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SVA Briefing – Russian Sanctions – Urgent Action Required

The invasion of Ukraine has irrevocably changed the international environment. The imposition of sanctions on Russia now poses an array of political, reputational, and national security challenges to senior corporate management, partners and boards of directors across the Asia-Pacific region.

Those organisations that had welcomed Russian funds must now realistically appraise the risks in having done so; and all businesses should re-examine and, if need be, radically overhaul systems, to take account of their capability to cope with a looming “economic war” between great powers.

Any failure to respond to these challenges will leave an organisation vulnerable to threats large enough to sink a business, and to legal penalties against directors and management.

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The Russian sanctions

The US, UK, European Union, Japan and many western governments have imposed a range of sanctions in response to the Russian invasion of Ukraine on 24 February 2022 – all aimed at hobbling the Russian economy.

The initial wave of measures was limited, targeting financial institutions and associates of Russian President Vladimir Putin; but the scale is quickly growing, as the military campaign moves forward – more recent steps have targeted the Russian Central Bank, a serious escalation that will be viewed by Russia as a declaration of economic war.

Looking forward, many states may seek to exclude Russian businesses altogether from international payment systems, particularly as civilian deaths rise. Exclusion from the SWIFT payment system would increase the jarring dislocation of these measures, if fully implemented. The emergence of “economic war” between the major powers now seems hard to avoid.

This shift poses a host of reputational, political, legal and national security challenges, with which organisations must wrestle. The upshot is a rise in new, and unpredictable, risks to business, including in the Asia-Pacific region.

The new scenario

Russian money has flooded into Asia in recent years, especially into wealth management centres such as Singapore, and into rapidly growing economies with ties to the former Soviet Union, such as Vietnam. Financiers had hitherto dealt in those funds with relative ease, and cursory diligence.

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Now, though, companies may find themselves deeply exposed to action by the US and its allies. After all, the risk of identifying a sanctioned individual or entity on the books is real, not least as some financiers have limited familiarity with the former Soviet Union, and because much Russian money arrived hidden behind several layers of offshore companies, or disguised by proxy ownership.

The immediate task, then, is for boards, partners and senior management to re-examine existing clients and partners, so as to determine whether long term associates now pose acute threats. Such reviews should be thorough, and should take account of mechanisms that disguise ownership. This task is important; should enforcement agencies identify evidence of any “wilful blindness”, the punishment will be harsh. SVA is well placed and experienced in such matters and can advise organisations or provide “hands-on”, independent reviews as necessary.

Businesses must also ensure that the reappraisal process is, at the least, in the hands of the general counsel, or of another senior and “neutral” party, rather than a local team disinclined to take responsibility – or, worse, desirous to maintain the relationship for the wrong reasons. Most importantly, management must act quickly on any red flags identified.

Finally, careful consideration should be given as to how best to sever relationships. Such actions should be carried out with sensitivity, and with the appropriate defensive measures. Otherwise, the threat (for larger accounts) is of an angry response, perhaps to include a state sponsored cyber-attack on behalf of a disgruntled state-owned enterprise, or, in extreme circumstances, even violence against personnel.



SVA can design and implement requisite security plans, and assist boards in drawing up a strategic framework that constrains exposure to the risks posed by these political sensitivities.

Take immediate steps to protect your organisation

Looking ahead, businesses will also need to re-examine, and in some cases overhaul, their compliance regimes as a whole.

The current “list-based” compliance systems, currently run by relatively junior employees in most companies, is a product of less perilous times, constructed to tackle small groups of terrorists, drug dealers or smugglers of weapons technology, in the “war against terrorism”.

Now, though, companies must deal with much larger-scale scale efforts to oust a major economy from the international financial system; and some enterprises’ existing compliance mechanisms could easily buckle under the pressure. Moreover, staff with responsibility for compliance may also be insufficiently experienced to take the appropriate decisions.

In this context, companies will need to bolster resources dedicated to investigative due diligence and compliance type mechanisms, train teams to recognise the new threats, and root out any inclination simply to run names against a general list. Companies should put in place clear, and, if necessary, expedited, measures to escalate potential threats to senior management. Most importantly, boards and senior executives must heed and act on such concerns.

Complacency is, quite simply, not an option. The intensity of feeling about the invasion may mean that US and other allied supervisory organs will choose to target Russian funds in an especially aggressive way.

Some agencies may even mete out exemplary punishment to companies, law firms and others, and seek to inflict public shame on “facilitators”. Such actions could threaten the integrity of a business.

SVA Recommend the following Steps:

Companies must recognise that the invasion of Ukraine has changed the geopolitical framework irrevocably, posing major new threats to business – no matter how far away.

