Written evidence submitted by HM Treasury

The following submission by His Majesty's Treasury (HM Treasury) to the House of Commons Treasury Select Committee provides answers to its inquiry 'Are the UK's Russian financial sanctions working?' in line with the Terms of Reference set out by the Committee.

Executive Summary

Responding to Russia's illegal invasion of Ukraine is a cross-government effort, which has included an unprecedented sanctions regime implemented by the UK and its international partners. These significant efforts have produced results; estimates suggest that G7+ sanctions (G7 plus Australia and New Zealand) have deprived the Russian state of over $400bn in funding for its war machine.

Established in 2016, HM Treasury's Office of Financial Sanctions Implementation (OFSI) plays a vital role in effectively delivering and robustly enforcing all financial sanctions regimes. The sheer scale of the sanctions imposed on Russia, one of Europe's largest economies and energy suppliers, has required OFSI and wider HM Treasury to swiftly enhance its capacity and capability to effectively address this significant threat to the UK's national security and economic prosperity. OFSI is one part of the cross-government architecture implementing and enforcing sanctions – as set out in the recently published sanctions strategy[1] – which has had to scale up and transform in response to increased demand.

Key changes include a significant increase in resource available to OFSI, from over 40 full time equivalent (FTE) in 2021-22 to a target of 135 FTE by March 2024[2] across its enforcement, intelligence, licensing and engagement functions. As well as increasing capacity, the government's Economic Deterrence Initiative (EDI) and some of its £50m of new funding has enabled OFSI to transform its operations through new processes, tools and training. OFSI significantly increased engagement with industry and international partners to maximise the impact of the UK's financial sanctions across the globe. New powers provided by the Economic Crime (Transparency and Enforcement) (ECTE) Act 2022 are being harnessed to enforce sanctions proactively. The Economic Crime Plan 2023-26 (ECP2) sets out a public private strategy designed to drive down sanctions evasion. OFSI has also formed new teams to implement, enforce and monitor the efficacy of the oil price cap alongside G7+ allies.

HM Treasury, in collaboration with other government departments, is ensuring the UK's financial sanctions are robust, and enforced against anyone who seeks to circumvent them.

[1] Deter, disrupt and demonstrate – UK sanctions in a contested world: UK sanctions strategy
[2] OFSI Annual Review 2022-23

1. Whether financial sanctions instituted by the UK on Russia, are complete and effective in terms of the entities that have been designated, and the entities which have to comply with the rules?

The sanctions imposed by the UK and G7+ nations have placed the Russian economy under significant strain, undermining Putin's long-term ability to finance the war, fulfilling the primary objective of the sanctions regime. Through close coordination with G7+ partners, the UK has implemented unprecedented measures aimed at constraining Russia's financial resources and restricting its access to international financial systems. Estimates suggest that G7+ sanctions on Russia have deprived the state of over $400bn in potential war-funding[3].

In lockstep with our allies, UK financial sanctions have targeted 29 banks covering over 90% of Russia's banking sector, restricted access to UK capital markets and imposed prohibitions on investments in Russia. We have also prohibited Russia's ability to raise debt in UK financial markets and cut off its banks from UK correspondent banking channels. We have sanctioned over 2,000 individuals and entities under our Russia sanctions regime. By 31 March 2023, over 130 oligarchs and family members who had a combined net worth of more than £147bn[4] at the time of the invasion had been sanctioned. As noted in the OFSI annual review 2022-23 and as of October 2023, £22.7bn worth of assets frozen in relation to the Russia regime have been reported to OFSI since February 2022.

As well as oligarchs, the UK has taken co-ordinated action to target individuals and companies that help Russian oligarchs hide their wealth through the professional services they provide, including through the formation of shell companies and offshore trusts. Sanctions measures, introduced in 2022, aim to prevent designated persons and persons connected with Russia from accessing UK trust services.

A key part of the UK's sanctions effort has been acting with allies to immobilise $285bn in Russian sovereign assets[5] preventing Russia from using these funds to finance its military effort. We have also worked to target oil – Russia's most lucrative source of revenue – by acting in concert with our allies to ban its direct import as well as restricting the provision of world-leading G7+ services to facilitate the maritime trade of Russian oil between third countries, unless it is sold at or below the oil price cap.

