

Latest sanctions against Russia 1/10/22



Senior Associate, PwC Legal
Elvita Gece

After the Russian Federation decided on 23 February 2022 to recognise the Donetsk People's Republic and the Luhansk People's Republic as independent states, followed by the invasion of Ukraine on 24 February, the EU, the UK, the US and Canada as well as other countries have launched wide-ranging sanctions aimed at changing Russia's behaviour and eliminating the current threats in Ukraine and CEE.




The sanctions are hitting more than 700 individuals and entities associated with the Russian Federation's ruling elite and Putin's inner circle. These financial and sectoral sanctions will have substantial effects on Russia's overall economy and future development, including the technological development of the aviation, military and defence sector.

To scale up the financial sanctions, the EU, the UK, the US and Canada have jointly decided to disconnect seven banks of the Russian Federation from the international SWIFT system, which is expected to hinder international payments.

Below is a summary of how the sanctions have evolved following the changes agreed between the EU, the UK and the US by 3 March 2022.

Financial, civil and travel restrictions	EU	US (OFAC)	UK
No entry	✓	✓	✓
Asset freeze	✓	✓	✓
Closure of correspondent bank accounts and suspension of payment clearing	✗	✓	+
Restrictions on financial transactions (e.g. securities transactions and lending)	✓	✓	✓
SWIFT	+	+	+
Restrictions on the activities of the Central Bank of Russia	✓	✓	✓
Cash transfers to DPR/LPR	✓	✓	✗

Sectoral sanctions	EU	US	UK
No export or import to/from DPR/LPR	✓	✓	✓
No investment in DTR/LTR	✓	✓	✓
No export of goods in the transport sector*	✓	✓	+
No export of technology goods or dual-use goods**	✓	✓	✓
No export of goods in the energy sector	✓	✓	✓

 Announced
  In place
  Not in place

* The ban on exports of goods in the transport sector to the Russian Federation affects goods and technology solutions associated with the aviation and space industry. The sanctions prohibit the sale of aircraft, spare parts and equipment to the Russian Federation's airlines.

** A ban on exports of technology solutions and dual-use goods capable of fostering the Russian Federation's technological advances, including the defence and security sector

*** A ban on exports of goods in the energy sector, including goods associated with oil processing

How to manage sanctions risk adequately

The size of sanctions and the speed of implementation are unprecedented and create a need for companies and every Latvian resident to adapt swiftly because we are all jointly responsible for sanctions compliance. A sanctions breach may have various implications:

1. Administrative liability (e.g. penalties and business restrictions) on persons listed by section 13.2 of the International Sanctions Act
2. Criminal liability under section 84 of the Criminal Code, which imposes liability for breaching sanctions imposed by international organisations and Latvia
3. Difficulties in building relationships, including with financial institutions
4. Reputation risk may lead to a suspension of customer and supplier relationships, as well as restricting the ability to attract new customers or suppliers.

Clearly, companies are currently facing the greatest challenges, especially if their business is associated with Russia and Belarus. Given the changing scope of the sanctions, a company should assess how the relevant sanctions risk has changed. If the company has a system of internal controls in place to ensure adequate management of sanctions risk, are the controls still as efficient as before?

What you can do to help your company manage the growing level of sanctions risk:

1. Update or conduct a comprehensive assessment of sanctions risk, analysing customer risk, country risk and geographic risk and the risk of products/services and supply channels used by customers in the context of sanctions. A comprehensive assessment of sanctions risk can

- serve as a basis for devising appropriate controls to mitigate any risks identified;
2. Conduct a due diligence review of the portfolio of customers and suppliers, in particular those associated with Russia and Belarus, to evaluate the business of customers and suppliers (geographic risk, supplier risk) and its potential link with any of the sanctioned individuals or entities, as well as the structure of their owners or controlling persons;
 3. If your company is already using screening systems to ensure regular monitoring of its customer and supplier base against the current sanctions lists, it is a good idea to conduct an efficiency assessment of your system to provide comfort that the system ensure automatic and timely compliance with the updated sanctions lists. It is also advisable to run stress tests aimed at determining whether the system and its filters is able to cope with a considerable increase in the number of warnings, and to identify ways of adapting the system filters to minimise false positives, which are likely to increase substantially, given the increased numbers of sanctioned individuals and entities;
 4. Set up business-specific controls to help your company monitor and identify suspicious activities possibly associated with circumventing the sanctions, for example, using agency services;
 5. Assess the import and export controls the company has put in place, or set up import and export controls (if the company's business involves import and export) to stay compliant with the sectoral sanctions.

Our experience suggests that financial institutions (banks) working with customers whose business involves heightened sanctions risk (e.g. imports and exports of goods and raw materials for companies) may ask a company to draw up and/or file a sanctions policy confirming that the company is able to manage the risks inherent in its business, thereby mitigating the risk associated with the bank's dealings with the customer. A company's inability to duly provide any required information or a lack of internal controls to manage sanctions risk may give the bank a basis for deciding to stop providing their services, while also making it difficult or impossible to resume business if customer risk is too high for the bank's risk appetite.

