

CLIENT UPDATE

US EXPANDS SECTORAL SANCTIONS AGAINST RUSSIA, BLOCKS NEW DEFENSE COMPANIES

MOSCOW

Natalia A. Drebezgina
nadrebezgina@debevoise.com

Alan V. Kartashkin
avkartashkin@debevoise.com

Alyona N. Kucher
ankucher@debevoise.com

Dmitri V. Nikiforov
dvnikiforov@debevoise.com

WASHINGTON, D.C.

Satish M. Kini
smkini@debevoise.com

Robert T. Dura
rdura@debevoise.com

NEW YORK

Carl Micarelli
cmicarelli@debevoise.com

LONDON

Lord Goldsmith QC
phgoldsmith@debevoise.com

Matthew Howard Getz
mgetz@debevoise.com

Jessica Gladstone
jgladstone@debevoise.com

On September 12, a few hours after the new EU sanctions were announced (see our related [Client Update](#)), the US Treasury Department announced an expansion of the sectoral sanctions program targeting Russian companies. In addition to adding new entities to existing Directives 1 and 2, which bar US persons from transacting in equity or long-term debt of listed financial services and energy companies, the US also

- expanded the definition of long-term debt for financial services companies covered by Directive 1,
- added a new Directive 3 targeting the defense and related materiel sector, and
- added a new Directive 4 supplementing US export controls on the Russian oil and gas sector.

In addition to these changes to the Sectoral Sanctions Identifications (“SSI”) List, the US has imposed blocking sanctions against a number of Russian defense companies.

EXPANSION OF SANCTIONS ON FINANCIAL SECTOR

Directive 1 of the SSI List has been amended to tighten the restrictions on debt financing transactions by reducing from 90 days to 30 days the maturity period of new debt. As a result, US persons are prohibited from transacting or otherwise dealing in

new equity or debt of greater than 30 days maturity of the financial institutions designated under Directive 1 of the SSI List. Sberbank, Russia's largest bank, also is now designated under Directive 1 of the SSI List.

This amendment of Directive 1 became effective on September 12, 2014, and does not apply to debt issued prior to that date. Rather, the previous restriction on transacting and dealing in debt with a 90-day maturity limit continues to apply to debt issued by an SSI entity subject to Directive 1 after July 16, 2014, but prior to September 12, 2014. The following chart details the applicable restrictions on debt of Russian financial institutions subject to Directive 1:

Financial Institution	Effective Date of Restriction on Transacting in Debt with a 90-day Maturity Limit	Effective Date of Restriction on Transacting in Debt with a 30-day Maturity Limit
Bank of Moscow	July 29, 2014	September 12, 2014
Gazprombank	July 16, 2014	September 12, 2014
Russian Agricultural Bank	July 29, 2014	September 12, 2014
Sberbank	N/A	September 12, 2014
VEB	July 16, 2014	September 12, 2014
VTB Bank	July 29, 2014	September 12, 2014

NEW SANCTIONS TARGETING ENERGY SECTOR

The United States also has taken additional steps to target the Russian energy sector. First, the Treasury Department has added Gazprom Neft and Transneft to Directive 2 of the SSI List, which prohibits US persons from transacting or dealing in new debt of greater than 90 days maturity. These two companies join Novatek and Rosneft, which were previously subject to Directive 2. The maturity period for debt subject to Directive 2 was not amended and remains at 90 days.

The Treasury Department also announced new Directive 4 of the SSI List, which supports existing export restrictions administered by the Commerce Department's Bureau of Industry and Security ("BIS") that target Russia's oil industry. Specifically, US persons are now prohibited from exporting goods, services (not including financial services) or

technology in support of exploration or production for Russian deepwater, Arctic offshore or shale projects that have the potential to produce oil. The targeted companies are Gazprom, Gazprom Neft, Lukoil, Surgutneftegas and Rosneft.

Directive 4 expands restrictions on the exploration and production of Russian oil resources beyond existing export controls by now prohibiting US persons, anywhere in the world, from providing covered services, goods, software and technology to the targeted companies. Export controls apply only to exporting goods from the US or reexporting US-origin goods from a third country but apply beyond the above-noted targeted companies.

OFAC has adopted a new General License 2, which grants a limited grace period ending on September 26, 2014, for winding down preexisting contracts.

SANCTIONS ON DEFENSE SECTOR EXPANDED

Directive 3 prohibits transactions by US persons involving new debt of greater than 30 days maturity issued by designated entities. New Directive 3 of the SSI List now includes just one company, Rostec, a major Russian defense conglomerate. With the introduction of Directive 3, the US has also made a conforming amendment to General License 1. The amended license, now designated as General License 1a, authorizes derivatives transactions linked to instruments restricted under the SSI List Directives 1, 2 and 3.

Finally, the Treasury Department has blocked five additional state-owned defense technology companies pursuant to Executive Order 13661. The five entities, which have been added to the Specially Designated Nationals ("SDN") List, are OAO 'Dolgoprudny Research Production Enterprise,' Mytishchinski Mashinostroitelny Zavod OAO, Kalinin Machine Plant JSC, Almaz-Antey GSKB, and JSC NIIP. All transactions by US persons with these five companies are now prohibited, and any assets of the companies in the United States or in the possession or control of a US person must be frozen.

* * *

For e-mail updates on 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](#).

Please do not hesitate to contact us with any questions.

September 15, 2014