

6 KEY TAKEAWAYS

2025 Mid-Year Review: Key Takeaways from U.S. Sanctions Enforcement Actions and Regulatory Updates

In the first half of 2025, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) published 4 enforcement actions regarding apparent sanctions violations and also made some key updates to its regulations. The following are notable takeaways from the enforcement actions and regulatory updates.

1

Venture capital firms and investment advisers should develop and maintain effective risk-based sanctions compliance controls; failure to comply with OFAC administrative subpoena will result in OFAC violations. In June, OFAC announced that a California-based early-stage venture capital (VC) firm had agreed to pay close to \$216 million to settle violations of its Ukraine-/Russia-related sanctions and for failing to comply with an OFAC subpoena. The VC firm began providing services to Suleiman Kerimov, a Russian oligarch, in 2016 prior to Kerimov's designation on OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List). Kerimov worked with the VC firm to invest \$20 million in a U.S. company through Prosperity Investment, L.P., an entity in which Kerimov maintained an interest. After learning that Kerimov had been sanctioned, the VC firm obtained a legal opinion regarding the applicability of U.S. sanctions to the VC firm's investments including the investment in the U.S. company. OFAC rejected the VC firm's reliance on the legal opinion. According to OFAC, the legal opinion incorrectly determined that Prosperity was not itself a blocked property. Additionally, although the legal opinion cautioned the VC firm that any investment activity could directly or indirectly involve the oligarch, the firm continued to manage the investments on behalf of Kerimov, including working through Kerimov's nephew (later designated on the SDN List on November 2022) to sell or distribute Prosperity's assets. OFAC also determined that the VC firm failed to fully and timely respond to OFAC's subpoena over a period of 28 months, resulting in 28 violations of OFAC's Reporting, Procedures and Penalties Regulations.

2

Limiting direct business relationships alone may not be enough to guard against sanctions and export controls risks; U.S.-based companies conducting business through foreign-based subsidiaries, distributors, and resellers should ensure that their controls are sufficient to identify and manage risks with those relationships. In January, OFAC announced that a California-based manufacturer of computer numerical control machines and related parts had agreed to pay over \$1 million to settle its civil liability for 21 apparent violations of its Ukraine-/Russia-related sanctions related to the defense and energy sectors of the Russian economy. The U.S. company marketed its products through a network of third-party authorized distributors (HFOs). Product end users generally placed orders or requested service through the HFO responsible for the region in which the end user is located. The HFO placed the order through a web-based portal, a purchase order is generated, the U.S. company processed the order and issued an invoice to the HFO. The U.S. company's machines also utilized financial unlock authorization codes for machines bought on installment plans. The HFOs could obtain the unlock code to use the machines from the web-based portal on behalf of their customers. From 2002 through March 2022, a Russian company served as the U.S. company's HFO in Russia and Belarus. Between August 19, 2019 and February 9, 2022 the U.S. company indirectly exported via the HFO one machine and 13 spare parts to or for the benefit of 6 entities on OFAC's SDN List or owned 50 percent or more by entities on the SDN List. Additionally, on seven occasions between December 13, 2019 and March 22, 2022, the HFO obtained from the U.S. company financial unlock codes for machines owned by five of the blocked entities. OFAC found that for 7 of the 8 blocked entity customers, the U.S. company failed to conduct sufficient due diligence regarding the blocked entities' ownership structure. For the remaining entity, the company failed to rescreen the designated customer against the SDN List for the relevant spare parts sale. Based on OFAC's findings, the U.S. company's distributor-based sales model contributed to the violations, as its Russian distributor facilitated the indirect export of U.S.-origin goods to the restricted entities. The U.S. company also agreed to pay the U.S. Department of Commerce's Bureau of Industry and Security (BIS) close to \$1.5 million to settle 41 export control violations related to the export of items subject to the Export Administration Regulations (EAR) to parties on the BIS Entity List in China and Russia. BIS determined that the U.S. company supplied its distributors with parts intended for the restricted customers without obtaining the requisite export licenses from BIS.

