

Imposition of Monetary Penalty – Herbert Smith Freehills CIS LLP (HSF Moscow)

SUMMARY

1. On 11 November 2024, the Office of Financial Sanctions Implementation (“OFSI”), part of HM Treasury, imposed a monetary penalty of £465,000 on the UK-registered Herbert Smith Freehills CIS LLP Moscow (“HSF Moscow”) in accordance with section 146 of the Policing and Crime Act (“PACA”) 2017. The penalty concerns breaches by HSF Moscow of regulation 12 of the Russia (Sanctions) (EU Exit) Regulations 2019 (the “Russia Regulations”).
2. The penalty relates to six payments made by HSF Moscow to designated persons between 25 and 31 May 2022, with a collective value of £3,932,392.10. These designated persons were Alfa-Bank JSC (Group ID: 15017), PJSC Sovcombank (Group ID: 14200), and PJSC Sberbank (Group ID: 15076).
3. OFSI imposed a monetary penalty on HSF Moscow because it was satisfied that, on the balance of probabilities, HSF Moscow breached prohibitions imposed by financial sanctions legislation and knew, or had reasonable cause to suspect, that their actions would result in funds being made available to designated persons.
4. It should be noted that OFSI has imposed its monetary penalty on HSF Moscow, and no findings have been made against the parent firm Herbert Smith Freehills LLP (“HSF London”). HSF London, on behalf of HSF Moscow, provided prompt and detailed disclosure relating to all breaches. Therefore, a 50% reduction was made to the final penalty amount. Were it not for this reduction, OFSI would have imposed a penalty of £930,000.
5. Under the provisions of PACA, any person who has a monetary penalty imposed on them is entitled to a ministerial review. Under these provisions, the minister may:
 - a. uphold the decision to impose the penalty and its amount;
 - b. uphold the decision to impose the penalty, but alter the amount, or
 - c. cancel the decision to impose a penalty.
6. HSF London, on behalf of HSF Moscow, exercised its right to a ministerial review on 19 December 2024. The minister delegated the review to a senior Treasury official with no prior involvement in the case. On 14 February 2025, this official upheld OFSI’s decision to impose the monetary penalty and the amount in full, which was communicated to HSF on 19 February.

7. On 14 March 2025, HSF London agreed to pay the monetary penalty in full on behalf of HSF Moscow.

BACKGROUND

8. HSF London is a large international law firm that offers, amongst other services, legal advice on financial sanctions to its clients. HSF Moscow operated as HSF's Russian office prior to June 2022.
9. HSF London is regulated by the Solicitors Regulation Authority (SRA). HSF Moscow was a limited liability partnership separately incorporated in the UK.
10. At the time of the breaches, the HSF Moscow finance team had authority to approve payments locally, without having to obtain specific authorisation from HSF London.
11. In March 2022, HSF London took the decision to cease business operations in Russia because of the Russian invasion of Ukraine. The office closure itself took place on 31 May 2022.
12. On 1 June 2022, OFSI received a breach notification from HSF London regarding a lease payment made by HSF Moscow to the designated person Alfa-Bank. On 15 July 2022, OFSI received a further breach report from HSF London relating to five earlier payments. These payments were to two other designated persons that HSF Moscow and HSF London had identified after an internal, voluntary compliance investigation, following the initial lease payment breach report.
13. OFSI assessed this case in line with the 2 May 2024 version of OFSI's public Enforcement and Monetary Penalties Guidance. This guidance states that OFSI will assess all cases in line with the enforcement guidance in effect at the time of assessment. All breaches in this case occurred prior to the strict liability amendments to PACA coming into effect.

THE BREACHES

14. The below covers the key facts regarding each of these six payments:
15. **Payment 1:** HSF Moscow was subject to an annual audit, including a review of its bank accounts with Raiffeisenbank and Sberbank. This required both banks to undertake work and provide documents to the auditors. On 25 May 2022, Sberbank applied a fee of £39.71 to the HSF Moscow Sberbank account in respect of this audit work, which created an overdrawn position in that bank account. On

the same day, in order to clear that overdraft, two very senior HSF Moscow finance individuals authorised the payment to Sberbank from the Raiffeisenbank account. This resulted in a payment being made to the designated person Sberbank in breach of regulation 12.