These sanctions measures have all contributed to depriving the Russian state of revenues, which has had an impact on Russia's ability to wage war on Ukraine. Economic restrictions have played a significant role in reducing Russia's ability to replenish its military losses suffered in Ukraine and prevented it from achieving its initial objectives in February 2022.

Alongside this shorter-term impact on Russia's military efforts, the sanctions are having wider impacts on the Russian economy. Russia is not a reliable energy partner for other countries to trade with. Discounts on Russian oil due to the oil price cap have likely contributed to the fall in Russia's trade surplus, adding pressure on the value of the Russian rouble, which has fallen by about 20% over the last year. Higher import prices due to a weaker rouble, alongside the

[3] Sources: Reuters; FCDO modelling; U.S. Department of the Treasury.

[4] Source: Forbes Billionaires 2022

[5] The Russian sovereign assets in the UK are not subject to an asset freeze and are therefore not 'frozen' in the usual sense of the term as it relates to financial sanctions. These assets have instead been 'immobilised' by virtue of sectoral sanctions prohibiting the provision of financial services in respect of these assets, meaning they are unable to move.

significant increase in defence spending, has contributed to higher inflation (7.7% in February 2024 versus a target of 4%).

The longer-term prospects for Russia's economy are weaker than before its illegal invasion of Ukraine and the sanctions response. Diversion of labour and capital to war-industries is highly likely drawing resources away from higher-productivity growth enhancing industries. Higher Russian government borrowing, which is needed to fund its budget shortfall, could reduce the capital available for private sector investment. Further, the loss of Western finance, firms, and workers is restricting Russia's access to technology and knowledge, which are both important long-term productivity drivers.

Decisions to apply certain sanctions measures to specific individuals, entities and ships are taken by the Foreign, Commonwealth and Development Office (FCDO). HM Treasury leads on designations made under the UK's domestic counter-terrorism sanctions regime.

2. Whether assets frozen as part of the UK's financial sanctions on Russia should be confiscated, and whether there are legal precedents for such a move?

The UK's financial sanctions against Russia are designed to deny Putin the means to continue his war. The UK is increasing pressure on Putin and his enablers by limiting access to key revenue sources and to the goods and services Russia's military industrial complex needs to fight its war, and by isolating Russia on the world economic stage. By working with its closest allies, the UK has gone further than ever before in deploying sanctions against a major economy, taking major steps to cut Russia off from the global financial system. As well as sanctioning individuals and entities, and applying the other measures mentioned above under our Russia sanctions regime, the government has also imposed sanctions immobilising the Russian sovereign assets held in the UK.

The FCDO leads work to consider the use of Russian assets for the benefit of Ukraine, with substantial involvement from HM Treasury and other government departments. In regards to frozen private assets, the UK is developing a route to allow sanctioned individuals to donate frozen funds to Ukrainian reconstruction, and has introduced requirements for sanctioned individuals and entities to disclose assets they hold in the UK.

In relation to immobilised sovereign assets, the government has made clear in Parliament and through the collectively agreed statements of the G7 that Russia must both end its illegal war of aggression and pay for the long-term recovery of Ukraine. In February, G7 leaders tasked relevant ministries to continue their work in considering all possible avenues by which immobilised Russian sovereign assets could be made use of to support Ukraine, consistent with respective legal systems and international law, and to report back ahead of the G7 Summit in June. The UK continues to work with its G7 partners at pace on this issue. As part of this the UK has introduced new legislation to enable sanctions to remain in place until Russia pays for damage it has caused.

3. Whether financial sanctions imposed by the UK should be widened to include those who purchase Russian oil and gas?

In order to undermine Putin's war machine, the UK, alongside the G7+, has introduced some of the broadest and most severe sanctions against Russia that any country has faced. This includes targeting Russia's most lucrative revenue stream: the export of crude oil and refined oil products, such as petrol and diesel.

