

# U.S. Blocking and Non-Blocking Sanctions on Russia in Response to Invasion of Ukraine

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In response to Russia's [invasion of Ukraine](#), the United States, the EU, and allied nations have in the span of less than one week previewed and implemented sanctions targeting Russian government officials and entities, and individuals. Sanctioned Russian officials include [Russia's president, Vladimir Putin, and Foreign Minister Sergei Lavrov](#). Further implementing sanctions, the U.S. Commerce Department imposed additional controls on exports to Russia, including [controls on exports of foreign-made technology and items](#) (e.g., semiconductors) that, while not made in or directly exported from the United States, are subject to U.S. export control jurisdiction as the "direct product" of certain U.S.-origin software, technology, and/or manufacturing facilities or components.

This note discusses **only some** of the blocking and non-blocking sanctions measures imposed by the United States through February 28, 2022, at approximately 2:00 pm, and distinguishes between the two types of sanctions which have been conflated in some reports.<sup>1</sup> Sanctions or other measures previewed or adopted by the European Union, Japan, and others are not discussed here. Given the multiple, fast-moving sanctions developments of the last few days, this note may be updated or supplemented.<sup>2</sup>

## Select Blocking and Non-Blocking Sanctions: VTB, VEB, Sberbank, Russian Direct Investment Fund, Central Bank of Russia

As indicated, the United States has imposed blocking and non-blocking sanctions on and targeting Russia. Blocking sanctions are those that prohibit U.S. persons, wherever they are in the world, from engaging in most or all transactions with or for the benefit of individuals and entities directly targeted by U.S. blocking sanctions, and are "Specially Designated Nationals" or SDNs. Blocking sanctions apply not only to individuals or entities listed in OFAC's Sanctions List; entities (or other property) owned 50% or more by one or more SDNs are also blocked, and U.S. persons are prohibited from transacting with or in the owned entities or other property. U.S. persons – including, of course, U.S. banks and the U.S. branches and subsidiaries of foreign banks – are additionally required to freeze (or "block") the property or interests in property of SDNs, where such property is in the possession, custody, or control of U.S.

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<sup>1</sup> The most recent U.S. sanctions-related action of which the author is aware is the issuance of [Russian Harmful Foreign Activities Sanctions Regulations](#) implementing Executive Order 14024 (discussed below).

<sup>2</sup> For some background on why U.S.- dollar and financial system sanctions are as potent as they are, see the author's earlier articles, including: [A Great BRIC Wall? Emerging Trade and Finance Channels Led By Non-Western States Could Curtail the Global Reach of U.S. Law](#) (MassPoint PLLC, 2015) and [Reimposed U.S. anti-Iran sanctions leverage American economic power](#) (Reuters, 2018).

persons. Non-blocking sanctions are targeted and generally less severe, but can be devastating, such as in the case of the non-blocking sanctions imposed today on Russia's Central Bank, discussed below.

### Blocking Sanctions on VTB, VEB, Russian Direct Investment Fund

Russia's VTB bank, or VTB Bank Public Joint Stock Company, and numerous VTB entities are blocked SDNs as of February 24, 2022.<sup>3</sup> Therefore, U.S. persons may not transact with or for the benefit of the sanctioned VTB entities, and must block their property or interests in property. Thus, not only are wholesale transactions, such as bank-to-bank transactions with VTB, prohibited, consumer transactions utilizing payment platforms (e.g., branded "wallets") connected to VTB are also prohibited.<sup>4</sup> In addition to VTB and others, VEB (Vnesheconombank, the State Corporation Bank for Development and Foreign Economic Affairs) [was blocked](#) on February 24, and is an SDN.

On February 28, 2022, the United States [added](#) the Russian Direct Investment Fund (RDIF), a sovereign wealth fund, to the SDN list. The RDIF is now blocked, [as is](#) Kirill Dmitriev, the CEO of the RDIF described by the Treasury Department as a "[known Putin ally](#)." Until February 28, the RDIF was subject to non-blocking, sectoral sanctions targeting Russia's financial services sector and prohibiting transactions in "new" debt and equity.<sup>5</sup> The RDIF designation is significant, including because the RDIF is understood to have partnerships, joint ventures, or partial or joint ownership in entities with the sovereign wealth funds or state-owned or affiliated enterprises outside of Russia, such as in the Middle East. As a consequence of today's blocking sanctions, the RDIF, and any entity or other property that the RDIF, by itself or with other sanctioned entities owns 50% or more, is blocked. This includes any entity or property owned partially or jointly by any non-Russian private or state-owned or affiliated enterprises where there is 50% or more ownership by the RDIF alone or with other sanctioned parties. It goes without saying that any such non-Russian partial or joint owners of RDIF-owned entities should take

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<sup>3</sup> OFAC, [Russia-related Designations, Issuance of Russia-related Directive 4 and Russia-related General License 8A](#), Feb. 24, 2022. However, pursuant to [General License No. 8A under EO 14024](#), issued on February 28, 2022, transactions "related to energy" with VTB (and Sberbank, discussed below, and three other entities) are permitted through 12:01 a.m. EDT on June 24, 2022. See General License 8A for the definition of "related to energy."

