

Case Study 1: Economic Sanctions

The Fresh Sumi Group (FS Group) is a UK headquartered group with subsidiaries in the EU.

The EU subsidiaries have been supplying certain consumer goods to RU Company in the UAE. FS Group has recently discovered that the majority shareholder in RU Company is a Russian entity, Rusco, which owns 60% of the shares.

The shareholding in Rusco is as follows:

- Mr A (UK designated) – 45%
- Mr X (Not designated) – 40%
- Ms Y (Not designated) – 5%

Mr A was designated under Regulation 5 of the Russia (Sanctions) (EU Exit) Regulations in July 2022 but he is not subject to any EU sanctions measures. At some point in July, Mr A transferred 30% of the shares he held in Rusco to Mr X, the CFO of Rusco.

Since July 2022, the EU subsidiaries have received approx. Euro 1 million from RU Company.

The FS Group operates a zero balancing cash pooling arrangement in the group. At the close of business each day, any funds held in the bank account of an EU subsidiary are automatically transferred to the bank account of FS Treasury UK, a UK subsidiary. This means that any funds received from RU Company were automatically remitted to the UK.

Case study discussion:

1. What concerns do you have (if any) about ownership/control of RU Company? How might you get comfortable?
2. If you conclude that there is a potential ownership/control problem, are there any UK regulatory reporting obligations?
3. Do you have any additional sanctions compliance questions about the fact pattern?

Practical considerations:

1. Are there any joint arrangements or known long-standing links between parties or fiduciary structures in the ownership/control structure or circumstances in which voting interests have been assigned or granted to another party?
2. Are there any concerns about incorporation of entities in countries where there is limited corporate transparency in the relevant ownership structures?
3. Are there any other links to any DPs e.g. share pledges, interest payments, bank accounts?
4. Is there a transfer of, or change in any financial obligations, in favour of a Russian, or Russian-linked, person?
5. Have you considered all of the asset freezing restrictions e.g. making funds or economic resources available for the benefit of a DP?
6. Have you considered all sanctions licensing, reporting and POCA obligations?