

## Sanctions Update: US, UK, and EU Impose Sweeping New Sanctions Relating to Russia, Ukraine, and Belarus

***New rules significantly expand the scope of existing Ukraine- and Russia-related sanctions and impose stringent export controls on Russia.***

This *Client Alert* is published in the context of fast-moving developments. Significant additional sanctions measures may be introduced in the coming days. Those will be the subject of future *Client Alerts*.

The US government, in coordination with the EU, the UK, and other allies, has introduced significant new sanctions and export controls in light of ongoing events across Russia and Ukraine, including new regional embargoes, full blocking sanctions, and other restrictions targeting several major Russian financial institutions, sovereign debt restrictions, the designation of Russian elites and their family members, and sanctions related to the Nord Stream 2 pipeline, among other targets. In a [televised address](#) on February 22, 2022, President Biden introduced the “first tranche” of sanctions. Following the invasion of Ukraine, President Biden announced additional sanctions, as well as export control measures, in a second [televised address](#) on February 24, 2022.

### US Sanctions

#### ***Regional Embargoes***

On February 21, 2022, President Biden signed [Executive Order 14065](#) (the Order), which created two new regional embargoes targeting the non-Ukrainian government controlled areas of the Donetsk and Luhansk oblasts of Ukraine, the so-called Donetsk People’s Republic (DNR) and Luhansk People’s Republic (LNR) regions of Ukraine.

The Order — which closely follows the text of President Obama’s December 2014 [Executive Order 13685](#) establishing the US embargo targeting the Crimea region of Ukraine — prohibits most activities with the DNR, LNR, or other such regions of Ukraine as may be identified by the Secretary of Treasury, in consultation with the Secretary of State (the Covered Regions), including:

- New investment in the Covered Regions by a US person (i.e., US citizen, US permanent resident, entities organized under US law and their foreign branches as well as anyone physically present in the US);

- The importation into the US, directly or indirectly, of any goods, services, or technology from the Covered Regions;
- The exportation, reexportation, sale, or supply, directly or indirectly, from the US, or by a US person, wherever located, of any goods, services, or technology to the Covered Regions; and
- The approval, financing, facilitation, or guarantee by a US person, wherever located, of a transaction by a foreign person regarding the Covered Regions that would be prohibited as to a US person.

The Order also authorizes the Secretary of the Treasury, in consultation with the Secretary of State, to designate persons determined:

- To operate in the Covered Regions;
- To be a leader, official, senior executive officer, or member of the board of directors of an entity operating in the Covered Regions;
- To be owned or controlled by, or acting for or on behalf of, a person covered by the Order; or
- To materially assist a person blocked under the Order.

With the Order, the US Treasury Department's Office of Foreign Assets Control (OFAC) published six new general licenses authorizing certain otherwise prohibited activities with respect to the Covered Regions. The new general licenses are:

- [Ukraine General License No. 17](#) (authorizing US persons to wind down certain activities relating to the Covered Regions until March 23, 2022);
- [Ukraine General License No. 18](#) (authorizing the exportation and reexportation of agricultural commodities, medicine, medical devices, replacement parts for medical devices, and software updates for medical devices to the Covered Regions);
- [Ukraine General License No. 19](#) (authorizing certain telecommunications and common carrier activities);
- [Ukraine General License No. 20](#) (authorizing the activities of certain international organizations);
- [Ukraine General License No. 21](#) (authorizing certain personal remittances); and
- [Ukraine General License No. 22](#) (authorizing the export to the Covered Regions of certain services and software incident to internet-based communications).

### ***SDN Designations***

After President Biden's televised address on February 22, OFAC added to its list of Specially Designated Nationals and Blocked Persons (SDN List) two Russia state-owned financial institutions, the State Corporation Bank for Development and Foreign Economic Affairs Vnesheconombank (VEB), and Promsvyazbank Public Joint Stock Company (PSB), as well as 42 of their subsidiaries. OFAC also published two new general licenses authorizing certain transactions involving VEB: [General License No. 2](#) (authorizing transactions involving VEB that are ordinarily incident and necessary to the servicing of certain bonds issued before March 1, 2022) and [General License No. 3](#) (authorizing US persons to wind

down transactions involving VEB through March 24, 2022, subject to certain conditions). In addition, OFAC added to the SDN List certain vessels and several individuals and entities associated with Putin's inner circle, including oligarchs and financial sector elites, along with certain of their family members.

