1. Introduction

Economic sanctions are imposed by national and international bodies as a means of exerting political and economic pressure on states through restrictions on trade relationships or travel.

They can be imposed by governments, the European Community or by supra-national institutions such as the United Nations. They may bar trade with a country or an individual, or place restrictions on trade with specific sectors (e.g.Jade trading in Myanmar or nuclear technology with Iran).

2. Why are such sanctions so important?

Sanctions are imposed for significant political and trade reasons and are backed up by criminal penalties that are rigorously enforced. It is therefore important for a fund manager to know the potential impact of sanctions on an investment.

Breaching economic sanctions would have a significant adverse effect on the reputation of the fund manager and its investors.

3. Advice for Fund Managers

When conducting due diligence (DD) on an investment, fund managers should be able to answer the following:

- Does the company operate in, sell goods or services to, or buy goods or services from a country listed on any international sanctions lists?
- Are the goods and services that the company buys or sells subject to restrictions in their trade or capable of a dual civilian and military use?
- Are any of the existing directors or shareholders (direct or indirect)of the company (up to and including its ultimate beneficial owners) subject to economic sanctions? The Know Your Customer (KYC) checks that will be completed prior to investment will help clarify this.
- Are any of the directors or shareholders (direct or indirect) of any of its major suppliers or customers of the company (up to and including the ultimate beneficial

owners of such suppliers or customers) subject to economic sanctions?

If the answer to any of these questions is: ‘Yes’ or ‘do not know’ then immediate professional advice should be sought.

It must not be assumed that because a potential investment has no apparent links to the US that the requirements of US sanctions regimes can be ignored. They are very wide ranging and complex and the act of settling a transaction in dollars, or via a US bank, or a non-US bank with an office in America, may create jurisdiction for the relevant US regulator.

When designing a monitoring system for an investment, fund managers should consider how that company itself monitors changes in the answers to the above four questions. Fund managers should have systems in place to ensure that relevant parties (including Limited Partners) are promptly informed if a fund manager becomes aware that any sanctioned party is involved, directly or indirectly with the fund manager, the fund or any portfolio company.

4. Further resources

- Further Resources
    - HM Treasury website – UK, EU and UN sanctions
    - US Treasury OFAC sanctions lists