These measures uphold the dual objectives of constraining Putin's ability to fund his illegal war in Ukraine by restricting the revenues flowing to his regime, while still enabling oil products to flow in a tight market and ensuring that third countries can secure affordable oil and oil products.

The G7+ coalition has implemented two key agreements to achieve this: firstly, it has banned the import of Russian oil and oil products into G7+ markets; and, secondly, it has created the oil price cap to limit the price at which Russia can sell its oil and oil products globally when using G7+ services. The import ban and oil price cap are trade sanctions and are implemented by the Department for Business and Trade and HM Treasury respectively.

In parallel, the FCDO has increasingly used sanctions designations to target those involved in undermining or softening the blow of the oil price cap, such as oil traders and ship managers using opaque corporate structures and deceptive shipping practices to obscure their support for Russia's efforts to engage in unfettered trade.

The import ban on Russian oil and oil products into our markets substantially reduces the size of the global market for Russian oil and oil product exports and reduces our exposure to unreliable Russian energy exports.

The oil price cap operates globally by prohibiting UK and coalition entities from providing services such as shipping, insurance, and finance to facilitate the maritime transport of Russian oil and oil products to countries worldwide, unless the oil was purchased at or below the relevant price cap.

The price cap on crude oil came into force on 5 December 2022, and the price caps on oil products came into force on 5 February 2023. The compliance regime was tightened significantly in December 2023.

These measures are having an impact on Russia's ability to use oil to finance its illegal war – the expectation and implementation of the ban and oil price cap initially reduced global oil prices.

Historically, the discounts between Urals and global crude benchmarks have been in the $1 to $2 range, but under sanctions this has routinely ranged from $10 to $30. Our increased action on compliance and enforcement has likely contributed to this widening. The Kremlin itself has acknowledged the impact of our actions, with Deputy Prime Minister Alexander Novak recently admitting publicly that the steps we have collectively taken have led to a spike in the discount they are being forced to shoulder.

In terms of widening these sanctions, in the most recent G7 Leaders Statement, marking two years since Russia's brutal invasion of Ukraine, the G7 committed to continuing to apply significant pressure on Russian energy revenues. This includes taking any necessary further steps to tighten compliance with and enforcement of the oil price cap, and to tackle violations and concerted circumvention of the measure by imposing additional sanctions measures against those adopting deceptive practices while transporting Russian oil and against the networks Russia has developed to extract additional revenue from this activity. Beyond oil, G7 leaders committed to taking steps to limit Russia's future energy revenues, their development of future energy projects and their ability to develop alternatives for energy shipping and other services. The government will continue to work collaboratively with international partners to deliver on these commitments.

4. The effectiveness of the work of the Office of Financial Sanctions Implementation (OFSI).

OFSI has disclosed key information and statistics on its operations and external engagement to the public and Parliament through its non-statutory annual reviews[6], including for 2022-23, which are available on GOV.UK. The below evidence builds on the annual review to reflect how OFSI ensures the effectiveness of the UK's sanctions regime.

a. Guidance provided by OFSI

OFSI is committed to ensuring that it provides open, regular and supportive guidance and engagement to promote compliance with the regulations. OFSI's proactive and accessible approach includes primary guidance documents providing support with geographic, sectoral and thematic issues, all hosted in one location on GOV.UK.

These documents are supported by OFSI's blog with regular updates to the public on topical issues, factsheets, teach-ins and webinars which cater to diverse audiences and sectors. OFSI's webinars attract large numbers of stakeholders; in the last four months "Understanding OFSI" attracted 1,300 participants, "OFSI and the maritime sector" attracted 450 participants, and the "Oil price cap guidance" teach-in session attracted over 300 participants. OFSI also runs an e-alert service with 40,000 subscribers and 65% of subscribers engaged with the alerts in Q3 2022-23. Through this service, OFSI has delivered over 300 updates since Russia's illegal invasion of Ukraine, to alert industry and the public to new designations, new guidance and key updates. An October 2023 survey showed 96% of the 240 respondents found the service helpful. The number of unique views to OFSI's guidance page increased from 15,000 in 2021 to 35,000 in 2023, and 79% of respondents to the October 2023 survey found OFSI's guidance helpful. OFSI continues to improve the usefulness and accessibility of its guidance, including publishing new sector-specific guidance and guidance in HTML format.