On February 24, OFAC designated the following additional Russian financial institutions as SDNs:

- VTB Bank Public Joint Stock Company (VTB Bank), Russia's second-largest financial institution, and 20 VTB Bank subsidiaries;
- Public Joint Stock Company Bank Financial Corporation Otkritie (Otkritie), Russia's seventh-largest financial institution, and 12 Otkritie subsidiaries;
- Open Joint Stock Company Sovcombank (Sovcombank), the third-largest privately owned financial institution in Russia by total assets and Russia's ninth-largest bank overall, and 22 Sovcombank subsidiaries; and
- Joint Stock Commercial Bank Novikombank (Novikombank), a state-owned bank among the 50 largest financial institutions in Russia.

Pursuant to OFAC's so-called "50 percent rule," entities that are owned 50% or more by one or more sanctioned parties should also be treated as subject to the same sanctions, even if those parties are not identified on the applicable sanctions list. Most dealings by US persons with SDNs are prohibited unless licensed, and US persons are obligated to block property and interests in property of an SDN that is within the US person's possession or control. Certain significant dealings with SDNs can also expose non-US parties to so-called "secondary sanctions."

In connection with these blocking sanctions, and other Russia-related sanctions, OFAC issued the following general licenses:

- [General License No. 5](#) (authorizing transactions related to the activities of certain international organizations);
- [General License No. 6](#) (authorizing certain transactions related to the exportation and reexportation of agricultural commodities, medicine, medical devices, replacement parts for medical devices, and software updates for medical devices to the Russian Federation);
- [General License No. 7](#) (authorizing certain payments related to overflights of or emergency landings in the Russian Federation);
- [General License No. 8](#) (authorizing certain energy-related transactions involving Otkritie, Sovcombank, Sberbank, and VTB);
- [General License No. 9](#) (authorizing transactions related to dealings in certain debt or equity involving VEB, Otkritie, Sovcombank, Sberbank, and VTB);
- [General License No. 10](#) (authorizing certain transactions related to derivative contracts involving VEB, Otkritie, Sberbank, and VTB);
- [General License No. 11](#) (authorizing the wind down of transactions involving Otkritie, Sovcombank, and VTB until March 26, 2022, subject to certain conditions); and

- [General License No. 12](#) (authorizing US persons to reject certain transactions involving Otkritie, Sovcombank, and VTB).

### **Sberbank Correspondent Account Prohibitions**

To date, OFAC has declined to designate Public Joint Stock Company Sberbank of Russia (Sberbank), Russia's largest financial institution, as an SDN. However, OFAC [imposed](#) correspondent and payable-through account sanctions on Sberbank, essentially cutting it off from the US financial system.

- Within 30 days, OFAC is requiring all US financial institutions to close Sberbank correspondent and payable-through accounts and to reject future transactions involving Sberbank and its foreign financial institution subsidiaries. Payments that Sberbank attempts to process for its clients will be disrupted and rejected once the payment hits a US financial institution. As stated in new [FAQ 971](#), this prohibition applies to any currency.
- To implement sanctions on Sberbank, OFAC issued [Directive 2](#) under [E.O. 14024](#). Directive 2 prohibits US financial institutions from (i) opening or maintaining a correspondent account or payable-through account for or on behalf of any entity determined to be subject to the prohibitions of Directive 2, or their property or interests in property; and (ii) processing transactions involving any such entities determined to be subject to Directive 2, or their property or interests in property.
- OFAC designated Sberbank and 25 Sberbank subsidiaries under Directive 2. Further, OFAC specified that all foreign financial institutions owned 50% or more, directly or indirectly, by Sberbank are covered by this prohibition, even if not listed in Directive 2.

