

CLIENT UPDATE

US ANNOUNCES NEW SANCTIONS ON RUSSIAN COMPANIES, PROVIDES GUIDANCE ON TRANSACTIONS INVOLVING SSI ENTITIES

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On July 29, 2014, President Barack Obama announced new U.S. sanctions against Russia in response to recent events in Ukraine. The U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") announced the addition of three state-owned financial institutions – VTB Bank, Bank of Moscow and Russian Agricultural Bank – on the Sectoral Sanctions Identification List ("SSI List"). VTB Bank, together with its subsidiaries, is Russia's second-largest banking group, and its shares are listed on the Moscow Exchange and London Stock Exchange. Bank of Moscow is a subsidiary of VTB Bank. Russian Agricultural Bank acts as a Russian government agent offering a full range of financial services to clients and has the second-largest regional branch network in Russia.

These companies join Gazprombank and Vnesheconomobank ("VEB") under Directive 1 of the SSI List, which 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, for these companies.

Rosneft and Novatek remain the only Russian companies subject to Directive 2 of the SSI List, which prohibits U.S. persons from transacting in new long-term debt for companies designated under this directive.

Please see our [July 16 Client Update](#) for more information on the introduction of the SSI List pursuant to Executive Order 13662.

OFAC also announced the imposition of blocking sanctions on state-owned United Shipbuilding Corporation, Russia's largest shipbuilding company, pursuant to Executive Order 13661, for operating in the arms or related materiel sector of Russia. Effective immediately, U.S. persons may not engage in transactions with United Shipbuilding Corporation, and any of its assets within U.S. jurisdiction or under the control of U.S. persons must be frozen.

GUIDANCE ON TRANSACTIONS WITH SSI ENTITIES

On July 28, 2014, OFAC updated its Frequently Asked Questions ("FAQs") regarding transactions by U.S. persons with Russian companies included on the SSI List.

Guidance on New Equity

Two newly issued FAQs address issues relating to the treatment of "new equity" – that is, equity issued by an SSI entity (or its 50%-owned subsidiary) on or after July 16, 2014, the date on which the sanctions were issued. In one, the FAQs confirm that depositary receipts over shares issued by such an entity will be treated the same as the shares on which they are based: U.S. persons, including U.S. financial institutions acting as depository, may issue and deal with depositary receipts over shares issued prior to July 16, 2014, but not on shares issued on or after that date.

In response to a question on how banks will be able to distinguish between "new" and "old" equity when the shares have the same ISIN or other identifier, OFAC warns that while the Directives of the SSI List permit U.S. persons to deal in shares issued prior to July 16, 2014, to the extent the person does "in fact" transact or deal in equity issued on or after that date, the activity "would constitute a violation of the prohibition" under Directive 1.

As a consequence of these clarifications, if an SSI entity or its 50% owned subsidiary issues shares on or after July 16, 2014, U.S. financial institutions and other U.S. persons will be unable to transact or deal in any shares (or depositary shares representing those shares) issued by the entity or subsidiary, unless they are able to determine that they were issued before the sanctions date. In the case of a new share issuance by an SSI entity that has an existing depositary receipt program, the depository may need to close the depositary receipt program for deposits if it is not possible to distinguish between the newly issued and already existing shares.

Guidance on New Debt

The updated FAQs also addressed issues related to derivatives transactions, credit facilities/loan agreements and letters of credit.

OFAC confirmed that normal counterparty credit exposure associated with derivatives transactions authorized under General License 1 to Executive Order 13362 would not constitute an extension of credit. Thus, US persons may incur credit exposure to a counterparty on the SSI List pursuant to a derivatives transaction authorized by the general license without violating the prohibition on dealing in new, long-term debt of the SSI entity.

The new FAQs make clear that drawdowns and disbursements with repayment terms of 90 days or less on long-term credit facilities and loan agreements entered into prior to July 16, 2014, are permitted. Additionally, the FAQs state that disbursements and drawdowns with repayment terms that exceed 90 days are also permitted if the terms of such drawdowns and disbursements (e.g., repayment period, interest rate, maximum drawdown amount) were contractually agreed to prior to July 16, 2014, and have not been modified since. However, drawdowns or disbursements negotiated or otherwise modified after July 16, 2014, would constitute prohibited extensions of credit, even if the credit facility or loan agreement was entered into prior to July 16, 2014.

Finally, OFAC stated that U.S. persons may advise or confirm a letter of credit issued on or after July 16, 2014, on behalf of a non-sanctioned entity in which an SSI entity is the beneficiary (i.e., the exporter/seller). However, U.S. persons may not advise or confirm any letter of credit for which an SSI entity is an applicant (i.e., the importer/buyer) if the letter of credit is issued on or after July 16, 2014, and carries a term of longer than 90 days.

We will continue to provide updates as the situation develops. The European Union is also expected to implement additional measures against Russia this week. We will issue a report when these measures are announced.

For e-mail updates on Ukraine-related sanctions and other sanctions developments, please subscribe to the Debevoise & Plimpton LLP Sanctions Alert, a semi-monthly summary of developments in economic and trade sanctions. To subscribe, please e-mail sanctions@debevoise.com or sign up [here](#). The Firm's sanctions-related publications may also be found at [The Sanctions Resource](#) page of our website.

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Please do not hesitate to contact us with any questions.

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