b. OFSI's licensing regime

OFSI works closely with the FCDO and other HMG colleagues to ensure OFSI's licensing response fulfils the strategic aims of the Russia sanctions regime. Specific exceptions and licensing powers are contained in the sanctions regulations made under the Sanctions and Anti-Money laundering Act 2018 (SAMLA). OFSI can only issue licences where there are specific and relevant licensing grounds enabling it to do so, and where the conditions in those grounds have been met.

Since the Russian invasion of Ukraine, OFSI has issued over 60 general licences across all regimes, compared to just two pre-invasion which shows how extensively OFSI has been utilising this tool.

It has been particularly useful where OFSI saw common themes impacting a number of applicants and, as of March 2024, OFSI has 34 active general licences to address a range of issues. OFSI has issued general licences for various purposes including to allow humanitarian activities, to allow for the wind down of relationships with designated Russian and Belarusian banks, to allow for insolvency payments and to mitigate unintended consequences of UK sanctions on UK companies, UK persons and international partners.

In February 2024, OFSI published the policy principles that it applies to licence applications relating to designated individuals (i.e. natural persons, as opposed to other legal persons such as companies) across all UK financial sanctions regimes. The principles help to clarify OFSI's

[6] Archive of OFSI's Annual Reviews

interpretation and application of the various licensing grounds and will help applicants better understand the circumstances under which OFSI may refuse to license certain activities, even where a licensing ground is met.

OFSI has increased resource in its licensing team by 160% in the financial year 2022-23, utilised surge staff supported by funding through the EDI and made process improvements. Since December 2023, the number of outstanding applications is below the maximum acceptable caseload for OFSI's permanent staff to handle and surge staff have returned to their home departments.

c. The resources available to OFSI

OFSI is increasing its available resource from over 40 full time equivalent (FTE) in 2021-22 to a target of 135 FTE by March 2024. This translates into increases in its enforcement team by 175%, licensing team by 160% and guidance and engagement team by 120% over the 2022-23 financial year. OFSI has also established a new intelligence team.

Increases in resource have gone hand-in-hand with developing OFSI's capability by implementing new tools and technologies including to support its intelligence threat assessment.

These measures have significantly enhanced the government's capability and capacity to respond at pace to the unprecedented challenges posed by Russia's invasion of Ukraine, specifically enabling OFSI to take on more enforcement investigations; build up its intelligence capability to identify areas of risk and circumvention; be more responsive in issuing general licences; action large volumes of licensing applications; and elevate its engagement with industry and international partners.

We have been active in strengthening our engagement cross-government and with regulators. We have signed a memorandum of understanding with the Financial Conduct Authority (FCA) and Solicitors Regulation Authority (SRA) which enables OFSI to share intelligence and information. We continue to work closely with our National Crime Agency (NCA) and wider international partners including hosting a secondee from the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) within OFSI.

d. Enforcement work by OFSI

As outlined above, OFSI increased resource in its enforcement team by 175% during the financial year 2022-23. We are now progressing a greater depth and breadth of cases than ever before, with an increased and growing level of expertise in our team.

This includes progressing the first monetary penalties resulting from the 2022 Russia designations. We expect to see the first enforcement action from these in 2024. Enforcement outcomes are never immediate as complex investigations take time. There are a whole series of factors and a multitude of variables that come into play and must follow due process, taking considerable time to complete. The time period is consistent with international standards.

OFSI assesses every instance of reported non-compliance and will act in all cases where we conclude a breach has occurred, using legal powers to require information. OFSI looks at what is the best and most appropriate use of our investigation powers. Investigation is a tool for finding out what has happened. We decide an outcome only once we have sufficient facts to inform that decision. OFSI must have rigour in ensuring that our resources are deployed most efficiently and effectively in progressing investigations to the point where we can decide what the proportionate outcome should be.

