

Sanctions Update: UK and EU Expand Sanctions and Export Controls Relating to Russia

New rules significantly expand the scope of existing UK and EU sanctions and export controls on Russia.

This *Client Alert* is published in the context of fast-moving developments and should be read in conjunction with the Latham & Watkins [Client Alert](#) published on 25 February 2022 and the Latham & Watkins [Client Alert](#) published on 1 March 2022.

This *Client Alert* summarises the latest sanctions imposed by the UK and the EU as of 7 March 2022. Different jurisdictions are introducing new sanctions, export restrictions, and other legal and regulatory measures on a near daily basis, and companies exposed to the developments in Russia should ensure that they obtain up-to-date legal advice before taking any steps that may have legal effects.

UK Sanctions

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

In response to recent Russian actions in Ukraine, since 10 February 2022, the UK has implemented a number of amendments to the UK Russia Regulations. In particular, the UK has:

- Added a large number of Russian individuals, companies, and financial institutions to the UK [consolidated list of asset-freeze targets](#).
- Significantly expanded the restrictions on the ability of Russian companies to raise finance on the UK financial markets.
- Introduced new restrictions on the export of certain listed goods to or for use in Russia.

These, along with other sanctions and restrictive measures implemented by the US, the EU, Canada, Japan, and other countries, have increased significantly not only legal but also commercial risks of doing business in Russia and with Russian persons and companies.

The restrictions imposed by the UK Russia Regulations apply:

- Within the territory of the UK (including Northern Ireland); and
- In relation to the conduct of all UK persons wherever they are in the world. UK persons include British nationals, as well as all bodies incorporated or constituted under the law of any part of the UK, meaning that the prohibitions apply to all companies established in any part of the UK as well as branches of UK companies operating overseas.

In addition, the [Russia \(Sanctions\) \(Overseas Territories\) Order 2020](#) has extended the UK Russia Regulations to the British Overseas Territories (including the Cayman Islands, the British Virgin Islands, and the Turks and Caicos Islands). Crown Dependencies, such as Guernsey and Jersey, adopt UK sanctions including the UK Russia Regulations by the implementation of local legislation. Accordingly, legal entities incorporated in or constituted under the laws of these territories should ensure that they comply with the UK Russia Regulations.

Following recent events in Ukraine, the following instruments have amended the UK Russia Regulations:

- The [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) Regulations 2022](#) (Amendment No. 1)
- The [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 2\) Regulations 2022](#) (Amendment No. 2)
- The [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 3\) Regulations 2022](#) (Amendment No. 3)
- The [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 4\) Regulations 2022](#) (Amendment No. 4)
- The [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 5\) Regulations 2022](#) (Amendment No. 5)

In light of the fact that no consolidated version has yet been published, these instruments should be read alongside the original regulations. The summary below highlights the most significant new measures that have been introduced.

On 4 March 2022, the UK Office of Financial Sanctions Implementation (OFSI) published [updated guidance](#) that summarizes the latest amendments. This includes a helpful FAQ list on pages 7-10.

Additions to the UK Consolidated List of Asset-Freeze Targets

Amendment No. 1 expanded the UK Secretary of State's power to designate persons as asset-freeze targets, by introducing additional criteria on which the Secretary of State could base the designation. In particular, the Secretary of State may now designate a person who has been involved in "obtaining a benefit from or supporting the Government of Russia", which is defined to include a person:

- Carrying on business as a Government of Russia-affiliated entity.
- Carrying on business of economic significance to the Government of Russia.
- Carrying on business in a sector of strategic significance to the Government of Russia.

- Owning or controlling directly or indirectly, or working as a director (whether executive or non-executive) or trustee of any of the entities listed above.

The term “Government of Russia” is broadly defined to mean:

- a) “the Presidency of the Russian Federation”;
- b) “public bodies and agencies subordinate to the President of the Russian Federation, including the Administration of the President of the Russian Federation”;
- c) “the Chairman of the Government of the Russian Federation and the deputies of the Chairman of the Government”;
- d) “any Ministry of the Russian Federation”;
- e) “any other public body or agency of the Government of the Russian Federation, including the armed forces and law-enforcement organs of the Russian Federation”; or
- f) “the Central Bank of the Russian Federation”.

