSA. Two participants in the foreign exchange scheme at the center of the U.S. designations announced on January 8 faced related charges in U.S. courts in 2018. As of early 2019, two additional participants in this scheme were under house arrest in Spain.\textsuperscript{37,38,39}

**The United States is taking actions that aim to strike a balance between sustaining pressure on Venezuela and limiting negative impacts on the humanitarian situation in Venezuela and on U.S. companies.** Although the United States on January 25, 2019, issued an Executive Order to ensure that blocking orders pursuant to its previous sanctions targeting the Maduro regime remained in force despite the U.S. recognition of Guaidó, financial institutions holding blocked funds belonging to the Venezuelan government should be prepared for requests from the United States to create a channel to allow the interim government access to these funds.\textsuperscript{24,25,26}

- The U.S. designation of PDVSA in particular is an important escalation that, according to administration officials, will freeze about $7 billion in PDVSA’s funds. Prior to this action, the administration had seemingly been reluctant to designate PDVSA or otherwise significantly restrict Venezuela’s ability to export petroleum because of concerns about the impact on oil markets and U.S. companies. The PDVSA designation makes clear that the administration is increasingly willing to put significant pressure on Venezuela’s primary source of revenue.

- At the same time, the administration took action to limit the negative consequences of the PDVSA designation on oil markets and U.S. companies. The Treasury Department issued a number of general licenses along with the January 28, 2019, action to limit these consequences. In particular, Treasury
issued a license allowing PDVSA’s U.S. subsidiary, Citgo, to continue purchasing and importing petroleum and petroleum products from Venezuela, as long as the payments for these goods are made into blocked accounts in the United States. On February 1, Treasury also issued a number of Frequently Asked Questions (FAQs) to provide additional clarity to the designation and licenses. This approach appears designed to ensure limited impact on U.S. oil markets and companies while preventing the Maduro regime from benefiting from the sale of oil.

▶ The U.S. State Department on January 25, 2019, certified the authority of Venezuela’s interim President Guaidó to receive and control certain property in Venezuelan government and central banks accounts at the Federal Reserve and U.S. insured banks, and U.S. officials want to allow Guaidó to control Venezuela’s oil revenues and gold reserves. The mechanisms for providing Guaidó and the opposition-led National Assembly with access to funds, however, remain unclear.

The convergence of sanctions, money laundering, bribery, corruption, and human rights-related risks in jurisdictions such as Venezuela requires financial institutions and investors — including sovereign investors — to adopt an integrated approach to risk management. Financial institutions and investors aiming to prevent the “real risk” that bad actors will abuse their products and services or use their funding in a way that violates relevant laws and regulations — “regulatory risk” — also need to be increasingly cognizant of the reputational risks of becoming implicated in such activity, particularly as it relates to human rights abuses.

▶ In 2018, the U.S. Treasury issued an advisory to financial institutions about corrupt senior foreign political figures, their financial facilitators, and the way that they enable human rights abuses. This advisory highlighted the need to adopt an expansive and integrated approach to compliance, combining an understanding of sanctions and screening mechanisms with oversight measures designed to monitor politically exposed persons (PEPs) and their potential facilitation networks and identify shell company activity.

▶ The involvement of facilitation networks that rely on non-designated individuals, non-PEPs, and networks of shell companies worldwide combine to make the threat global in nature for the financial and investor community, underscoring the need for comprehensive due diligence. Under its Venezuela and other corruption- and human rights-related authorities, the United States has sanctioned hundreds of individuals and entities across at least 30 jurisdictions, including jurisdictions that are the targets of global sanctions.
and known financial secrecy havens, but also Western European jurisdictions often considered lower risk for money laundering.\textsuperscript{30}

- Comprehensive pre-onboarding or pre-investment sanctions exposure analysis and AML/CFT due diligence that addresses conduct-related risks can save financial institutions and investors from public backlash. During the past year, several financial institutions and investors have faced reputational and financial harm due to their associations with individuals and entities engaged in corruption and human rights abuses.\textsuperscript{31,32,33,34,35,36}
Endnotes


36 Financial Times, "Banks are right to shun Venezuela hunger bonds: Credit Suisse's ban reflects both reputational and legal risks," August 11, 2017, at https://www.ft.com/content/0490f1e8-7e83-11e7-ab01-a13271d1ee9c.
