

Shearman & Sterling Snapshot

Financial Restructuring & Insolvency:

Russian Sanctions Overview



UKRAINE AND RUSSIA CONFLICT – RESTRUCTURING ISSUES

Sanctions and disruption from the Ukraine-Russia conflict will have significant implications for businesses with exposure to the region. The impacts will come from multiple directions, including:

- Impact on the sovereign and other entities (e.g., central bank, strategically important banks and other key entities/persons) and on sovereign debt. Further potential spill-over effects will likely arise (e.g., financial infrastructure), which may affect any Russian businesses or those lending, owning or trading with Russia or Belarus.
- Impact on those lending, owning, making/receiving payments to or from or trading with sanctioned entities in Russia.
- Impact on those lending, owning or trading with entities in Russia, Belarus or Ukraine and war disruption.

The cause and effect of current headwinds will affect a myriad of businesses with complex capital structures and their creditors.



KEY SANCTIONS TO DATE

- Asset freezes for multiple businesses and individuals (including some banks) – reduces cash available to operate businesses and repay debts.
- Removal from certain Russian banks of their ability to send inter-bank messages via the SWIFT system - affecting the ability of Russian banks and Russian businesses to access the international banking system, obtain currency and make and receive payments.
- A ban on certain SOE and key institutions including most Russian banks raising finance on EU, UK and US markets – a restriction on the ability to fund liquidity or refinance existing debt.
- Trade and export restrictions on high-tech industry and the export of equipment relating to extraction of oil and gas – a restriction on selling to/buying in key industries.

The US, EU and UK have responded quickly and multiple other jurisdictions are expected to take similar steps. The UK's measures were recently extended to overseas territories and therefore affect offshore jurisdictions such as British Virgin Islands and Cayman Islands. Many market participants will likely be familiar with the UK regime, given Russia has been subject to sanctions for a number of years.

These restrictions will impact the ability of investors to, among other things:

- Receive and recover coupons, interest or principal owed to them by sanctioned entities.
- Trade in securities issued by sanctioned entities.
- Participate in local restructurings of sanctioned entities.

Amendments, consents and waivers

Where a consent, waiver, adjustment or restructuring is required, the make-up of creditor or shareholder constituencies may affect the ability to effect consensual restructuring solutions pursuant to the documents or established implementation processes. Indeed, it may be difficult to achieve the required majorities for any decisions regulated by debt and/or investor documents, whether companies are in good health or subject to distress.

Supply disruption

Ukraine is an important supplier of commodities (grain, iron ore, steel). The conflict will adversely affect these industries from multiple fronts - workforce, land, supply, price volatility and logistics. To the extent the conflict situation continues for any significant period of time the disruption to supply chains will likely give rise to operational and/or financial problems in multiple businesses outside the region. On top of the adverse impact of business disruptions, currency movements may contribute to make foreign denominated debt burdens unsustainable.

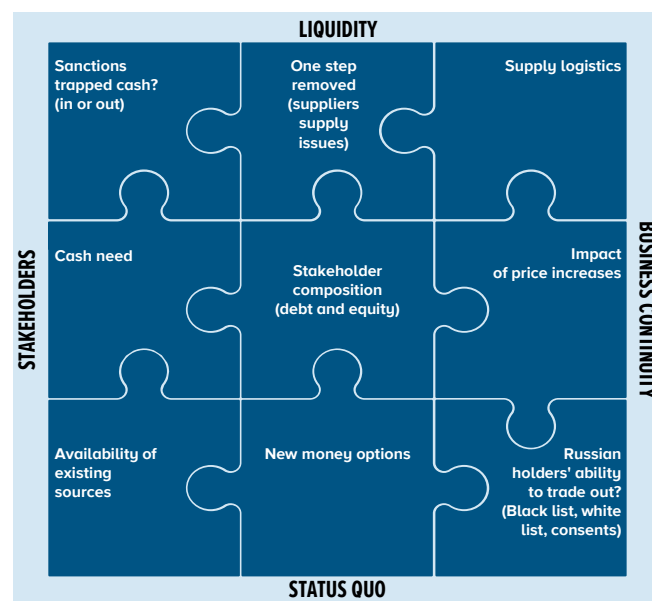
Oil & Gas – no sanctions (yet)

Russia has for many years been a key player in the energy sector, as one of the world's largest oil producers and the biggest exporter of gas. While sanctions have not, so far, restricted oil and gas activities, a number of major energy players have voluntarily announced an intention to withdraw from the jurisdiction. This will create questions around future sources of funding and the long-term exploitation of key energy assets.

Sanctions on Financial Institutions

Sanctions on Russian banks / financial institutions will likely cause significant disruption on businesses seeking to make payments to and from sanctioned entities or using bank accounts at entities that are subject to sanctions.

The situation is fast moving and the above is not intended to be exhaustive. It is imperative that investors take stock and understand their exposure to this conflict in light of recent sanctions.



Follow this [link](#) to visit our Sanctions microsite for up-to-date key documents and commentary on the implications of these developments.