

Ukraine and Russian Sanctions: A Practical Guide to Screening and Monitoring

August 2014

Over 200 global investors utilize MSCI ESG Research to screen for countries subject to sanctions. MSCI ESG Research is monitoring developments related to the Russia and Ukraine situation and is continually updating our tools and analysis to reflect the changing regulatory environment. This document provides a brief overview of the current tools and analysis available from MSCI ESG Research to help clients monitor this issue.

What sanctions related to the Ukraine political situation have been imposed?

As of August 5, 2014:

- **United States**

Following the annexation of Crimea by Russia in March 2014, U.S. President Barrack Obama issued 3 Executive Orders (EO):

- EO 13660 (March 2014) ordered sanctions against persons “who have asserted governmental authority in the Crimean region without the authorization of the Government of Ukraine; that threaten the peace, security, stability, sovereignty and territorial integrity; and contribute to the misappropriation of its assets”.
- EO 13661 (March 2014) expanded sanctions to target certain Russian government officials deemed responsible for the invasion and annexation of Crimea; individuals or entities involved in the Russian arms sector or related sectors in Russia; and any individual or entity that is “owned or controlled by” or supports any such Russian official.
- EO 13662 (March 2014) further expanded the scope of the sanctions to target additional individuals and entities contributing to the situation in Ukraine.

In relation to new sanctions levied against specific entities, The U.S. Office of Foreign Assets Control (OFAC) created the Sectoral Sanctions Identifications (SSI) List that includes entities operating in certain sectors of the Russian economy as identified by the Secretary of the Treasury. OFAC has also designated additional Russian entities under its Specially Designated Nationals (SDN) list’s Ukraine program.

The U.S. Office of Foreign Assets Control (OFAC) has also frozen U.S. assets of the individuals and entities subject to sanctions under the above EOs.

- **European Union (EU)**

- In March 2014, the EU Council froze assets and banned travel for former Ukrainian government officials it deemed responsible for misappropriation of funds and human rights violations in Ukraine. Additional sanctions were later imposed against Russian and Ukrainian government officials that the EU determined pose threat to territorial integrity, sovereignty and independence of Ukraine.
- In July 2014, the EU Council acted to add additional sanctions against entities and persons who actively provide support or who are benefiting from the Russian involvement in the destabilization of Eastern-Ukraine. As of July 25, 2014, the number of persons sanctioned in connection to the ongoing conflict in Ukraine is 87 while the number of entities is 20.

- **Canada**

- In April 2014, Canada announced sanctions relating to Ukraine and Russia under the Special Economic Measures Act (SEMA).
- In July 2014, Canada expanded the number of sanctioned entities subject to SEMA.

- **United Kingdom, Norway, and Switzerland**

- In March 2014, the United Kingdom and the Norwegian Government adopted restrictive measures against individuals they deemed responsible for actions that undermine or threaten the sovereignty and territorial integrity of Ukraine. Both Governments have since expanded the list of sanctioned individuals.
- The Swiss State Secretariat of Economic Affairs refrained from formal sanctions but implemented a ban on the individuals identified under the EU sanctions from using brokers or other "financial intermediaries" in Switzerland to conduct any new business. In August, 2014, Switzerland updated the list of "banned" individuals to include 87 individuals and 20 organizations.

- **Japan**

- Following Russia's decision to recognize a referendum in Crimea, the cabinet of Japanese Prime Minister Abe announced a series of sanctions aimed at that country. In March 2014, Japan stopped negotiations with Russia regarding visa restrictions, a space agreement, and prevention of military activities.
- In August 2014 Japan announced additional sanctions against 40 individuals and 2 groups that the country has identified as being involved in the destabilization of Eastern Ukraine.

What tools are available to help investors identify entities falling under the new and developing sanctions related to Ukraine and Russia?

MSCI ESG Research's Global Sanctions screens are designed to aid institutional investors interested in screening for companies that have involvement in countries including Cuba, Iran, North Korea, Sudan, Syria, and now Ukraine-related. These screens are designed to assist MSCI ESG clients to meet mandates specific to U.S. states as well as mandates issued by federal governments.

Applying MSCI ESG Research's current Global Sanctions research process, we note the following developments related to Ukraine and Russia:

- As a result of Executive Orders issued by President Barack Obama between March 2014 and July 2014, the U.S. Department of the Treasury's **Office of Foreign Assets Control (OFAC)** has **added Ukraine to its list of regions of concern** and identified certain entities and individuals involved in controversial Ukraine-related actions to a list of **Specially Designated Nationals (SDNs)**. In July 2014, OFAC issued a separate list (the **Sectoral Sanctions Identifications list**) that contains includes additional designated entities.
- Additional sanctions against individuals and entities have been levied by the **Canadian Government under the Special Economic Measures Act**, and against individuals by member states of the **European Union**, and **Japan**.
- Between March 2014 and July 2014, the above mentioned governments have gradually increased both the intensity and the scope of Ukraine related sanctions.