<sup>4</sup> Payment platforms will also be cut off to Russia where those platforms are linked to Russian entities that are not blocked, but are subject to non-blocking sanctions that prohibit relevant transactions. For example, starting on March 26, 2022, "U.S. financial institutions" will be prohibited from processing transactions "involving" Sberbank or the property or interests in property of Sberbank, pursuant to OFAC Directive 2 Under Executive Order 14024, Prohibitions Related to Correspondent or Payable-Through Accounts and Processing of Transactions Involving Certain Foreign Financial Institutions, Feb. 24, 2022 ("**Directive 2 EO 14024**"). Payment platforms and other payment intermediaries, such as Apple Payments, Inc. and Google Payment Corp., are money transmitters or "money services businesses" within the definition of "U.S. Financial Institution" under Directive 2 EO 14024, which adopts the definition of U.S. Financial Institution contained in multiple sanctions program regulations, including the Ukraine-Related Sanctions Regulations at 31 C.F.R. § 589.313.

<sup>5</sup> For a detailed discussion of the "new" debt and equity prohibitions on the RDIF, see Hdeel Abdelhady, [U.S. Sectoral Sanctions on Russia: Russian Direct Investment Fund, Other Russian Financial Services Actors Added to Sectoral Sanctions List \(EO 13662\)](#), MassPoint PLLC (Aug. 7, 2015) (PDF version [here](#)). For a discussion of the applicability of "new" debt restrictions to trade-based debt, see this May 2, 2019 MassPoint PLLC note: [OFAC Clarifies: Russia-Ukraine Sectoral Sanctions Prohibitions on "Debt" Apply to Credit Sale and Licensing Transactions](#). VEB was also subject to the same directive under EO 13662, and, again, is now a blocked person.

notice of today's blocking action and appropriate action, such as seeking OFAC licensing to exit investment positions, transfer assets, or engage in other advisable transactions.

### **Non-Blocking Sanctions on Central Bank of Russia, National Wealth Fund, Ministry of Finance**

Non-blocking sanctions are generally less severe, for basic reason that non-blocking sanctions do not prohibit U.S. persons from engaging in *all* transactions with sanctioned parties, and do not require the freezing by U.S. persons of the "property and interests in property" of sanctioned parties. That said, non-blocking sanctions, when targeted, can have consequences that are tantamount to or approximate blocking sanctions.

An example of a devastating non-blocking sanction is that imposed on the Central Bank of Russia today, February 28, and that prohibits U.S. persons (not only U.S. Financial Institutions) from engaging in any transactions that involve the Central Bank, "including any transfer of assets to such entities or any foreign exchange transaction for or on behalf of such entities."<sup>6</sup> Russia's Central Bank is not, as of now, a blocked SDN, but this seems to matter little, as Directive 4 EO 14024, which took effect immediately and is in force, impairs the Central Bank's ability to perform essential functions. The Central Bank, which is understood to hold some [\\$630 billion in reserves](#) comprising, *e.g.*, assets and deposits denominated in major foreign currencies (USD, Euro, yuan, pound sterling) will, as a result of Directive 4 EO 14024, have little to no ability to transact in U.S. dollar denominated reserves to mitigate against U.S. and other sanctions, including to shore up the Ruble through foreign exchange transactions.<sup>7</sup>

In addition to the Central Bank, Direct 4 EO 14024 also prohibits "any transaction involving" the National Wealth Fund of the Russian Federation and the Ministry of Finance of the Russian Federation.

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**For more information** about this note, or [MassPoint PLLC](#)'s sanctions compliance and advisory services, please contact the author, [Hdeel Abdelhady](#), or [contact](#) MassPoint at [info@masspointpllc.com](mailto:info@masspointpllc.com) or (202) 630-2512.

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<sup>6</sup> [OFAC Directive 4 Under Executive Order 14024, Prohibitions Related to Transactions Involving the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, and the Ministry of Finance of the Russian Federation](#), Feb. 28, 2022 (referred to here as "**Directive 4 EO 14024**").

<sup>7</sup> Transactions in the yuan may be available; however, it is not clear whether or to what extent China will furnish financial and economic facilities to Russia, including through fiat currency transactions, or digital currency.