

Fried Frank International Trade and InvestmentTM

United States Announces New Round of Russia Sanctions, Including New Investment Ban

Last week the United States imposed a range of additional sanctions against Russia in response to reported atrocities committed against Ukrainian citizens. On April 6, 2022, President Biden issued [an executive order](#) (“the New EO”) prohibiting new investment in Russia and the exportation of services to Russia in sectors to be identified by the Treasury Department. The Office of Foreign Assets Control (“OFAC”) also announced a [new round of sanctions](#) targeting Russian financial institutions and Putin allies, as well as Russian [state-owned entities](#).

Executive Order Prohibiting New Investment

The New EO prohibits any new investment in the Russian Federation by a U.S. person. Although the term “new investment” is not defined, OFAC has interpreted the same term in this and other sanctions programs. For example, in [an FAQ](#) related to the Executive Order of March 8, 2022, OFAC clarified that “new investment in the energy sector of the Russian Federation” means any transaction that constitutes a commitment or contribution of funds or other assets for, or a loan or other extension of credit to, new energy sector activities. Similarly, OFAC has used similar language when interpreting new investment bans under other sanctions programs. Accordingly, this restriction only applies to financial investments, rather than all dealings with Russia.

In addition, the New EO gives the Secretary of the Treasury the authority to prohibit the exportation, reexportation, sale, or supply from the United States or by U.S. persons of any category of services. No categories of services have yet been identified for purposes of this prohibition. As with the other Russia-related executive orders that have been issued since Russia’s invasion of Ukraine, the New EO further prohibits the approval, financing, facilitation, or guarantee by a U.S. person or a transaction by a foreign person that would be prohibited if performed by a U.S. person.

New Blocking Sanctions on Sberbank, Alfa-Bank, and Alrosa

OFAC imposed full blocking sanctions on Sberbank, Russia’s largest financial institution, and Alfa-Bank, the largest privately owned financial institution in Russia. Since VTB and Promsvyazank were already subject to blocking sanctions, Gazprombank – which is subject to debt and equity restrictions – is the only one of Russia’s five largest financial institutions that is not currently designated on the Specially Designated Nationals and Blocked Persons List (“SDN List”). In addition to adding Sberbank and Alfa-Bank to the SDN List, OFAC also designated 42 Sberbank subsidiaries and six Alfa-Bank subsidiaries, as well as five vessels owned by Alfa-Bank subsidiaries.

The following day, OFAC imposed blocking sanctions on Alrosa, a Russian state-owned enterprise (“SOE”) and the world’s largest diamond mining company. Alrosa was already subject to the debt and

equity restrictions [announced](#) on February 24, 2022. Alrosa has also been sanctioned by U.S. allies, including Canada, New Zealand, and the United Kingdom. In addition, [OFAC sanctioned](#) the United Shipbuilding Corporation, a Russian SOE responsible for developing and building Russian warships.

OFAC also announced sanctions on every individual serving on the Security Council of the Russia Federation, as well as family members of Russian President Vladimir Putin and Foreign Minister Sergey Lavrov.

In a [press release](#), OFAC explained that these designations were made pursuant to Executive Order 14024, which authorizes sanctions against Russia for its harmful foreign activities, including violations of international law and the territorial integrity of other states. OFAC also highlighted the expected toll of these new sanctions, noting that Sberbank holds the largest market share of savings deposits in Russia and has been deemed by the Russian government to be a systemically important financial institution. The sanctions against Russian SOEs in particular [are intended](#) to “cut[] off additional sources of support and revenue for the Government of the Russian Federation to wage its unprovoked war against Ukraine.”

New and Updated General Licenses

Concurrently with the designations noted above, OFAC issued four new general licenses and updated three others. Three of these general licenses were modified to cover transactions with or related to Alfa-Bank or Alrosa. Three of the new general licenses authorize wind-down transactions involving Alfa-Bank, Sberbank, Alrosa, and their subsidiaries. The fourth new general license authorizes transactions and exports related to telecommunications and internet communications.