Asset owners and managers working on their behalf may be required to comply with relevant sanctions levied by their governments.

MSCI ESG Research maintains the following factors within the MSCI ESG Global Sanctions service designed to identify publically listed and bond-issuing private entities that may be sanctioned by the United States (US), Canada and European Union (EU):

OFAC – Ukraine-Related: identifies equity and bond-issuing entities that have paid a penalty or have reached a settlement with the U.S. Department of the Treasury Office for Foreign Asset Control (OFAC) for actual, alleged, or apparent violations of OFAC sanctions related to Ukraine. The relevant factors include

- OFAC - Ukraine-Related Designated Entity (Values are SDN, SSI, or Any)
- OFAC - Ukraine-Related (Penalties or Settlements related to OFAC violations)
- OFAC - Ukraine-Related Designated Entity Company Profile

SEMA Russian Sanctions: identifies equity and bond-issuing entities that have been sanctioned under Canada's Special Economic Measures Act (SEMA). The relevant factors include:

- SEMA – Ukraine

- SEMA – Russia
- SEMA - Company Profile

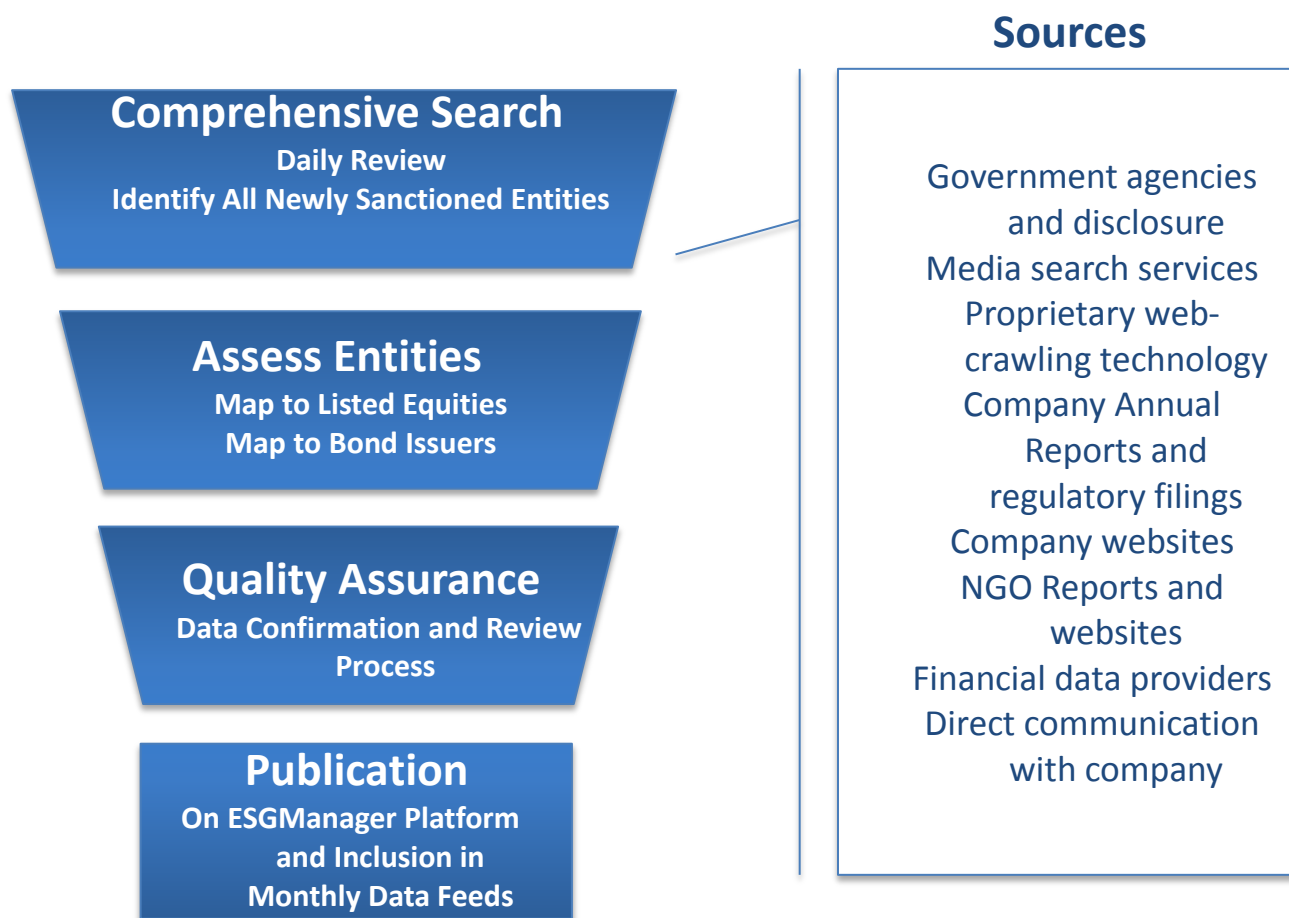
EU Russian Sanctions: identifies equity and bond-issuing entities that have been sanctioned by the EU. The relevant factors include:

