Title: The Russia (Sanctions) (EU Exit) (Amendment) (No.2) Regulations 2022 **IA No:** FCDO2202 **RPC Reference No:** **Lead department:** Foreign, Commonwealth & Development Office **Other departments or agencies:** HM Treasury	**Impact Assessment (IA)** **Date:** 28/02/2022 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** sanctions@fcdo.gov.uk
Summary: Intervention and Options	**RPC Opinion:** Awaiting scrutiny

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
-£64.3m	-£64.3m	£7.5m	Non Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

Russia's assault on Ukraine is an unprovoked, premeditated attack against a sovereign democratic state. Putin's actions are a clear violation of international law and the UN Charter and show flagrant disregard for its commitments under the 1975 Helsinki Act, the Minsk Protocols and 1994 Budapest Memorandum. Russia's current behaviour is not only threatening Ukraine's sovereignty, it is also destabilising the rules-based international conventions and challenging the values that underpin it.

HMG intervention is necessary to reconcile the disparity between the private costs and benefits found in trading the listed goods with Russia, and the wider societal costs. This will ensure UK businesses cannot directly or indirectly provide resource or funding to the Russian government, entities or individuals associated with destabilising activities in Ukraine. Given the nature of the issue, there is no appropriate non-governmental or private sector solution at hand.

What are the policy objectives of the action or intervention and the intended effects?

The purposes of the new financial sanctions are to encourage the Russian government to: (i) cease destabilising activities and withdraw their military deployment in Ukraine; and (ii) respect international law and the territorial integrity of sovereign nations, democratic principles and institutions. UK sanctions action, in concert with the US, EU and other allies, also sends a strong signal to the Russian government that failure to respect the territorial integrity of and sovereignty of Ukraine, and conform to the international rules-based conventions, incurs significant costs to both the government and any entities linked to this malign behaviour. More broadly, it also demonstrates the UK's willingness to stand-up for the international rules-based system and to take action against transgressors, sending a deterrent signal to others.

The financial sanctions will target key sources of finance to constrain the Russian government, key individuals and entities whose activities have supported the Kremlin in their destabilising activities. These measures are designed and intended to constrain the destabilising behaviour of the Russian government, through restricting the ability of the State and Russian entities from accessing London capital markets, thus raising the cost of financing and increasing the financial burden on the Russian state.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The government has considered two options:

Option 0: Do nothing. Rely on the existing sanctions to erode financial power of the Kremlin to constrain the Russian state's ability destabilise and invade sovereign nations, and to force them to change course. Continue to act through diplomatic channels and multilateral forums to signal to the Kremlin that such cations are unacceptable and represent serious breaches of international law. However, existing sanctions packages have been insufficient to coerce the Russian government to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine.

Option 1 [preferred option]: Implement new financial measures, including:

a. Securities and Money-Market Instruments – Prohibition on a person connected with Russia or those acting on their behalf or at their direction, as well as those owned by such persons or those acting on their behalf or at their direction from raising finance on UK capital markets or receiving of loans or credit arrangements from UK persons.
b. Sovereign Debt – Prohibition on the issuance of Russian sovereign debt in the UK, trading on the secondary market, as well as making loans or credit available to the Russian state. This will cut off the Russian state from UK capital markets, signalling the UK will not help finance their aggressive actions, whilst increasing the cost of such finance.
c. Correspondent banking and sterling payments– Giving HMG the legal power to prohibit a UK credit or financial institutions from opening or maintaining of correspondent bank accounts with a designated person or from processing a sterling payment to, from or via a designated person. Individual institutions will be identified by a designation process.

These sanctions will also signal to others in the international community that the UK will not tolerate any destabilising actions against the territorial integrity of another sovereign nation, and that international law must be respected. Failure to impose this sanctions package will also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Direct Costs to Business

The direct cost to UK business arises from foregone revenue from financial market activities that would have taken place in London. Our analysis suggests this could range from £5.3m to £9.6m per year, based on the level of Russian entities' activity in recent years.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** March 2025

Is this measure likely to impact on international trade and investment?		Yes		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** n/a	**Non-traded:** n/a	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: The Rt Hon Elizabeth Truss MP Date: 28/2/2022

Summary: Analysis & Evidence

Policy Option 1

Description: Take forward package of financial measures against Russia

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -82.5	**High:** -46.0	**Best Estimate:** -64.3

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.0	0	5.3	46.0
High	0.0		9.6	82.5
Best Estimate	0.0		7.5	64.3

Description and scale of key monetised costs by 'main affected groups'

We do not expect there to be any costs to wider society from any of the measures. The only quantified costs to UK businesses relate to prohibiting securities, loans and credit arrangements to designated Russian entities. These are the estimated foregone revenues from providing ancillary services that support debt and equity issuances by Russian entities on UK markets – estimated to be between \$7.14m and \$12.86m annually (£5.34m - £9.58m).

