SHEARMAN & STERLING

Sanctions Roundup

October 16, 2018

Shearman

THIRD QUARTER 2018

- **Russia remained at the forefront this quarter as the Trump Administration imposed new sanctions in response to the Skripal attacks, issued a new Executive Order aimed at election meddling, and targeted several individuals and entities under CAATSA.**
- **Markets also reacted to the threat of additional, "crushing" sanctions from Congress on Russian sovereign debt.**
- **The EU and others continued to consider strategies to salvage the JCPOA as the US began the first phase of its Iran sanctions snap-back.**
- **OFAC resumed sanctions pressure against North Korea, focusing on Russian and Chinese targets in particular.**
- **The quarter ended with the announcement of a $5.2 million settlement in the Trump Administration's first enforcement action against a financial institution.**

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RUSSIA

US sanctions against Russia remained front and center this quarter, with the Trump Administration imposing new measures in response to Russia's alleged involvement in biological attacks in the UK, issuing a new executive order aimed at preventing further election meddling, and even taking aim at Russia's weapons sales to China. Still, some US lawmakers are pushing for additional, "crushing" new sanctions against Russia as they argue that the Administration's approach to date is insufficient.

Ruble Hits Two-Year Low Following Threat of Toughest Sanctions Yet

President Trump's July meeting and joint press conference with Vladimir Putin sparked a negative political reaction in the US that could eventually culminate in stricter statutory sanctions against Russia. As the US midterm elections approach, American lawmakers are pondering curbs on Russian sovereign debt sales and tougher limits on some of the country's biggest banks as additional punishment for perceived election meddling and continued malign activities.

Most prominent among several proposed Senate bills, the bipartisan "Defending American Security from Kremlin Aggression Act of 2018" ("DASKAA") would impose the most comprehensive sanctions on Russia to date. In relevant part, the DASKAA would broaden and bolster last year's sanctions legislation (the Countering America's Adversaries Through Sanctions Act (CAATSA)) to include new primary and secondary sanctions targeted at Russia's sovereign debt, financial institutions, and energy sector. More specifically, the new provisions would include:

- Prohibiting US persons from engaging in transactions related to new sovereign debt of the Russian Federation;
- Sanctions against specified Russian sovereign and commercial financial institutions;
- Additional sanctions (including against non-US persons) relating to the development of domestic Russian crude oil projects;
- Additional sanctions (including against non-US persons) on investment in energy projects supported by Russia state-owned or parastatal entities; and
- Required reports on political figures, oligarchs, and parastatal entities by the Trump Administration.

Although no measure is expected to pass before the November mid-terms, the specter of additional sanctions has already taken a toll on Russian bond markets and prompted the most significant decline in the ruble in two years. In response, the Russian Central Bank has cancelled several recent bond auctions and significantly scaled back its announced borrowing plans for the upcoming quarter.

OFAC Continues to Forestall Sanctions Bite to Accommodate Deripaska Divestment

Since sanctioning a host of Russian oligarchs and their companies in April, OFAC has signaled that it would consider providing sanctions relief to the listed entities if their owners divest ownership and control. This quarter, the agency continued to forestall the full impact of sanctions in an apparent attempt to facilitate that process. For example, United Co. Rusal PLC has already instituted a series of management shakeups in its effort to come off of OFAC's sanctions list. In June, Rusal shareholders elected a new board of directors after the company's owner Oleg Deripaska and his top managers stepped down in May. Mr. Deripaska is reportedly intent on reducing his holdings to a sufficient extent to lift OFAC sanctions.

This quarter, OFAC twice extended the grace period during which time investors in Deripaska-linked companies (Rusal, GAZ Group, and EN+Group) may divest or transfer their equity or debt holdings without penalty. In July, the deadline was extended through October 23, 2018 (via the issuance of General License 13(C)). By September, OFAC again extended the deadline until November 12, 2018 (via General License 13(D)), explaining that the agency needed additional time to review "substantial corporate governance changes" by EN+ and Rusal "that could potentially result in significant changes in control."

In a further attempt to quell turmoil in the aluminum market, OFAC also issued guidance clarifying that customers are currently permitted to negotiate new annual supplies contracts with Rusal. While the current wind-down licenses permit the "maintenance" of business with Rusal for a limited period, industry participants were uncertain whether or not they were prohibited from entering new supplies contracts for the coming year, which are typically negotiated in September. In response to reports that Rusal was planning to cut production in anticipation of reduced orders, OFAC issued guidance making clear that entering new supplies contracts would be viewed as permissible "maintenance" activities during the wind-down period as long as they are generally consistent with the transaction history between the person and Rusal prior to April 6, 2018. (See FAQs 625-26). OFAC also extended the wind-down period for conducting business with Rusal, GAZ Group, and EN+Group from October 23, 2018, to November 12, 2018.

US Sanctions Russia for Nerve Gas Attack in UK

On August 8, 2018, the US State Department announced it would impose sanctions targeting Russia for its alleged role in the March 2018 nerve-agent attack on Sergei and Yulia Skripal in the United Kingdom. The sanctions will be imposed pursuant to the "Chemical and Biological Weapons Control and Warfare Elimination Act of 1991" —a rarely used US statute mandating sanctions against any foreign government determined to have used chemical or biological weapons (CBWs). The immediate effect of these measures is to restrict the export from the US of certain weapons and dual-use technologies to Russia and to restrict US foreign aid to the Russian Government until the country demonstrates a discontinuation of the alleged misconduct. Specifically, the initial tranche of sanctions include:

- The termination of US foreign assistance, arms sales, and arms sales financing to Russia;
- A denial of US Government credit and financial assistance, including from the Export-Import Bank of the United States; and
- A prohibition on the export of national security-sensitive goods and technologies.

Under the statute, if Russia fails to provide adequate assurances as to its cessation of CBWs within 90 days, additional, more severe, sanctions could be imposed, such as preventing the Russian Government's access to financial assistance from US banks and multilateral development banks. Additional export and import prohibitions, a suspension of diplomatic relations, and the termination of air carrier landing rights could also follow. These additional measures would require additional, affirmative action by the President following the 90-day period.