- EU – Russia Designated Entity (Values are Annex: 269/2014, Annex: 833/2014, or Any)
- EU – Russia Designated Entity Company Profile

How often does MSCI ESG Research update its analysis related to entities contravening sanctions already in place?

MSCI ESG Research continually tracks the development of sanctions issued by various governmental bodies, specifically focusing on the U.S., European Union, Japan, Switzerland, and at the U.S. state level. The MSCI ESG Research tracking process is outlined in Figure 1 and is led by the Global Sanctions research team:

Figure 1: MSCI ESG Research Global Sanctions Monthly Research Process



Beyond sanctioned entities, what MSCI ESG Research tools are available to investors monitoring their portfolio exposure to Russia and Ukraine?

MSCI has a robust set of investment decision support tools designed to help institutional investors gain greater insight into their portfolio exposure to Russia and Ukraine. The MSCI Economic Exposure Security Modules apply a simple and transparent method for quantifying a firm's economic exposure to the range of countries and regions that it generates its revenues from. This approach aims to achieve consistency despite the disparities in the way companies report their revenues across geographic segments. In general, MSCI estimates a firm's economic exposure using its reported revenues and the corresponding GDP weights for each geographic segment.

The MSCI Economic Exposure Security Data Modules have coverage of over 8700 companies across the large, mid and small cap segments within the developed, emerging and frontier markets. The economic exposure data offer fresh insights on the geographic exposures of stocks to various regions and can potentially support multiple needs of Asset Owners, Investment Consultants, Asset Managers, Broker-Dealers and Risk Managers in the investment process including:

- » Understanding Economic Exposures of Policy Benchmarks
- » Active Portfolio Management
- » Risk Management

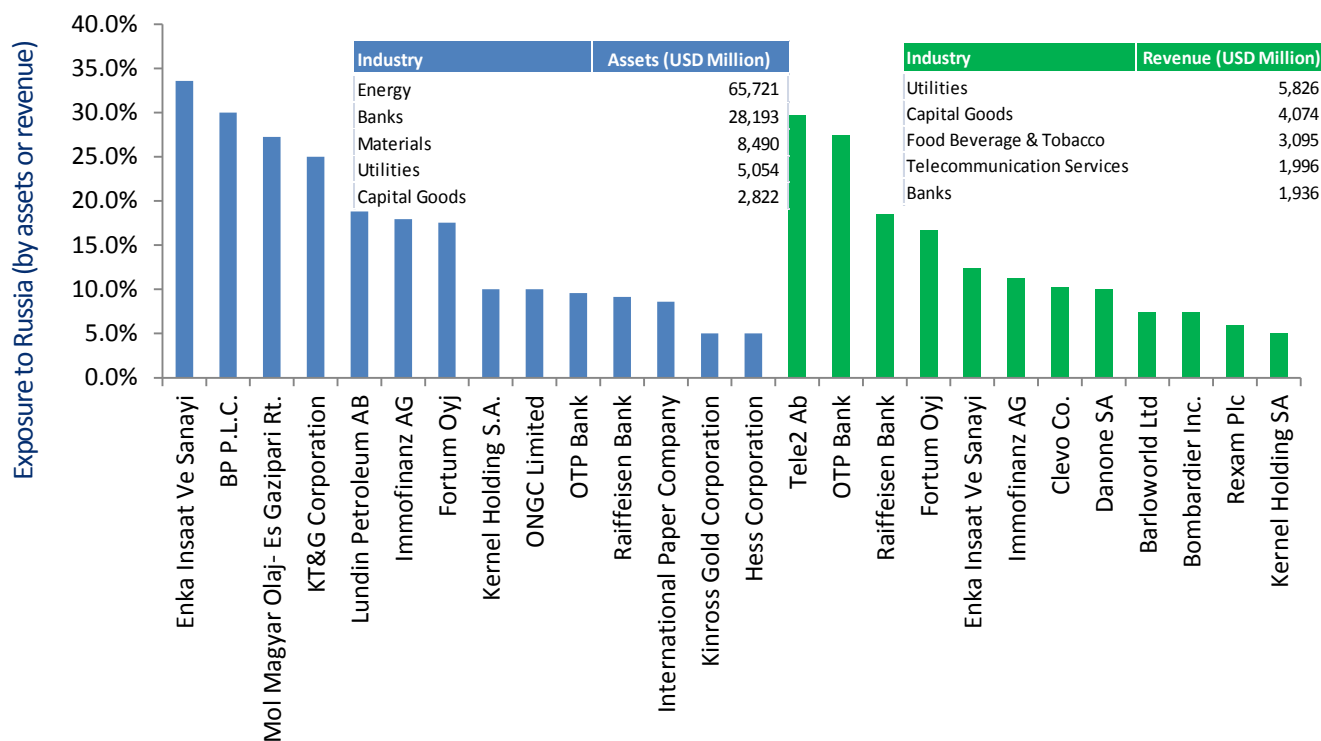
For details on the MSCI Economic Exposure Index for Russia, please see [MSCI Factsheet, *Russian Economic Exposure Index*](#).