OFSI's enforcement team is undertaking extensive investigations into a range of suspected breaches. In 2022-23, as outlined in the latest annual review, OFSI recorded 473 suspected breaches of financial sanctions (excluding oil price cap and counter-terrorism breaches). An increase was expected given the scale of increased Russia sanctions, and OFSI's increased enforcement capabilities. As of April 2023, the enforcement team had 172 cases under live investigation, many of which were complex. This excludes breaches and investigations by OFSI's counter-terrorism and oil price cap units.

OFSI maintains a robust and effective toolkit for responding to breaches of financial sanctions, of which monetary penalties remain a key component. However, monetary penalties are not always the most appropriate outcome. It should be recognised that it is likely that proportionately fewer of our investigations will progress to penalty stages. In many cases, it may well be that even when OFSI has found a breach to have occurred, OFSI will not impose a penalty. The response must be one that is proportionate to and appropriately addresses the severity of the matter investigated. OFSI assesses all cases at the point of identification – be it proactive identification or reactive reporting – based on severity and conduct of individuals involved. It may be the case if the breach was a one off or relatively minor in nature, we could close the case by issuing a warning letter, seeking to improve the company's compliance processes, or referring the matter to a regulator. OFSI promotes better practice and behavioural change, preventing future non-compliance by the individual, organisation, or company.

OFSI led the development and drafting of changes made in March 2022 to enhance OFSI's powers to enforce financial sanctions, including its Russia sanctions. These changes came into force after the financial year, on 15 June 2022, with the ECTE Act expanding OFSI's capabilities.

For breaches of financial sanctions (and the oil price cap) that are committed after 15 June 2022, OFSI is able to impose civil monetary penalties on a strict civil liability basis. This means the previous requirement for OFSI to prove that a person had knowledge or reasonable cause to suspect that they were in breach of financial sanctions will be removed. However, we will still bear the burden of proof to establish that there was a breach of financial sanctions prohibitions.

OFSI also gained the power to publicise details of financial sanctions (and oil price cap) breaches committed after 15 June 2022 where a monetary penalty has not been imposed by OFSI. These will include a summary of the case and the persons that committed the breach. OFSI's first use of this was in August 2022. In this instance OFSI named Wise Payments Ltd as breaching Russia sanctions by allowing a cash withdrawal of £250 from a Wise business account held by a company owned or controlled by a designated person. In this instance OFSI did not assess the breach as sufficiently serious to impose a monetary penalty. However, the nature and circumstances of this breach were assessed as moderately severe, and a disclosure was judged to be the appropriate and proportionate enforcement response. This disclosure also served to highlight the need for financial institutions to promptly and fully freeze accounts following designation and the identification of sanctions risk.

OFSI is also part of the Joint Money Laundering Intelligence Taskforce (JMLIT) which brings together law enforcement and financial services providers to share information with industry on breaches of sanctions. One of JMLIT's future-looking priorities is on international enforcement to target circumvention of sanctions with strategic goods on the common high priority list. In December 2023, OFSI co-authored a red alert that was issued by the NCA in collaboration with cross-agency partners and targeted at financial institutions. The alert warns businesses that Russia is attempting to circumvent sanctions to purchase restricted goods and services, through intermediary countries. OFSI will continue to work closely with industry to deliver its second ECP, with a shared focus on directing public-private resources towards those priorities that all share, maximising collective impact against a threat.

e. OFSI's implementation and enforcement of the oil price cap

The oil price cap was designed to meet two core objectives: to bear down on Russian revenues that could otherwise be used to fund its illegal war, whilst also maintaining global energy security and flows of affordable oil to countries that need it.

The price cap has had a considerable impact on Russia's ability to use oil to finance its war since the announcement. The expectation and implementation of the cap initially depressed global oil prices, which had spiked at over $120 per barrel since the invasion, to levels below the $60 cap. International Energy Agency data on Russian oil export revenues up to January 2024 suggests that the oil price cap has contributed to reducing Russian oil export revenues by roughly 20% in the 2023 calendar year when compared to 2022. Meanwhile, the global oil market has remained stable.