President Trump Signs Two New Russia-Related Executive Orders of Limited Effect

On September 12, President Trump issued Executive Order 13848, titled "Imposing Certain Sanctions in the Event of Foreign Interference in a United States Election." Issued weeks ahead of the upcoming US mid-term elections, the new E.O. authorizes the President to take action against foreign governments, or associated individuals, after a finding that the foreign government has acted with the intent to interfere in any federal election or US election infrastructure. After a finding of foreign government interference, the US is authorized to target for sanctions both the individual actors who engage in interference, as well as the governments behind such efforts. The order was widely viewed as an attempt by President Trump to obviate the need for a more punishing sanctions bill currently being debated by Congress. Many US lawmakers criticized the order as redundant of existing authorities and insufficient to address the perceived threat posed by Russia.

Separately, on September 20, President Trump issued a new CAATSA-related Executive Order, titled "Authorizing the Implementation of Certain Sanctions Set Forth in the Countering America's Adversaries Through Sanctions Act." The E.O. delegates the implementation of certain sanctions to the Department of Treasury and other US government agencies and departments. Importantly, the E.O. does not expand sanctions against Russia, but merely delegates implementation of CAATSA's provisions to various US government agencies.

Trump Administration Targets Entities and Individuals under CAATSA

On August 21, OFAC designated two Russian individuals and two Russian entities for their alleged role in helping a sanctioned Russian company circumvent US sanctions. According to OFAC, the individuals and entities allegedly assisted Divetechnoservices—itself a previously designated entity—in procuring a variety of underwater equipment and diving systems for Russian government agencies, including for Russia's Federal Security Services (FSB). The FSB was sanctioned in March 2018 for engaging in malicious cybersecurity attacks on behalf of the Russian government. Pursuant to E.O. 13694 and CAATSA Section 224, which targets those involved in malicious cyber-related activities, the following persons and entities were designated:

- **Marina Igorevna Tsareva**
- **Anton Aleksandrovich Nagibin**
- **Vela-Marine Ltd.**
- **Lacno S.R.O. (Slovakia)**

On September 20, the Administration took additional steps to bolster its implementation of CAATSA when the State Department added an additional thirty-three persons or entities to the CAATSA Section 231 List of Specified Persons (LSP) for being a part of, or operating on behalf of, the defense or intelligence sectors of the Government of the Russian Federation. CAATSA section 231 mandates the imposition of secondary sanctions against any person who knowingly engages in a "significant" transaction with persons or entities on the LSP. The following were added to the LSP, which now contains a total of 72 individuals and entities:

- **PMC Wagner**
- **Oboronlogistika, OOO**
- **Komsomolsk-na-Amur Aviation Production Organization (KNAAPO)**
- **Internet Research Agency LLC**
- **Concord Management and Consulting LLC**
- **Concord Catering**
- **Yevgeniy Viktorovich Prigozhin**
- **Mikhail Ivanovich Bystrov**
- **Mikhail Leonidovich Burchik**
- **Aleksandra Yuryevna Krylova**
- **Anna Vladislavovna Bogacheva**
- **Sergey Pavlovich Polozov**
- **Maria Anatolyevna Bovda**
- **Robert Sergeyevich Bovda**
- **Gleb Igorevich Vasilchenko**
- **Irina Viktorovna Kaverzina**
- **Vladimir Venkov**
- **Viktor Borisovich Netyksho**
- **Boris Alekseyevich Antonov**
- **Dmitriy Sergeyevich Badin**
- **Ivan Sergeyevich Yermakov**
- **Aleksey Viktorovich Lukashev**
- **Sergey Aleksandrovich Morgachev**
- **Nikolay Yuryevich Kozachek**
- **Pavel Vyacheslavovich Yershov**
- **Artem Andreyevich Malyshev**
- **Aleksandr Vladimirovich Osadchuk**
- **Aleksey Aleksandrovich Potemkin**
- **Anatoliy Sergeyevich Kovalev**

- **Dzheykhun Nasimi Ogly Aslanov**
- **Vadim Vladimirovich Podkopaev**
- **Igor Valentinovich Korobov**
- **Sergey Aleksandrovich Gizunov**

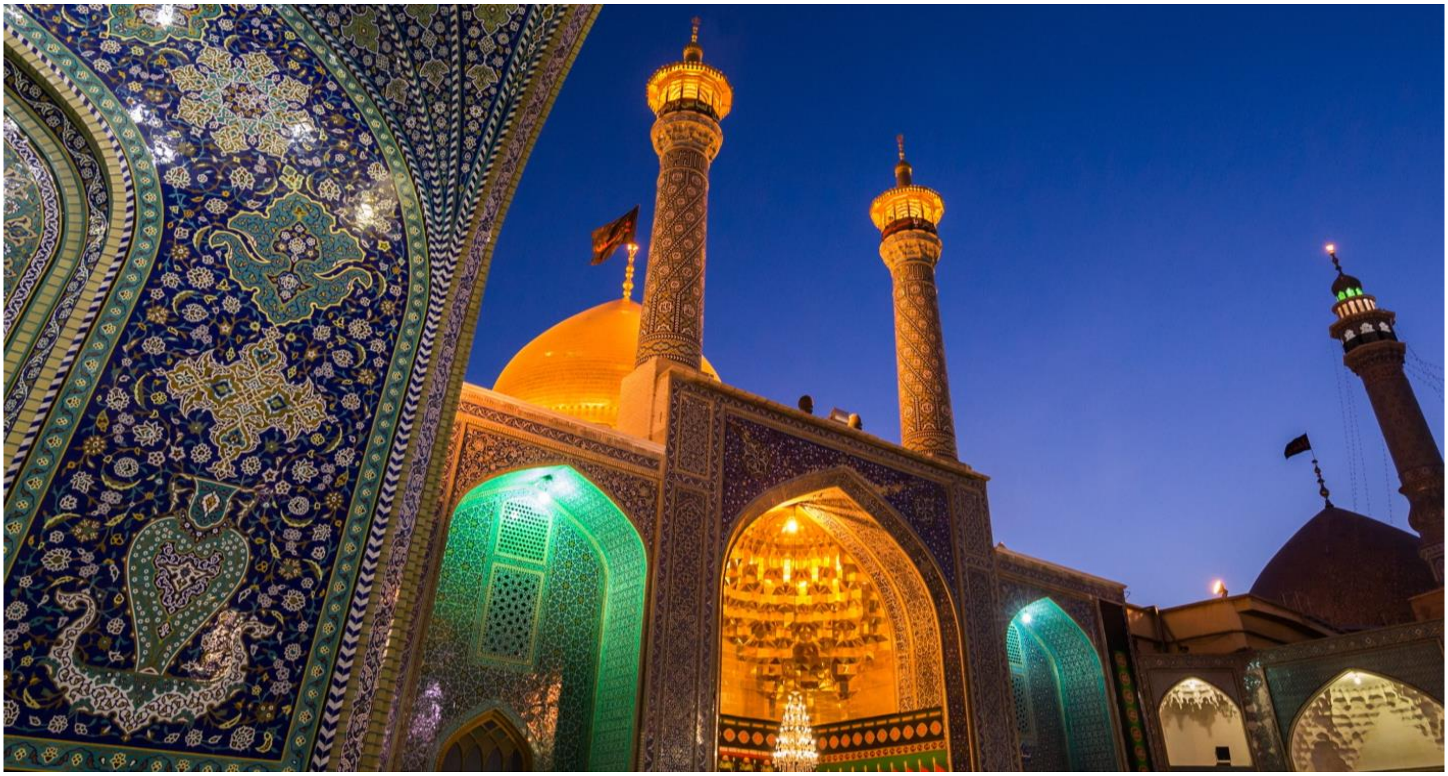
Simultaneously with expanding the LSP, the State Department—in conjunction with OFAC—imposed secondary sanctions on a Chinese military entity and Chinese official for engaging in "significant transactions" with persons on this list in violation of CAATSA. Specifically, the Chinese **Equity Development Department (EDD)** and its director, **Li Shangfu**, were targeted for facilitating China's December 2017 purchase of Su-35 combat aircraft and S-400 surface-to-air missile systems from Russia. Both deals were negotiated with Rosoboronexport, Russia's main arms export entity, which was added to the LSP last year and separately designated as an SDN this April for its weapons sales to the Syrian Government.