16. **Payments 2, 3 and 4:** HSF Moscow had life insurance policies in place for local staff provided by Sovcombank. Sovcombank Life is an entity wholly owned by PJSC Sovcombank, a designated person. In March 2022, a very senior HSF Moscow staff member recognised that Sovcombank was subject to sanctions. HSF Moscow failed to adequately investigate the sanctioned status of Sovcombank Life, which led to them wrongly concluding that Sovcombank Life was not subject to sanctions. On 13 May 2022, Sovcombank Life sent HSF Moscow three separate invoices which senior HSF Moscow finance staff authorised for payment on 26 May 2022. This resulted in three payments totalling £3,903.76 being made to the designated person Sovcombank Life in breach of regulation 12.
17. **Payment 5:** As part of the closure of HSF Moscow, redundancy payments were made to employees. On or around 26 May 2022, an HSF Moscow employee requested HSF Moscow pay their redundancy into a Sberbank account. Insufficient due diligence and sanctions screening took place within HSF Moscow, leading to a payment order of £13,216.32 being approved by senior HSF Moscow finance figures and paid into the employee's Sberbank account on 27 May 2022. This resulted in a payment being made to the designated person Sberbank in breach of regulation 12.
18. **Payment 6:** Following HSF London's decision to close their Russian subsidiary following Russia's full invasion of Ukraine, HSF Moscow entered contractual arrangements with a local firm relating to the transfer of HSF Moscow's existing lease agreement. This local firm was to be operated by former HSF Moscow employees.
19. On 31 May 2022, a payment of £3,915,232.31 was due to be made to the local firm's bank account held with the non-designated Raiffeisenbank. The local firm also had an account with the designated person Alfa-Bank. HSF London had no knowledge of this second account. In the days before the HSF Moscow was due to close, the remaining staff had limited facilities to finalise transactions at the end of the banking day, and acted in haste. As a result, senior finance officers failed to follow internally agreed screening processes, which resulted in the above payment being made to the local firm's Alfa-Bank account. This was despite being instructed by HSF London more generally not to pay money into Alfa-Bank accounts, whose status as a US and UK sanctioned bank since March 2022 would have been well known. After realising this error later that day, HSF Moscow staff

contacted the local firm and asked them to recall the funds. The local firm arranged for these funds to be transferred out of the Alfa-Bank account to the local firm's Raiffeisenbank account. HSF Moscow had no authority over this later transaction, although OFSI assessed that they likely retained influence given the nature of the two firms' relationship. OFSI's assessment of these circumstances is included in paragraph 25.

CIRCUMSTANCES

20. The below detail summarises OFSI's assessment as to the compliance systems in place to prevent breaches at HSF Moscow and how the adherence (or non-adherence) to these by HSF Moscow contributed to the breaches occurring
21. During the period in which HSF was withdrawing from the Russian market, HSF London provided HSF Moscow with detailed, regularly updated guidance relating to financial sanctions compliance. Key staff received training from HSF London on HSF global sanctions policies. HSF Moscow was heavily exposed to UK financial sanctions, being a UK incorporated company operating in Russia at a time when far reaching sanctions were in effect.
22. OFSI found that the breach payments occurred for the following reasons:
 - a. **Inadequate due diligence and sanctions screening.** Despite HSF Moscow's Finance team being provided with regular guidance and training, they made a series of repeated and serious errors. On 29 March 2022, HSF London's Head of Financial Crime sent an e-mail stating Alfa-Bank was sanctioned under UK and other regimes. The e-mail was received by senior figures at HSF Moscow, and stated: "*We should not pay any funds into an Alfa-Bank bank account.*" When making the payment to Alfa-Bank, very senior HSF Moscow employees also failed to follow a locally embedded screening process intended to identify whether outbound payments were going to designated persons. Although HSF Moscow had an established sanctions screening system, no actual sanctions screening appears to have been conducted with regard to the five smaller payments.
 - b. **Errors caused by the hasty closure of HSF Moscow's Russian offices.** The period following Russia's invasion of Ukraine, and the subsequent widespread imposition of financial sanctions, resulted in many firms choosing to leave the Russian market. Whilst OFSI acknowledges HSF's withdrawal from Russia as a mitigating factor, OFSI considers that it should have been conducted in a more orderly fashion. As with other entities, HSF Moscow had the means to withdraw from Russia in a fully compliant

manner, but instead made several payments to different designated persons over a period of seven days. HSF Moscow had access to specialist advice which they did not properly utilise. The driving factor in HSF Moscow's closure was the imposition of sanctions on large parts of Russia and its economy, and yet HSF Moscow failed to sufficiently account for these sanctions in administering the closure of its office.

