

## FEBRUARY 2025 NEWSLETTER

# Sanctions – quo vadis 2025?

### Introduction

Since the outbreak of the Russian-Ukrainian war in February 2022 nearly all industries worldwide have encountered various sanctions regimes, impacting their business activities – also “at home” in Switzerland. This has led to an ongoing shift in entire business streams and elevated Sanctions Compliance and Governance to the center stage. This is not likely to change in 2025. The Sanctions Legal and Compliance Programs, which are strenuous and complex, require continuous attention, efforts, clear processes, state-of-the-art systems and knowledgeable professionals. Sanctions is a legal topic, yet relevant contracts and programs must be actionable in the company at all levels. Underlying transactions, some of which are increasingly complex with the intention of disguise, must be fundamentally understood, which comes from a combination of automation and professional know-how. The examples in this newsletter show that laxness can come at a high price- in an environment where the enforcement appetite of the USA is considered to be high.

### Outlook 2025 – High Sanctions Risk remains

As unpredictable 2025 might seem, it is likely that the current sanctions regime (OFAC, EU, CH, UK, UN et al.) will remain. Even more, the current political and economic tensions trigger further sanctions regulations which will be expected to expand to further industries. We are observing an arms race of “Western” and “non-Western” sanctions and enforcement actions, which easily puts internationally active companies in the firing line. There are numerous examples of companies that have not been able to repatriate the profits they made in Russia outside of Russia and are still not allowed to do so. Failed repatriation transactions due to “Western” sanctions are met with astronomical lawsuits in Russia. Contradictory, yet applicable regulations and extraterritorial sanctions catalogues will continue to lead to uncertainty and raise the risk of sanctions breaches for companies with international exposure.

With the new Trump administration, it also remains to be seen to what extent OFAC sanctions breaches will be enforced. And if so, which jurisdiction or industry is in the spotlight first – financial services companies are a popular target for enforcement.

Maybe still less prominent, but not less impactful, are secondary sanctions which are on the rise and will likely have an impact on the entire financial industry. Last year OFAC already introduced a catalogue how secondary sanctions ought to be read.

A much-discussed example of international complexity concerns Raiffeisen Austria's investments in Russia. Although the bank took the view that the planned exchange of shares in the Austrian construction company Strabag complied with the EU and US

sanctions regimes, the bank ultimately bowed to pressure from the US in the summer of 2024. In January 2025, Russia retaliated with a lawsuit for EUR 2 billion following the collapse of the deal.

Another example from the field a client requires financing in order to buy used or broken washing machines in bulk and then export those to Russia. Per se, washing machines are not subject to sanctions given they are household goods. However, they contain microchips which could be extracted and used in military production sights in Russia. By financing the transaction the financial institution puts itself at risk of being exposed to secondary sanctions.

## **Sanctions Compliance is strategic**

As an immediate reaction to the first sanctions wave in Spring/Summer of 2022 we have seen that many institutions hoped for a quick fix and invested in one-time Sanctions Compliance resources. However, having the continuous sanctions risk as well as the uncertainty of future sanctions related regulations this one-time investment does not suffice to mitigate the risk of breaching the current and upcoming future sanctions regimes. In order to tackle this “hovering” sanctions risk it is imminent to look at Sanctions Compliance and Governance topic from a strategic point of view and integrate this accordingly into the daily business routine. Not taking sufficient action due to cost efficiency reasoning raises the risk of sanctions breach enforcements exponentially and is not recommended.

### **Existing instruments should be leveraged ... and continuously updated**

Financial services companies do not have to start from scratch to integrate Sanctions Compliance. Various instruments already exist. We have seen advanced and automated due diligence tools that identify at an early-stage sanctions relevant information. These tools should be integrated in an efficient framework and enable lean governance. Overprocessing sanctions compliance escalations, on the contrary, might generate higher costs and do not necessarily lead to an effective prevention of sanctions non-compliance.

### **Specialized Know-How in handling cases is crucial**

A mix of state-of-the-art automation and professionals with a profound know-know of sanctions risks is paramount. Processes within the company must be clear so everyone in the organization knows what to do and when to escalate. Articulate and efficient sanctions relevant feedback is also crucial. It is more likely that Front Lines will be more reluctant to escalate or at least inquire on a sanctions related topic if escalations will not be dealt with in a timely manner.

It is important to highlight that the sanctions compliance angle must be reflected throughout the lifecycle of business relationships, from onboarding to overnight screening to periodic and event driven reviews of client relationships. It goes without saying that the frequent updates in regulations require swift implementation into the frameworks, as does the handling of sanctions related hits by qualified staff.

We have seen advancing sanctions circumvention lately being enabled through multiple complex offshore structures, interchangeable controlling persons and beneficial ownerships as well as the usage of digital assets and tokenization of tangible goods. The mere identification of the risk requires know-how. Just to give a simplified example, a domiciliary company is held by a privately owned stock corporation, with no more than ten shareholders. At least one of the shareholders is either sanctioned or his source of funds derives from a sanctioned industry. Due to the incorporation laws of the said stock company the owners' identity is not required to be disclosed by law. In order to add an additional layer of disguise of the sanctions nexus, the domiciliary company is tokenizing a valuable painting, which it holds. These tokens are then sold via blockchain to third parties. The sanctions link to the original the source of funds is now hardly traceable. This example shows how the Know-Your-Client principle and sanctions know-how go hand in hand. Legitimate corporate structures and financial products can be usurped for sanctions circumvention purposes.

Another, less complex, yet still sanctions critical example is as follows: a longstanding client, without any sanctions nexus, is providing three smaller short-term loans to a pharmaceutical company based in a country in Central Asia. Providing loans is more lucrative than buying the pharmaceutical company's bonds or directly investing in its equity. This pharmaceutical company slightly amended its production line. In this case it is necessary to understand what the pharmaceutical company now produces as well as what the target markets of the company are.

**Last, but not least**

It is also advisable to have an open-door policy with the regulator and SECO, since they can provide further insight to what extent national sanctions apply and what the expectations are. Participating in workshops and in working groups representing the financial industry which have a direct outreach to the regulator and SECO are invaluable.

## Conclusion

It is unlikely that the spotlight on sanctions will diminish in 2025. The enforcement appetite of the USA in particular is real. The risk of materialized sanctions breaches and enforcement actions with very high fines will increase.

We recommend:

- Sanctions Know-How requires dedicated professionals, state-of-the-art systems, clear processes and a continuous sharing within the entire company
- Integrate sanctions related topics into business-as-usual due diligence set-up – an ongoing commitment is essential
- Clear and efficient Governance is key for efficient identification of a sanctions nexus
- Integrate regular lessons-learned sessions in order to enhance the knowledge of recent sanctions development and sanctions awareness
- Continue and enhance the open-door approach with the regulator and SECO

***We support our clients in Sanctions Compliance,  
conceptually and on a day-to-day basis.***

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