

Expansion of US Sanctions on Russia Increases Sanctions and Compliance Risks for Foreign Firms

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On June 12, 2024, the US Department of the Treasury (**Treasury**) [announced a set of measures](#) aimed at expanding economic sanctions on Russia in response to Russia's ongoing war against Ukraine. The measures, implemented by Treasury's Office of Foreign Assets Control (**OFAC**), increase secondary sanctions risks for foreign financial institutions (**FFIs**) and others by (1) expanding the list of individuals subject to sanctions under Executive Order (**EO**) 14024; and (2) expanding the definition of "Russia's military-industrial base" to include all persons subject to blocking sanctions pursuant to EO 14024. In addition, the measures include forthcoming prohibitions on the provision of certain software and IT-related services to any person located in Russia, to take effect on September 12, 2024. Simultaneous with its announcement of the expanded sanctions, OFAC issued updated compliance guidance for FFIs.

The Bottom Line:

The recent measures illustrate OFAC's increasing focus on restricting foreign support for Russia's wartime economy. Foreign firms, particularly FFIs, face increasing secondary sanctions and compliance risks with respect to Russia and should update compliance programs accordingly.

The Full Story:

Expanded Secondary Sanctions

As Russia's war in Ukraine continues, OFAC continues to target foreign firms doing business in Russia that are viewed as supporting Russia's wartime economy. In December 2023, President Biden issued [EO 14114](#), which amended EO 14024 to expand OFAC's authority to impose secondary sanctions on FFIs that provide services to certain persons and sectors subject to US sanctions on Russia deemed by OFAC to support Russia's military-industrial base defined as any

person operating in the technology, defense and related materiel, construction, aerospace, and manufacturing sectors of the Russian economy. Our earlier coverage of this development is available [here](#). In March 2024, OFAC issued guidance for FFIs to comply with US sanctions and export controls, citing a number of case studies of foreign firms subject to enforcement action for violations of US sanctions and export control laws. Our earlier coverage of the March 2024 guidance to FFIs is available [here](#).

As part of the measures issued by Treasury on June 12, 2024, OFAC issued [FAQ 1181](#), which expands the scope of what OFAC considers to be “Russia’s military-industrial base” to include *all* persons subject to blocking sanctions under EO 14024. This means that FFIs risk being sanctioned for conducting or facilitating significant transactions, or providing any service, involving any person blocked under EO 14024, including several large Russian banks not previously covered by the definition of “Russia’s military-industrial base.” According to Treasury’s [press release](#) announcing the June 12 measures, FAQ 1181 reflects Treasury’s assessment that Russia has re-oriented its economy and marshalled all parts of its government toward supporting its war effort in Ukraine.

Simultaneous with FAQ 1181, OFAC issued an [update to its December 2023 guidance to FFIs](#) to incorporate the expanded definition of “Russia’s military-industrial base.”

Prohibition on Software and IT-Related Services

On April 6, 2022, President Biden issued EO 14071 to prohibit, among other things, the exportation, reexportation, sale, or supply, directly or indirectly, from the United States, or by a US person wherever located, of any category of services determined by Treasury to any person located in Russia. As part of the June 12 measures, OFAC issued a [determination](#) (the **IT Determination**) to extend the prohibition on services to information technology consultancy and design services as well as information technology support services and cloud-based services for enterprise management software or design/manufacturing software. The IT Determination does not apply to services provided to entities owned or controlled, directly or indirectly, by a US person, provided in connection with the wind down or divestiture of an entity in Russia, or provided with respect to software for which the US Department of Commerce has provided a license under the Export Administration Regulations (**EAR**) or which is not subject to the EAR. The IT Determination takes effect on September 12, 2024.

OFAC issued new [FAQs 1182-1188](#) to provide compliance guidance with respect to the IT Determination. US firms engaged in the provision of IT and software services to clients in Russia should carefully review the IT Determination and OFAC’s guidance to assess risk in advance of the September 12 effective date.

Expanded Sanctions Designations

As part of the June 12 measures, OFAC imposed new blocking sanctions on:

- over 90 individuals and entities located in Russia, Belarus, the British Virgin Islands, Bulgaria, China, Kazakhstan, Kyrgyzstan, Serbia, South Africa, Turkey, and the United Arab Emirates that OFAC determined have facilitated the circumvention of sanctions;
- more than 100 entities that operate or have operated in the defense and related materiel, manufacturing, technology, transportation, or financial services sectors of the Russian economy;
- entities involved in three Russian liquefied natural gas (LNG) projects: the Obsky LNG, Arctic

LNG 1, and Arctic LNG 3 projects; and

- significant entities operating in the financial services sector of the Russian economy, including the Moscow Exchange (MOEX), the National Clearing Center (NCC), the Non-Bank Credit Institution Joint Stock Company National Settlement Depository (NSD), Gas Industry Insurance Company Sogaz (Sogaz), and Joint Stock Company Russian National Reinsurance Company (RNRC).

According to Treasury's June 12 announcement, these sanctions target transnational supply chains that support Russia's war efforts, transnational networks that seek to evade sanctions using convoluted schemes to move money and other valuable goods and assets, the use of companies across the spectrum of Russian industry to contribute to Russia's war effort, and the efforts of the United States and its G7 allies to limit Russia's future energy revenues and impede Russia's development of future energy projects.

These designations expand the number of sanctioned individuals under EO 14024 and thereby expand the risks to FFIs and other foreign firms discussed above.

FFIs and foreign firms doing business in Russia or with Russian individuals or entities should carefully consider these developments and implement compliance measures in line with OFAC guidance to mitigate sanctions risks.

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