

Locke Lord QuickStudy: OFAC Sanctions the Russian Financial Sector Including Gazprombank, and Issues New GLs and FAQs

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On November 21, 2024, the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") designated Gazprombank, over 50 internationally connected Russian banks, more than 40 Russian securities registrars, and 15 Russian finance officials as part of a sweeping effort to curtail Russia's access to the global financial system; therefore, all property and interests in property of the designated persons in the U.S. or in U.S. persons' possession or control are blocked (frozen) and must be reported to OFAC. These actions, which align with G7 commitments, aim to degrade Russia's ability to fund its military operations in Ukraine and evade sanctions, further isolating its financial sector.

Concurrently, OFAC (i) issued General License ("GL") 53A, GL 55C, GL 113, and GL 114 in connection with Russian Harmful Foreign Activities Sanctions Regulations, 31 CFR part 587 ("RuHSR"), (ii) released two new Frequently Asked Questions ("FAQs") (1201 and 1202), (iii) amended three existing FAQs (976, 1096, and 1197), and (iv) published an alert highlighting sanctions risks for foreign financial institutions joining Russia's System for Transfer of Financial Messages ("SPFS").

GLs

GL 53A, which replaces GL 53, authorizes transactions ordinarily incident and necessary to the official business of Russian diplomatic or consular missions and for compensating employees of Russian missions, including salary payments and expense reimbursements, even if prohibited by Executive Order ("EO") 14024, involving Gazprombank or entities in which Gazprombank holds a 50% or greater interest, or under Directive 4 of EO 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.*" However, it does not permit transactions prohibited by Directive 2 of EO 14024, "*Prohibitions Related to Correspondent or Payable-Through Accounts and Processing of Transactions Involving Certain Foreign Financial Institutions*" (the "Russia-related CAPTA Directive"), that involve debiting accounts held by U.S. financial institutions for the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, or the Ministry of Finance of the Russian Federation, or those prohibited by the RuHSR, unless separately authorized.

GL 55C, which replaces GL 55B, authorizes certain transactions related to the Sakhalin-2 project (an oil and gas development in Sakhalin Island, Russia, which was formerly jointly owned with Japan), including maritime transport of Sakhalin-2 byproducts to Japan and transactions involving Gazprombank or its affiliates, through June

28, 2024. GL 55C does not authorize transactions prohibited by the Russia-related CAPTA Directive or Directive 4 under EO 14024, or those prohibited by the RuHSR, unless separately authorized.

GL 113 authorizes through December 20, 2024 the wind down of transactions involving blocked financial institutions listed on the Annex to GL 113 (a list of 55 Russian financial institutions) and any entity in which those blocked persons own, directly or indirectly, a 50% or greater interest, provided that any payment made to a blocked person must be made into a blocked account.

GL 114 permits, through December 20, 2024, all transactions ordinarily incident and necessary to the divestment or transfer, or the facilitation of the divestment or transfer, of debt or equity issued or guaranteed by the following blocked entities (“GL 114 Covered Debt or Equity”) to a non-U.S. person: (1) Gazprombank Joint Stock Company; (2) Interstate Bank; and (3) any entity owned, directly or indirectly, individually or in the aggregate, 50% or more by one of the foregoing (collectively, the “GL 114 Blocked Persons”). GL 114 authorizes to December 20, 2024 all transactions necessary to facilitate, clear, and settle trades of GL 114 Covered Debt or Equity placed before November 21, 2024, as well as the wind down of derivative contracts entered into before November 21, 2024, involving a GL 114 Blocked Person as a counterparty or linked to GL 114 Covered Debt or Equity. Payments to a GL 114 Blocked Person must be made into a blocked account.

FAQs

FAQ 1201 – OFAC summarizes the authorizations for diplomatic or consular missions operating in Russia and Russian diplomatic or consular missions operating abroad. GL 53A allows U.S. persons to conduct transactions necessary for the official operations of Russian diplomatic or consular missions. This applies to transactions otherwise restricted by EO 14024, including those involving Gazprombank (or its majority-owned entities) or prohibited by Directive 4 under EO 14024. The RuHSR and EO 14024 permit all transactions necessary for official U.S. Government business conducted by its employees, grantees, or contractors in Russia, including those for U.S. diplomatic or consular missions. Russia-related GL 20 authorizes U.S. persons to engage in transactions necessary for the official operations of third-country diplomatic or consular missions in Russia, provided they would otherwise be restricted by EO 14024 or EO 14068. Finally, transactions supporting routine diplomatic or consular operations—such as salary payments, employee expense reimbursements, and utility payments—are generally authorized for U.S., Russian, or third-country missions.