Other key non-monetised costs by 'main affected groups'

We do not expect there to be any costs to wider society from any of the measures. We also do not expect there to be many non-monetised costs to UK business. In terms of prohibiting issuing or trading sovereign debt, with no Russian sovereign debt being issued since 2013, and Russian debt making up a very small proportion of trading activity (0.03%), opportunity costs to UK entities will be low. The prohibition on correspondent banking relationships and sterling payments is an enabling provision; the provision in itself does not impose any costs. Marginal familiarisation and compliance costs are expected to be negligible.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0.0		0.0	0.0
High	0.0		0.0	0.0
Best Estimate	0.0		0.0	0.0

Description and scale of key monetised benefits by 'main affected groups'

We do not expect there to be many, if any, direct economic benefits to UK business or to wider society. Given the negligible benefits expected, we have not considered it proportionate to monetise benefits.

Other key non-monetised benefits by 'main affected groups'

The primary benefit to the UK will be the economic cost imposed on Russia, thereby exerting pressure on the regime to change its behaviour, constraining its ability to maintain occupation of Ukraine and signalling disapproval of its destabilising actions in respect of Ukraine. The overall impact on Russia will derive from the overall set of sanctions imposed by the international community, of which the UK is only one part (and this IA only covers a sub-set of UK action).

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5

Key risks/sensitivities: unintended consequences for UK-Russia bilateral trade if trade financing is disrupted; wider reaching impacts on holders of Russian assets if the London Stock Exchange adopts more measures than mandated; retaliatory measures by Russia, including an asymmetric response; unforeseen litigation costs to the UK from making designations.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 7.5	**Benefits:** 0.0	**Net:** 7.5	

Evidence Base

Policy background

1. The Sanctions and Anti-Money Laundering Act 2018 provides the domestic legal framework to enable the UK to implement UN, multilateral and autonomous sanctions regimes.

2. The Russia (Sanctions) (EU Exit) (Amendment) (No. 2) Regulations 2022 ('the Amendment Regulations') will amend the Russia (Sanctions) (EU Exit) Regulations 2019 ('the 2019 Regulations') to put in place new financial sanctions relating to Russia. The 2019 Regulation were put in place in response to Russia's illegal annexation of Crimea and the city of Sevastopol from Ukraine in 2014.

3. For several months, the UK and other international partners have attempted to deter further Russian aggression in Ukraine. However, Russia has now chosen the path of conflict. Russia's assault on Ukraine is an unprovoked, premeditated attack against a sovereign democratic state. Putin's actions are a clear violation of international law and the UN Charter and show flagrant disregard for its commitments under the Budapest Memorandum and the Minsk Agreements. Russia's current behaviour is not only threatening Ukraine's sovereignty, it is also destabilising the rules-based international conventions and challenging the values that underpin it. The government has always been clear there would be massive consequences and a severe cost for any Russian military incursion into Ukraine. The UK, in concert with our allies, has condemned the Russian government's actions and announced various sanctions against Russian individuals and entities in response.

4. Sanctions are an important national security and foreign policy tool. They can be used to:
    a. put coercive pressure on a country, regime or group to encourage them to cease particular behaviours;
    b. constrain their access to resources that enable them to engage in such behaviours; and
    c. to signal disapproval of a particular course of action.

5. The purposes of the new financial sanctions are to encourage the Russian government to:
    - Cease destabilising activities and withdraw their military deployment in Ukraine.
    - Respect international law and the territorial integrity of sovereign nations, democratic principles and institutions.

6. UK sanctions action, in concert with the US and other allies, also sends a strong signal to the Russian government that failure to respect the territorial integrity of and sovereignty of Ukraine, and conform to the international rules-based conventions, incurs significant costs to both the government and any entities linked to this malign behaviour. More broadly, it also demonstrates the UK's willingness to stand-up for the international rules-based system and to take action against transgressors, sending a deterrent signal to others.