3

Even if employees understand the implications of sanctions on transactions, the absence of a strong, top-down culture of compliance puts your organization at significant risk. In June, OFAC announced that a Texas-based company that sells catalyst products used in petrochemical refinery and steel mill operations had agreed to pay over \$3.8 million to settle its potential civil liability relating to U.S. sanctions on Iran and Venezuela. The company sourced most of its catalyst products from manufacturers in China through a supplier who operated in the U.S. and China. Once an order was received by the company at its Texas office or through its majority-owned Dutch affiliate, the supplier would coordinate the purchase of catalyst from manufacturers in China. The company's former CEO, who was aware of US laws against trading with Iran, directed the company to enter into distribution agreements with a distributor operating in the UAE and Iran to sell company products in Iran. OFAC noted that the former CEO organized and directed sales to Iran and instructed others to facilitate the transactions. Additionally, representatives of the Dutch affiliate of the company, on behalf of the company, visited Iran to provide expert technical assistance on the exported items. Payment for the services was conducted in cash to conceal the conduct. OFAC determined that, at one point, the company's former board of directors and other senior management were aware of and discussed the prohibited business and yet failed to intervene to stop the sales or take corrective action. OFAC found that even after the board's discussion, sales to Iran continued, while employees continued to conceal their dealings with Iran even though they knew of the sanctions implications. OFAC also found that, like the company's dealings with Iran, the company worked with the China office to source catalyst products and arranged for shipment directly from China to a Venezuelan company subject to sanctions because it was owned by the Government of Venezuela. Separately, the company also settled with BIS for its violation of the EAR when it sold and arranged for the export of items subject to the EAR and designated EAR99 with knowledge that the items were intended for export to Iran without the requisite license. Part of the settlement included a suspended three-year denial of export privileges that will be reinstated if the company commits another export controls violations.

4

Egregious conduct and no credit for voluntary disclosure. In all four enforcement actions, OFAC noted that the apparent violations constituted an egregious case, which means that OFAC deemed the conduct to represent a "particularly serious violation of the law calling for a strong enforcement response." In one enforcement action, the company had voluntarily disclosed the violation, but OFAC determined that the report did not constitute a voluntary self-disclosure under the Enforcement Guidelines. OFAC had viewed the fact that BIS had initiated its investigation of the company before the company disclosed the matter to OFAC sufficient to establish prior government knowledge of matter, in which case no mitigation credit is given for the voluntary disclosure.

5

Termination of comprehensive Syria sanctions. On June 30, the President issued an Executive Order (EO) removing U.S. sanctions on Syria and revoking the Executive orders that previously placed comprehensive sanctions on Syria. The June 30 EO, however, ensures continued accountability for the Bashar al-Assad regime and continues sanctions against al-Assad, his associates, and other destabilizing regional actors. Concurrent with the issuance of the EO, OFAC removed 518 individuals and entities from the SDN List sanctioned under the Syria sanctions program. At the same time, OFAC designated 139 individuals and entities affiliated with the previous regime as well as other Iran and Counter Terrorism authorities. OFAC also issued a General License, which authorizes certain transactions previously prohibited under the Syria Sanctions Regulations. Any pending or future OFAC investigations or enforcement actions related to apparent violations of the Syrian Sanctions Regulations that occurred prior to July 1, 2025, may still be carried out. Syria remains subject to strict U.S. export control restrictions enforced by both BIS and the U.S. Department of State's Directorate of Defense Trade Controls and is designated as a proscribed destination under the International Traffic in Arms Regulations.

6

Adjustment of Maximum Civil Monetary Penalties (CMPs). On January 15, OFAC issued a final rule in the Federal Register that adjusted the CMPs that are assessed after January 12, 2024. This is an annual adjustment for inflation. The Adjusted CMPs apply to penalties for sanctions violations under five statutes. Most OFAC sanctions programs are implemented under the International Emergency Economic Powers Act (IEEPA). Penalties for violations of the IEEPA are the greater of \$377,700 (\$368,136 in 2024) or 2x the amount of the underlying transaction.