The sanctions included the following restrictive measures:

- A denial of export licenses;
- A prohibition on foreign exchange transactions under United States jurisdiction;
- A prohibition on transactions with the United States financial system;
- Blocking of all property and interests in property within United States jurisdiction; and
- The imposition of sanctions on an EDD principal executive officer and its director Li Shangfu, which include a prohibition on foreign exchange transactions under United States jurisdiction, a prohibition on transactions with the United States financial system, blocking of all property and interests in property within United States jurisdiction, and a visa ban.

The State Department emphasized that its actions were not intended to undermine the military capabilities or combat readiness of any country, but rather to impose costs on Russia in response to its interference in the US election process. Notably, Turkey and India are among other countries currently weighing the purchase of S-400 missiles from Russia despite US opposition.

IRAN



As anticipated, the US began to formally re-impose previously suspended sanctions against Iran as the first 90-day wind-down period announced in May came to a close. The remaining sanctions, including those aimed at Iran's oil exports and shipping industry, are due to snap-back on November 5. Global markets are already feeling the impact of the change in US policy, and European leaders are struggling to craft effective policies to keep Iran in the JCPOA in the wake of the US withdrawal.

US Begins Process of Re-Imposing Nuclear-Related Sanctions against Iran

On August 6, 2018, President Trump signed Executive Order 13846, which re-imposes certain sanctions on Iran previously permitted under the Joint Comprehensive Plan of Action (JCPOA). E.O. 13846 follows President Trump's decision to remove the US from participation in the JCPOA in May, and is the first of two actions to re-impose snap-back sanctions on activities previously permitted under the Iran deal. The 90-day wind-down period announced in May closed on August 6, and the new executive order formally re-imposes a variety of secondary sanctions applying to non-US persons conducting Iran-related transactions, including:

- Iran' s trade in gold or precious metals;
- The direct or indirect sale, supply, or transfer to or from Iran of graphite, raw, or semi-finished metals such as aluminum and steel, coal, and software for integrating industrial processes;
- Significant transactions related to the purchase or sale of Iranian rials, or the maintenance of significant funds or accounts outside the territory of Iran denominated in the Iranian rial;
- The purchase, subscription to, or facilitation of the issuance of Iranian sovereign debt; and
- Significant transactions to provide goods and services to Iran' s automotive sector.

The remaining snap-back of sanctions previously suspended under the JCPOA will be implemented on November 5, 2018. These include a variety of Iran-related activities, including non-US persons' involvement in business activities related to:

- Iran's port operators, and shipping and shipbuilding sectors, including on the Islamic Republic of Iran Shipping Lines (IRISL), South Shipping Line Iran, or their affiliates;
- Petroleum-related transactions with, among others, the National Iranian Oil Company (NIOC), Naftiran Intertrade Company (NICO), and the National Iranian Tanker Company (NITC), including the purchase of petroleum, petroleum products, or petrochemical products from Iran;
- Transactions by foreign financial institutions with the Central Bank of Iran and designated Iranian financial institutions under Section 1245 of the National Defense Authorization Act for Fiscal Year 2012 (NDAA);
- The provision of specialized financial messaging services to the Central Bank of Iran and Iranian financial institutions described in Section 104(c)(2)(E)(ii) of the Comprehensive Iran Sanctions and Divestment Act of 2010 (CISADA);
- The provision of underwriting services, insurance, or reinsurance; and
- Iran's energy sector.

EU States Seek to Salvage JCPOA, Mitigate Effect of US Sanctions

This quarter, European foreign ministers took several steps in an attempt to curb the effects of US sanctions snap-back. Most notably, on August, 7, 2018, the European Union passed an updated Blocking Statute to mitigate the impact US sanctions could have on EU companies and persons ("EU Operators") doing legitimate business with Iran. The Blocking Statute forbids EU Operators from complying with US sanctions, including from applying for OFAC licenses to conduct transactions, unless specifically authorized to do so by the European Commission or the government of a member country. In addition, the Blocking Statute contains a variety of additional measures to shield EU Operators from potential sanctions penalties, including permitting EU Operators to recover damages arising from US sanctions and nullifying in the EU any foreign court rulings based on sanctions violations.

Despite the Blocking Statute's broad language, however, the European Commission appears to have provided a flexible means by which EU Operators can comply with both US sanctions and the terms of the Blocking Statute. First, EU Operators can seek specific authorization from the European Commission to comply with US sanctions if not doing so would do "serious harm to their interests or the interests of the European Union." Second, the Blocking Statute will not require EU Operators to continue existing business with Iran.

The European Union continues to develop ways to bypass US sanctions on Iran. Most recently, leaders of France, Germany, and the UK floated a proposal to launch a "special purpose vehicle" (SVP) to serve as a payments channel to circumvent US sanctions on Iran's oil exports. The proposal's feasibility was met with skepticism by some, and some US officials described the measure as potentially dangerous. Secretary of State Mike Pompeo, for instance, called the measure counterproductive to global peace and security. As of late September, details of such a plan are still being worked out, but officials hope to implement the measure before sanctions on Iran's oil sector resume in November.