### **Sovereign Debt Restrictions**

OFAC introduced new restrictions on dealings in Russia's sovereign debt, as described in the new [Russia-related Sovereign Debt Directive](#). This directive expands preexisting sovereign debt prohibitions to include participation in the secondary market for bonds issued after 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. This directive also expands the definition of "US financial institution" to include, for example, money services businesses, credit card systems operators, insurance companies, and dealers in precious metals, stones, or jewels.

### **Other Debt and Equity Restrictions**

On February 24, OFAC also issued [Directive 3](#) under E.O. 14024. Directive 3 prohibits transactions and dealings by US persons or persons within the US in new debt of longer than 14 days maturity and new equity of certain listed Russia state-owned enterprises, entities operating in the financial services sector of the Russian economy, and other entities determined to be subject to the prohibitions of Directive 3. For entities currently subject to Directive 3, "new" debt or equity is that which is issued on or after March 26, 2022. For entities added at a later date, this prohibition comes into effect 30 days after the entity becomes subject to Directive 3.

The affected entities are as follows:

- Sberbank, Russia's largest financial institution;
- Gazprombank Joint Stock Company, Russia's third-largest financial institution, which is closely affiliated with the energy sector;

- Joint Stock Company Russian Agricultural Bank, Russia's fifth-largest financial institution, which is closely affiliated with the agricultural sector;
- Public Joint Stock Company Gazprom, the world's largest natural gas company;
- Public Joint Stock Company Gazprom Neft, one of Russia's largest oil producers and refiners;
- Public Joint Stock Company Transneft, a Russian company that manages Russia's network of petroleum-related pipelines;
- Public Joint Stock Company Rostelecom, Russia's largest telecommunications company;
- Public Joint Stock Company RusHydro, a hydroelectricity company and one of Russia's largest power companies;
- Public Joint Stock Company Alrosa, the world's largest diamond mining company, responsible for 90% of Russia's diamond mining capacity, which accounts for 28% of the global diamond mining capacity;
- Joint Stock Company Sovcomflot, Russia's largest maritime and freight shipping company;
- Open Joint Stock Company Russian Railways, one of the world's largest railroad companies;
- Joint Stock Company Alfa-Bank, Russia's largest privately owned financial institution, and Russia's fourth-largest financial institution overall; and
- Credit Bank of Moscow Public Joint Stock Company, Russia's largest non-state public bank and Russia's sixth-largest financial institution.

As noted in new [FAQ 985](#), OFAC's 50 percent rule applies to entities subject to Directive 3.

### ***Nord Stream 2***

On February 23, OFAC [added](#) Nord Stream 2 AG and its managing director to the SDN List. In [announcing](#) these sanctions, President Biden stated that the US and Germany have "coordinated our efforts to stop the Nord Stream 2 pipeline if Russia further invaded Ukraine," and will "not hesitate to take further steps if Russia continues to escalate." On February 22, Germany announced that it would halt certification of the pipeline. On February 23, OFAC published [General License No. 4](#), which authorizes US persons to wind down certain activities involving Nord Stream 2 AG until March 2, 2022.

### ***Belarus-Related Sanctions***

Pursuant to [E.O. 14038](#), OFAC [designated](#) 24 Belarusian individuals and entities as SDNs due to Belarus' support for, and facilitation of, the Russian invasion of Ukraine. These individuals include:

- Two major Belarus state-owned banks (Belinvestbank and Bank Dabrabyt);
- Nine entities operating in the Belarus defense and security industries; and
- Seven regime-connected officials and elites, including the Belarus defense minister.

OFAC also issued two Belarus-related general licenses:

- [General License No. 6](#) (authorizing transactions for the conduct of official business of the US government); and
- [General License No. 7](#) (authorizing transactions related to the activities of certain international organizations).

