

Sanctions Update: UK Bans New Investment in Russia and Imposes Significant Additional Sanctions

The ban hits new investment in Russia and certain professional services, while also restricting imports of Russian oil, coal, and gold and exports of key industrial goods.

This Client Alert is published in the context of ongoing developments and should be read in conjunction with Latham's [previous sanctions updates](#).

This Client Alert summarises the key prohibitions in the recent [11th](#), [12th](#), [13th](#), and [14th](#) amendments to the UK's primary legislative instrument containing Russia-related sanctions: [the Russia \(Sanctions\) \(EU Exit\) Regulations 2019](#) (the UK Russia Regulations).

Given the frequency with which different jurisdictions are imposing new sanctions on Russia, businesses exposed to sanctions-related developments in Russia should obtain up-to-date legal advice before taking any steps that may have legal effects.

New UK Sanctions

The UK has issued several recent amendments to the UK Russia Regulations.

In particular, the UK has implemented its ban on new investments in Russia, fulfilling a policy announcement made on [6 April 2022](#). This prohibition mirrors to some degree, but with important differences, the US new investment ban introduced on 6 April 2022 (described in Client Alerts dated [12 April 2022](#) and [17 June 2022](#)).

The UK has also imposed import bans relating to Russian oil, coal, and gold, and restrictions on the export to Russia of wide categories of industrial-related goods.

Another notable amendment is a prohibition on the provision of professional and business services (including management consulting, accounting, and public relations) to persons "connected with Russia".

Other amendments include (i) an alteration in the criteria through which the UK's Foreign Secretary may identify "designated persons" for sanctions and (ii) a forthcoming obligation on cryptoasset exchange providers and custodian wallet providers to notify the UK's sanctions regulator as soon as practicable when they encounter a "designated person" in the course of their business.

The UK’s “New Investment Ban”

The UK’s prohibition on new investment in Russia came into force on 19 July 2022, having been implemented through the [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 12\) Regulations 2022](#) (the 12th Amendment).

The 12th Amendment was accompanied by an [Explanatory Memorandum](#) and [Impact Assessment](#).

The Office for Financial Sanctions Implementation (OFSI) — the sanctions regulation department of Her Majesty’s Treasury — simultaneously published an [updated guidance note](#) on the UK Russia Regulations, which includes some guidance on the 12th Amendment.

OFSI also published a [General Licence](#), which permits some activities otherwise covered by the new prohibition until the licence expires on 26 July 2022.

The UK’s New Investment Ban – Prohibitions

The 12th Amendment introduces a new Regulation 18B into the UK Russia Regulations. The [Explanatory Memorandum](#) notes, in summary, that the measures in this regulation “ban additional types of new investments in relation to Russia by United Kingdom (‘UK’) persons or other persons in the UK”.

The 12th Amendment’s [explanatory note](#) further explains that the effect is to “insert restrictions regarding investments (and services directly related to those investments) in respect of land located in Russia, persons connected with Russia, relevant entities, joint ventures, opening a representative office or establishing a branch or subsidiary located in Russia.”

Pursuant to Regulation 18B(1 and 2), a UK person (i.e., a person or entity falling within the jurisdictional reach of the UK sanctions) is prohibited from:

- [Directly](#) acquiring any ownership interest in land located in Russia, or any ownership interest in or control over a Russian legal entity;
- [Indirectly](#) acquiring any ownership interest in land located in Russia, or any ownership interest in or control over a Russian legal entity or a so-called “relevant entity” (defined as meaning a non-Russian legal entity that has a place of business located in Russia), if for the “purpose mentioned in paragraph (3)” of Regulation 18B;
- Establishing a joint venture with a person connected with Russia;
- Opening a representative office or establishing a branch or subsidiary located in Russia; or
- Providing investment services directly related to any of the above activities.

Accordingly, as explained in the updated OFSI [guidance](#), the direct acquisition of an ownership interest in land in Russia or in legal persons connected with Russia is prohibited, whereas an indirect acquisition (e.g., through the acquisition of an interest in non-Russian companies that own land or interests in a company in Russia) is only prohibited if done for the “purpose” described in paragraph (3) of Regulation 18B as follows:

“The purpose mentioned [...] above is making funds or economic resources available—

(a) directly or indirectly to a person connected with Russia; or

(b) for the benefit of a person connected with Russia.”