MSCI ESG Research has assessed the revenue and asset exposure of companies in the MSCI ACWI Index to Russia and Ukraine. The chart in Figure 2 displays the exposure of companies within the MSCI ACWI universe that have more than five percent of their assets located in, or revenues tied to, Russia. Note that companies domiciled in Russia are not included in the analysis.

MSCI ESG Research has also leveraged our ESG Sovereign Ratings research to analyze the reliance of European countries on oil and gas supplies from Russia and from other politically-unstable sources. By combining energy source data against political instability, energy reserves, consumption trends, and renewable energy investment targets, MSCI's ESG Research has identified countries it believes are well positioned to weather sudden political disruptions to energy supply and those who may be more energy vulnerable.

For details of the analysis, please see [MSCI ESG Research Issue Brief, *Oil Thirst and Political Instability: Energy Security in Europe*](#).

Figure 2: of MSCI ACWI Companies with >5% Revenue or Asset Exposure to Russia
As of March 31, 2014



Source: MSCI ESG Research, Thomson

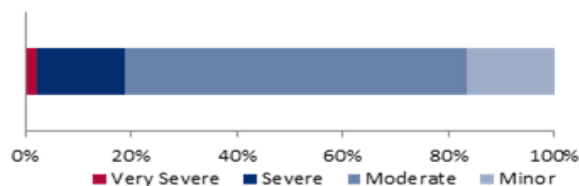
Is MSCI ESG Research monitoring human rights abuses or other contravention of international norms of behavior that may be associated with the violence taking place in Ukraine?

MSCI ESG Research continually tracks and assesses allegations of human rights abuses and an array of other ESG controversies. The research is accessible through our ESG Impact Monitor and Global Norms Screening products, and is also incorporated where relevant into our ESG Ratings (IVA) research.

As of May 6, MSCI ESG Research has identified no human rights violations associated with the Ukraine situation that have been linked to a company in our coverage universe. The only ESG controversy case arising from the Ukraine situation falls under the Corporate Governance issue for Rosneft, due to the inclusion of the company's CEO on the U.S. OFAC list of Specially Designated Nationals.

As of May 6, 2014, 17 of the 20 Russia-domiciled issuers on the MSCI Emerging Markets Index have been implicated in ESG controversies within the last three years, with 85 individual controversy cases currently being tracked by our team (see Figure 3). Of the 85 cases, two are assessed to be Very Severe, and 14 are assessed to be Severe.

Figure 3: ESG Controversies Associated with Russian-Domiciled Companies, by Severity (n=85), as of April 30, 2014



Source: MSCI ESG Research

The two companies with Very Severe controversy cases are Lukoil (for Anti-Competitive Practices) and Norilsk Nickel (for Toxic Emissions & Waste).

The most common controversy areas for these Russian companies are Anti-Competitive Practices (18 cases), Toxic Emissions & Waste (15 cases), and Bribery & Fraud (15 cases).

MSCI ESG clients can easily identify and monitor ESG controversies associated with Russian-domiciled companies on the [MSCI ESG Manager](#) platform under the Issuer or Screener tabs or by setting up Alerts.

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The company's flagship product offerings are: the MSCI indexes with over USD 9 trillion estimated to be benchmarked to them on a worldwide basis¹; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

¹As of March 31, 2014, as reported on June 25, 2014, by eVestment, Lipper and Bloomberg