Looming Snap-Back of Additional Sanctions Already Taking Economic Toll

Despite the Blocking Statute and other efforts by the EU, impending sanctions have already prompted the exit from Iran of many European businesses. In a notable example, China National Petroleum Corporation (CNPC) announced that it would take the lead on a $5 billion project to develop the South Pars Gas field, the world's largest gas deposit. CNPC's move takes over from France's Total SA, which sought to exit its controlling stake in the project after President Trump announced the US's intent to re-impose sanctions. The terms of the re-arrangement have yet to be formally announced, and the terms of the current contract remain unchanged. In another example, France's CMA GCM, the operator of the world's third-largest container shipping fleet, announced in July that it would end all operations with Iran to avoid the risk of US secondary sanctions on companies dealing with Iran's port operators and its shipping and shipbuilding sectors.

The US's unilateral withdrawal from JCPOA has already shown significant effects on Iran's oil exports as well. As of September 2018, it was reported that the threat of sanctions has caused Iran's oil exports to plunge 35% since April—more than experts had predicted. The effects of the drop in Iran's oil exports rippled across the Iranian economy, causing the Iranian rial to dive 60% and driving up inflation. Globally, the restriction on imports has caused other countries, including Russia and Saudi Arabia, to increase their oil exports to offset the impact and keep oil prices from rising. Experts warn that Iran's oil output could drop even further, especially in light of President Trump's public commitment to reduce oil purchases from Iran to zero, including by large importers like Japan and South Korea, although there have been recent suggestions that the Administration may grant limited waivers similar to those previously issued by the Obama Administration.

Trump Administration Continues Designating Iran Targets for Alleged Terrorism Ties

This quarter, OFAC targeted two General Sales Agents (GSAs) of Mahan Air, which itself was designated in 2011 for allegedly transporting operatives, weapons, and funds into Syria at the behest of the Islamic Revolutionary Guard Corp. (IRGC). OFAC alleges that Mahan Air continues to provide transportation services for soldiers and weapons into Syria, which Syrian President Assad uses to support Syria's regional terrorist activities. OFAC's targeting of Mahan Air's GSAs indicates its willingness to punish any entity involved in supporting Mahan Air's facilitation of IRGC activity. Pursuant to E.O. 13224, which targets alleged terrorists and terrorist organizations, OFAC designated on July 9, 2018, **Mahan Travel and Tourism Sdn Bhd**, Mahan Air's GSA based in Malaysia. On September 14, 2018, OFAC designated Mahan Air's Thailand-based GSA **My Aviation Company Limited** ("**My Aviation**"). My Aviation provides passenger and air cargo services. As part of its cargo services, My Aviation provides freight booking and coordinates with local freight forwarders to ship cargo on Mahan Air flights to Iran.

NORTH KOREA

During the last three months, OFAC resumed an aggressive posture toward North Korea, contrasting sharply with the restraint exercised by the Trump Administration this summer as the two countries sought to establish a diplomatic solution to North Korea's pursuit of nuclear weapons. As diplomacy stalled and rumors swirled that North Korea continued to develop nuclear weapons, OFAC resumed sanctions pressure, devoting significant attention to Chinese and Russian entities said to be undermining sanctions against DPRK.

OFAC Targets Russian and Chinese Entities for Engagement with North Korea

On August 3, OFAC announced new sanctions related to North Korea, designating three entities and one individual for their role in processing financial transactions for the DPRK. The announcement marked the first North Korea-related sanctions since the June 12 summit between President Trump and Leader Kim Jong Un. Among those sanctioned were **Agrosoyuz Commercial Bank**, a Russia-registered bank, its executive, and two front companies alleged to have processed financial transactions in violation of US and United Nations sanctions. The persons designated all relate to Foreign Trade Bank, North Korea's primary foreign exchange bank, and itself an entity designated by the US and the UN.

The move marked the first time a Russian bank has been targeted under OFAC's North Korea sanctions policy. According to OFAC, the bank has processed millions of dollars of transactions and its representative opened multiple accounts for Foreign Trade Bank. OFAC noted that under Russia's commitment to United Nations Security Council Resolution 2321, Russia should expel any individual it finds to have worked on behalf of a DPRK bank. The following entities and individual were sanctioned:

- **Agrosoyuz Commercial Bank**, allegedly facilitated transactions on behalf of the chief representative of FTB. Both FTB and its Moscow-based chief representative were sanctioned in 2017.
- **Ri Jong Won**, the Moscow-based deputy representative of FTB.
- **Dandon Zhongsheng Industry & Trade Co., Ltd.**, an FTB front company.
- **Korea Ungum Corporation**, an FTB front company.

On August 15, OFAC designated one individual and three entities pursuant to E.O. 13810, which targets, in part, persons involved in shipping goods to the government of North Korea. According to OFAC, a Chinese shipping company and its affiliate employed a variety of evasive schemes, including falsified shipping documents and circumventive shipping routes, to deliver trading items to the DPRK. These items included the shipment of alcohol, tobacco, and cigarette products, which the DPRK allegedly then illicitly traded for profit to finance the development of nuclear weapons. In addition, OFAC designated a Russia-based port service agency and its director-general for providing loading, bunkering, and departure arrangements for DPRK-flagged vessels in knowing violation of US sanctions. Pursuant to E.O. 13810, the following entities and individuals were sanctioned:

- **Dalian Sun Moon Star International Logistics Trading Co., Ltd.**, a China-based logistics company which uses falsified shipping documents to deliver products into North Korea.
- **SINSMS Pte. Ltd.**, the Singapore-based affiliate of Dalian Sun Moon, reportedly works in concert to deliver items to North Korea.
- **Profinet Pte. Ltd.**, a Russia-based port service agency who knowingly provided port services to multiple DPRK-flagged vessels, including those already subject to U.S. sanctions.
- **Vasili Aleksandrovich Kolchanov**, a Russian-national and Director General of Profinet Pte. Ltd.