One of the reasons the oil price cap is so effective is the prominence of highly sought after G7+ services in the market. OFSI knows Russia has tried to replicate G7+ services, for example through establishing a maritime insurance sector and its 'shadow fleet'. However, these come at a high cost to Russia, and they are very unlikely to be able to replicate the scale and quality of G7+ services.

The intention of the oil price cap was never to cut off G7+ maritime services from trade in Russian oil. But, where coalition services are involved in the shipping of Russian oil and oil products, these trades must be conducted at or below the relevant price cap.

OFSI, alongside G7+ partners, have provided extensive guidance to industry on compliance with the price cap. OFSI also led publication of two G7+ Alerts for industry in October 2023 and February 2024. It successfully negotiated a tighter enforcement regime in December 2023 and engaged over 1,000 stakeholders in the UK and internationally, including through teach-ins and podcasts.

OFSI takes a proactive enforcement approach and is currently undertaking a number of investigations into suspected breaches of the oil price cap, using powers under SAMLA to request information and working closely with international partners in the G7+ coalition. Although OFSI cannot discuss or comment on individual cases, OFSI is able to launch investigations based on suspected breach reports shared with us, intelligence capabilities, and other reporting. OFSI chairs the G7+ Coalition Working Group on the enforcement of the oil price cap, which is the key international forum for coordinating enforcement of the oil price cap.

EDI funding has enabled OFSI to build expertise in implementation, and work with industry and international partners to monitor the price cap's impact.

f. OFSI's international cooperation

OFSI undertakes a significant number of engagements to enhance its collaboration with other countries, many of which are jointly held with other UK government departments. This spans bilateral relationships and active input to the work of multilateral bodies including the UN, EU, G7, IMF, World Bank, Financial Action Task Force (FATF), and FATF-style regional bodies. In 2023 alone, OFSI undertook over 300 government-to-government engagements, including meetings, events and exchanges with around 100 jurisdictions across six continents.

Under the public-private ECP 2023-26, OFSI is establishing information exchanges to find where the implementation and enforcement of sanctions can be further improved, effectiveness increased, and deeper relationships with international partners built. HM Treasury is an active participant in information sharing forums aimed at addressing sanctions circumvention including the G7 Enforcement Coordination Mechanism and the Russian Elites, Proxies and Oligarchs (REPO) Task Force. OFSI's approach to international engagement also includes addressing third-country facilitation of circumvention by sharing information and engaging in capacity-building exercises in those countries together with the FCDO.

OFSI has also harnessed the potential of its bilateral relationships to strengthen capacity building through OFSI contributions to HM Treasury's technical assistance unit which assists Overseas Development Aid-eligible countries in meeting the FATF standards. Bilaterally, OFSI agreed an enhanced partnership with OFAC. This valued relationship allows OFSI to share information and experience through regular exchanges. OFSI and OFAC have also issued joint guidance for industry, conducted joint outreach and launched a reciprocal secondee program.

OFSI also works closely with the European Commission and EU Member State partners both bilaterally, including through quarterly strategic and technical exchanges with the European Commission, and in multilateral settings, such as the EU's Seize and Freeze Taskforce. Furthermore, OFSI highly values the relationships it has with its counterparts in the Crown Dependencies and Overseas Territories, and has regular engagements with them including through an annual sanctions forum chaired jointly with the FCDO.

g. OFSI's work in the insurance sector

It is very hard to make major oil trades or gain significant market share without using G7+ services, especially insurance services. Because of its centrality to maritime trade, the insurance sector has been a vital partner in ensuring the functioning of the oil price cap, and we will continue to engage with them closely to ensure the continued success of the price cap. To date this has included delivery of teach-ins for industry stakeholders, with an overall turnout of around 1000 participants covering oil, shipping, insurance, legal, and financial services.

h. OFSI's work in the maritime sector

The UK and coalition partners are providing oil price cap guidance to industry and aligning their overall approaches to legislation and enforcement as far as possible to enable G7+ service providers and shipping companies to confidently move Russian oil in compliance with the price cap.

