

## REGULATORY INTELLIGENCE

## 2022 G7 Summit: Countering Russia with sanctions

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The G7 concluded its annual summit on June 28. Meeting in the Bavarian Alps at Schloss Elmau, the leaders confronted multiple, interrelated crises stemming from Russia's invasion of Ukraine.

Faced with inflation and the cost of energy reaching record levels, as well as the pressing threat of global food insecurity and fraught geopolitical tensions, the club needed both to demonstrate resolve and cohesion and to offer substantive measures to counter Russia, continuing to use sanctions as its primary instrument.

### Targeted sanctions

Following Russia's invasion of Ukraine, the G7 created the Russian Elite Proxies and Oligarchs (REPO) task force to develop what amounts to the most complex and comprehensive set of financial and economic sanctions ever levelled. They mandate prohibitions on certain financial products including credit and debt instruments, as well as the issuance and trade of securities. Additionally, they have led to the designation of more than 7,500 persons and entities, and have targeted growth industries including aerospace, marine, electronics, technology and defence. Russian banks have also been cut off from the SWIFT network, removing Russia's access to \$600 billion of foreign currency reserves.

G7 leaders signalled that they will continue to take unprecedented action and use coordinated and targeted sanctions to raise the costs of war for Russia, as well as add political pressure on enablers Belarus.

In the [Annex to the G7 Statement of Support for Ukraine](#), the G7 indicated that sanctions have affected Russia's financing of the war. The statement said that Russia's "military-industrial complex has been sapped of critical components, its economy has contracted, its central bank's foreign reserves have been largely immobilised, and the kleptocracy is being held to account for its ill-gotten gains".

Looking forward, the G7 said it would designate additional persons and legal entities identified as committing war crimes, illegally profiting from the war, exercising "illegitimate authority in Ukraine", stealing and exporting grain and contributing to global food insecurity, or being complicit in aggression. The G7 said further that it will take action to curb sanctions evasion and backfilling activities.

In terms of additional trade sanctions and embargoes, the G7 will continue to assess how to isolate Russia from global markets. In 2021, Russian gold generated \$15.5 billion in sales, leading the G7 to look at how to impose a ban on Russian gold imports to decrease revenues. The first day of the Summit, the UK, Canada, Japan and the United States [introduced a ban](#) on "newly minted or refined" Russian gold. The G7 is also likely to place embargoes on resources, services, technology and materials used as part of "Russia's armament industrial base and technology sector". Finally, the G7 will continue to assess how to reduce reliance on Russian energy.

G7 leaders further endorsed the Supporting Ukraine Through Responsible Sanctions document. Countries also pledged to step up institutional resilience against "foreign information manipulation" and disinformation. During the G7 Summit, Canada [indicated](#) that it would sanction "state-sponsored disinformation and propaganda agents and entities controlled by senior Russian government officials".

### Implications for firms

Given the breadth, speed and complexity of sanctions measures being implemented, it is essential that firms are resourced to manage sanctions risks. This includes not only having enough people available to sift through the sheer volume of customer and transaction alerts generated by IT systems, but also individuals who have the relevant level of expertise to make higher-risk decisions and report to senior management.

Firms need to have access to specialist advisors and lawyers who have gone through the vendor management process, to help address issues that are not straightforward. They should also make sure that they are maintaining management information (MI) and regularly reporting statistics, risks and key decisions as required to senior management and boards.

Firms must additionally have in place adequate processes. This includes how to manage Russian sanctions alerts, test technology systems being used to mitigate against sanctions breaches, escalate issues, seek licences where there may be a humanitarian angle, and report identified assets that need to be frozen or potential breaches to the right national authority as well as the local financial intelligence unit.



Firms should identify the citizenship of their employees and make them aware of their sanctions obligations as nationals of particular countries. Although sanctions are supposed to be issued in a coordinated manner, they are issued under national law and tend to apply to entities incorporated or operating in the issuing jurisdiction, as well as residents and citizens of a particular country. Firms should also be fully aware of not only direct but also indirect Russian exposure, including customers and beneficial owners, products and services offered and industries, and have the ability to easily access contracts and terms of business.

**About the authors**

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