Problem under consideration and rationale for intervention

7. Whilst some businesses might choose to reduce economic ties with Russian individual or entities in response to its invasion of Ukraine, this would happen in an uncoordinated and incomplete manner. More generally, the private benefit accruing to UK businesses from economic links with Russia does not factor in the wider societal costs to both the Ukrainian and Russian populations, and the cost to the rules-based international system. Without intervention, it is likely the majority of economic activity would continue – directly or indirectly – enabling the Russian government and entities to continue to benefit from access to goods,

services and finance. Therefore, HMG intervention, in the form of financial sanctions, is necessary to remedy this, and ensure a coordinated approach.

8. Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand. Failure to join the international community and impose sectoral sanctions would also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

9. The evidence compiled in this Impact Assessment draws on consultation with relevant government departments including HMT, BEIS, DIT, Defra and DCMS, as well as with the Bank of England.

10. Given the speed and constantly-changing nature of international developments, this policy has needed to be developed in a very short time period. It has been further complicated by the novel nature of some measures, which are without precedent – at least in terms of scale. In addition, the requirement to keep discussion of potential policy responses on a very tight leash (to avoid giving too many indications to Russia about how we might respond and thus allow them to take advance steps to mitigate the impact on its economy) has limited the extent to which HMG has been able to consult with external stakeholders.

11. This document provides the best assessment of the potential impacts of these policy measures being introduced given the time available. Due to the number of variables and uncertainties, it is primarily a qualitative assessment that draws on statistics and analyses of specific aspects, along with identification of risks.

Policy objective

12. The FCDO's overall objectives on democracy and human rights are to protect and promote human rights, democracy, good governance and the rule of law, including by assisting those who uphold or seek to promote these principles and using the UK's leverage against those who violate and abuse human rights or the rule of law.

13. UK government intervention, in the form of financial sanctions, will target key sources of finance to constrain the Russian government, key individuals and entities whose activities have supported the Kremlin in their destabilising activities. These measures are designed and intended to constrain the destabilising behaviour of the Russian government and are not designated to have a detrimental impact on the Russian population. We aim to limit the impact on the people of Russia, the UK and its partners to the greatest extent possible. We seek to align closely with partners to achieve maximum impact on the Russian government, and associated individuals and entities.

Description of options considered

14. The Government has considered two options:

    Option 0: Do nothing. Rely on the existing sanctions framework to constrain the Russian state and dissuade them from taking further destabilising actions in Ukraine. Continue to act through diplomatic channels and multilateral forums to signal to the Kremlin that such actions are unacceptable and breaches of international law. However, recent events have demonstrated that existing sanctions have been insufficient to coerce Russia to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine.

    Option 1 [Preferred option]: Extending and amending some of the financial measures in the 2019 Regulations will significantly strengthen the sanctions regime and will provide HMG with a range of new tools that support the purposes of encouraging Russia to cease destabilising activities and withdraw their military deployment in Ukraine. It will signal that Russia's assault on Ukraine is unacceptable and a breach of international law.

15. Targeting the financial sector will constrain the number of revenue flows to the Government of Russia and will ensure UK businesses are not able to provide funding that benefits the regime, constraining the regime's activities. These new financial sanctions measures, as part of a wider overall package, demonstrate the high cost to the Kremlin of Russia's aggressive actions towards Ukraine. These sanctions will also signal to others in the international community that the UK will not tolerate any destabilising actions against the territorial integrity of another sovereign nation, and that international law must be respected. Failure to impose this sanctions package will also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Summary of preferred option with description of implementation plan

16. The measures will include the following:
    a. <u>Securities and Money-Market Instruments</u> – Extension of existing prohibition on securities, loans and credit arrangements to all Russian entities. These are entities who are of economic and strategic significance to the Russia government, and the measure will prevent entities from raising finance on UK capital markets or receiving of loans or credit arrangements from UK persons.
    b. <u>Sovereign Debt</u> – Prohibition on the issuance and trading of Russian sovereign debt in the UK, as well as making loans or credit available to the Russian state. This will cut off the Russian state from UK capital markets, signalling the UK will not help finance their aggressive actions, whilst increasing the cost of such finance.
    c. <u>Correspondent banking and sterling payments</u> – Giving HMG the legal power to prohibit UK credit or financial institutions from establishing or continuing a correspondent banking relationship and from processing sterling payments, to, from or via a designated person or a credit or financial institution owned or controlled by them.