FAQ 1202 – OFAC’s November 21, 2024 designation of numerous Russian financial institutions does not restrict the processing of personal, non-commercial remittances to or from Russia. These sanctions are specifically aimed at Russian financial institutions that facilitate access to critical goods supporting Russia’s war in Ukraine, not personal remittances. There remain non-sanctioned Russian banks, foreign banks, and money service businesses available to process personal transactions for Russian persons. U.S. and foreign financial institutions can continue handling such remittances as long as they do not involve blocked persons or prohibited activities under OFAC regulations. Additionally, OFAC maintains authorizations for legitimate humanitarian activities and trade in agricultural and medical goods, including transactions with certain sanctioned Russian financial institutions under licenses like [GL 6D](#). Financial institutions may process transactions related to these authorized activities as well.

976 – OFAC amended FAQ 976 in conjunction with the issuance of amended GL 55C, which authorizes transactions prohibited by EO 14024 involving Gazprombank and its subsidiaries related to the Sakhalin-2 project,

including Sakhalin Energy LLC, until June 28, 2025.

1096 – GL 53A authorizes U.S. persons to engage in transactions necessary for the official business of Russian diplomatic or consular missions, even if prohibited by EO 14024 or Directive 4, when involving Gazprombank or its subsidiaries. This includes transactions such as salary payments to employees of Russian missions, even if originated by the Ministry of Finance of the Russian Federation or involving Gazprombank.

1197 – On November 21, 2024, OFAC designated over 40 local Russian registrars under EO 14024, requiring that securities held by U.S. persons at these registrars be treated as blocked, including any dividends or income received. U.S. persons who have already filed initial blocking reports on these securities are not required to file amended reports solely due to the change in registrar but may update the information in their Annual Reports of Blocked Property with OFAC if necessary.

OFAC Alert

OFAC issued an alert warning foreign financial institutions and jurisdictions about the sanctions risks of joining Russia's SPFS. Developed by the Central Bank of Russia in 2014, SPFS serves as an alternative to the SWIFT financial messaging network and aims to mitigate the impact of U.S. and allied sanctions. Russia has promoted SPFS to maintain international financial connectivity, evade sanctions, and support its war efforts, with sanctioned Iranian banks and other Russian partners using it as a workaround to SWIFT restrictions. OFAC considers participation in SPFS a potential sanctions violation under EO 14024 and may target foreign financial institutions operating in this sector. Institutions joining SPFS after the alert's publication are particularly at risk, as OFAC views such actions as a red flag for sanctions evasion. Additionally, foreign institutions should exercise caution in dealings with SPFS-affiliated entities, as these institutions may facilitate Russian sanctions evasion. OFAC also reiterated that foreign financial institutions involved in significant transactions with Russia's military-industrial base could face sanctions and provided guidance on identifying and mitigating risks. The alert further noted that the European Union imposed sanctions on SPFS in June 2024.

Conclusion

As President Biden's term nears its end, his administration is likely to continue its aggressive sanctions policy against Russia, especially as tensions related to the war in Ukraine remain high. Recent sanctions, such as those targeting Gazprombank, exemplify the current administration's hardline stance, with an emphasis on limiting Russian access to financial systems and its energy projects. In contrast, President-elect Donald Trump has indicated that his approach to Russia would be markedly different, focusing on bilateral negotiations rather than multilateral sanctions frameworks. While Trump has expressed a desire to bring the war in Ukraine to a swift end, his past rhetoric suggests that this may involve loosening sanctions to facilitate direct talks, particularly, if it leads to a perceived diplomatic resolution. However, significant sanctions targeting Russia, such as those on key energy projects like Nord Stream 2 are likely to persist due to both the strategic interests of U.S. allies in Europe and the domestic political pressures in the U.S., which view Russia's energy leverage with growing skepticism.

This paper is intended as a guide only and is not a substitute for specific legal or tax advice. Please reach out to the authors for any specific questions. We expect to continue to monitor the topics addressed in this paper and provide future client updates when useful.

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