On August 21, OFAC imposed additional sanctions on two Russian shipping companies and their vessels for violating United Nations sanctions against North Korea. According to OFAC, the vessels conducted ship-to-ship transfers of significant volumes of oil, which was purchased by Taesong Bank for the benefit of the DPRK. Taesong Bank was previously designated by OFAC and the United Nations. For their role in this scheme, OFAC designated the following two entities and six vessels pursuant to E.O. 13810, which targets, among other things, persons involved in the ship-to-ship transfer of petroleum products with North Korean-flagged vessels:

- **Gudzon Shipping Co. LLC**, is the registered co-ship owner and manager of sanctioned merchant vessel *Patriot*.
- **Primoreye Maritime Logistics Co. Ltd.**, is the registered co-ship owner and manager of sanctioned merchant vessel *Patriot*.
- **Patriot**, is alleged to have conducted two ship-to-ship transfers in 2018, benefitting North Korea by delivering large amounts of oil to DPRK-flagged vessels.
- **Bella**, a Russia-flagged vessel determined to be affiliated with Gudzon Shipping Co.
- **Bogatyr**, a Russia-flagged vessel determined to be affiliated with Gudzon Shipping Co.
- **Neptun**, a Russia-flagged vessel determined to be affiliated with Gudzon Shipping Co.
- **Partizan**, a Russia-flagged vessel determined to be affiliated with Gudzon Shipping Co.
- **Sevastopol**, a Russia-flagged vessel determined to be affiliated with Gudzon Shipping Co.

On September 13, OFAC issued additional designations targeting two nominally Chinese and Russian companies for allegedly providing illicit revenue to the Government of North Korea, which it uses to develop nuclear weapons. According to OFAC, **Volasys Silver Star** and **China Silver Star** appeared to be registered Chinese or Russian companies, but are, in fact, owned and operated by North Korean nationals. OFAC alleges that one of the sanctioned companies, **Volasys Silver Star**, was specifically created to circumvent the identification requirements and conceal the owners/operators' true nationality. Both businesses reportedly make significant amounts of money from IT projects with other companies in China. The sanctions were issued pursuant to two authorities: E.O. 13722, which targets, in part, those who export workers from North Korea and provide revenue to the Government of North Korea; and E.O. 13810, which targets, in part, persons engaged in the IT industry in North Korea. The following individual and two entities were designated:

- **Yanbian Silverstar Network Technology Co., Ltd.** (a.k.a. "**China Silver Star")**, a nominally Chinese IT company owned by North Koreans.
- **Volasys Silver Star**, a Russia-based front company, founded by an employee of China Silver Star specifically to assist in the obfuscation of North Korean workers' nationality.
- **Jong Song Hwa**, was designated for allegedly acting on behalf of China Silver Star.

Finally, on October 4, 2018, OFAC continued to target international targets for assisting North Korea in obtaining weapons and other items in violation of US and United Nations sanctions. In this action, OFAC designated a Turkey-based trading company and three individuals who act on its behalf to import and export weapons and luxury goods in and out of North Korea. Pursuant to E.O. 13551, which targets in part those who import or export weapons to and from North Korea; and E.O. 13687, which targets officials of the DPRK, the following entity and individuals were designated:

- **SIA Falcon International Group** (**SIA Falcon**), a Turkey-based trading company which imported, exported, or re-exported items prohibited by US and UN sanctions, including weapons and luxury goods, with North Korea.
- **Huseyin Sahin**, is the Chief Executive Officer of SIA Falcon, sits on its Board of Directors, and maintains a complete ownership interest in the company.
- **Erhan Culha**, is the general manager of SIA Falcon.
- **Ri Song Un**, serves as the commercial and economic counselor at the North Korean embassy in Mongolia. According to OFAC, Ri Song Un was hosted by SIA Falcon earlier this year, and negotiated trade deals in the illicit goods with SIA Falcon.

OFAC Renews Interest in North Korean Cyber-Attacks

On September 6, 2018, OFAC sanctioned one entity and one individual in connection with North Korea's malicious cyber activities. Pursuant to E.O. 13722, which targets those who work on behalf of the Government of North Korea to engage in activities that undermine cybersecurity, OFAC designated **Park Jin Hyok** and his employer, **Chosun Expo Joint Venture (a.k.a Korea Expo Joint Venture or "KEJV")**. According to OFAC, Park Jin Hyok and his employer used computer networks to orchestrate cyber-attacks against targets outside of North Korea. Specifically, Park Jin Hyok is alleged to have facilitated the fraudulent transfer of $81 million from Bangladesh Bank, as well as two infamous cyber-attacks, including the "WannaCry 2.0" cyber-attack in May 2017, and the cyber-attack on Sony Pictures Entertainment in November 2014. In a separate action, the U.S. Justice Department unsealed criminal charges against Park Jin Hyok for his role in the hacking operation.

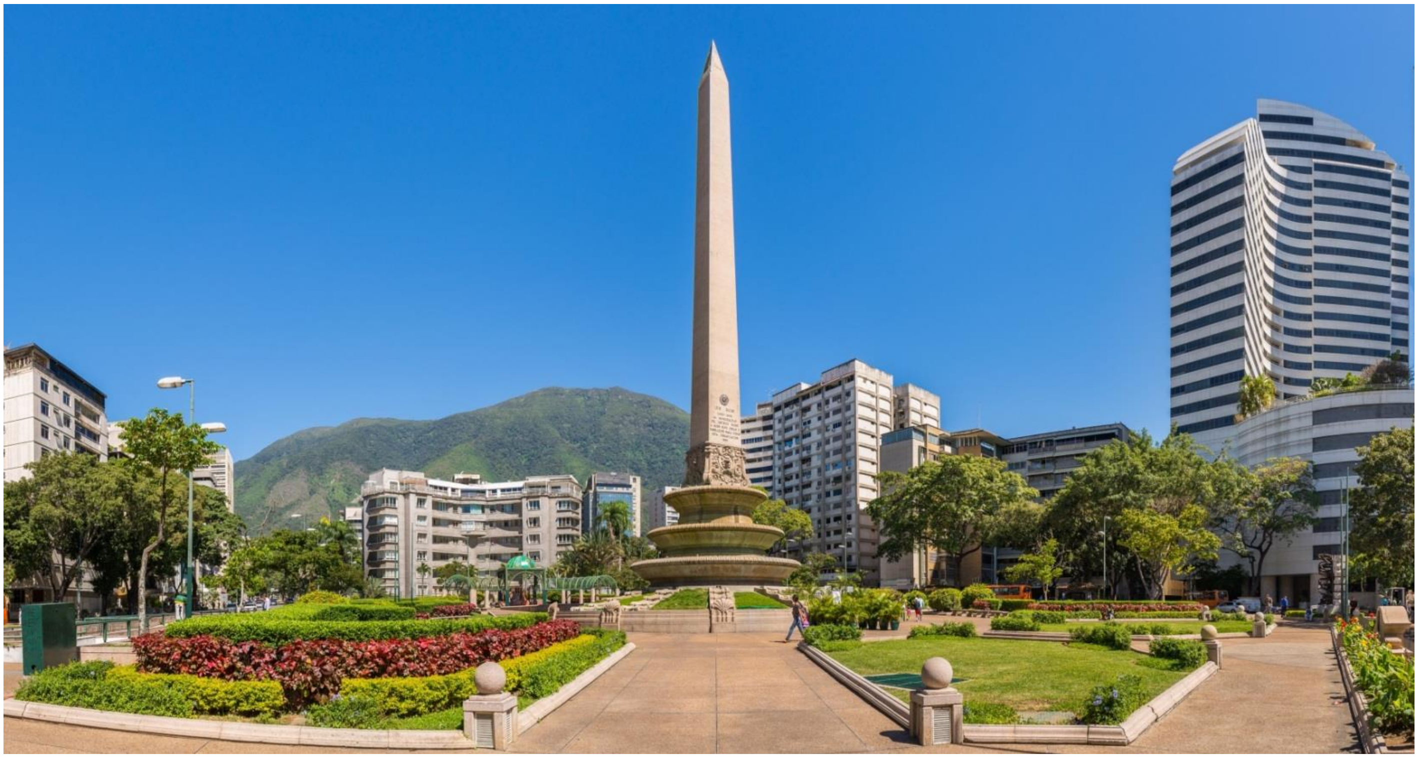
OFAC Encourages US Companies to Proactively Monitor Supply Chain Activities