17. This will be implemented through secondary legislation and form part of a wider package of sanctions measures against Russia, which will be implemented through a combination of existing legislation (designating individuals and entities under the 2019 Regulations) and new secondary legislation. Separate IAs will be produced for these SIs, as appropriate.

Enforcement

18. It will be a criminal offence to contravene the new financial sanctions, as well as to enable or facilitate a contravention of, or to circumvent them. This is in line with what is currently provided in relation to the existing measures.

19. Breaches of sanctions are a serious criminal offence. A breach of the new financial sanctions will be an offence that is triable either way and carries a maximum sentence on indictment of 7 years' imprisonment or a fine (or both). The Office of Financial Sanctions Implementation (OFSI) is responsible for monitoring compliance with financial sanctions and for assessing suspected breaches. It also has the power to impose monetary penalties for breaches of financial sanctions and to refer cases to law enforcement agencies for investigation and potential prosecution. OFSI works with other parts of government, supervisory bodies and regulators to consider all cases reported to it, sharing relevant information accordingly.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

20. Option 0 is a 'do nothing' option, so the marginal costs and benefits would be zero. For the preferred option (option 1), the costs of each component of the package are analysed below. The benefits of this option (i.e. the cost to Russia) are then considered in the round later in this document.

Familiarisation & training costs

21. The new measures will be implemented through established channels, with which businesses are already familiar. Designated individuals and entities will be listed on the UK Sanctions List. UK businesses are already required to check against this list, so the processes for complying with these new measures should not change. There is also precedent for the sovereign debt and SMMI measures similar to those in the Regulations in the Belarus, Syria and DPRK sanctions regimes, with which UK businesses are already required to comply. All UK sanctions, including these regulations, are accompanied by guidance, aimed at reducing the familiarisation costs to UK businesses.

22. Compliance screening software is available for prices ranging from ≈£1,000/year to upward of £20,000/year and beyond, depending on the required volume of annual checks.[1] The number of checks required by a business varies with the number of customers that business has. Most software is used to screen for anti-money laundering, adverse press and anti-bribery (among others), as well as for sanctions compliance. Furthermore, most software will screen for compliance to UN, US and EU sanctions (among others), at the same time as for UK sanctions. Subscriptions are paid for on a per-user basis. Give this cost structure, once a certain grade screening software is purchased, the software cost does not vary with the number of persons listed under a UK sanctions regime. Therefore, while there may be significant fixed software costs associated with sanctions compliance, businesses are likely to have already incurred these in order to comply with existing global sanctions regimes. Therefore, the marginal compliance costs from the Regulations are expected to be negligible.

23. Compliance costs may increase if there is significant divergence from US and EU sanctions, though some businesses have indicated they set compliance thresholds to match the most

[1] Based on prices from a representative supplier available online (AEB).

stringent sanctions (for simplicity and to reduce risk). Given the package of measures is being developed in conjunction with the US and EU, this means the risk of additional compliance costs arising from these measures in this IA is small.

24. Firms already require their staff to undergo training – regardless of the existence of this new regime – in order to ensure compliance to new designations under existing regimes, or new regimes by other nations. Therefore, there is unlikely to be significant additional training required (on top of existing training), due to these regulations, so the cost is expected to be negligible.

Costs of non-compliance

25. The Office of Financial Sanctions Implementation (OFSI) can impose penalties for serious financial sanctions breaches of up to £1m or 50% of the breach, whichever is higher. OFSI sets the fine in line with what it views as reasonable and proportionate, based on OFSI's view of the seriousness of the case. In recent years, the value of fines issued by OFSI has varied considerably in accordance with the volume and severity of non-compliance – £160,000 in 2019, over £20m in 2020 and £86,000 in 2021. However, penalties by their very nature would only be incurred when businesses breach the Regulations – this will be influenced by numerous factors including, but not limited to, the number of breadth of measures, the strength of a UK entity's economic ties with Russia and the effectiveness of their internal compliance system. Therefore, this cannot be quantified in this Impact Assessment.

Securities and Money-Market Instruments

26. This measure extends the existing prohibition on securities, loans and credit arrangements to all Russian entities. These are entities who are of economic and strategic significance to the Russia government and the measure will prevent entities from raising finance on UK capital markets or receiving loans or credit arrangements from UK persons.