The UK’s new investment ban is accordingly limited to acquisitions of land and interests in legal entities (and does not in that respect have the breadth of the US new investment prohibition), but needs to be considered in light of the broad financing prohibitions contained in Regulations 16 and 17 (addressed in our Client Alert dated [8 March 2022](#)).

The UK’s New Investment Ban – Exceptions

Regulation 60ZZA sets out the following exceptions to the new investment ban:

- In respect of the satisfaction of pre-existing contractual obligations;
- Where the transaction involves dealing with “a relevant security issued by a person connected with Russia”, which is defined to include a security issued by a person connected with Russia that is negotiable on the capital market and was admitted to trading on a regulated market or multilateral trading facility prior to the coming into force of the 12th Amendment; and
- Where the transaction involves dealing with a “relevant security issued by a relevant entity”, which is defined to include a security issued by a relevant entity that is negotiable on the capital market.

The UK’s New Investment Ban – General Licence

OFSI published a [General Licence](#) to coincide with the entry into force of the 12th Amendment. The General Licence expires on 26 July 2022. Until that time, subject to some conditions, it permits persons to engage in the investment activities covered by Regulation 18B(1 and 2), to “wind down” any transactions relating to the above activities where those involve a person connected with Russia or relevant entity, and for financial institutions to process payments relating to these activities.

Major New Trade-Related Prohibitions

As of 21 July 2022, provisions concerning major new trade-related prohibitions enter into force by virtue of [the Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 14\) Regulations 2022](#) (the 14th Amendment). The 14th Amendment’s publication was accompanied by an [Explanatory Memorandum](#) and an [Impact Assessment](#).

The 14th Amendment primarily introduces significant restrictions on the export of industrial-related goods to Russia as well as the import of oil, gold, and coal from Russia, and a prohibition on the provision of certain professional and business services to persons “connected with Russia”.

Export Restrictions on Industrial-Related Goods

Chapter 4H of the UK Russia Regulations, inserted by the 14th Amendment, prohibits the export of a wide range of industrial-related goods, as specified in Schedule 3E.

The list of goods in Schedule 3E is substantively similar to the goods on which the EU previously imposed export restrictions (via Article 3k of [Regulation 833/2014 \(as amended\)](#)), on the ground that they could otherwise “contribute in particular to the enhancement of Russian industrial capabilities.” The 14th Amendment’s [Explanatory Memorandum](#) elaborates on this, explaining that the listed goods “have been identified as items of significant importance to the Russian economy and goods for which Russia particularly depends on the UK and G7 partners.” The UK Russia Regulations refer to these as “G7 dependency and further goods list goods”.

Accordingly, under Regulation 46Y(2), it is now prohibited, directly or indirectly, to:

- a) “supply or deliver G7 dependency and further goods list goods from a third country to a place in Russia”;
- b) “make G7 dependency and further goods list goods available to a person connected with Russia”;
- c) “make G7 dependency and further goods list goods available for use in Russia.”

In common with other trade restrictions in the UK Russia Regulations, the amendments place widely phrased prohibitions on providing “technical assistance”, “financial services or funds”, and “brokering services” related to the direct or indirect export, supply, or delivery of G7 dependency and further goods list goods.

Import Restrictions on Russian Oil

The 14th Amendment contains provisions that prohibit, as of 31 December 2022, the import of oil and oil products (as specified in Schedule 3F) which are consigned from Russia.

As of the date the provisions enter into force, Regulation 46Z4 will prohibit the import of oil and oil products “which are consigned from Russia” and /or “which originate in Russia”. Similarly, Regulation 46Z5 will prohibit (directly or indirectly) the acquisition of oil and oil products “which originate in Russia” or “which are located in Russia” with the intention of those goods entering the UK. Further, under Regulation 46Z6, it will be prohibited (directly or indirectly) “to supply or deliver oil and oil products from a place in Russia to the United Kingdom.”

In common with other trade restrictions in the UK Russia Regulations, the amendments place widely phrased prohibitions on providing “technical assistance”, “financial services or funds”, and “brokering services” related to the direct or indirect import or acquisition of oil and oil products from Russia.

