

CLIENT UPDATE

UNITED STATES EXPANDS SANCTIONS ON RUSSIA, INTRODUCES LIMITED SECTORAL SANCTIONS AGAINST FOUR COMPANIES

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On July 16, 2014, the United States expanded the scope of the Ukraine-related sanctions, particularly those targeting Russia and Russian companies. This brief update provides a high-level overview of the new sanctions and designated entities.

SECTORAL SANCTIONS IDENTIFICATIONS LIST TARGETING BANKS AND ENERGY COMPANIES

Treasury Secretary Lew has now authorized targeted sanctions against specific companies operating within Russia's financial services and energy sectors. These are the first sanctions imposed pursuant to Executive Order 13662, which authorizes the Treasury Secretary to impose sanctions on companies operating within specific sectors of the Russian economy. Under this authority, the Treasury Department imposed limited sanctions on two Russian banks, Gazprombank and Vnesheconomobank ("VEB"), and two Russian energy companies, Rosneft and Novatek. These companies are listed on a new Sectoral Sanctions Identifications List ("SSIL"), and are not included in the Specially Designated Nationals ("SDN") list. The companies are not subject to blocking sanctions, and U.S. persons are not required to block the property of these companies.

Rather, under Directive 1 of the SSIL, the United States now prohibits U.S. persons from financing or otherwise transacting or dealing in new equity or new long-term debt, defined as debt of longer than 90 days maturity, of Gazprombank, a financial institution that

specializes in private banking and corporate financing services, and VEB, a state-owned development bank and payment agent for the Russian government. Under Directive 2 of the SSIL, U.S. persons are prohibited from transacting in new long-term debt issued by Rosneft, a state-owned petroleum and gas company, and Novatek, a natural gas producer.

The sectoral sanctions apply not only to the companies listed on the SSIL, but also to companies that are 50 percent or more owned by one of the listed companies, directly or indirectly.

Other types of transactions with the listed companies and their subsidiaries are not forbidden. For example,

- Transactions involving old debt are permitted.
- Transactions involving short-term debt are permitted.
- Transactions involving GDRs and Eurobonds issued prior to today are permitted.
- Correspondent bank account transactions are permitted.

UPDATED FAQs AND GENERAL LICENSE 1 UNDER E.O. 13662

Accompanying the release of the new SSIL, the Treasury Department’s Office of Financial Assets Control (“OFAC”) updated its online frequently asked questions (“FAQs”) to include “Questions Related to Sectoral Sanctions under Executive Order 13662.” The new FAQs make clear that companies included on the SSIL are not subject to blocking sanctions. OFAC also provides definitions of “debt” and “equity” and describes the circumstances in which rollover debt will fall under this prohibition.

OFAC has also issued General License 1 under E.O. 13662, which authorizes all U.S. persons, without need to apply to or otherwise inform OFAC, to engage in transactions involving derivatives whose value is linked to long-term debt or equity issued by companies included on the SSIL. Thus, although U.S. persons are prohibited from transacting in such debt or equity issued after July 16, 2014, they may transact in derivatives products whose value is linked to such prohibited assets.

BLOCKING SANCTIONS AGAINST DESIGNATED ARMS COMPANIES AND RUSSIAN GOVERNMENT OFFICIALS

Simultaneously, the Treasury Department announced the imposition of blocking sanctions on eight Russian arms and defense industry firms, four Russian government officials, two separatist groups in Ukraine and a Crimean shipping facility. The arms companies

designated for blocking sanctions include Kalashnikov Concern, Russia's largest firearms producer. Among the newly designated Russian government officials are Sergey Besesda, a senior officer in the Federal Security Service, and Igor Shchegolev, an Aide to President Putin. Also designated were two officials charged with integrating Crimea into the Russian Federation: Oleg Savelyev, the Russian Minister for Crimean Affairs; and Sergei Neveroc, the Deputy Chairman of the Duma.

These individuals and companies have been added to the SDN list. Effective immediately, U.S. persons may not engage in transactions with these designated individuals and companies. Additionally, any assets of these individuals and companies within U.S. jurisdiction or the control of U.S. persons must be frozen.

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Please do not hesitate to contact us with any questions.

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