Following this amendment, the UK added further Russian persons and entities to its consolidated list of asset-freeze targets, including the Russian Direct Investment Fund (RDIF) and its CEO, Kirill Alexandrovich Dmitriev. Importantly, the UK consolidated list now includes several Russian banks, including:

- IS Bank
- Rossiya Bank
- PJSC Promsvyazbank
- JSC Genbank
- VTB Bank (Public Joint Stock Company)
- VEB.RF
- Bank Otkritie Financial Corporation PJSC
- PJSC Sovcombank

Subject to any exceptions or derogations, or the operation of General Licences, it is prohibited to make funds or economic resources available, whether directly or indirectly, to or for the benefit of any person designated under these asset-freeze sanctions. These restrictions extend to making available funds or economic resources to a person who is owned or controlled directly or indirectly (as defined in Regulation 7) by a designated person. Businesses dealing with Russian entities should accordingly ensure that they have in place KYC / customer due diligence procedures to screen their counterparties in order to ensure that they do not fall afoul of these restrictions.

The UK Secretary of State will likely designate further entities and individuals in the exercise of these expanded powers.

Financial and Investment Restrictions

Amendment No. 2 has expanded the existing prohibitions on dealings with “transferable securities” and “money market instruments” (as defined in the UK Russia Regulations) issued by Russian entities.

Since 2014, the UK, like the EU, has prohibited, subject to certain exceptions, dealings with transferable securities and money-market instruments with a maturity exceeding 30 days issued by, or extending credit with a maturity exceeding 30 days to, listed Russian financial institutions (Sberbank, VTB Bank, Gazprombank, Vnesheconombank (VEB), and Rosselkhozbank), State-owned energy companies (Rosneft, Transneft, and Gazprom Neft), and identified defence companies (listed in Schedule 2 of the UK Russia Regulations), their non-UK subsidiaries, or entities acting at their direction or on their behalf.

The UK has expanded these restrictions significantly. In particular, in addition to the existing restrictions, it is now prohibited to deal with transferable securities or money-market instruments issued on or after 1 March 2022 by:

- UK subsidiaries of the previously designated financial institutions, State-owned energy companies, and defence companies (listed in Schedule 2 of the UK Russia Regulations), and entities acting at their direction or on their behalf (Regulation 16(4B)), if the transferable security or money-market instrument has a maturity exceeding 30 days;
- Persons “connected with Russia”, subject to certain exceptions (including legal entities domiciled in countries other than Russia, and the branches or subsidiaries of such non-Russian legal entities, wherever located) (Regulation 16(4C and 4D));
- The Government of Russia (i.e., including Russian sovereign debt) (Regulation 16(4E and 4F)).

As to the term “connected with Russia”, that is defined to mean:

- a) “an individual who is, or an association or combination of individuals who are, ordinarily resident in Russia,
- b) an individual who is, or an association or combination of individuals who are, located in Russia,
- c) a person, other than an individual, which is incorporated or constituted under the law of Russia, or
- d) a person, other than an individual, which is domiciled in Russia.”

Regulation 17 of the UK Russia Regulations also prohibits the direct or indirect granting of loans to such entities (with a maturity depending on the borrower), subject to certain exceptions or where licenses are granted. In particular, the following categories of loans are prohibited:

- Category 1 loans, i.e., loans or credit with a maturity exceeding 30 days, first made or granted at any time after 31 December 2020 (at 11 p.m. GMT) and which are made/granted to: (i) an entity listed in Schedule 2, (ii) non-UK subsidiaries of Schedule 2 entities, or (iii) entities acting on behalf or at the direction of an entity falling within (i) or (ii).

- Category 2 loans, i.e., loans or credit with a maturity exceeding 30 days, first made or granted at any time on or after 1 March 2022 and which are made/granted to UK subsidiaries of Schedule 2 entities.
- Category 3 loans, i.e., loans or credit with a maturity exceeding 30 days, first made, or granted at any time on or after 1 March 2022 and which are made/granted to a person, other than an individual, which is (i) “connected with Russia” (as defined above), (ii) owned by a person “connected with Russia”, or (iii) a person, other than an individual, acting on behalf or at the direction of persons within either (i) or (ii). This does not include a loan made/granted to (i) a person, other than an individual, which on 1 March 2022 is domiciled in a country other than Russia, or (ii) a person, other than an individual, which is owned by a person falling within (i), or a person, other than an individual, acting on behalf or at the direction of a person falling within (i) or (ii).
- Category 4 loans, i.e., loans or credit (of any maturity) made or granted to the Government of Russia, which are first made or granted at any time on or after 1 March 2022.