### ***US Commerce Department Actions***

The Commerce Department's Bureau of Industry and Security (BIS) released a [new rule](#) on February 24, implementing more restrictive export controls on Russia under the Export Administration Regulations (EAR). BIS announced that the new measures reflect cooperation and alignment between the US, EU, UK, Japan, Australia, Canada, and New Zealand, with more expected to join. The BIS rule imposes the following measures:

- **New Commerce Control List (CCL)-based license requirements for Russia:** BIS is implementing a new license requirement for Russia on items subject to the EAR and classified under any Export Control Classification Number (ECCN) in Categories 3 through 9 of the CCL. When a license is required, applications will be subject to a policy of denial, although certain licenses may be granted on a case-by-case basis. Further, in certain limited cases, a license exception may be used to overcome the license requirement.
- **Two new foreign "direct product" (FDP) rules:**
  - The first new FDP rule, in § 734.9(f) of the EAR, relates to the entire country of Russia. Foreign-produced items subject to the EAR under this rule will be subject to a license requirement, but will be eligible for certain license exceptions. When a license application is required, such applications will be subject to a general policy of denial but may be granted upon case-by-case review in certain circumstances.
  - The second new FDP rule, in § 734.9(g) of the EAR, targets Russian "military end users." Foreign-produced items subject to the EAR under this rule will be subject to certain license requirements, and license applications for such items will also be subject to a policy of denial.
  - For both FDP rules, BIS has determined that certain third countries are implementing substantially similar export controls toward Russia and are therefore exempt from certain requirements imposed pursuant to these rules. These countries, and the extent of their exclusion from FDP restrictions, are identified in Supplement No. 3 to part 746 of the EAR (the Russia Exclusions List). This initial list will include the 27 countries of the EU, Australia, Canada, Japan, New Zealand, and the UK (note that Taiwan is not included).
- **Expanded MEU controls:** BIS is also expanding the scope of the existing "military end use" and "military end user" controls for Russia to apply to all items "subject to the EAR" except food and medicine designated EAR99, or ECCN 5A992.c and 5D992.c, unless for Russian "government end users" and Russia state-owned enterprises.
- **New Entity List additions:** BIS is removing 45 Russian entities from the Military End-User List in Supplement No. 7 to part 744 and adding them to its Entity List. It is also adding two new Russian entities to the Entity List and revising two existing entries for listed Russian entities.



- **Comprehensive regional restrictions:** BIS is imposing comprehensive export, reexport, and transfer (in-country) restrictions on the so-called DNR and LNR regions of Ukraine. Note that food and medicine designated as EAR99 and certain EAR99 or ECCN 5D992.c software for internet-based communications are exempted from this prohibition.

## EU Sanctions

Following an announcement by the Council of the European Union in a [press release](#) late on February 23, the EU published in its [Official Journal](#) a series of Council Decisions and Council Regulations implementing a number of new sanctions on Russia, including:

- [Council Implementing Regulation \(EU\) 2022/260](#), which adds various individuals and entities to the EU asset-freeze list, including several Russian government ministers and military officers considered responsible for undermining the territorial integrity of Ukraine, certain individuals and family members of individuals considered to be involved in the annexation of Crimea, individuals said to be involved in certain Russian media organizations, along with the Internet Research Agency (alleged to be involved in internet disinformation), Bank Rossiya, Promsvyazbank, and VEB;
- [Council Implementing Regulation \(EU\) 2022/261](#), which adds the 351 members of the Russian State Duma (parliament) who voted in favor of recognizing the independence of the DNR and LNR to the EU asset-freeze list;
- [Council Regulation \(EU\) 2022/262](#), which amends Regulation (EU) No. 833/2014 to prohibit dealings with transferable securities and money-market instruments issued by, or extending credit to, the Russian government, the Central Bank of Russia, or anyone acting on their behalf; and
- [Council Regulation \(EU\) 2022/263](#), which includes restrictions similar to the current sanctions on the territory of Crimea, and restricts trade with, and investment and tourism activities in, the DNR and LNR.

On the evening of February 24, the EU Council [announced](#) that it would impose additional sanctions covering the financial sector, the energy and transport sectors, the export of dual-use goods as well as export financing, visa policy, additional listings of Russian individuals, and new listing criteria for sanctions designations. The full details are expected to be published shortly.