On July 23, OFAC published a Supply Chain Advisory ("Advisory") to highlight tactics allegedly employed by North Korea to evade US sanctions, and that could expose unwitting US businesses to sanctions risks. Specific risk areas to which US businesses should pay careful attention include the inadvertent sourcing of goods, services, or technology from North Korea and the presence of North Korean citizens or nationals in a company's supply chain whose labor benefits the North Korean government. The Advisory noted that North Korea exports labor internationally, and those laborers' wages are remitted back to the North Korean government and used to support the regime's weapons of mass destruction and ballistic missile programs.

The Advisory also detailed the various industries and regions in which North Korea is actively exporting laborers. To guard against the compliance risk of sourcing goods, services, or technology with any person, entity, or technology from North Korea, or engaging a supplier whose business or workers remit wages to the North Korean Government, OFAC encourages US persons and businesses to take the following steps:

- Be watchful of third-country suppliers who sub-contract work to an entity with North Korean connections.
- Inspect for potentially mislabeled goods, services, and technologies.
- Carefully investigate all joint-ventures of companies in a business' supply chain.
- Recognize whether goods or raw materials are being provided at artificially low prices.
- Conduct careful due diligence on all information technology services.
- Carefully review wages, contracts, laborer housing, and general lack of transparency.

VENEZUELA



This quarter, OFAC continued its strategy of targeting high-ranking and influential members of the Venezuelan Government for sanctions. On September 25, OFAC designated additional prominent members of President Nicolás Maduro's "inner circle." Pursuant to E.O. 13692, the following individuals were designated for helping Maduro maintain his grip on political and military power:

- **Cilia Adela Flores De Maduro**—wife of President Maduro and former high-ranking ANC official and Attorney General of Venezuela.
- **Delcy Eloina Rodriguez Gomez**—former high-ranking ANC official and current Executive Vice President of Venezuela.
- **Jorge Jesus Rodriguez Gomez**—current Minister of Popular Power for Communication and Information, former mayor of Caracas.
- **Vladimir Padrino Lopez**—current Sectoral Vice President of Political Sovereignty, Security, and Peace (Venezuelan Defense Minister).

In addition, OFAC designated a number of individuals and entities comprising an alleged support network for Diosdado Cabello Rondon (Cabello), the President of Venezuela's National Constituent Assembly (ANC) and himself a designated individual. Specifically, the following individuals and entities were designated for their connection to Rafael Sarria, who was previously designated for his alleged role as a key front man for Mr. Cabello in the ownership of real estate properties in the United States. Pursuant to E.O. 13692, the following persons were designated:

- **Agencia Vehiculos Especiales Rurales y Urbanos, C.A.**
- **Jose Omar Paredes**
- **Quiana Trading Limited**
- **Edgar Alberto Sarria Diaz**
- **Panazeate SL**

This quarter, OFAC also issued a general license ensuring that US persons are able to take possession of Citgo shares serving as collateral to certain Venezuelan Government bonds in the event of default. Pursuant to E.O. 13835, signed May 21, 2018, US persons are generally prohibited from being involved in the "the sale, transfer, assignment, or pledging as collateral by the Government of Venezuela of any equity interest in any entity in which the Government of Venezuela has a 50% or greater ownership interest." However, on July 19, OFAC explained in newly published FAQs that it issued General License 5 to ensure that US persons are able to enforce bondholder rights to the 50.1% equity stake in Citgo Holding Inc. serving as collateral for the PdVSA 2020 8.5 percent bond in the event of default. The $2.5 billion of PDVSA notes backed by the Citgo shares are reportedly among the few Venezuelan bonds on which the Maduro regime has remained current.

Additionally, OFAC confirmed that E.O. 13835 does not prohibit US persons from attaching and executing against the Government of Venezuela to enforce a legal judgment, as long as the attachment does not involve debt pledged as collateral after May 21, 2018, or equity in any entity majority-owned by the Government of Venezuela (although OFAC will consider issuing specific licenses as to these categories on a case-by-case basis).

Finally, on July 18, the US State Department, without comment, revoked the visa of the Chief Executive Officer of Citgo Petroleum Corp., the US subsidiary of Venezuela's state oil company, PdVSA. The move was significant because the US has rarely taken the step of barring a C-level executive of a US company from the United States. The executive, Asdrubal Chavez, is a cousin of Venezuela's late president Hugo Chavez and is considered to retain strong government ties. In a statement, Citgo said that the day-to-day operations of the company were unchanged.

