

THE RUSSIA (SANCTIONS) (EU EXIT) (AMENDMENT) (No. 5) REGULATIONS 2022
REPORT UNDER SECTION 46 OF THE SANCTIONS AND ANTI-MONEY
LAUNDERING ACT 2018

1. This is a report under section 46 of the Sanctions and Anti-Money Laundering Act 2018 ("the Act") in relation to the Russia (Sanctions) (EU Exit) (Amendment) (No. 5) Regulations 2022. When new regulations are made under section 45 of the Act to amend sanctions regulations that have already been made under section 1 of the Act, and the regulations being amended state a purpose other than compliance with a UN or other international obligation (i.e. discretionary purposes in section 1(2) of the Act), the Minister making the new regulations must lay before Parliament a report under section 46(2) of the Act which explains why the Minister is of the opinion mentioned in section 45(2)(b) of the Act, namely that:
 - The Minister considers that carrying out the purpose(s) of the regulations being amended would meet one or more of the conditions in paragraphs (a) to (i) of section 1(2) of the Act;
 - The Minister considers that there are good reasons to pursue that purpose; and
 - The Minister considers that the imposition of sanctions is a reasonable course of action for that purpose.
2. The Russia (Sanctions) (EU Exit) (Amendment) (No. 5) Regulations 2022 (the "Amendment Regulations") are made under the Act to amend the Russia (Sanctions) (EU Exit) Regulations 2019 ("the 2019 Regulations"). The Amendment Regulations add new financial sanctions to Part 3 (Finance) of the 2019 Regulations.
3. Following its illegal annexation of Crimea in 2014 Russia has continued to pursue a pattern of aggressive action towards Ukraine. This has included use of military force to invade Ukraine, announced by President Putin on 24 February 2022 as a "special military operation", and the recognition of the 'Donetsk People's Republic' and 'Luhansk People's Republic' as independent states, and the deployment of Russian military to those regions.
4. The UK has called on Russia to cease its military activity, withdraw its forces from Ukraine and Crimea fulfill its international commitments including under the 1975 Helsinki Act, the Minsk Protocols and 1994 Budapest memorandum. The UK continues to reiterate its support for Ukraine and in addition to withdrawing its troops from Ukrainian soil, has called on Russia to end its support for the separatists, and enable the restoration of security along the Ukraine-Russia border under effective and credible international monitoring.
5. UK policy is focussed on ending the crisis in Ukraine and on assisting Ukraine to secure its borders against Russia's aggressive actions, ensuring a stable, prosperous and democratic future for all its citizens, and has been unwavering in its support for the country's territorial integrity and sovereignty.

6. These sanctions are part of a broader policy of measures which includes: diplomatic pressure; trade sanctions; economic and financial sanctions and designations. Change will therefore be sought through diplomatic pressure, and other measures, supported by implementing sanctions in respect of actions undermining the territorial integrity, sovereignty and independence of Ukraine.
7. The UK recently introduced secondary legislation, through the Russia (Sanctions) (EU Exit) (Amendment) Regulations 2022 (S.I.2022/123), to amend the existing criteria for the designation of persons. This has enabled the UK to designate individuals that are or have been involved in obtaining a benefit from or supporting the Government of Russia. The UK continues to work closely with international partners to ensure that coordinated sanctions remain in place as long as these actions continue. The UK has also introduced secondary legislation to impose further financial sanctions and trade measures, through the Russia (Sanctions) (EU Exit) (Amendment) (No.2) Regulations 2022 (S.I. 2022/194) and the Russia (Sanctions) (EU Exit) (Amendment) (No.3) Regulations 2022 (S.I. 2022/195).
8. Paragraph (1) of Regulation 18A states that a person must not provide financial services to persons mentioned in paragraph (2) where—
 - (a) the financial services are for the purpose of foreign exchange reserve and asset management; and
 - (b) persons know, or has reasonable cause to suspect, that the financial services are provided to a person mentioned in paragraph (2).

(2) The persons mentioned in paragraph (1) are—

 - (a) the Central Bank of the Russian Federation,
 - (b) the National Wealth Fund of the Russian Federation,
 - (c) the Ministry of Finance of the Russian Federation,
 - (d) a person owned and controlled directly or indirectly (within the meaning of regulation 7) by a person mentioned in sub-paragraph (a) to (c), or
 - (e) a person acting on behalf of or at the direction of a person mentioned in sub-paragraph (a) to (c).
9. “Foreign exchange reserve and asset management” means activities relating to reserves or assets of the persons mentioned in paragraph (2) of regulation 18A in respect of financial activities, including the following—
 - (a) money market instruments (including cheques, bills and certificates of deposit),
 - (b) foreign exchange,
 - (c) derivative products (including futures and options),
 - (d) exchange rate and interest rate instruments (including products such as swaps and forward rate agreements),
 - (e) transferable securities,