CASE ASSESSMENT

23. OFSI will take several factors into account that could be assessed as aggravating or mitigating when determining the facts and how seriously it views a case (the "case factors"). Within these case factors, OFSI will make an overall assessment as to the breach severity and the conduct of the person who has breached. With reference to these factors set out in OFSI's Enforcement and Monetary Penalties Guidance, the aggravating factors in this case were:

- a. HSF made funds available directly to designated persons or their wholly owned subsidiaries. Although most of the payments were of lower value, the cumulative total and their repeated nature was serious, and the total value significant. Six payments were made to various designated persons over successive days (case factors B and I);
- b. The harm or risk of harm to the regime's objective. All payments, including the very high value payment, were made directly to designated persons, at a time when attempts to elicit behavioural change from Russian designated persons were a critical government priority (case factor C);
- c. OFSI does not consider there to have been any intent or actual knowledge when making the payments that HSF Moscow's actions would be in breach of the Russia Regulations. However, HSF Moscow had significant awareness of sanctions risk and failed to take reasonable care. For all payments, they had reasonable cause to suspect their actions would result in a breach of the regulations (case factor D);
- d. Whilst HSF Moscow did have systems and policies to prevent sanctions breaches, and had widespread awareness of sanctions risk, these proved ineffective and were not properly followed in relation to these specific payments (case factor E);
- e. A clear failure by HSF Moscow's most senior finance staff to conduct proper due diligence or understand the application of ownership and control in UK sanctions regulations in relation to these payments. HSF Moscow relied on an informal response from HSF London as their sole basis for concluding that sanctions did not apply to Sovcombank Life, far below what would be expected from the office of a law firm operating in Russia during the first half of 2022 (case factor F);

24. These factors were weighed against the mitigating factors in the case, which were as follows:

- a. HSF London's initial disclosure to OFSI came almost immediately after the lease payment breach was discovered by HSF Moscow, and was followed by subsequent further voluntary reporting five days later. All reporting was voluntary, prompt, and contained significant detail. HSF London has also conducted its own investigations and has cooperated fully. HSF London's proactive actions were considered mitigating in the case against HSF Moscow given they were acting on their behalf (case Factors J and K);
- b. HSF Moscow committed the breaches whilst in the process of closing down its operations within Russia. This was in support of UK policy objectives (case factor C)

25. OFSI considered the transfer of funds from the Alfa-Bank account to Raiffeisenbank to on, balance, be neither mitigating nor aggravating. OFSI considered that the harm to the sanctions regime was limited given the funds were only with Alfa-Bank for a short period of time. However, OFSI did not consider the latter movement itself to be mitigating given it was not actioned by HSF Moscow themselves (case factor C).

26. In the context of these aggravating and mitigating factors, and in accordance with the Enforcement and Monetary Penalties Guidance, OFSI assessed this case overall to be "serious" as opposed to "most serious".

27. The total value of the breaches was £3,932,392.10. Accordingly, the statutory maximum penalty for this case was £1,966,196.05. Taking into account all the case factors, OFSI considered it reasonable and proportionate to impose a penalty of £930,000. OFSI considers voluntary disclosure under case factor J, and if a penalty is imposed, will make a reduction of up to 50% to the final monetary penalty amount if the disclosure is unprompted, voluntary, and complete. OFSI considered this threshold to be fully met in this case and provided the full 50% discount to reach a final monetary penalty of £465,000.

28. Finally, OFSI considers the collective case factors, the public interest, and whether the case is therefore serious enough to impose a penalty and the value of that penalty. OFSI considers the imposition of a penalty in a case such as this one to be reasonable and proportionate, and that the publications of the findings and lessons which can be drawn from HSF Moscow's actions will promote compliance and deter breaches.

NOTES ON COMPLIANCE

29. UK financial sanctions apply to all legal entities established under UK law, and all UK firms must ensure they comply with UK financial sanctions that are in force. This case highlights several important compliance lessons for industry which apply not only to the legal sector but also to wider stakeholders.
30. Firstly, this case highlights that it is essential for firms to understand their exposure to sanctions risks and to take appropriate action to address them. Firms operating in higher risk environments should educate themselves fully on the risks (including by properly engaging with OFSI's published guidance and seeking professional advice on their sanctions obligations if necessary). In particular, parent companies with subsidiaries in areas that pose a heightened sanctions risk (such as offices overseas) should ensure they are providing suitable advice and assurance.
31. Second, the need for adherence to sanctions policies and processes that a firm has in place. Firms are expected to follow all relevant sanctions screening and due diligence measures they have in place. This applies equally to all individuals, regardless of seniority. Whilst OFSI usually considers the existence of appropriate sanctions policies and procedures mitigating, the failure to follow and comply with them may significantly undermine the weight given to this factor and be aggravating overall when considered against OFSI's expectations of a firm. Further, this case demonstrates the significant risks that can emerge when payments are made in haste and procedures not adequately followed by senior figures.
32. Third, the need to fully consider ownership and control beyond just whether an entity is directly subject to sanctions. Failure to properly consider and identify clear ownership is viewed more poorly by OFSI than an incorrect but good faith assessment of control. Firms should take sufficient time and care to properly assess the applicability of sanctions to the specific legal entities they are dealing with.
33. Further information and guidance on UK financial sanctions can be found on OFSI's website: <https://www.gov.uk/government/organisations/office-of-financial-sanctions/implementation>.