GLOBAL MAGNITSKY ACT

On August 1, the United States designated two senior officials of the Turkish Government (Minister of Justice **Abdulhamit Gul** and Minister of Interior **Suleyman Soylu**) for sanctions under the Global Magnitsky Act. The sanctions were imposed following a diplomatic row involving the detention of Andrew Brunson, a US citizen residing in Turkey, which President Trump and other US officials have publicly described as a violation of human rights. While President Trump threatened the possibility of additional sanctions, the White House has not been specific in describing the nature or extent of such measures. On October 12, Mr. Brunson was released from prison and returned to the US following a ruling by the Turkish appeals court, which adjusted his sentence to “time served,” citing health issues. President Trump insisted no deals were made with the Turkish Government in exchange for Mr. Brunson’s release, but indicated that the resolution would likely improve ties between the two countries.

Mr. Brunson’s detention has also prompted calls for additional sanctions by US lawmakers. On July 26, the Foreign Relations Committee of the US Senate approved a draft bill, (the “Turkey International Financial Institutions Act”), which—if adopted—would aim to restrict loans from international financial institutions to the Government of Turkey until the President determines that Turkey “is no longer arbitrarily detaining or denying freedom of movement to . . . United States citizens.” The bill operates by directing the US executive director of the World Bank and the US representatives to the European Bank for Reconstruction and Development and other similar institutions to oppose future loans to Turkey’s government, other than for humanitarian reasons.

On August 17, OFAC again utilized the Global Magnistky Act to target alleged human rights abusers in Burma. The agency designated four Burmese military and police commanders, as well as two Burmese military units, for their alleged involvement in ethnic cleansing and other human rights abuses against ethnic and religious minorities, including the Rohingya, Kachin, Shan, and other groups. OFAC specifically emphasized recent military and police campaigns targeting Rohingya villagers in the northern state of Rakhine. For their alleged involvement in these abuses, OFAC designated military commanders **Aung Kyaw Zaw**, **Khin Maung Soe**, **Khin Hlaing** and Border Guard Police commander **Thura San Lwin**, as well as Burma’s **33rd Light Infantry Division** and **99th Light Infantry Division**.

COUNTER-TERRORISM DESIGNATIONS

On July 10, the State Department designated **al-Ashtar Brigades** ("**AAB**")—an Iran-backed terrorist group in Bahrain—as a Foreign Terrorist Organization (FTO) and a Specially Designated Global Terrorist (SDGT). According to the State Department, AAB is dedicated to the overthrowing of the Bahraini government. In addition, AAB claimed responsibility to terror attacks against domestic security forces in Bahrain, including a 2014 bomb attack against police forces and the 2017 shooting of a Bahraini police officer. AAB has close ties to the IRGC, receiving weapons, explosives, and training from the IRGC to facilitate its terrorist attacks. On August 13, the State Department designated **Qassim Abdullah Ali Ahmed** ("**al-Muamen**"), the Iran-based leader of AAB, as a SDGT.

On July 31, OFAC designated financial facilitators of Lakshar-e Tayyiba's ("LeT") fundraising and support networks. LeT is a Pakistan-based organization subject to US and UN sanctions as a terrorist organization. Pursuant to E.O. 13224, which targets terrorists and those who engage in terrorism, OFAC targeted **Hameed ul Hassan (Hassan)** and **Abdul Jabbar (Jabbar**), two of LeT's financial facilitators, as SDGTs. According to OFAC, Hassan and Jabbar collected, transported, and distributed funds for use by LeT and other terrorist extremists. Hassan is alleged to have transferred funds to operatives in Syria and Pakistan, sometimes in conjunction with other SGDTs. **Abdul Jabbar** has worked in LeT's finance department since around 2000, and distributes salaries for LeT.

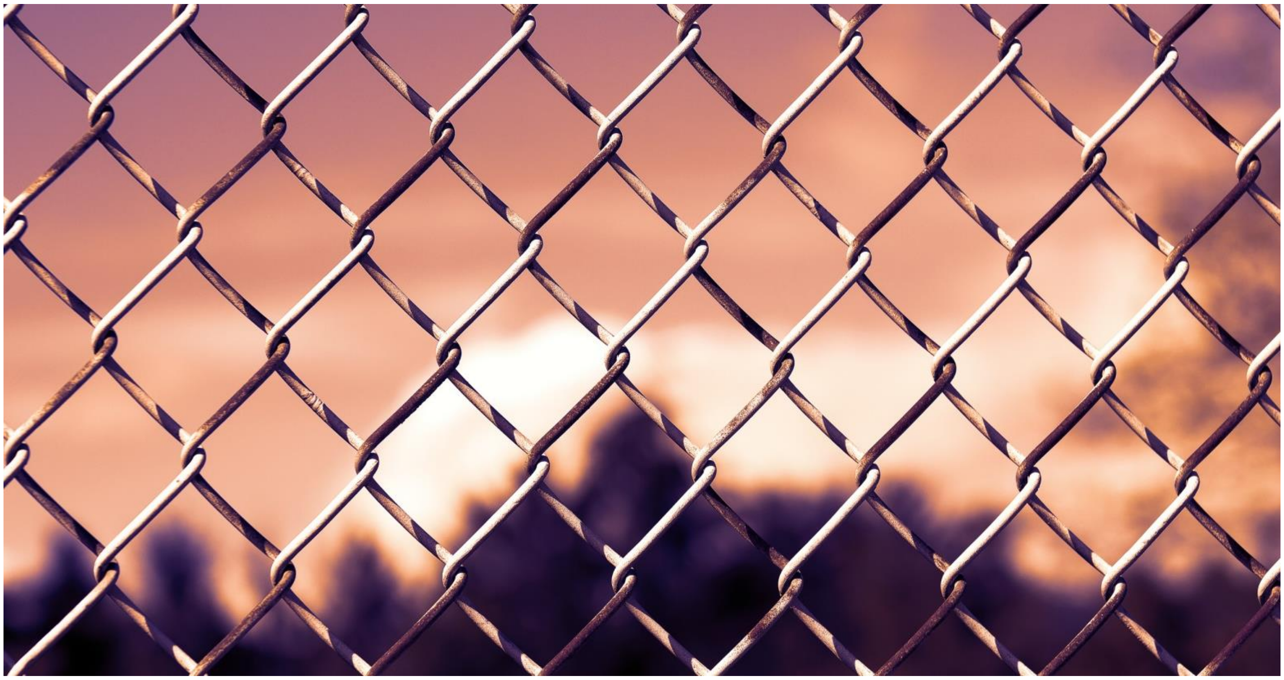
On August 24, OFAC took action to disrupt ISIS's international recruiting efforts. OFAC designated **Mohamad Rafi Udin** (**Udin**), **Mohammed Karim Yusop Faiz** (**Faiz**) and **Mohammad Reza Lahaman Kiram** (**Kiram**), three of ISIS's top recruiters operating in Southeast Asia, as SDGTs. Udin, Faiz, and Kiram were also featured in an ISIS propaganda video depicting the beheading of ISIS captives. The designations are part of OFAC's attempt to thwart international recruiting.