- (f) other negotiable instruments and financial assets (including bullion), or
 - (g) special drawing rights.
10. This instrument also makes amendments to the 2019 Regulations to provide for licensing and enforcement, including the creation of criminal offences.
 11. This instrument also makes amendments to the 2019 Regulations to provide for licensing and enforcement, including the creation of criminal offences.
 12. Section 2(4) of the Act requires a report to be laid before Parliament explaining why the appropriate Minister making Regulations under section 1 of the Act considers that carrying out each of the discretionary purposes of the Regulations would meet one or more of the conditions in paragraph (a) to (i) of section 1(2) of the Act, why the Minister considers that there are good reasons to pursue that purpose, and why the Minister considers that the imposition of sanctions is a reasonable course of action for that purpose. A report under s.2(4) and the other documents that accompanied the 2019 Regulations were laid before Parliament on 11 April 2019.
 13. An annual review under section 30 of the Act, examining whether the Russia (Sanctions) (EU Exit) Regulations 2019 were still appropriate for the purposes stated in them, was completed on 11 November 2021. It concluded that during the review period that Russia has continued to take actions which threaten and destabilise Ukraine.
 14. A summary of the conclusions relating to the discretionary purposes of the section 2 report and the annual review is below, together with an assessment of the current situation for the purposes of this section 46 report.

The Russia (Sanctions) (EU Exit) Regulations 2019

15. **Section 2 report, laid before Parliament on 11 April 2019:** The report stated that the discretionary purposes of the 2019 Regulations were to encourage Russia to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty and independence of Ukraine. The report concluded that carrying out those purposes met one or more of the conditions in section 1(2) of the Act. In particular, carrying out those purposes would fall within paragraph 2(c) and 2(d), in that it would be in the interests of international peace and security, and furthering a foreign policy objective of the government of the United Kingdom. The purposes remain relevant following the deterioration of the security situation since 2020. The UK continues to put pressure on the Russian Government to change its behaviour and policy towards Ukraine. Russia's further invasion of Ukraine shows the importance of continuing to use this sanctions regime to increase pressure on Russia to change its behaviour.

16. **Annual review:** An annual review was completed on 11 November 2021. It concluded that during the review period the situation in Ukraine had further deteriorated since the 2019 Regulations were laid in Parliament.
17. **Current assessment:** Since the completion of the section 2 report Russia has launched a military invasion of Ukraine, announced by President Putin on 24 February 2022 as a “special military operation”, and recognised the ‘Donetsk People’s Republic’ and ‘Luhansk People’s Republic’ as independent states, and has deployed Russian military forces to those regions.
18. Russia's actions to change borders by force and undermine Ukraine’s sovereignty and territorial integrity are illegal and geopolitically destabilising. Russia's aggressive actions, as well as its previous intervention in eastern Ukraine and illegal annexation of Crimea and the city of Sevastopol are clearly inconsistent with a number of Russia's international commitments, including the OSCE Helsinki Final Act, the Minsk Protocols and the Budapest Memorandum. The UK has been clear that Russia should change its behaviour towards Ukraine and be held to account for its actions in Ukraine.
19. In response to this situation, it is a reasonable course of action to maintain the existing sanctions measures under the 2019 Regulations, and to introduce the new prohibitions and measures in the Amendment Regulations.
20. **Prohibiting financial services to the Central Bank of the Russian Federation, the National Wealth Fund of the Russian Federation, and the Ministry of Finance of the Russian Federation in relation to the management of its foreign reserves** will reduce the ability of the State to deploy its foreign reserves to undermine the impact of our sanctions. This will degrade the Russian economy and increase the financial burden on the Russian State, thus applying pressure on the Russian Government to change its behaviour and signaling disapproval of its destabilising actions in respect of Ukraine. By acting in concert with other partners, greater pressure will be brought to bear on the Russian Government.
21. The sanctions measures made before end-2021 under the 2019 Regulations have not yet achieved the desired outcomes. New prohibitions and requirements will send a clear political signal to Russia that we are aligned with international partners, and would signal to the wider international community that territorial expansionism is unacceptable and should be met with a serious response. Any diminution of sanctions against Russia would be seen as an acceptance of Russia's invasion of Ukraine. More comprehensive financial measures, including those detailed above, are both reasonable and proportionate to achieve the purposes of the sanctions regime.

22. 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. For the reasons set out in the section 2 report, carrying out those purposes meets one or more of the conditions in section 1(2) of the Act, there are good reasons for pursuing those purposes, and the imposition of the kinds of prohibitions and requirements imposed by this instrument for those purposes is a reasonable course of action for those purposes.

The Rt. Hon. James Cleverly MP

Minister of State for Europe and North America