

WHERE DOES THE INVESTORS' MONEY COME FROM?



KATARZYNA SAGANOWSKA, RISK AND COMPLIANCE DIRECTOR AT THE **TMF GROUP** EXPLAINS BUSINESS RISKS RELATED TO THE INTERNATIONAL SANCTIONING OF RUSSIAN OLIGARCHS.

Economic sanctions have become one of the defining features of the political landscape today as the West attempts to assert its influence on the war in Ukraine without resorting to military measures. From nuclear non-proliferation to the promotion of the fundamental human rights, the political goals behind the sanctions are diverse and ambitious, while the measures themselves can take many forms. Historically speaking, financial sanctions are not a new burden for companies. Many firms should already have robust policies, controls and procedures in place to prevent breaches of the new sanctions. However, companies with unsanctioned Russian investors also need to take a closer look at all their investors—no matter whether they are sanctioned or not—need to take a close look at source of the investors' wealth. In many cases it may be very likely that the authorities might already be eyeing certain categories of Russian investors in Poland.

NECESSARY STEPS

The first step is to assess the risk and likelihood which of the investors might fall under the sanctioning. To answer this questions companies need to do due diligence that will provide an understanding of where the investor's money has come from, who the "ultimate beneficial owners" (UBO) of the investment is, and what his or her political connections are. If any of the criteria maybe viewed as a security threat by the EU, as

well as its allies the US and the UK, then it requires action.

The next step is to look for ways to simply disengage with such investors. The company needs to review its investment agreements with the potentially problematic investor or influential stakeholders, and look at several ways to exit the equity held by investors who pose the risk of sanctions.

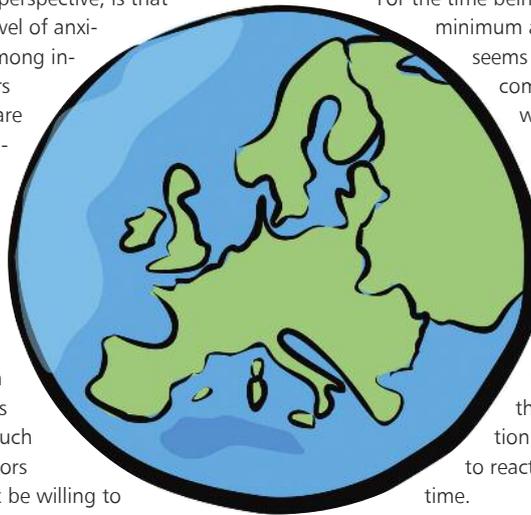
Certainly, tax or other consequences have to be carefully evaluated as well. One good news, from a company perspective, is that the level of anxiety among investors

who are potential sanctions targets is rising, which means that such investors might be willing to

appear rather quickly, and once they are imposed there is little time to act and little room for errors.

So far, the EU, the US and the UK have sanctioned a few hundred individuals, most of whom are members of the Russian parliament, the Duma, and individuals close to the Russian authorities. In practice, however, the number of sanctioned individuals amounts to only a half of all Russian oligarchs.

For the time being, the minimum approach seems to be complying with the present sanctions, and keeping an eye on how rapidly the situation evolves to react on time.



The sanctions apply to EU and UK citizens who live abroad, and also to US citizens, including those who are permanent residents of foreign countries.

end their investment.

SO FAR SO GOOD?

From the perspective of risk exposure and regulatory compliance, it may be viewed as rather save to have an investor who has not been yet sanctioned by the EU or the US. However, new sanctions may ap-

GEOGRAPHIC SPREAD

However, a natural consequence for companies operating in different jurisdictions or having a global footprint, is to choose to align their compliance programs with the most stringent sanctions, which are usually those im-

posed by the US. Those sanctions apply to entities organized under the US laws and any jurisdiction within the US, including foreign branches of companies or any private person regardless of citizenship, who is physically located in US, is subject to those sanctions.

The US authorities often seek to impose their sanctions on companies located outside the US by applying the so-called "secondary sanctions". In practice, they mean that if an entity does not comply with the US sanctions the company itself could be sanctioned. The sanctions imposed by the EU and the UK, do not have extraterritorial application and therefore they do not effect the entities incorporated outside of the EU or UK. However, the sanctions still apply to EU or UK citizens who live abroad. In similar fashion, the sanctions imposed by the US apply to US citizens, including permanent residents of foreign countries.

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