Cost to UK financial markets

27. The listings of Russian entities on UK markets has fallen significantly since 2014, with $8bn raised in equity and debt issuances by Russian entities over 2015-21.[2] Working on the assumption that listings were evenly spread over this period, this would mean that Russian entities were raising $1.14bn each year through listings on UK markets. However, this figure represents the total value to Russian institutions, not the cost to UK businesses.

28. For equity issuances, there will be foregone revenues in ancillary services that support such listings. Of the $8bn referenced above, around $2bn of this was for equity issuances according to the Bank of England. Internal BoE analysis indicates that for a typical initial public offering (equity issuance), companies that facilitate the listing would expect to receive around 2.5-4.5% of the proceeds in fees. This includes 0.5-1.5% of accounting and auditing fees, and 1-2% of legal expenses. Therefore, the value to UK entities of the $2bn equity issuances was between $50m and $90m in ancillary fees. Again, assuming the issuances were spread evenly across the period, this would equate to between $7.14m and $12.86m per year.

[2] According to Dealogic, cited in the Financial Times

29. For debt issuances, there will be foregone revenues from listing fees, although these are substantially smaller given the maximum listing fee is £5,500[3]. Given there have been 40 debt issuances since 2014[4], this would correspond to lost fees of £220,000 over this period, or £31,400 per year (assuming an even spread of issuances).

30. Therefore, if in the counterfactual scenario Russian entities would have continued to list in London at the same rate into the future, the cost to UK businesses would be between £5.34m and £9.59m per year in foregone revenues[5]. These measures will be in place for as long as is necessary. At this time, it is unknown how long this will be and therefore for how many years these costs will be incurred. For the purposes of producing the estimates contained in this impact assessment, we assume ten years as this is the default appraisal period.

Cost to UK investors

31. The Bank of England estimates that total investment banking and trading annual revenues associated with Russia are around $250-300m for the largest investment banks in the UK. Whilst this does not capture all UK investments in Russian entities, it provides some indication of the scale of the market and its associated revenues.

32. However, there is no reason why this measure should have a notable negative impact on UK investors, following a similar rationale taken for sovereign debt. There is no expectation that UK persons who would have otherwise been investing in Russian entities would no longer invest their money; they would instead invest in similar securities. It is not possible to say whether these would perform better or worse than their existing portfolios. It is conceivable that certain firms which specialise in trading in Russian markets may be disproportionately affected, but we do not have any data that indicates which firms might be in this position and the extent of the risk.

Loans and credit arrangements

33. It is not possible to quantify or assess the cost to UK businesses as a result of the loans and credit arrangements restrictions in the Regulations as there is no comprehensive oversight of this data.

Sovereign debt

34. As this measure is forward looking, UK holders of existing Russian securities will still be permitted to trade them and will not be forced to exit their positions. The price of such securities is however likely to fall upon announcement and demand is likely to be reduced, therefore some holders are likely to experience some financial cost from the measure.

35. In terms of future activity, we assess the impacts to UK businesses will be manageable for the reasons below. Analysis will focus on financial activity, including loans and credit arrangements, that takes place in the UK, given it is not possible to have clear oversight of UK persons investments in other locations outside of the UK.

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[3] Figure provided by the Bank of England

[4] *Ibid.*

[5] Calculated using average USD:GBP exchange rate for each individual year over 2015-21 and then summed. Exchange rates from macrotrends.

Primary market

36. No Russian sovereign debt has been issued on the primary market since 2013 and – given the nature of the current bilateral relationship and increased Russian reliance on its own reserves – we do not expect any new debt would be issued in the UK in the foreseeable future. Therefore, there should be no opportunity cost to UK business in relation to the provision of services to support debt issuances.

Secondary market

37. There are around 250 transactions on the UK secondary market every day involving Russian sovereign debt. Given there are around 900,000 transactions per day, this means that Russian sovereign debt forms less than 0.03% of trading on the secondary market, and exposure is thus relatively low. Whilst we do not have any oversight of trading data overseas, given London's role as a major financial centre for trading of Russian debt, we could expect trading volumes in other jurisdictions would be similarly low.

38. The inability to purchase future issuances of Russian debt is unlikely to have a significant negative impact on UK entities. There is no expectation that entities who would have otherwise been investing in Russian sovereign debt would no longer invest their money; they would instead invest in similar securities and bonds. It is not possible to say whether these would perform better or worse than their existing portfolios. It is conceivable that certain firms which specialise in trading in Russian markets may be disproportionately affected, but we do not have any data that indicates which firms might be in this position and the extent of the risk.