Import Restrictions on Russian Gold

The 14th Amendment further prohibits the import of gold (as specified in Schedule 3G) originating from Russia when that gold has been exported from Russia on or after 21 July 2022. Regulation 46Z11 clarifies the meaning of “exported from Russia” as being when the gold has “completed the applicable export formalities” and has left a Russian territory by land, departed a Russian port for a non-Russian destination by sea, or departed a Russian airport for a destination outside Russia by air.

Further, Regulation 46Z12 prohibits the acquisition of gold which, as of 21 July 2022, originated in Russia and is located in Russia, with the intention of those goods entering the UK. Similarly, Regulation 46Z13 prohibits the supply or delivery of gold that originated in Russia on or after 21 July 2022, from a place in Russia, or from a third country to the UK.

In common with other trade restrictions in the UK Russia Regulations, the amendments place widely phrased prohibitions on providing “technical assistance”, “financial services or funds”, and “brokering services” related to the import and direct or indirect acquisition of Russian gold.

Import Restrictions on Russian Coal

The 14th Amendment contains Regulation 46Z18, which prohibits, as of 10 August 2022, the import of coal and coal products (as specified in Schedule 3H) which are “consigned from Russia” or which “originate in Russia”.

Further, as of 10 August 2022, Regulation 46Z19 makes it prohibited (directly or indirectly) to acquire coal and coal products which “originate in Russia” or which are “located in Russia”, with the intention of those goods entering the UK. Similarly, as of 10 August 2022, Regulation 46Z20 prohibits the supply or delivery of coal and coal products (directly or indirectly) from a place in Russia to the UK.

In common with other trade restrictions in the UK Russia Regulations, the amendments place widely-phrased prohibitions on providing “technical assistance”, “financial services or funds”, and “brokering services” related to the import and direct or indirect acquisition of Russian coal and coal products.

“Professional and Business Services”

The 14th Amendment contains Regulation 54C, which prohibits (directly or indirectly) the provision of the following “professional and business services” to a “person connected with Russia”:

- a) “accounting services”;
- b) “business and management consulting services”; and
- c) “public relations services”.

As explained above, the UK Russia Regulations define a “person connected with Russia” in a manner that includes both Russian legal entities and individuals who are located in, or ordinarily resident in, Russia. Notably, the [Explanatory Memorandum](#) for the 14th Amendment confirms that the phrasing of this ban is intended to “include the provision of services to Russian residents who are temporarily located in another country, including the UK.” It further notes that “these services are targeted because they are key areas of Russian dependence, used particularly by Russian oligarchs, and which assist revenue generation in Russia.”

The 14th Amendment’s definitions of these professional and business services are wide:

Accordingly: “accounting services” means:

“(i) accounting review services, which are services involving the review by a person of annual and interim financial statements and other accounting information, but excluding auditing services;

(ii) compilation of financial statements services, which are services involving the compilation by a person of financial statements from information provided by a client, including preparation services of business tax returns when provided together with the preparation of financial statements for a single fee, but excluding such preparation services of business tax returns when provided as a separate service;

(iii) other accounting services such as attestations, valuations, preparation services of pro forma statements;

(iv) bookkeeping services, which are services consisting of classifying and recording business transactions in terms of money or some unit of measurement in the books of account, but excluding bookkeeping services related to tax returns;”

“business and management consulting services” means:

“advisory, guidance and operational assistance services provided for business policy and strategy and the overall planning, structuring and control of an organisation, which includes (but is not limited to) management auditing; market management; human resources; production management and project management consulting;”

“public relations services” means:

“services provided by a person related to improving the image of their clients and their relationship with the general public and other institutions, but excludes planning and creating services for advertising or public opinion polling services.”

In light of these wide definitions and the scope of the prohibition, the [Impact Assessment](#) for the 14th Amendment notes: “these sanctions are likely to lead to closures of UK-owned Russian firms or divestment from these firms by UK investors in these sectors.”

Updates to the UK’s Designation Criteria

As of 18 July 2022, the UK updated the criteria in the UK Russia Regulations by which the Foreign Secretary may designate persons for sanctions, including asset-freezes.

