

## Russia Sanctions Update – April 7, 2022

APRIL 7, 2022

### Key Takeaways:

- **New Executive Order prohibits all new investment by U.S. persons in Russia**
- **U.S. imposes full asset freezing sanctions on Alfa-Bank and Sberbank, along with more Russian government officials and their family members, including the daughters of Russian President Vladimir Putin**
- **Sanctions target Russian cybercrime and ransomware**

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### I. New Executive Order Bans U.S. Investment in Russia

On April 6, 2022, President Biden issued a [new Executive Order](#), “Prohibiting New Investment in and Certain Services to the Russian Federation in Response to Continued Russian Federation Aggression” (the “April 6 EO”). The April 6 EO prohibits the following:

- “new investment in the Russian Federation by a United States person, wherever located”;
- “the exportation, reexportation, sale, or supply, directly or indirectly, from the United States, or by a United States person, wherever located, of any category of services as may be determined by the Secretary of the Treasury, in consultation with the Secretary of State, to any person located in the Russian Federation”; and
- “any approval, financing, facilitation, or guarantee by a United States person, wherever located, of a transaction by a foreign person where the transaction by that foreign person would be prohibited by this section if performed by a United States person or within the United States.”

“Investment” is not defined in the EO, and it is currently unclear how broadly the prohibitions on new investment will apply and what types of transactions will be covered. However, [a FAQ](#) published in connection with the EO issued on March 8, 2022, “Prohibiting Certain Imports and New Investments With Respect to Continued Russian Federation Efforts to Undermine the Sovereignty and Territorial Integrity of Ukraine,” defines “investment” as a “transaction that constitutes a commitment or contribution of funds or other assets for, or a loan or other extension of credit.” A similar definition may be applied for the April 6 EO, but further guidance will be needed from OFAC on the scope of the prohibitions in the April 6 EO. The Secretary of the Treasury has not yet identified any “categories of services” subject to the exportation,

reexportation, sale, or supply prohibition, and until further guidance is issued, it is unclear what specific services may be covered.

## II. Blocking Sanctions on Russian Banks, Government Officials, and Family Members

Also on April 6, 2022, the U.S. Department of the Treasury's Office of Foreign Assets Controls ("OFAC") added several more Russian government officials and their family members to the Specially Designated Nationals and Blocked Persons List ("SDN List"). OFAC also added Public Joint Stock Company Sberbank of Russia ("Sberbank") and Joint Stock Company Alfa-Bank ("Alfa-Bank") to the SDN list, pursuant to [Executive Order \("EO"\) 14024](#). While certain transactions with Sberbank and Alfa-Bank were already prohibited by U.S. sanctions, SDN List designations are the most restrictive level of sanctions imposed by the U.S.

U.S. persons are generally prohibited from engaging in transactions with SDNs unless authorized by OFAC, and all U.S. assets of SDNs are "blocked" and must be reported to OFAC. Designated natural persons are also subject to a travel ban, and all entities owned 50% or more by an SDN are generally treated as if they were also on the SDN List (known as the "50 Percent Rule") even if they are not expressly listed. In addition, any person, including a non-U.S. person, may themselves be designated as an SDN for materially assisting, sponsoring, or providing financial, material, or technological support for, or goods or services to or in support of these SDNs.

### Sberbank

OFAC added Sberbank, along with 42 of its subsidiaries, to the SDN List. Sberbank is the largest financial institution in Russia and is majority-owned by the Russian government. OFAC has issued [General License 22](#), which permits certain winding-down transactions until 12:01 a.m. eastern daylight time on April 13, 2022 (only a week from the designation). OFAC also issued a [general license](#) specific to Sberbank CIB USA to permit winding-down transactions through June 7, 2022. Previously, on February 24, 2022, OFAC identified Sberbank as subject to prohibitions pursuant to Directive 2 under EO 14024, which restricts transactions by U.S. financial institutions, and Directive 3 under EO 14024, which prohibits transactions by U.S. persons involving new debt and new equity. The SDN List designation goes much further by prohibiting all transactions by U.S. persons with Sberbank, absent authorization from OFAC.

### Alfa-Bank

OFAC also imposed full blocking sanctions on Alfa-Bank, Russia's largest privately owned financial institution and Russia's fourth-largest financial institution overall. Six of Alfa-Bank's subsidiaries are also included in the designation. OFAC has issued [General License 23](#), which authorizes certain winding-down transactions with Alfa-Bank until 12:01 a.m. eastern daylight time on May 6, 2022. Alfa-Bank was previously identified by OFAC on February 24, 2022 as subject to prohibitions pursuant to Directive 3 under EO 14024 (as with Sberbank).

