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COMMENTARY: U.S. blocking and non-blocking sanctions on Russia to be felt widely

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WASHINGTON/NEW YORK (Thomson Reuters Regulatory Intelligence) - The United States, European Union, and allied nations have in less than a week implemented comprehensive sanctions targeting Russian government officials and entities in response to Russia's invasion of Ukraine.

The sanctions will likely be felt widely, from hampering the Russian Central Bank's ability to shore up the ruble to cutting off consumers from mobile and digital payments platforms connected to sanctioned Russian banks.

Sanctioned Russian officials include Russian President Vladimir Putin and Foreign Minister Sergei Lavrov(LINK:go-ri .tr.com/hOqSaK). The United States also imposed additional export controls against Russia, including on foreign-made technology and items, such as semiconductors(LINK:here). Those controls extend to items manufactured outside the United States that are either the "direct product" of export-controlled, U.S.-origin software/technology or manufactured in plants or with components that are direct products of such U.S. software/technology.

This note discusses only some of the sanctions imposed by the United States through Monday afternoon U.S. time (LINK:go-ri.tr. com/UXAnQu). Sanctions or other measures adopted by the European Union, Japan, and others are not discussed here.

BLOCKING AND NON-BLOCKING SANCTIONS

The United States has imposed both "blocking" and non-blocking sanctions on Russia.

Blocking sanctions are the most severe financial measures used by the United States. They prohibit U.S. persons, located anywhere in the world, from engaging in transactions with or for the benefit of targeted individuals and entities, known as "Specially Designated Nationals" or SDNs. Further, U.S. persons with custody or control over property or property interests belonging to blocked entities must freeze those assets.

Such blocking sanctions also extend beyond the individuals or entities listed by the Treasury Department's Office of Foreign Assets Control (OFAC). Entities at least 50%-owned by a blocking target must also be frozen and barred from transactions.

Russia's VTB bank, or "VTB Bank Public Joint Stock Company," and numerous VTB- controlled entities were blocked by the U.S. on February 24, 2022.

In addition to prohibiting bank-to-bank transactions with VTB, the blocking sanctions also prohibit consumer transactions using payment platforms, such as Apple Pay (through Apple Payments, Inc.) and Google Pay (through Google Payment Corp.).

The United States also blocked VEB (Vnesheconombank, the State Corporation Bank for Development and Foreign Economic Affairs).

Also blocked was the Russian Direct Investment Fund (RDIF), a sovereign wealth fund, along with its chief executive, Kirill Dmitriev, described by the Treasury Department as a "known Putin ally." Before the blocking designation, RDIF was subject to non-blocking sectoral sanctions targeting Russia's financial services sector and prohibiting transactions in new debt and equity.

The RDIF designations are significant, including because the RDIF is understood to have partnerships, joint ventures, and partial or joint ownership of entities with other countries' sovereign wealth funds or state-owned or affiliated enterprises outside of Russia, such as in the Middle East. As a consequence, the RDIF and entities or other property of which it owns at least 50%, either by itself or with other sanctioned entities, are now blocked.

Any such partial or joint owners of now-blocked entities should take notice of the effects of Monday's blocking action, as well as other measures, such as OFAC licensing to exit investment positions or engage in other advisable transactions.

NON-BLOCKING MEASURES STILL HAVE MAJOR IMPACT

Non-blocking sanctions, by comparison, are generally less severe because they do not prohibit U.S. persons from all transactions with the sanctioned parties, and they do not require U.S. persons to freeze assets owned by sanctions targets.

That said, non-blocking sanctions, when targeted, can have consequences that are tantamount or adjacent to blocking sanctions.

The non-blocking measures imposed on February 28 against the Central Bank of Russia exemplify the potentially devastating consequences of these theoretically less severe sanctions(PDF:here). They prohibit U.S. persons from engaging in any transactions involving the Central Bank of Russia, "including any transfer of assets to such entities or any foreign exchange transaction for or on behalf of such entities."

Russia's central bank is not currently be designated as a blocked entity, but that distinction will provide little relief, because the directive impairs its ability to perform essential functions. The central bank, which is understood to hold some $630 billion in reserves comprising assets and deposits denominated in major foreign currencies (USD, Euro, yuan, pound sterling) will have little to no ability to transact in those reserves to mitigate international sanctions, including by shoring up the ruble through foreign exchange transactions.

In addition to the Central Bank, the sanctions also prohibit "any transaction" involving Russia's National Wealth Fund and the Ministry of Finance of the Russian Federation.

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