The new criteria add to the criteria already set out in Regulation 6 of the UK Russia Regulations. That regulation permits the Foreign Secretary, in certain circumstances, to designate persons who are or who have been “involved” in the activities of “destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine” or “obtaining a benefit from or supporting the Government of Russia”. The UK Russia Regulations provide several criteria which the Foreign Secretary can use to determine whether persons are “involved” in these activities.

The [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 13\) Regulations 2022](#) expand these criteria, such that they permit the Foreign Secretary to consider further categories of people as being “involved” in the relevant activities. Namely:

- The definitional criteria for “obtaining a benefit from or supporting the Government of Russia” now include persons who work as a “manager” of, or who have the right (directly or indirectly) to nominate at least one director, trustee or equivalent of “a Government of Russia-affiliated entity” or entities that are “carrying on business of economic significance to the Government of Russia” or “carrying on business in a sector of strategic significance to the Government of Russia”.
- The definitional criteria for both “destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine” and “obtaining a benefit from or supporting the Government of Russia” have been expanded to include a wide range of official functionaries, ranging from those who are “an aide or advisor to the President of the Russian Federation” to those who are “a member of the armed forces or law-enforcement organs of the Russian Federation of the rank of colonel, or equivalent, or higher”.
- The updates also permit the Foreign Secretary to designate a person on the ground that he/she is an “immediate family member” of the person involved in “obtaining a benefit from or supporting the Government of Russia” or “destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine”.

Rectifications to Prior Amendments to the UK Russia Regulations

Our [Client Alert of 4 July 2022](#) summarised the additional export and import controls that the UK imposed via the Russia (Sanctions) (EU Exit) (Amendment) (No. 10) Regulations 2022 (the 10th Amendment). The 10th Amendment has now been revoked in light of the [Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 11\)](#) (the 11th Amendment). However, the 11th Amendment restates almost the entirety of the text contained in the 10th Amendment, with only minor alterations.

An [explanatory memorandum](#) for the 11th Amendment states that the amendment was laid “to rectify errors” and make “a small number of other corrections, including in relation to cross referencing and some definitions.” The memorandum states that the alteration from the text of the 10th Amendment to the 11th Amendment entails “no amendments to the policy in relation to Russian sanctions” and confirms that “the substance of [the 11th Amendment] is the same as [the 10th Amendment], save for these corrections.”

New Reporting Obligations for Cryptoasset Entities

The UK has also published updates that apply across multiple sanctions regimes and that contain important consequences for cryptoasset entities. These updates are contained in the [Sanctions \(EU Exit\) \(Miscellaneous Amendments\) Regulations 2022](#) and the [Sanctions \(EU Exit\) \(Miscellaneous Amendments\) \(No. 2\) Regulations 2022](#).

A communication circulated by OFSI noted that a common change in these amendments is that they “extend the definition of ‘relevant firms’ that have financial sanctions reporting obligations to include cryptoasset exchange providers and custodian wallet providers.” OFSI notes that this expanded definition “will come into effect on 30 August 2022”.

Accordingly, OFSI advises that cryptoasset exchange providers and custodian wallet providers (as defined in the relevant regimes) will have an obligation “to notify OFSI of certain information as soon as practicable when encountering a designated person in the course of their business. This requirement applies to relevant firms in the UK or under UK jurisdiction including people working for them.”

OFSI further notes that it is hosting a webinar on 11 August 2022 “to help cryptoasset exchange providers and custodian wallet providers understand these obligations”. OFSI asks that sign-up requests be sent to ofsi@hmtreasury.gov.uk with the subject line “Reporting obligations webinar – cryptoasset businesses”.

What’s Next?

Latham & Watkins is tracking developments across all regions closely and expects that the US, the EU, the UK, and other governments around the world may impose additional rounds of sanctions as events unfold. The firm is well positioned to advise clients on the legal and practical impacts of these measures.

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[US, UK, and Japan Impose New Sanctions and Export Controls Relating to Russia \(4 July\)](#)

[OFAC Issues Guidance on “New Investment” and Management Consulting Bans \(17 June\)](#)

[EU Expands Sanctions and Export Controls Relating to Russia and Belarus \(10 June\)](#)

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