PwC Latvia has teams of professionals with vast experience in managing money laundering risk and sanctions risk who would be pleased to help your company set up or improve its system of internal controls for managing sanctions risk.

What sanctions apply? Where do I find relevant information on sanctioned subjects?

Sanctions may be imposed by the EU Council issuing regulations, by the UN Security Council preparing resolutions, and by the competent authorities of other countries, such as the US Treasury's Office of Foreign Assets Control (OFAC).

The following sanctions are legally binding in Latvia:

1. Sanctions imposed by the UN Security Council
2. Restrictive measures taken by the EU, i.e. EU sanctions
3. Restrictive measures taken by Latvia, i.e. national sanctions
4. NATO members' sanctions in line with the Sanctions Act¹

With respect to NATO members' sanctions at 4 above, it is important to note that participants in the

Latvian financial and capital market are also complying with the OFAC sanctions because those are substantially affecting the interests of this market. Compliance with these sanctions is also in the interests of any public and private person that conducts financial transactions or takes part in public procurement, for example. In addition to the OFAC sanctions, there is a risk that an individual or entity will become subject to the OFAC sanctions or that access to payments in USD will be restricted or denied, and that some other adverse implications will arise. To avoid any risks inherent in working with a sanctioned individual or entity, any individual or entity should regularly monitor the latest sanctions.

With respect to the present situation in Ukraine and the historical development of the sanctions, the EU Council adopted Regulation (EU) No. 269/2014 on 17 March 2014 and Regulation (EU) No. 833/2014 concerning restrictive measures in respect of actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine, as well as actions destabilising the situation in Ukraine a couple of months later. Regulation (EU) No. 269/2014 has been amended since the Russian Federation decided to recognise the Donetsk People's Republic and the Luhansk People's Republic as independent states and invaded Ukraine. Also, Council Regulation (EC) No. 765/2006 of 18 May 2006 imposing restrictive measures to deal with the situation in Belarus has been amended to reflect the engagement of Belarus in the invasion of Ukraine.

Since these events in Ukraine the EU Council has issued a number of decisions and adopted regulations amending Regulations (EU) No. 269/2014 and (EU) No. 833/2014 and Regulation (EC) No. 765/2006:

1. On 23 February 2022, adding 22 individuals and 4 entities, as well as 336 members of the State Duma of the Russian Federation to the sanctions list:

- <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=uriserv%3AOJ.LI.2022.042.01.0003.01.LAV&toc=OJ%3AL%3A2022%3A042I%3ATOC>;
- <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=uriserv%3AOJ.LI.2022.042.01.0015.01.LAV&toc=OJ%3AL%3A2022%3A042I%3ATOC>.

1. On 24 February 2022 – the resumption of restrictive measures:

- https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=uriserv%3AOJ.L_.2022.046.01.0003.01.LAV&toc=OJ%3AL%3A2022%3A046%3ATOC.

1. On 25 February 2022, imposing a number of restrictive measures, for example, related to finance, defence, energy, aviation and space, expanding restrictions on exports of dual-use goods and technology solutions as well as supplies of related services:

- <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32022R0328&from=LV>;
- <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=OJ:L:2022:053:FULL&from=LV>.

1. On 28 February 2022, adding 26 individuals and 1 entity to the sanctions list:

- https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=uriserv%3AOJ.L_.2022.057.01.0001.01.LAV&toc=OJ%3AL%3A2022%3A057%3ATOC.

1. On 1 March 2022, amending the sanctions with restrictive measures against the Russian Federation's media channels involved in propaganda and imposing further restrictive measures related to the provision of specialised financial messaging services and supplies of euro banknotes:

- <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32022R0345>;

- <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX:32022R0350>.

1. On 2 March 2022, adding 22 individuals to the sanctions list:

- https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=uriserv%3AOJ.L_.2022.066.01.0001.01.LAV&toc=OJ%3AL%3A2022%3A066%3ATOC;
- <https://eur-lex.europa.eu/legal-content/LV/TXT/?uri=CELEX%3A32022D0354&qid=1646385601253>.

It is important to note that publicly available tools for searching sanctions, such as [the Financial Intelligence Unit's tool](#) for searching sanctions imposed by the EU/UN or [the OFAC tool for searching sanctions](#) may not contain the latest data because the sanctions are being rapidly changed and regularly updated. To make sure a supplier or individual is not sanctioned, it is advisable to verify the latest information on EU sanctions against [the EU Official Journal](#) and on [OFAC sanctions](#).

¹Section 2(1) of the International and National Sanctions Act provides that in specified cases Latvia will apply sanctions imposed by a NATO member.