39. Some costs may be borne by ancillary services who would otherwise be in receipt of service fees for trading facilitation and support functions. While this action will be taken in concert with the US and EU, some of this activity may be lost to other trading hubs.

Correspondent banking and sterling payments

40. The prohibition on correspondent banking relationships and sterling payments is an enabling provision, which gives power to the Secretary of State to designate persons who are of economic or strategic importance to the Russian state, in line with the new (10 February 2022) designation criteria set out in S.I. 2022/123. However, the provision in itself does not impose any costs. Costs may arise when a person is designated – this will be considered as part of the designation process.

Benefits to UK

41. The benefit of these measures is the economic cost they impose on Russia, through which they will exert pressure on the regime.

42. Given the small amount of Russia debt issued in London and the strength of Russia's public finances (which negates the near-term need for debt issuance), the direct cost to Russia arising from measures in this IA relate to the SMMI measure. Since 2010, Russian institutions have raised $34bn (equity and debt) in London since 2010[6] – though, as above, this pace has slowed substantially since 2014. Russian companies with a combined value of $515bn are still listed in London. Together, this shows the continued importance of London

[6] According to Dealogic, cited in the Financial Times

as a financial centre. The measures covered by this IA will prevent Russian firms from accessing this market going forwards; the reduced number of markets available to Russian firms (especially when this measure is combined with similar action by some international partners) will make it more difficult for Russian firms to raise finance and/or increasing the cost.

43. However, the overall impact on Russia derives from the overall set of sanctions imposed by the international community, of which the UK is only one part (and this IA only covers a sub-set of UK action).

Risks

44. Due to the expansive nature of the package of sanctions being developed, there remain inherent risks given the potential for indirect and unintended consequences. However, the majority of these fall beyond the scope of the specific measures within scope of this Impact Assessment. For the measures covered by this IA, we identify the following as the main risks:

- The ban on trading of sovereign debt has a greater negative impact on UK traders or certain companies than we currently assess. However, measures being taken by the UK and international community beyond this SI – e.g. designation of financial institutions under existing legislation, cutting Russian institutions off from SWIFT – reduce this specific risk as they preclude a much wider range of financial transactions with Russia and would themselves deter trading in Russian sovereign debt.

- The Securities and Money Market Instrument measure may have unintended consequences for UK-Russia bilateral trade, as some trade relies on financing arrangements. Risks in this space are detailed in the wider impacts section.

- There is a risk that these measures will lead to additional variation in asset prices for those market participants which already hold Russian securities – though as the measure is forward-looking (i.e. trading of existing securities is still allowed on the secondary market), participants would be able to exit the market in an orderly fashion. However, if the London Stock Exchange chooses to take additional steps beyond those mandated by these measures (e.g. suspension of certain listings, as has been the case with VTB Capital), this may have a more wide-reaching impact on asset prices, and associated knock-on effects, and/or prevent current holders of Russian securities from being able to exit the market.

45. There are also some general risks associated with the introduction of sanctions measures against Russia:

- **Retaliatory measures.** The UK could incur costs from Russian retaliation to sanctions. In recent days Russia has responded in a tit-for-tat manner to each European nation that has closed its airspace to Russian airlines, demonstrated its willingness to engage in such as bilateral measures. It is likely retaliatory risks exist across other types of sanctions, and the complex nature of trading relationships mean it is possible that the Russian government would choose to respond in an asymmetric manner. These costs are unquantifiable at this stage as they depend on the actions Russia chooses to take.

- **Litigation measures.** The UK could incur costs from litigation through the UK seeking to designate persons. These costs are unquantifiable as they depend on how sanctions are interpreted by third parties, foreign policy and unpredictable future events.

Impact on small and micro businesses

46. The Regulations apply to all UK persons wherever they are in the world. UK persons include British nationals, as well as bodies incorporated or constituted under the law of any part of the UK.