These restrictions are subject to General Licences discussed below.

These regulations are accordingly significantly broader than the equivalent EU financing restrictions contained in Article 5 of [Council Regulation \(EU\) 833/2014](#) (Regulation 833/2014) as amended — see Latham’s [Client Alert](#) of 1 March 2022. In particular, they apply not only to the Russian entities listed in Schedule 2 (and their subsidiaries), but also to Russian legal entities generally — subject to the exceptions set out in the regulations (which include non-Russian domiciled entities and their subsidiaries and branches, wherever located).

Correspondent Banking Relationships and Sterling Payments

Amendment No. 2 has introduced new restrictions that prohibit a UK credit or financial institution from:

- Establishing or continuing a correspondent banking relationship (defined to include the provision of banking services) with a designated person, or credit or financial institutions owned or controlled directly or indirectly by a designated person; and
- Processing a sterling payment to, from, or via a designated person, or credit or financial institutions owned or controlled directly or indirectly by a designated person.

Currently, the UK Secretary of State has designated Sberbank for the purposes of this restriction.

This restriction is subject to the “General Licences” discussed below.

Foreign Exchange Reserve and Asset Management

Regulation 18A, introduced by Amendment No. 5, prohibits the provision of financial services for the purpose of foreign exchange reserve and asset management to:

- The Central Bank of the Russian Federation;
- The National Wealth Fund of the Russian Federation;
- The Ministry of Finance of the Russian Federation; or
- An entity owned or controlled by, or acting on behalf/at the direction of any of the above three entities.

This prohibition covers activities relating to the reserves or assets of the above-mentioned persons, which include:

- Money-market instruments (including cheques, bills, and certificates of deposit)
- Foreign exchange
- Derivative products (including futures and options)
- Exchange rate and interest rate instruments (including products such as swaps and forward rate agreements)
- Transferable securities
- Other negotiable instruments and financial assets (including bullion)
- Special drawing rights

Export and Other Trade Restrictions

Like the EU, the UK has introduced restrictions on the export of a wide number of goods to or for use in Russia. These export restrictions are in addition to the existing prohibitions on the export of goods to or for use in Crimea, and the existing restrictions on the export of energy-related goods and services to or for use in Russia.

It is now prohibited to export from the UK to or for use in Russia the following categories of goods and technology:

- Critical-industry goods and technology
- Dual-use goods and technology
- Military goods and technology

Exporters to Russia should update their operating procedures to ensure that none of the goods that they have previously exported to Russia fall within these categories. Particular attention should be paid to “critical-industry goods and technology,” which are listed in Schedule 2A and include electronic devices and components, processing equipment, computers, telecommunications equipment, information security, sensors and lasers, navigation and avionics-related items, marine-related items, and aerospace and propulsion-related items.

The UK Russia Regulations also include restrictions on the supply of restricted goods and technology from a third country to Russia, and on otherwise making available restricted goods and technology to a person “connected with Russia” (as defined above), along with the provision of related technical assistance, financial services and funds, and brokering services. Businesses and financial institutions dealing with exports of restricted goods and technology will need to update their operating procedures to reflect these restrictions.

The UK government has [clarified](#) that an export licence is not required for exports of non-military goods covered by the UK Russia Regulations from Northern Ireland to an EU Member State where the final

destination is Russia or Crimea (as applicable). However, exporters will still need to comply with the export licensing requirements of the relevant Member State for the onward export to Russia or Crimea.

In addition to the new restrictions introduced by the amendments to the UK Russia Regulations, Russia has been [removed](#) as a permitted destination from a number of open general export licences, and the approval of new export licences has been suspended for dual-use items to Russia with [immediate effect](#).

Ships

Amendment No. 4 has introduced extensive new provisions through Regulations 57A – 57I, which prohibit the following categories of ships from accessing UK ports:

- Owned, controlled, chartered, or operated by a designated person.
- Owned, controlled, chartered, or operated by persons “connected with Russia”.
- Flying the flag of Russia.
- Registered in Russia.