On September 5, **Jama'at Nusrat al-Islam wal-Muslimin** ("**JNIM**") was designated by the State Department as a FTO and a SDGT. JNIM, a branch of al-Qaida based in Mali, carries out kidnappings and other terrorist attacks on behalf of the terrorist organization. Since March 2017, JNIM has perpetrated attacks on Westerners at Malian resorts and attacks on Malian military troops.

On September 7, OFAC turned its attention to ISIS's financial facilitators. OFAC designated **Waleed Ahmed Zein** (**Zein**) as a SGDT for assisting in, sponsoring, or providing financial, material, or technological support for, or financial or other services to or in support of, ISIS. Zein, a terrorist based in East Africa, is alleged to have established a global financial network for the benefit of ISIS, facilitating the transfer of hundreds of thousands of dollars to the terrorist group's cells across the world. Through an intricate network of hawalas and intermediaries designed to evade sanctions detection, Zein facilitated the transfer of funds to ISIS, which used the resources to carry out terrorist attacks.

On September 19, OFAC designated two additional ISIS financiers. Specifically, **Emraan Ali** and **Eddie Aleong** were designated as SDGTs for acting for or on behalf of ISIS. Emraan Ali, based in Syria, is alleged to have transferred funds from Trinidad and Tobago to ISIS fighters in Syria. Eddie Aleong was also designated for his financial support of ISIS. Aleong, based in Trinidad and Tobago, would send funds to Embraan Ali, who then delivered the money to Trinidadian fighters in Syria. OFAC alleges that Emraan Ali and Eddie Aleong's ties to ISIS go beyond just financial transfers—both have previously stayed at ISIS guest houses in Syria.

OFAC TARGETS NARCOTICS TRAFFICKERS & CRIMINAL ORGANIZATIONS



On October 2, 2018, OFAC designated known affiliates of the Yamaguchi-gumi, the most prominent member of the Yakuza, Japan's major organized crime syndicate and a designated transnational criminal organization (TCO). Issued pursuant to E.O. 13581, which targets TCOs, the designations were an effort to expose seemingly legitimate companies as being owned by major crime organizations. Through its subsidiary members like the Yamaguchi-gumi, the Yakuza engages in human trafficking, drug smuggling, weapons trafficking, extortion, and white collar crimes. In addition, the Yakuza profit from activities related to sexual exploitation. The Yakuza hide the proceeds of their illicit activities by laundering the money through their front companies, including those designated on October 2. The following two companies and four individuals were designated:

- **Yamaki, K.K.** is a Japanese real estate company that owns the land on which Yamaguchi-gumi's headquarters are located. It is owned by Yamaguchi-gumi members Utao Morio and Chikara Tsuda.
- **Toyo Shinyo Jitsugyo K.K.**, another Japanese real estate company, is owned by Yasuo Takagi, a Yamaguchi-gumi gang member. According to OFAC, Toyo Shinyo Jitsugyo K.K. engages in a wide array of business activities, including real estate transactions, money lending, and the management of parking lots, cafes, and cafeterias.
- **Utao Morio** was the CEO of Yamaki, K.K. and is the current manager of the Yamaguchi-gumi headquarters.
- **Chikara Tsuda** is the current CEO of Yamaki, K.K., and the deputy lieutenant of the Yamaguchi-gumi headquarters. Additionally, Tsuda is the leader of a subsidiary gang based out of Osaka, Japan.
- **Yasuo Takagi** is the CEO of Toyo Shinyo Jitsugyo K.K., and a deputy lieutenant of Yamahuchi-gumi. Tkagi also serves as the leader of a Yamaguchi-gumi subsidiary gang called Shimizu-ikka, located in Shizuoka, Japan.
- **Katsuaki Mitsuyasu** was previously the CEO of Toyo Shinyo Jitsugyo K.K, and served as a deputy lieutenant of Yamaguchi-gumi and was a leader of a Fukuoaka-based subsidiary gang called Kosei-kai. Mitsuyasu currently serves as an advisor to Yamaguchi-gumi subsidiary group Izu-gumi.

ENFORCEMENT ACTIONS

On October 5, OFAC announced that **JPMorgan Chase Bank, N.A. (JPMC)** agreed to pay over $5.2 million to settle its potential liability related to apparent violations of sanctions against Cuba and Iran. OFAC asserts that from 2008 through 2012, JPMC operated a "net settlement" system on behalf of an unnamed US client, whose purpose was to serve as a clearing house for various airline industry participants and resolve billings owed among its members. According to OFAC, JPMC processed 87 such net settlement payments, with a total value exceeding $1 billion, of which approximately $1.5 million (0.14%) represented interests of sanctioned persons. More specifically, the transactions represented net settlement payments between the US client and another non-US entity whose members included eight airlines that were listed as Specially Designated Nationals under various programs or were located in countries subject to comprehensive sanctions. OFAC noted that the bank ignored several express warnings from its US client regarding potential sanctions red flags, and that it "failed to screen participating member entities of the non-U.S. person entity that participated in the net settlement mechanism with JPMC's clients for purposes of OFAC compliance, despite being in possession of the necessary information."

As mitigating factors, OFAC observed that no JPMC managers or supervisors were aware of the conduct at issue, the prohibited payments represented a small amount of the total transactions comprising the net settlement system, and that JPMC self-disclosed the violations, cooperated during the investigation, and has since taken remedial steps. The penalty represents a roughly 30% downward departure from the base penalty.

Simultaneously, OFAC issued **JP Morgan Chase & Co**. a Finding of Violation (without a monetary penalty) for maintaining bank accounts and processing $46,127 in transactions on behalf of six customers who were listed as SDNs pursuant to the Kingpin Sanctions Regulations and the Syrian Sanctions Regulations from 2010 through 2012. OFAC noted that the bank discovered and self-reported the potential violations after re-screening 188 million client records in 2013 using an updated screening system. OFAC emphasized that "[t]his enforcement action highlights the importance of financial institutions remediating known compliance program deficiencies in an expedient manner."

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