47. Although small firms are, in general, disproportionately impacted by regulatory burdens, they are already obliged to have processes in place to ensure compliance with existing sanctions regimes under the Sanctions Act. As stated above, there will be no change to the way UK business, charities and voluntary bodies are notified of those individuals and entities that are sanctioned and we believe no changes to IT systems or administrative processes will be required. However, it is possible small businesses could face proportionately slightly higher familiarisation, compliance and legal costs due to these Regulations due to their extensive nature. However, it would be inappropriate to exempt small businesses from the Regulations as this would undermine the policy objectives and reduce the pressure such measures will exert on Russia.

Wider impacts

48. The impact of these measures should be considered in the context of a bilateral trading relationship worth around £16bn per year[7] and accounting for ~109,000 jobs[8]. The measures covered in this IA will reduce economic activity between the UK and Russia. In the majority of cases, Russia is a relatively small market for the majority of UK sectors or markets are sufficiently large that alternative suppliers/buyers can be found elsewhere. Sectors where the impact might be larger include financial services, energy and real estate. Russia is the UK's 15th largest export market for financial services, insurance and pensions, whilst more than 75% of inward investment from Russia over 2003-21 came from real estate, energy and financial services.[9] Russia is also a major exporter of oil, gas and non-ferrous metal, as well as wheat and fertiliser, and disruption of this trade would have implications for global energy and agricultural prices. Major categories of UK imports from Russia include oil and non-ferrous metals. In addition, the cumulative effect of further sanctions will raise the perceived risk of the Russian market to UK businesses, and market access issues that UK firms already experience in Russia will highly likely be exacerbated.

49. The measures could affect the UK's reputation as a place to do business. There may be a reputational cost to the UK resulting from higher risk and perceived compliance burden of doing business in the UK – particularly if there is over-compliance. These effects will likely last longer than the sanctions themselves. However, the cost will be offset by enhancing the UK's reputation as a 'clean' place to do business. Businesses' reputational risk will be

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[7] DIT Trade and Investment Factsheet, Feb 2022.

[8] DIT analysis of OECD TiVA data.

[9] DIT UK-Russia FDI Analysis, Investment Promotion and Policy Analysis (IPPA), January 2022.

reduced by divesting from relationships with individuals and entities associated with serious corruption.

50. Crown Dependencies and Overseas Territories (CDOTs) may be reluctant to buy in to the new financial sanctions measures over concern it will deter actors from investing in their financial centres for fear of non-compliance with the regulations. These territories rely heavily on the investment from outside investors to their financial centres to support their economies. All CDOTs with significant financial centres have committed to creating public registers of the beneficial owners of the companies.

51. There has been no direct public cost in developing the Amendment Regulations as no new permanent employment positions have been created. Resource has been identified through reprioritisation from other work. However, it is possible that the implementation of this legislation could in future require an increase in personnel at the Office for Financial Sanctions Implementation (OFSI) to ensure compliance with these regulations, but this is beyond the scope of this impact assessment.

52. Promoting global peace, security and economic development – as the UK is doing via these measures – also brings longer-term economic benefits. Conflicts lead to less prosperous societies by diminishing investment, weakening institutions and undermining the rule of law. Discouraging such conduct will help facilitate conditions conducive for global peace, security and economic development. The UK will benefit from a more secure, prosperous world and a decrease in destabilising activities, which represent a net drain on GDP.

Monitoring and Evaluation

53. The Sanctions and Anti-Money Laundering Act 2018 (the "Sanctions Act") will require regular reviews of the proposed sanctions measures. Under section 30 of the Sanctions Act, the Secretary of State must consider annually whether or not regulations under section 1 of the Sanctions Act are still appropriate for its stated purpose and lay a report before Parliament, confirming either that is the case or explaining what action he has taken or proposes to take in consequence of that review. Section 30 applies to the existing Russia (EU Exit) (Sanctions) Regulations 2019, and will apply to them as amended by legislation implementing the proposed measures. The new measures will therefore be reviewed annually as part of a wider review of the whole Russia sanctions regime.

54. The FCDO's Eastern Europe and Central Asia Directorate will keep under review the political situation in Russia and recommend revisions to UK sanctions measures on Russia as required. Such assessment will include the continued collection of open source and classified information. To monitor the impacts to business, the department could draw upon licencing statistics from OFSI to assess activity that has been most impacted. The policy intention is keep sanctions in place until the UK Government is assured that Russia has ended its occupation of Ukraine, withdrawn its troops from Ukrainian soil, ended its support for the separatists, and enabled the restoration of security along the Ukraine-Russia border. The FCDO will continue to coordinate with international partners, including on the future of the regime.