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New Round of Russia Designations Highlights, Heightens Russia Risks

The United States on April 6, 2018 escalated sanctions against Russia, adding seven Russian oligarchs, 12 companies that they control, and 17 senior Russian government officials to the Specially Designated Nationals (SDN) list. The Treasury Department used its sectoral sanctions authority to impose blocking sanctions for the first time, though it has previously blocked Russian entities under other authorities, and cited a broad set of malign Russian activity as predicate for the actions. The designations reach people very close to Russian President Vladimir Putin and include Russian corporations with large international footprints.

- ▶ Oleg Deripaska, one of Putin's key allies, was sanctioned for acting for or on behalf a senior Russian government official and for operating in the Russian energy sector.¹ Deripaska's companies, which include the world's largest aluminum producer outside of China,² also were sanctioned.³
- ▶ OFAC also designated Kirill Shamalov, who is Putin's former son-in-law,⁴ and Igor Rotenberg, who is the son of OFAC-designated Arkady Rotenberg.⁵ Both Shamalov and Rotenberg are among the children of people in Putin's inner circle who have risen in prominence in recent years, according to Reuters.⁶
- ▶ Treasury took action in light of Russian malign activity "around the globe," Treasury Secretary Steven T. Mnuchin said.⁷ The broad grounds for these actions suggest that the United States is likely to maintain and intensify sanctions in response to a wide variety of Russian activities around the world.

The April 6 actions highlight and heighten Russia-related risk for financial institutions. The use of Executive Order 13662 to block property – rather than merely prohibit dealings in debt and equity – are an escalation in the projection of financial power by the United States and signal further escalation is possible if Russia continues to engage in malicious activity. The designations also increase the gap between the U.S. and EU Russia sanctions lists.

- ▶ The April 6 action was a significant escalation, because Treasury targeted people very close to Putin and imposed blocking sanctions on Rusal, a large international business with a U.S. presence.⁸ The designation of Rusal suggests that the United States is willing to bear substantial costs for its Russia program, because Rusal is a key commodity producer.⁹
- ▶ Secondary sanctions apply to the oligarchs, the companies they control, and



the senior Russian government officials, increasing the already high risks of doing business with Russia arising from previous sanctions actions and criminal activity.¹⁰ Non-U.S. financial institutions that knowingly conduct significant transactions with these people and entities risk losing their U.S. correspondent accounts.¹¹

- ▶ The designations increase the gap between the U.S. and EU Russia sanctions lists, a gap that is likely to seem more pronounced because large Russian firms with a European presence are now blocked under OFAC regulations and subject to secondary sanctions. Rusal parent EN+ Group and GAZ Group also were added to the U.S. SDN list.¹²

Global financial institutions are very likely to have existing exposure to the people or entities designated April 6, through direct relationships, through customers' trade activities, or because their customers are U.S. persons who are employees of the entities designated. Financial institutions should immediately determine their direct and indirect exposure to the people and entities listed and make plans to terminate that business consistent with the April 6 designations or the wind-down provisions in the general licenses issued that same day.

- ▶ U.S. persons working for an entity designated on April 6 or an entity owned 50 percent or by one of these entities must end their employment, unless they are engaged in authorized wind-down activities.¹³ General License No. 12 permits U.S. persons to receive salary payments from those entities as part of an orderly wind down until June 5, 2018.¹⁴
- ▶ U.S. persons may import goods from the designated entities until June 5, 2018, but any payments made on or after April 6, 2018, must be made into a blocked, interest-bearing account in the United States.¹⁵ Exports of goods from the United States are prohibited.¹⁶
- ▶ U.S. persons have until May 7, 2018, to divest or transfer debt, equity, or other holdings to a non-U.S. person.¹⁷ U.S. persons may not purchase debt or equity in the blocked entities on or after April 6, 2018.¹⁸ Shares of En+ Group on the London Stock Exchange dropped sharply in the wake of the Treasury announcement.¹⁹

Financial institutions should determine the beneficial owners of entities involved in high-risk transactions because Russians, whether sanctioned April 6 or previously, have exploited the opacity of legal entities to conceal their interests in property and financial transactions. OFAC said the list of entities owned or controlled by oligarchs that it published on April 6 “should not be viewed as



comprehensive.” OFAC considers any entity owned 50 percent or more by a listed person or entity, just as if that entity appeared on OFAC’s SDN list.

- ▶ Deripaska and Arkady Rotenberg, who was designated in March 2014,²⁰ both have used offshore legal entities to hide assets, according to the International Consortium of Investigative Journalists.²¹
- ▶ Russians are also sanctioned under other authorities. Rosoboroneksport, a Russian defense firm, was added to the Syria sanctions list on April 6.²²
- ▶ Russian persons and entities also are sanctioned under North Korea, transnational organized crime, cyber, human rights and corruption authorities.



Endnotes

- 1 Treasury Department, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," April 6, 2018.
- 2 Bloomberg, "Deripaska Goes From Flights With Putin to Top U.S. Sanctions Target," April 6, 2018.
- 3 Treasury Department, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," April 6, 2018.
- 4 Bloomberg, "Putin Family Split Offers Peek at Secret Dealings of Russia Inc.," Jan. 25, 2018.
- 5 Treasury Department, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," April 6, 2018.
- 6 Reuters, "Putin's daughter, a young billionaire and the president's friends," Nov. 10, 2015.
- 7 Treasury Department, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," April 6, 2018.
- 8 Rusal, "Trade Offices," <https://rusal.ru/en/clients/torgpred/>. (Last checked April 6, 2018)
- 9 Bloomberg, "Deripaska Goes From Flights With Putin to Top U.S. Sanctions Target," April 6, 2018.
- 10 OFAC, "Frequently Asked Questions," No. 574, April 6, 2018.
- 11 OFAC, "Frequently Asked Questions," No. 574, April 6, 2018.
- 12 Treasury, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," April 6, 2018.
- 13 OFAC, "Frequently Asked Questions," No. 567-568, April 6, 2018.
- 14 OFAC, "Frequently Asked Questions," No. 567-568, April 6, 2018.
- 15 OFAC, Ukraine-Related Sanctions Regulations, General License No. 12, April 6, 2018.
- 16 OFAC, Ukraine-Related Sanctions Regulations, General License No. 12, April 6, 2018.
- 17 OFAC, Ukraine-Related Sanctions Regulations, General License No. 13, April 6, 2018.
- 18 OFAC, "Frequently Asked Questions," No. 570, April 6, 2018.
- 19 Reuters, "Shares of Russian companies hit by new sanctions plummet," April 6, 2018.
- 20 Treasury Department, "Treasury Sanctions Russian Officials, Members Of The Russian Leadership's Inner Circle, And An Entity For Involvement In The Situation In Ukraine," March 20, 2014.
- 21 International Consortium of Investigative Journalists, "The U.S. list of wealthy Russians and our offshore investigations," Feb. 5, 2018.
- 22 Treasury Department, "Treasury Designates Russian Oligarchs, Officials, and Entities in Response to Worldwide Malign Activity," April 6, 2018.