



U.S. Issues Significant, Targeted Sanctions Against Designated Firms in Russian Financial and Energy Sectors

BY [THE GLOBAL TRADE CONTROLS](#) & [GLOBAL BANKING AND PAYMENT SYSTEMS](#) GROUPS

On Wednesday, July 16, the United States dramatically expanded sanctions against Russian interests arising out of the crisis in Ukraine by targeting actors in two key sectors of the Russian economy—financial services and energy. Through the issuance of two “Directives,” the Department of the Treasury, Office of Foreign Assets Control (“OFAC”) will now prohibit U.S. persons from “transacting in, providing financing for, or otherwise dealing in” new debt or equity (issued after July 16, 2014) on behalf of targeted businesses and persons operating in Russia’s financial and energy sectors, including several significant global players such as Rosneft and Gazprombank, and the financial institution affiliated with Russia’s state-owned natural gas giant. The text of the Directives and the Executive Order underlying them are found here: [Directives 1 and 2](#) to [E.O. 13622](#) (the “Directives”). This latest move by the United States effectively places U.S. capital markets off-limits for many forms of debt (or in some cases equity) financing for the targeted companies, and greatly restricts trading in their securities as well.

Additionally, the United States added several individuals and defense-related entities to the Specially Designated Nationals (“SDN”) List, as outlined below. We discussed OFAC’s previous SDN List designations under the Ukraine sanctions programs [here](#) and [here](#).

Overview of Directives 1 and 2 to E.O. 13622

The new sectoral sanctions are targeted to individuals and entities identified on a newly-crafted Sectoral Sanctions Identifications List (“SSI List”), as well as to entities owned 50 percent or more by them. OFAC has indicated that the persons identified on the SSI List will not thereby automatically be added to the SDN List.

Directive 1 applies to dealings with Russia’s financial sector. It prohibits U.S. persons from “transacting in, providing financing for, or otherwise dealing in new debt¹ of longer than 90 days maturity or new equity² of persons listed, their property, or their interests in property. The entities listed pursuant to Directive 1 are:

- **Vnesheconombank** (VEB), a state-owned bank that acts as a development bank and payment agent for the Russian government; and
- **Gazprombank**, the third-largest bank in Russia.

The prohibitions in Directive 1 apply to all transactions involving new debt with a maturity of longer than 90 days or new equity; all financing in support of such new debt or new equity; and any dealing in, including provision of services in support of, such new debt or new equity. The restrictions do not apply to any other transactions with the persons on the SSI List, as long as those transactions are not otherwise prohibited (e.g., the entities are not on the SDN List).

Directive 2 applies to dealings with Russia's energy sector. It separately prohibits "transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity" by, on behalf of, or for the benefit of the persons named, their property, or their interests in property. Dealing in equity is permitted. The entities listed pursuant to Directive 2 are:

- **AO Novatek**, Russia's largest independent natural gas producer; and
- **Rosneft Oil Company**, Russia's largest petroleum company and third-largest gas producer.

The prohibitions in Directive 2 apply to all transactions involving new debt with a maturity of longer than 90 days; all financing in support of such new debt; and any dealing in, including provision of services in support of, such new debt. The prohibitions in both directives extend to rollover of existing debt, if such rollover results in the creation of new debt with a maturity of longer than 90 days.

The actions pursuant to Directives 1 and 2 prohibit transactions by U.S. persons as defined in E.O. 13662,³ wherever they are located, and transactions within the United States. While imposing a prohibition, OFAC's action is not a blocking action, and the action does not require U.S. persons to block (i.e., freeze) the property or interests in property of the entities identified in the Directives.

In this regard, the new sanctions do not appear intended to prohibit dealing in the secondary markets for existing debt or securities of the listed persons or entities, but would block dealings in newly-issued long-term debt or equity. Existing debt with, for example, one-year maturities would not be permitted to roll over if issued by a covered U.S. financial institution. One of the most important signals to watch for in the next few days is whether European banks will be subject to the same restrictions on rolling over Russian debt.

Notably, simultaneously with issuing the Directives, OFAC released [General License 1](#), which authorizes U.S. persons to enter into derivatives contracts linked to new debt or new equity by the entities listed.

New Additions to the SDN List

In addition to imposing sectoral sanctions, the Administration added several individuals and entities to the SDN list, including key Russian governmental officials and several Russian arms companies that produce a range of materials including small arms, high-precision weapons, and tanks. The new additions are:

- **Sergey Beseda**, FSB Colonel General;
- **Aleksandr Borodai**, the self-declared "prime minister" of the Donetsk People's Republic;
- **Sergei Ivanovich Neverov**, Deputy Chairman of the Duma;
- **Oleg Genrikhovich Savelyev**, Minister for Crimean Affairs;

- **Igor Shchegolev**, aide to the President of Russia;
- **Donetsk People’s Republic**;
- **Almaz-Antey**, a manufacturer of surface-to-air missile systems for the Russian military;
- **Bazalt**, a weapons manufacturer;
- **Feodosia Enterprises**, an important shipping facility in Crimea;
- **Concern Radio-Electronic Technologies**, which produces electronic warfare equipment;
- **JSC Concern Sozvezdie**, a manufacturer of communication systems;
- **JSC MIC NPO Mashinostroyenia**, a leading Russian space and rocketry company;
- **Kalashnikov Concern**, a weapons and motor vehicle manufacturer;
- **KBP Instrument Design Bureau**, a precision-guided weapons manufacturer;
- **Luhansk People’s Republic**; and
- **Uralvagonzavod**, a Russian military equipment and tank manufacturer.

Implications for U.S. Persons

The Directives appear to be carefully tailored, strategic sanctions targeted at an identifiable and confined number of players in two important and visible sectors of the Russian economy. While certainly meaningful in impact in their own right, the sanctions also appear to be designed as much to signal the potential for larger consequences down the road, particularly in these critical sectors of the Russian economy. In addressing the issues of recent Russian conduct, the Administration has adopted an approach of incremental expansion of sanctions aimed at increasing the squeeze on the Russian economy while bringing along Western allies who are more hesitant to interfere with ongoing dealings between their financial institutions and Russian transaction partners. These new steps follow that path, and events in Ukraine even in the hours after the release of the new sanctions suggest that the situation may continue to escalate, perhaps dramatically.

The E.U. has also authorized additional measures, but they are largely viewed as less sweeping than the U.S. sectoral sanctions. Specifically, the European Council has requested that the European Investment Bank “suspend the signature of new financing operations” in Russia. The E.U. also resolved to target entities under enhanced criteria, deciding which additional parties to sanction by the end of July and continuing to consider the possibility of additional sanctions.

This most recent round of designations further restricts U.S. commerce with Russia and potentially disrupts the activities of U.S. persons doing business in Russia. Companies with current or planned business operations or transactions in Russia should ensure compliance with existing sanctions and remain vigilant as sanctions continue to escalate.

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If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings Washington D.C. lawyers:

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- ² "Equity" includes stocks, share issuances, depositary receipts, or any other evidence of title or ownership.
- ³ "U.S. person" means "any United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States," but does not include foreign subsidiaries of U.S. companies.

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