

UNITED STATES RESTRICTS ACCOUNTING, CORPORATE FORMATION, AND MANAGEMENT CONSULTING SERVICES TO RUSSIA

Date: 13 May 2022

U.S. Policy and Regulatory Alert

By: Jeffrey Orenstein, Steven F. Hill, Catherine A. Johnson, Jerome J. Zaucha, Donald W. Smith, Erica L. Bakies, Stacy J. Ettinger

On 8 May 2022, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) issued a [Determination](#) pursuant to [Executive Order \(EO\) 14071 \(6 April 2022\)](#) (the Determination) that prohibits the export, reexport, sale, or supply (directly or indirectly) of any *accounting, trust and corporate formation, or management consulting services* (Covered Services) to any person located in Russia. This prohibition applies to all U.S. persons (wherever they are located) and all persons located in the United States (whatever their nationality).

As discussed in our [client alert](#) of 7 April 2022, the EO established both a ban on all new investment in Russia and a ban on the provision of certain services to be identified by OFAC. The Determination implements the sections of the EO that target services. In consultation with the Department of State, OFAC may exercise its authority under the EO to ban additional services in the future.

COVERED SERVICES

The Determination restricts the provision of the following Covered Services to persons located in Russia:

Accounting Services

This includes services related to the measurement, processing, and evaluation of financial data about economic entities.¹

Trust and Corporate Formation Services

This includes services related to assisting persons in forming or structuring legal persons, such as trusts and corporations; acting or arranging for other persons to act as directors, secretaries, administrative trustees, trust fiduciaries, registered agents, or nominee shareholders of legal persons; providing a registered office, business address, correspondence address, or administrative address for legal persons; and providing administrative services for trusts. Please note that all of these activities are common activities of trust and corporate service providers, although they may be provided by other persons.²

Management Consulting Services

This includes services related to strategic business advice; organizational and systems planning, evaluation, and selection; development or evaluation of marketing programs or implementation; mergers, acquisitions, and

organizational structure; staff augmentation and human resources policies and practices; and brand management.³

OFAC has targeted these Covered Services because Russian elites have relied on such U.S. services to establish shell companies, reallocate resources, and conceal assets from sanctioning authorities. It is also clear that Russian companies, including state-owned enterprises, have utilized these services to operate and generate revenue, much of which supports Russia's war in Ukraine. It is for this reason that the United Kingdom implemented a very similar services ban on 4 May 2022.

EFFECTIVE DATE & GENERAL LICENSES

This prohibition takes effect on 7 June at 12:01 A.M. Eastern Daylight Time. However, OFAC issued [General License 34](#), which authorizes until 7 July at 12:01 A.M. Eastern Daylight Time, all transactions ordinarily incident and necessary to the wind down of accounting, trust and corporate formation, or management consulting services that were underway at the time the Determination was issued.

OFAC also issued [General License 35](#), which authorizes transactions ordinarily incident and necessary for the provision of credit rating or auditing services in Russia until 20 August 2022. In this context, “credit rating services” means services related to assessments of a borrower's ability to meet financial commitments, including analysis of general creditworthiness or with respect to a specific debt or financial obligation.⁴ The term “auditing services” means examination or inspection of business records by an auditor, including checking and verifying accounts, statements, or other representation of the financial position or regulatory compliance of the auditee.⁵

EXCLUSIONS

The Determination contains two exclusions. First, Covered Services may be provided to entities in Russia that are owned or controlled (directly or indirectly) by a United States person. Second, Covered Services may be provided in connection with the wind down or divestiture of an entity located in Russia that is not owned or controlled, directly or indirectly, by a Russian person.

NEW BLOCKING SANCTIONS

OFAC issued a second [determination](#) authorizing blocking sanctions for any person (including non-U.S. persons) found to operate or to have operated in the accounting, trust and corporate formation services, and management consulting sectors of the Russian economy. This determination was issued by OFAC pursuant to Section 1(a)(i) of Executive Order 14024, which authorizes OFAC to impose blocking sanctions, after consultation with the U.S. Department of State, on any persons operating in sectors of the Russian economy to be identified by OFAC and the State Department. Accordingly, non-U.S. individuals and entities that provide Covered Services to persons in Russia can be designated on the Specially Designated Nationals and Blocked Persons List (SDN List). The impact of such a designation is that all property and property interests of the designated party within U.S. jurisdiction or within the possession of a U.S. person are blocked (frozen). In addition, U.S. persons are strictly prohibited from all dealings with the designated party. These sanctions apply not only to the party named on the SDN List but also to any entity owned 50% or more by the designated party.

In addition to the two determinations issued on 8 May 2022, OFAC designated numerous individuals and entities on the SDN List. These include the board members of two of Russia's most important banks, Sberbank and

Gazprombank; a Russian state-owned bank, Moscow Industrial Bank (and 10 of its subsidiaries); a state-supported weapons manufacturer, Promtekhlogiya; and three of Russia's state-controlled television stations that generate revenue for the state, Channel One Russia, Television Station Russia-1, and NTV Broadcasting Company.

CONCLUSION

K&L Gates will continue to track and provide updates as soon as practicable on continuing developments with respect to Russia sanctions. If you have any questions regarding the sanctions discussed in this alert, please contact the K&L Gates International Trade team.

FOOTNOTES

¹ See FAQ 1034.

² *Id.*

³ *Id.*

⁴ See [FAQ 1035](#).

⁵ *Id.*

KEY CONTACTS



JEFFREY ORENSTEIN
PARTNER

WASHINGTON DC
+1.202.778.9465
JEFFREY.ORENSTEIN@KLGATES.COM



STEVEN F. HILL
PARTNER

WASHINGTON DC
+1.202.778.9384
STEVEN.HILL@KLGATES.COM



CATHERINE A. JOHNSON
ASSOCIATE

WASHINGTON DC
+1.202.778.9167
CATHERINE.JOHNSON@KLGATES.COM



JEROME J. ZAUCHA
SENIOR OF COUNSEL

WASHINGTON DC
+1.202.778.9013
JEROME.ZAUCHA@KLGATES.COM



DONALD W. SMITH
PARTNER

WASHINGTON DC
+1.202.778.9079
DONALD.SMITH@KLGATES.COM

This publication/newsletter is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer. Any views expressed herein are those of the author(s) and not necessarily those of the law firm's clients.