## UK Sanctions

The UK's sanctions measures relating to Russia are implemented through the UK's [Russia \(Sanctions\) \(EU Exit\) Regulations 2019](#) (the UK Russia Regulations). Since the completion of the UK's withdrawal from the EU on January 31, 2020, this instrument provided the UK with a legislative basis on which it could impose a range of sanctions on Russia. This legislative basis included a power to impose asset-freeze sanctions on persons considered to be involved in "destabilizing Ukraine or undermining or threatening its territorial integrity, sovereignty or independence."

In response to recent Russian actions, on February 10, the UK [amended](#) the UK Russia Regulations so as to permit the UK to impose asset-freeze sanctions on persons considered to be involved in "obtaining a benefit from or supporting the Government of Russia."

On February 22, the UK used these expanded powers to [add five entities and three individuals](#) to its asset-freeze list. The five Russian banks targeted by the UK in this "first tranche" were:

- IS Bank
- Rossiya Bank
- PJSC Promsvyazbank
- JSC Genbank
- JSC Black Sea Bank Development and Reconstruction

On February 24, the UK imposed further asset-freeze designations over [an additional five individuals and six entities](#). The entities targeted in this “second tranche” were:

- JSC Research and Production Corporation Uralvagonzavod
- Public Joint Stock Company “United Aircraft Corporation”
- Public Joint Stock Company “United Shipbuilding Corporation”
- State Corporation for the Promotion of the Development, Manufacture and Export of High Technology Products “Rostec”
- Tactical Missiles Corporation Joint Stock Company
- VTB Bank (Public Joint Stock Company)

The UK Foreign Secretary, Liz Truss, [indicated](#) on February 22 that the UK would also impose sanctions similar in substance to those announced by the EU:

- Asset-freeze / travel ban sanctions against members of the Russian State Duma who voted to recognize the independence of the DNR and LNR;
- Territorial sanctions similar to those currently imposed on the Crimea/Sevastopol region of Ukraine to apply to the DNR and LNR; and
- Wider measures targeting the Russian financial sector, including preventing Russia from issuing sovereign debt on UK markets.

Following the deterioration of the situation in Ukraine, on February 24, the UK announced further sanctions. Foreign Secretary Liz Truss [stated](#) that these measures would include:

- Asset freezes against all Russian financial institutions and certain individuals and companies closely linked to the Russian State;
- Measures to prevent Russian companies from issuing transferable securities and money market instruments in the UK;
- A power to prevent designated banks from accessing sterling and clearing payments through the UK;



- New restrictions to cut off access by Russian nationals to UK banks including £50,000 limits on bank accounts;
- Prohibitions on the export of a range of high-end and critical technical equipment and components in sectors including electronics, telecommunications, and aerospace;
- Bringing forward measures to enhance the effectiveness of a UK investigatory power known as “unexplained wealth orders”; and
- Establishing a “Kleptocracy Cell” within the UK’s National Crime Agency to target sanctions evasion and assets in the UK.

At the time of writing, the secondary legislation enacting these sanctions is yet to be published, but first drafts are expected next week. The UK also announced that it would impose similar sanctions on Belarus, in light of its apparent role in events in Ukraine.

## What’s Next?

President Biden has warned that the US is prepared to impose additional sanctions in the coming days and weeks. The President has authority under longstanding legislation to impose these sanctions through Executive Orders.

In addition, the US Congress continues to work toward bipartisan action on Russia. Senate Democrats introduced the [Defending Ukraine Sovereignty Act of 2022](#) on January 14, 2022, while Senate Republicans, after weeks of bipartisan negotiations, proposed an alternative bill, the [Never Yielding Europe’s Territory Act](#), on February 15.

Latham & Watkins is tracking developments across all regions closely and expects that the US, EU, UK, and other governments around the world may impose additional rounds of sanctions as events unfold. The firm is well positioned to advise clients on the legal and practical impacts of these measures.

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