The most immediate manifestation of this change is in the sanctions imposed on Russian entities – but businesses must assume that new, and unpredictable, threats will emerge, as the *de facto* “economic war” between major states takes shape.

Companies should respond nimbly to this growing threat, by taking key steps such as:

- **Re-examining existing clients and partnerships.** The shift in circumstances means that decisions taken in recent years, while beneficial at the time, may now represent a major liability. Moreover, the structure of dealings may mean that debt liability is not immediately apparent. A thoroughgoing assessment of clients is essential in this context. Using an independent agency, like SVA, can provide a significant level of comfort, and reassure external bodies that the organisation is taking matters seriously.

- **Strengthening customer diligence mechanisms.** A reliance on checks of basic databases or documents – “ticking the box” – will not suffice. Better to undertake thoroughgoing investigations, which make use of live source reporting, so as to ensure a full understanding and to expose potential dangers. SVA can help here. Companies must act decisively on the discovery of red flags.
- **Broadening the remit of due diligence.** Assessments should cover not just legal and accounting matters, but also risks linked to management, customers, suppliers, and other counterparties, as well as political liabilities. Hiding behind advice from a London based law-firm will not suffice.
- **Being mindful of disguised ownerships.** The use of proxies, front companies, or trusts to disguise ownership is widespread across Asia, and in Russian funds. Compliance departments may have previously been allowed to take documents at face value; they can no longer afford to do so – not least as the Russian authorities have sought of late to hinder the delivery of information. SVA has much experience of investigating many such cases, and can provide guidance to concerned organisations as these problems arise.
- **Ensuring teams can cover multiple languages and/or jurisdictions, and understand the cultural milieu.** Reliance on translated information provided by an interested party or local team, let alone Google translate, is a gamble, particularly when local teams have a stake in the business continuing, and may be sympathetic to Russian interests.
- **Increasing the “clout” of compliance representatives at board level.** Boards need to institute much closer oversight of the compliance process, and deal more directly and rapidly with relevant concerns, or risk failing to adapt to the new environment. A relevant senior representative, such as general counsel, should



act as the “advocate” for compliance at board level. The general counsel should be assisted by experienced advisors, such as SVA.

- **Dedicating appropriate resource to compliance teams.** An increase in resource (both internal and external) is important, so as to ensure that teams are properly trained, well-integrated, and taken seriously across the business. Teams must understand how best to escalate concerns, and should not face pushback when they do so.
- **Real time monitoring of developments in relation to sanctions.** Firms should guard against unpleasant surprises, by gathering information, and seek to pre-empt action, perhaps by “fading out” risky relationships in good time. As such, they must ensure they have a full understanding of the changing situation. Intelligence gathering is a skill which is better out-sourced to professionals, such as SVA.
- **Drawing up, implementing, and maintaining a damage limitation strategy.** Such a plan should seek to limit reputational or legal consequences of any enforcement action, and should be in place ahead of time. Companies should also be mindful that spurned partners could take action in the event of the severance of relationships, and prepare accordingly. Measures should include public relations, cyber security, and staff safety components.

SVA (www.stevevickersassociates.com) is a specialist international risk mitigation, corporate intelligence and risk consulting company. The firm serves financial institutions, private equity funds, corporations, high net-worth individuals and insurance companies and underwriters around the world.



SVA is in an extremely strong position to assist with assessment of relevant risks in this testing environment. We can provide detailed appraisals and investigations on an individual basis, aimed at dealing with potential risks or on a systemised basis. Moreover, we can assist with stress testing exercises and measures aimed at strengthening internal mechanisms.

SVA also has a dedicated crisis management team which, for our retained clients, stands ready to assist companies during crisis situations.

Retained clients pay an annual fee for a 24-hour response capability.

SVA is based in Hong Kong and Singapore, with operations all over Asia, and is the only firm with the local and senior expertise drawn from Intelligence, Operations and research functions of the former Royal Hong Kong Police Force. SVA has deep experience in international asset searching.

About Us

Steve Vickers and Associates (SVA) is a specialist risk mitigation and security consulting company. The company serves corporations, high net-worth individuals and insurance companies around the world. SVA assists clients both in mitigating risk and when necessary to respond swiftly and effectively to incidents and crisis situations.

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24-HOUR CRISIS RESPONSE HOTLINE

(+852) 9196 2350

Steve Vickers & Associates

Unit 1501, BEA Harbour View
Centre, No. 56 Gloucester Road,
Wanchai, Hong Kong

Phone: **(+852) 2528 1230**

Fax: **(+852) 2528 1231**

mail@stevevickersassociates.com