- [General License 8B](#) - This general license permits, through June 24, 2022, transactions with sanctioned banks, as long as the transactions are related to energy. Alfa-Bank has been added to the list of covered banks.
- [General License 9C](#) - This general license permits, until May 25, 2022, the divestment of securities of banks subject to debt and equity restrictions. It also allows for the divestment or transfer until June 30, 2022 of any debt or equity in Alfa-Bank that was issued prior to April 6, and until July 1, 2022 for any debt or equity in Alrosa that was issued prior to April 7.
- [General License 10C](#) - This general license permits, until May 25, 2022, transactions necessary to wind down derivative contracts related to securities of banks subject to debt and equity restrictions. It also allows, until June 30, 2022, wind-down transactions involving derivatives related to Alfa-Bank, and until July 1, 2022 for wind-down transactions involving derivatives related to Alrosa.
- [General License 21A](#) - This general license authorizes wind-down transactions involving Sberbank CIB USA, Inc., Alrosa USA, Inc., and each of their majority-owned subsidiaries through June 7, 2022.
- [General License 22](#) - This general license authorizes wind-down transactions involving Sberbank and its subsidiaries through April 13, 2022. This general license does not authorize any transactions prohibited by Directive 2, which prohibits the opening or maintenance of correspondent or payable through accounts at Sberbank.
- [General License 23](#) - This general license authorizes wind-down transactions involving Alfa-Bank and its subsidiaries through May 6, 2022.
- [General License 24](#) - This general license authorize wind-down transactions involving Alrosa and its subsidiaries through May 7, 2022

- [General License 25](#) - This general license authorizes transactions related to the receipt or transmission of telecommunications involving the Russian Federation. It also authorizes the export, reexport, sale, or supply of services, software, hardware, and technology related to the exchange of communications over the internet, such as instant messaging, videoconferencing, chat and email, social networking, sharing of photos, movies, and documents, web browsing, blogging, web hosting, and domain name registration services.

Other Recent Measures

The White House also [announced](#) that while sanctions do not preclude payments on existing Russian sovereign debt, the Treasury Department was prohibiting such payments from being made in funds subject to U.S. jurisdiction. As of April 6, Russia was stopped from paying holders of its sovereign debt more than \$600 million from reserves held at U.S. banks. According to the White House, this will require Russia to choose between draining U.S. dollar reserves held in Russia or defaulting on its debt.

On April 5, 2022, [OFAC announced](#) sanctions against darknet market Hydra Market (“Hydra”) and Garantex, a virtual currency exchange, alleging that both entities were being used for the purpose of evading sanctions. This comes on the heels of [OFAC’s recent decision](#) to sanction individuals and entities associated with a sanctions evasion network that worked to obfuscate Russian military and intelligence end-users for purposes of obtaining items that Russian military end-users could not obtain due to U.S. and other Western export controls. OFAC has also [published an FAQ](#) emphasizing that sanctions against Russia apply to U.S. persons, including virtual currency exchanges, virtual wallet hosts, and other companies that provide services related to virtual currencies, and warning that U.S. persons who process virtual currency transactions “must be vigilant against attempts to circumvent OFAC regulations.” Such U.S. persons must take risk-based steps to ensure they do not engage in prohibited transactions.

On March 31, Treasury Secretary Janet Yellen designated the aerospace, electronics, and marine sectors of Russia’s economy pursuant to [Executive Order 14024](#). This allows for OFAC to designate individuals and entities operating in these sectors. Concurrently, OFAC designated a number of Russian entities, including Joint Stock Company Mikron, Russia’s largest chipmaker that is responsible for more than 50% of Russian microelectronics. Additional designations are expected.

Key Takeaways

The latest round of sanctions and trade restrictions comes after more than 600 multinational businesses voluntarily chose to exit Russia, and represents the United States’ latest effort to impose economic consequences on Russia in response to its invasion of Ukraine. The investment ban contained in the New EO may have significant implications for U.S. companies that have continued to conduct lawful business in Russia or with Russian persons. While a comparable investment ban has not been announced by the European Union or the United Kingdom, the White House stressed that it will continue to work with the EU and G7 to impose economic costs on the Russian government.

Sanctions on virtual currency exchanges and darknet markets, as well as OFAC’s targeting of sanctions evasions networks, underscore OFAC’s commitment to aggressively enforcing sanctions on Russia and disrupting attempts to evade or circumvent sanctions.

U.S. businesses should continue to monitor their exposure to the expanding international sanctions against Russia. They should ensure that compliance policies remain up to date, and that risk-based sanctions screening is conducted periodically as the list of sanctions targets grows.

If you have any questions regarding these sanctions and export controls or how they may affect your business, please reach out to the contacts listed below.