The UK government has [clarified](#) that these sanctions do not apply to other ships originating from or destined for Russian ports and that ships carrying cargo to or from Russia are not within the scope of these sanctions unless they fall within one of the above categories. These regulations do not apply to ships (that do not otherwise fall within one of the above categories) with Russian crews or masters by virtue of their nationality.

General Licences

Since 25 February 2022, the UK has published the following General Licences:

- [General Licence NT/2022/1272278](#) allows for a 30-day wind-down period of positions involving VTB Bank (which was placed on the UK’s consolidated list on 24 February 2022). Under the licence, a person under UK jurisdiction may for a time-limited period continue to transact with VTB or its UK subsidiary, VTB Capital plc, or any UK entity owned or controlled by VTB Capital plc, if those dealings are necessary to wind down any transactions involving those entities. The licence also covers any activity reasonably necessary to effect the wind-down transactions. This licence expires on 27 March 2022.
- [General Licence INT/2022/1277777](#) authorises the winding down of certain transactions related to transferable securities and money-market instruments until 23:59 on 8 March 2022. Specifically, a person may directly or indirectly deal with a transferable security or money-market instrument or grant a Category 1 Loan, Category 2 Loan, and Category 3 Loan which would otherwise be prohibited under the UK Russia Regulations until 23:59 on 8 March 2022, if such dealings are necessary to wind down such transactions. This licence does not apply to dealings with asset-freeze targets.
- [General Licence INT/2022/1277778](#) authorises the winding down of correspondent bank relationships with PJSC Sberbank and GBP payments to, from, or via PJSC Sberbank and its UK and non-UK subsidiaries until 23:59 on 31 March 2022, if such dealings are necessary to wind down such transactions.

- [General Licence INT/2022/1277877](#) authorises the winding down of GBP payments to, from, or via PJSC Sberbank and its UK and non-UK subsidiaries for the purpose of making “relevant energy products” available for use in the UK — these include crude oil, petroleum, and gas-related products, as specified in the licence, until 24 June 2022.
- [General Licence INT/2022/1298776](#) authorises the provision of financial services relating to “foreign exchange reserve” and “asset management” (as these terms are defined in the UK Russia Regulations) to PJSC Sberbank or a subsidiary for the purposes of winding down that activity. Any activity reasonably necessary to effect this is permitted. This licence expires on 3 April 2022.
- [General Licence INT/2022/1280976](#) states that “Anything may be done by, or on behalf of, a Relevant Authority in respect of [VTB Capital plc and any entity owned or controlled by VTB Capital plc incorporated in the UK] for the purposes of the functions of that authority including as they relate to prudential supervision or protecting, maintaining or enhancing the stability of the financial system of the United Kingdom, including for any purpose in connection with Parts 1 to 3 of the Banking Act 2009 or of the Financial Services and Markets Act 2000”. This licence expires on 1 March 2023.
- [General Licence INT/2022/1280876](#) authorises VTB Capital plc and any entity owned or controlled by VTB Capital plc incorporated in the UK to: (i) make payment for its basic needs which include things such as payment of insurance premiums; payment of reasonable fees for the provision of property management services; payment of remuneration, allowances or pensions of employees; payment of tax; payment of rent or mortgage payments; utility payments; and (ii) make payment of reasonable professional fees for the provision of legal service or reasonable expenses associated with such services. This licence expires on 1 March 2023. When making such payments the relevant VTB subsidiary must provide written notice to OFSI/HM Treasury that it is conducting activity permitted under this licence.
- [General Licence INT/2022/1295476](#) authorises the winding down of transactions involving Bank Otkritie Promsvyazbank, Bank Rossiya, Sovcombank, Vnesheconombank (VEB), JSCB Novikombank, or a subsidiary of any of these entities, including the closing out of any positions until 3 April 2022.

Other Developments

SWIFT

The UK has announced its commitment to ensure that selected Russian banks are removed from the SWIFT messaging system to disconnect these banks from the international financial system and thereby harm their ability to operate globally.

Ban on Russian Aircrafts

On 25 February 2022, the UK imposed a ban on all Russian-registered aircraft, or aircraft otherwise owned, chartered, or operated by a person or entity “connected with Russia” from entering UK airspace through the [Air Navigation \(Restriction of Flying\) \(Russian Aircraft\) Regulations 2022](#).