In addition, OFAC has amended several previously-issued general licenses to cover certain transactions with Sberbank and Alfa-Bank.

- [General License 8B](#) authorizes all energy-related transactions prohibited by EO 14024, including those involving Sberbank and Alfa-Bank, through June 24, 2022. This replaces the prior General License 8A.

- [General License 9B](#) authorizes transactions that are ordinarily incident and necessary to dealings in the debt or equity of identified sanctioned entities. Transactions involving dealing in Sberbank’s debt or equity issued prior to February 24, 2022 are authorized through May 25, 2022. Transactions involving dealing in Alfa-Bank’s debt or equity issued prior to April 6, 2022, are authorized through June 30, 2022. This replaces the prior General License 9A.
- [General License 10B](#) authorizes certain transactions that are ordinarily incident and necessary to the wind down of derivative contracts with identified sanctioned entities. For Sberbank, transactions involving derivative contracts entered into prior to February 24, 2022 are authorized through May 25, 2022. For Alfa-Bank, transactions involving derivative contracts entered into prior to April 6, 2022 are authorized through June 30, 2022. This replaces the prior General License 10A.

### Sanctions on Russian Government Officials and Family Members

In addition to the above sanctions on Russian banks, OFAC also designated several family members of Russian government officials, most notably President Vladimir Putin’s two daughters, Katerina Vladimirovna Tikhonova and Maria Vladimirovna Vorontsova. Maria Aleksandrovna Lavrova, the wife of Russian Foreign Minister Sergey Lavrov, and his daughter Yekaterina Sergeevna Vinokurova were also added to the SDN List.

Additionally, all members of the Russian Security Council have now been added to the SDN List pursuant to EO 14024. While many members had been designated previously, the April 6, 2022 action captures the 21 remaining members that either had not yet been added to the SDN List or were added under a different EO. Many of these members had already been sanctioned by Canada, the European Union, Japan, New Zealand, Australia, and the United Kingdom.

### **III. Sanctions Targeting Ransomware and Cybercrime**

On April 5, 2021, the U.S. [targeted Russia-related illicit finance and cybercrime](#) by adding the world’s largest darknet market for Russian speakers, Hydra, along with over 100 of its associated virtual currency addresses, and the virtual currency exchange, Garantex, to the SDN List. This action was made in concert with the German Federal Criminal Police, who shut down Hydra servers in Germany on the same day and seized \$25 million worth of bitcoin.

As explained in the OFAC press release, darknets are Internet-based networks where individuals use special software in order to obscure the individuals’ identity and their associated Internet activity. Marketplaces that reside on the darknet almost exclusively accept virtual currency as payment for a large range of illegal services and goods, including ransomware-as-a-service (“RaaS”).

Hydra provides a marketplace for illicit services, including RaaS, hacking services and software, stolen personal information, counterfeit currency, stolen virtual currency, and illicit drugs. Garantex is a virtual currency exchange that has processed millions of dollars in transactions associated with illicit actors, including nearly \$6 million from Russian ransomware gang Conti and more than \$2 million from Hydra. Like the [sanctions targeting the SUAX and CHATEX virtual currency exchanges](#) issued last October, these sanctions are intended to cut off ransomware payments going to illicit enterprises, particularly those seen to be authorized or controlled by the Russian government. All three exchanges allegedly operated out of Federation Tower in Moscow.

OFAC has emphasized that countering ransomware is a “top priority” of the Biden administration, and warned that Russia “is a haven for cybercriminals.” Additionally, OFAC has reiterated that the virtual currency industry “has a critical role to play” to ensure that controls are implemented to prevent sanctioned persons and other illicit actors from using virtual currencies to circumvent U.S. sanctions.

OFAC has previously published [Sanctions Compliance Guidance for the Virtual Currency Industry](#); and FinCEN has published an alert [identifying red flags on potential Russian sanctions evasion attempts, including through the use of cryptocurrency](#).

Foley Hoag will continue to provide updates as the situation with respect to Ukraine develops. Companies with questions about these actions or how to ensure compliance with U.S. sanctions and export control regulations should contact a member of Foley Hoag’s [Trade Sanctions & Export Controls practice](#). For information on earlier Russia-related actions, see our prior Client Alerts issued on [March 28](#), [March 17](#), [March 15](#), [March 11](#), [March 7](#), [March 1](#), [February 28](#), and [February 17](#).