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OPINION

War in Ukraine

The flood of Russian sanctions has left banks in need of help

We must acknowledge the heavy lifting in the financial sector required to make the price of war unacceptably high

JUSTINE WALKER

It has been two months since Russia's invasion of Ukraine began and the fog of war continues to obscure the country's future. A similar uncertainty is now settling across global markets, where a deluge of economic and trade restrictions aimed at punishing Vladimir Putin is threatening to overwhelm the ability of financial institutions to assess where their regulatory risks lie. If we are to ensure that sanctions remain effective, banks and other firms will need significant international assistance, and soon.

For governments, the scale of recent asset freezes and seizures has been unprecedented, from yachts to Russian-owned residential and commercial properties to the freezing of tens of billions of dollars in Russian funds.

But the picture painted by such headline-grabbing measures remains woefully incomplete from the perspective of the financial institutions tasked with sanctions implementation. That's because, simply put, nothing like this has occurred before. No other G20 member state has ever been subjected to such a wide array of economic and trade restrictions from so many economies, much less in such a short span of time.

Over the past 30 years, Russia's cadre of now-blacklisted oligarchs and governmental officials has quietly become a ubiquitous presence — integrating their interests abroad through decades of complex financial investments, opaque corporate ownership stakes, anonymous property purchases, and other means.

Sanctions are further complicated by Russia's role in international trade. Not only is the country a global energy supplier but it is also a major exporter of wheat, semi-finished iron, raw nickel and nitrogenous fertilisers — trade activity that inherently loops in the maritime and aviation sectors into compliance risks. All of this lends weight to the perception that Russia sanctions are particularly unwieldy and will take time to sort out. Unfortunately, the reality is even more challenging.

Targeted sanctions oblige banks and other firms to conduct enterprise-wide reviews of their client relationships, held assets, transactions and the counterparties linked to the payments they process — all of which must be checked against the lattice of corporate structures, investments and associates tied to each high-net-worth designee. But the restrictions aimed at Moscow are far more varied than usual, and require institutions to limit correspondent banking services, impose credit restrictions, implement export controls and identify the individuals who own or otherwise control legal entities involved in related activity. Complicating matters, jurisdictions have not always agreed on which entity is targeted or how.

Countermeasures against the Kremlin have come so quickly that, as Nicholas Turner of Steptoe & Johnson recently put it, "the law is playing 'catch-up' with policy". In some cases, he noted, governments have moved to adopt new sanctions powers and capacities only after announcing their intention to impose the restrictions. This has occurred even in the US, where President Joe Biden has signed an Executive Order approving sanctions on Russian investments, but the Treasury department has yet to say which investment vehicles will fall under the prohibitions and what the restrictions will entail.

Numerous other matters of arguably equal importance — how Russia will seek to evade sanctions, how firms are expected to mitigate their related risks, and what guidance is forthcoming on new UK and EU rules restricting bank withdrawals by Russian nationals — remain unresolved as well.

None of which has stopped government officials from taking an aggressive posture towards enforcement. Janet Yellen, the US treasury secretary, and Jake Sullivan, the White House national security adviser, have affirmed the Biden administration's willingness to take countermeasures against nations or other parties that help Moscow to circumvent sanctions. The US departments of Justice and Treasury have launched the Russian Elites, Proxies, and Oligarchs (REPO) multilateral task force, targeting blacklisted Russians and their assets.

To what degree banks will be held accountable for failing to stop prohibited payments or freeze targeted funds remains uncertain. What is sure is that many will fall short without additional collaboration. This means that sanctions and anti-money laundering compliance professionals will need to work internally and with external peers to prepare for the possibilities ahead. Governments must engage directly with the private sector.

If we are to ensure that sanctions are providing support to the Ukrainian people by making the price of war unacceptably high for Russia, we will need to do so in a coordinated fashion that acknowledges the heavy lifting taking place in the financial sector. The cause here is just, but the foreign-policy tool of sanctions — the fiscal cannon in lieu of a real one — will only prove useful if the ship that carries it isn't lost at sea.

The writer is global head of sanctions, compliance and risk at ACAMS