KPMG

Regulatory Alert

Regulatory Insights

February 2023

Russia-Ukraine War: Expanded U.S. Sanctions, FATF Action

KPMG Regulatory Insight:

- *These most recent regulatory issuances re-confirm that Russian designations are complex, particularly given typical multi-tier ownership.*
- *Given such complexities (including the potential for cross-border routing), companies should consider both entity-level and activity-level sanctions standards and practices.*
- *Companies must strive to ensure compliance with the 50 percent rule (which often necessitates updates to screening tools and teams to handle alert review volumes).*

Since the onset of Russia-Ukraine War in February 2022, the United States, acting in coordination with the G7 and other countries, has implemented myriad sanctions, export controls, and other economic measures intended to inhibit Russia's access to capital, technology, and materials that could be used to support the war effort (see examples in KPMG Regulatory Alerts here and here). A fact sheet released by the Department of the Treasury (Treasury) highlights actions taken by the U.S. over the past year. Highlights of very recent measures follow.

U.S. Sanctions

In coordination with the G7, the Treasury's Office of Foreign Assets and Control (OFAC) announced "expanded and intensified" sanctions against the Russian Federation, including:

- A new determination targeting Russia's metals and mining sector, which allows for sanctions to be imposed on any individual or entity determined to operate or have operated in that sector.
- Sanctions against 22 individuals and 83 entities.
- Designations of:
  - Over thirty individuals and companies outside of Russia that "are connected with Russia's sanctions evasion attempts" (including arms trafficking and illicit finance).
  - More than a dozen financial institutions in Russia along with certain wealth management firms. (OFAC also issued Russia-related General Licenses to wind down certain transactions with these entities.)
  - Entities supporting Russia in the aerospace, technology and electronics, and military sectors.

In a joint statement, the G-7 leaders committed to strengthen the sanctions and other economic measures put in place as well as to adopt, as needed, "further measures to prevent Russia from accessing inputs that support its military and manufacturing sectors, including, among others, industrial machinery, tools, construction equipment, and other technology."

Oil Price Cap

In September 2022, the U.S., as part of a coalition of countries, announced plans to implement a policy to ban, subject to a price cap exception, a broad range of services (including trade finance, banking, brokering, and insurance) related to the maritime transportation of Russian Federation origin crude oil and petroleum products (see related KPMG Regulatory Alert here). The ban on crude oil took effect on December 5, 2022, and the ban on petroleum products took effect on February 5, 2023. Failure to comply with the ban would result in a sanctions violation. The price caps are subject to ongoing review.

Financial Action Task Force

The FATF (Financial Action Task Force), an international standards setter focused on money laundering, terrorist financing, and other areas of illicit finance, has suspended the membership of the Russian Federation citing the country's "attacks targeting critical infrastructure," arms trade with United Nations sanctioned jurisdictions, and "malicious cyber-activities." FATF notes, however, that the Russian Federation remains accountable for its obligation to implement the FATF Standards. It will also remain a member of the Global Network as an active member of the Eurasian Group on combatting Money Laundering (EAG) and retain its rights as an EAG member.

In response, the U.S. Secretary of the Treasury issued a statement applauding the FATF for taking this "unprecedented action."

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