OFSI has engaged extensively with G7+ industry actors to inform its thinking on developing this policy. The intention is to enable the maritime services sector to continue to transport oil and oil products to third countries that need it, as long as the oil is purchased below the price cap.

OFSI recently conducted its first strategic communications spotlight, focused on the maritime sector. As part of the spotlight OFSI provided updated maritime guidance alongside tailored webinars and blogs to ensure that sanctions guidance is accessible and easily understood by all businesses and individuals. Each quarter, OFSI will reach out to a specific sector that has been prioritised through our intelligence and external engagement.

5. The effectiveness of the system of designation of financial sanctions, in that it relates to the implementation of financial sanctions, and the relationship between the designation and implementation of financial sanctions.

OFSI maintains and publishes the consolidated list of asset freeze targets, which have been designated by the FCDO and approved by their ministers. HM Treasury is responsible for designations under one regime, the domestic counter-terrorism regime, which are approved by HM Treasury ministers. OFSI works closely with the FCDO to ensure close alignment throughout the process of designation. OFSI updates the consolidated list in tandem with the FCDO's UK sanctions list to ensure information is accurate and up to date.

6. The implementation of financial sanctions against Russia by each part of the financial sector (including the insurance sector), and the maritime sector.

OFSI works with the private sector to build a picture of financial sanctions circumvention activity in the UK and abroad. Understanding circumvention trends and typologies is crucial to OFSI's work and allows it to better identify cases where enforcement action can be taken. OFSI welcomes feedback from industry on how best to engage on this topic.

OFSI has expanded its engagement to better reflect the depth and breadth of industries affected by financial sanctions. In total during the 2022-23 financial year, OFSI undertook 117 outreach activities – 69 events and 48 standing engagements. This impact has been possible because of the positive partnership between the UK government and the private sector, allowing OFSI to restrict Russian access to the UK financial system. Looking ahead, OFSI's enforcement efforts will continue to evolve and expand with feedback from the private sector- insight from investigations and feedback will drive the development of more specific and comprehensive guidance and its proactive approach.

7. The mitigation of any unintended consequences of financial sanctions.

OFSI remains acutely aware of the challenges private sector firms face in implementing financial sanctions and is keen to develop workable solutions together wherever possible.

This includes strategically using general licences to address unintended consequences faced by multiple organisations. For example, the legal services general licence was successfully introduced and has been renewed several times in response to engagement and feedback from the legal sector.

At the end of September 2023, OFSI published a general licence relating to correspondent banking payments. Following close engagement with banks and other financial institutions, OFSI recognised these transactions posed questions for industry and concluded that the asset freeze prohibitions are not typically engaged in these transactions. OFSI therefore issued a protective general licence permitting the return of these transactions to the previous, non-designated bank in the chain – bringing necessary clarity to the situation.

OFSI recognises the unintended consequences that could emerge in humanitarian supply chains due to their potential interactions with, or proximity to, designated individuals, entities and governments. OFSI introduced the humanitarian activity general licence to ensure aid could reach those who needed it, in respect of Ukraine. In January 2023, the UK transposed the UN humanitarian cross-cutting exemption into The Sanctions (Humanitarian Exception) (Amendment) Regulations 2023, providing flexibility for aid delivery across all UN regimes. Other general licences have been issued to support aid delivery across the world, such as the Syria humanitarian licence which supported earthquake relief efforts.

In November 2022, OFSI issued a general licence to allow, under certain conditions, agricultural-related transactions in response to Russia's impact on global food supplies and rising prices. It supported basic needs relating to the conflict in Ukraine and this sweeping action enabled specified humanitarian organisations and their delivery partners to carry out necessary activities in execution of life-saving aid and demonstrates the flexibility of OFSI's general licence powers and rapid response to prioritising humanitarian concerns.

All economic crime poses a significant threat to the UK's national security and the prosperity of the UK economy. That's why last year the government, working in partnership with the private sector, introduced the second ECP 2023-26. For the first time, sanctions have been explicitly included with a focus on reviewing its legislative needs to continuously improve the UK sanctions regimes, aiding industry with implementation and compliance, and building deeper relationships with international partners.

March 2024