Economic Crime Bill

The draft [Economic Crime \(Transparency and Enforcement\) Bill](#) was introduced to the UK House of Commons for its first reading on 1 March 2022 and is scheduled for a second reading on 7 March 2022. It includes draft provisions for setting up a register of overseas entities and their beneficial owners and

requiring overseas entities who own land to register in certain circumstances, to make provision about unexplained wealth orders, and to make provision about sanctions.

EU Sanctions

Latham's [Client Alert](#) of 1 March 2022 summarises the most significant amendments introduced to the EU sanctions regime. Updates to the EU sanctions regime since then are summarised below.

[Council Regulation 2022/345](#) amending [Council Regulation 833/2014](#) (Regulation 833/2014) has introduced the following new prohibitions:

- **RDIF:** The new EU measures prohibit investment, participation, or contribution to projects co-financed by the RDIF. This also applies to projects in which RDIF holds minority stakes. This is subject to a limited exception in relation to an investment participation or contribution which is due under contracts concluded before 2 March 2022 or ancillary contracts necessary for the execution of such contracts. The RDIF has not been added to the EU asset-freeze list yet, even though it has been added to the equivalent UK and US lists.
- **Euro Denominated Banknotes:** A wide new prohibition has been introduced relating to the sale, supply, transfer, or export of euro denominated banknotes to Russia or to any natural or legal person, entity, or body in Russia, including the government and the Central Bank of Russia, or for use in Russia. This prohibition does not apply where the banknotes are for the personal use of natural persons travelling to Russia or members of their immediate families travelling with them; or the official purposes of diplomatic missions, consular posts or international organisations in Russia that have immunities in accordance with international law.
- **SWIFT Prohibition:** As of 12 March 2022, it will be prohibited to provide specialised financial messaging services, which are used to exchange financial data, to the below legal persons/entities/bodies or to any legal person/entity/body established in Russia whose proprietary rights are directly or indirectly more than 50% owned by one of the following entities:
 - Bank Otkritie
 - Novikombank
 - Promsvyazbank
 - Bank Rossiya
 - Sovcombank
 - Vnesheconombank (VEB)
 - VTB Bank

[Council Regulation 2022/350](#) amending Regulation 833/2014 has introduced a new measure that prohibits operators to broadcast or to enable, facilitate, or otherwise contribute to broadcast any content by any of the below legal persons/entities/bodies, including through transmission or distribution by any means (such as cable, satellite, IP-TV, internet service providers, internet video-sharing platforms, or

applications, whether new or pre-installed). Any broadcasting licence or authorisation, transmission, and distribution arrangement is now suspended. These entities are:

- RT- Russia Today English
- RT- Russia Today UK
- RT - Russia Today Germany
- RT - Russia Today France
- RT- Russia Today Spanish
- Sputnik

Belarus

[Council Regulation 2022/355](#) amending [Council Regulation 765/2006](#) concerning restrictive measures in view of the situation in Belarus has introduced expanded prohibitions in relation to the export of dual-use goods and technology.

Accordingly, the EU now prohibits the sale, supply, transfer, or export, directly or indirectly of any dual-use goods and technology to “any natural or legal person, entity or body in Belarus or for use in Belarus”. Certain types of “technical” and “financial” “assistance” in relation to these goods and technology are also prohibited.

These prohibitions are subject to limited exemptions (e.g., for humanitarian purposes, pharmaceutical purposes, and the “personal use of natural persons travelling to Belarus” and “not intended for sale”), and limited “derogations” that can be granted by the competent authorities of EU Member States (such as when intended by non-military users for the “safety of civil nuclear capabilities” or arising from contracts “concluded before 3 March 2022, or ancillary contracts necessary for the execution of such a contract, provided that the authorisation is requested before 1 May 2022”). However, no derogation will be granted (unless for “urgent” prevention of disaster or where the dealings relate to contracts struck before 26 February 2022) where the competent authorities “have reasonable grounds to believe that”:

- The dual-use items might have a military end-use.
- The dual-use items are “intended for aviation or the space industry”.
- The end-user might be the Belarus Ministry of Defence.

What’s Next?

Additional measures are expected to be introduced by the US, the EU, and the UK within the coming days. Latham & Watkins is tracking developments across all regions closely and expects that the US, the EU, the 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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