

U.S. Ukraine-Related Sanctions: Another List to Check and What It Means

On July 16, 2014 in response to the ongoing crisis in Ukraine, the U.S. Office of Foreign Assets Control announced that it was adding several individuals and entities to the Specially Designated Nationals (SDN) list. As with previous designations, most of the individuals appear to be high ranking members of Russia's political or military establishment, while the entities appear connected to Russia's energy and defense sectors.

As with all individuals and entities so designated, placement on the SDN list means that all of the designee's property located in the United States or that comes within the control or possession of a U.S. person must be blocked.¹ Additionally, U.S. persons are generally prohibited from transacting business with any Specially Designated National. (The complete SDN list can be found [here](#).) Pursuant to OFAC guidance, a blocked person is considered to have an interest in all property and property interests of an entity in which it owns, directly or indirectly, a 50 percent or greater interest. Thus, the property and interests in property of such an entity are likewise blocked even though the entity itself may not appear on the SDN list.

Sectoral Sanctions Identification List

In addition to the SDN designations, OFAC also published two directives establishing a new Sectoral Sanctions Identification (SSI) List. This list is derived from Executive Order 13662 and relates to persons determined by OFAC to be operating in various sectors of the Russian economy.

Directive 1 focuses on Russia's financial services sector and prohibits U.S. persons from transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity, or providing new equity for entities on the SSI List. Directive 2 relates to Russia's energy sector and imposes similar prohibitions on U.S. persons with regard to new debt of longer than 90 days maturity, but makes no reference to new equity. In each case the prohibitions apply to the listed entities as well as their property or interests in property. Thus, the prohibitions extend to entities in which a listed party has a 50 percent or greater interest, even though that entity is not itself on the SSI list.

Notable entities named to the SSI List include Gazprombank and Bank for Development and Foreign Economic Affairs (aka Vnesheconombank) under Directive 1, and Rosneft Oil Company and OAO Novatek under Directive 2.

Unlike the SDN list, the prohibitions relating to entities on the SSI list are limited to those set out in Directives 1 and 2. All other transactions by U.S. persons with these entities are permitted, as long as such transactions do not otherwise involve property or interests in property of a blocked person that is also designated on the SDN list.

Further complicating matters is a General License, also issued on July 16 by OFAC, that authorizes U.S. persons to engage in transactions "involving derivative products whose value is linked to an underlying asset that constitutes (1) debt with a maturity of longer than 90 days or equity issued on or after July 16, 2014 by a person identified in Directive 1 ... or (2) debt with a maturity of longer than 90 days issued on or after July 16, 2014 by a person identified in Directive 2." Thus, U.S. persons may enter into derivative contracts linked to long term debt or equity issued after July 16, but may not hold, purchase or sell the underlying debt or equity assets themselves.

With the subsequent tragedy involving the downing of Malaysia Airlines Flight MH17 and continued fighting in the region, it is likely that the United States will seek to impose further sanctions. We will



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advise further when there are additional developments.

Should you have any questions regarding U.S. sanctions against Ukraine or any other U.S. sanctions program, please do not hesitate to contact a member of Cozen O'Connor's Transportation & Logistics Department.

¹ The term U.S. person means any person located in the United States, any U.S. citizen or permanent resident located anywhere in the world, and any entity organized under U.S. law, including foreign branches.