

Investment Management Alert

April 9, 2018

New Sanctions on Russian Businessmen: Impact on Investment Funds

On April 6, 2018, the Office of Foreign Assets Control (OFAC) of the U.S. Treasury Department sanctioned a number of Russian businessmen and companies, as well as Russian government officials and two state-owned entities. The named sanctioned parties, as published by OFAC, are listed [here](#), however the impact of these sanctions will extend to many more entities and be felt globally, including requiring immediate blocking of interests and certain reporting requirements to OFAC within 10 business days. We are analyzing the effects of these orders and have circulated a client alert [here](#) which explains the new sanctions in detail, but provide below a few points specific to investment funds given the potentially huge impact of these sanctions on the industry and the magnitude of the economic interests they affect:

- The SDN list to which these parties have been added is the strictest list OFAC maintains—it generally bans all activities between these parties and U.S. persons and imposes a complete block on these parties' property and interests in property that are or become subject to U.S. jurisdiction.
- These restrictions apply not only to the named individuals and entities, but also to any entity or property that is 50% or more owned, directly or indirectly, in the aggregate, by one or more sanctioned parties (whether listed today or previously).
- U.S. persons cannot engage in, participate in or facilitate activities or transactions with these parties. In OFAC parlance, "transaction" is a term that is more broadly defined than most corporate or fund industry participants might expect. Examples include, but are not limited to:
 - wiring of capital or funds by the sanctioned party in response to capital calls or drawdowns
 - distributions of any profits or funds to the sanctioned party; and
 - redemptions of the LP interests of a sanctioned party.

Moreover, the prohibitions apply to all "U.S. persons" (which includes U.S. citizens and green card holders, wherever located, as well as entities organized under the laws of the United States and certain foreign subsidiaries and branches of these U.S. entities). Therefore, to the extent non-U.S. funds have U.S. persons serving as fund managers or otherwise involved in the fund activities or transactions, these prohibitions will apply.

- The property and interests in property of these parties must be "blocked" by U.S. persons and reported to OFAC. As a practical matter, the sanctions require opening and moving the blocked funds into a separate, blocked interest-bearing account at a U.S. financial institution that cannot be debited

without authorization from OFAC, and filing a report on the blocked funds with OFAC within 10 business days of placing the funds into the blocked account.

- OFAC has issued two general licenses (found [here](#) and [here](#)), authorizing certain limited activities to divest from holdings of debt, equity or other holdings of some specified sanctioned parties until May 7, or to maintain or wind-down operations or existing contracts with some specified sanctioned parties until June 5, subject to reporting requirements to the U.S. authorities in each case. However, it should be noted that even in connection with wind-down operations, funds cannot be distributed or otherwise provided to sanctioned parties but instead, must be placed in a blocked account with reporting to OFAC.
- The European Union and other countries have not yet announced similar, coordinated sanctions as we have seen in the past.
- In light of this action by the U.S. government, it is important that you promptly:
 - review the LPs in your funds (including ownership up to the ultimate beneficial owner) to identify if any are subject to sanctions; and
 - identify any holdings or transactions (including co-investments) of your funds that intersect with any of these sanctioned parties.

We are available to discuss this with you, including considerations of process and preservation of legal privilege, and to provide any assistance you require.

The list of the newly sanctioned individuals and entities as published by OFAC can be found [here](#). We are working around-the-clock on this issue and would be happy to discuss by phone. Please let us know if we can help.

Contact Information

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