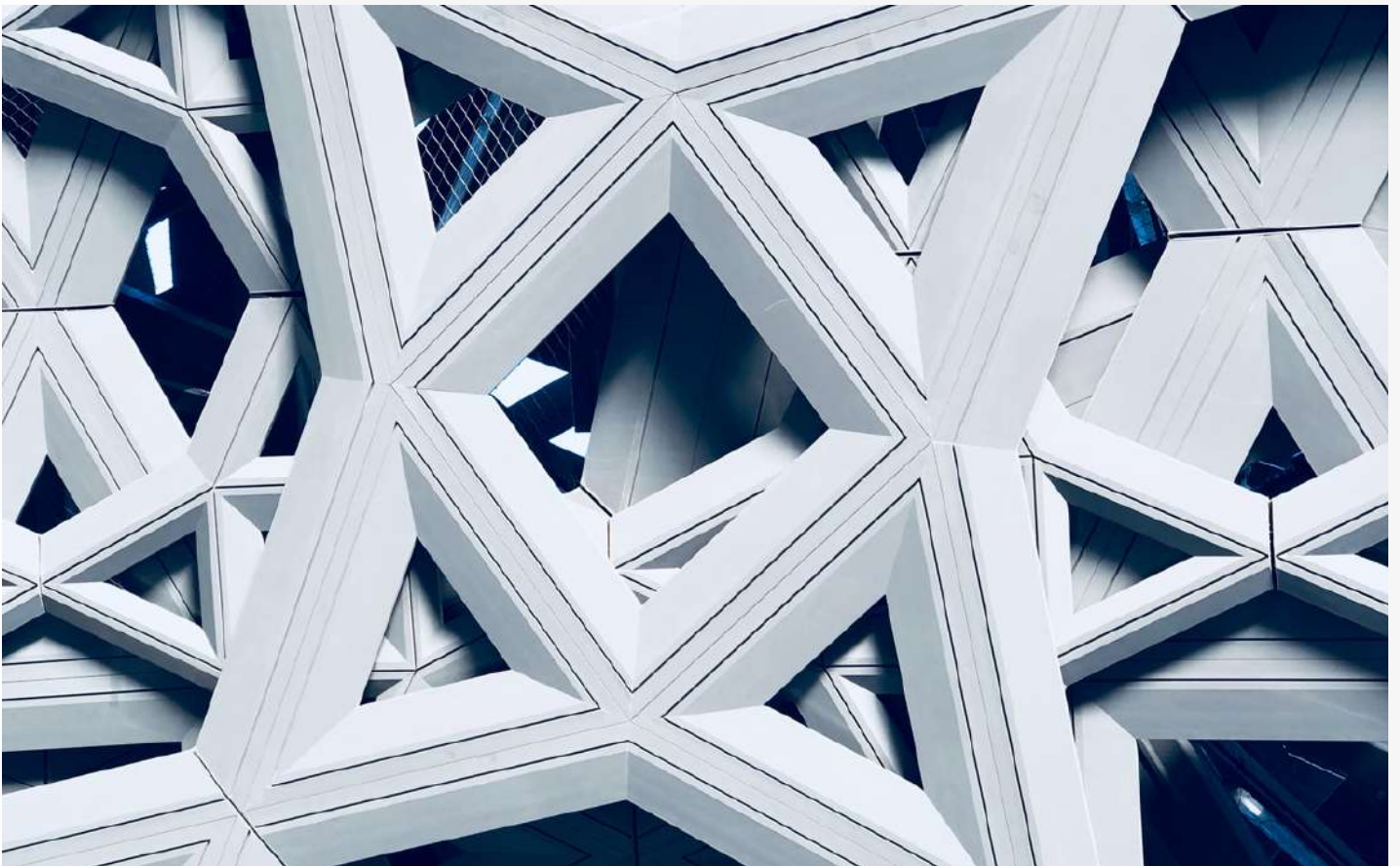


**THE 50% RULE IN SANCTIONS COMPLIANCE:
COMPLEX OWNERSHIP RULES EXPLAINED**

WHITE PAPER



MARCH 2023

THE 50% RULE IN SANCTIONS COMPLIANCE: COMPLEX OWNERSHIP RULES EXPLAINED



INTRODUCTION

Compliance with sanction regulations is a challenging requirement, as it presupposes not just checking the persons and entities against official sanction lists published by authorities such as OFAC, OFSI, SECO, EU, etc, but also following closely the guidelines of the “50% Rule” set out by these institutions.

Nowadays, sanction compliance cannot rely merely on human analysis, but is in need of quality automated screening technologies, which are well-equipped with not only up-to-date data on official sanctions lists, but also do the automatic calculations on the corresponding rules regarding sanction associated entities and persons. A combination of human analysis and machine-generated data can help organizations avoid the risk of heavy fines and fees associated with sanction compliance.

This paper is focused on the analysis of the various scenarios that fall under the “50% rule” appearing in OFAC’s, OSFI’s and EU’s regulations. It also provides a few practical examples from automated data generated by Polixis’ sanction data that runs its three main solutions - ARDIS, PEP&REP, and CheckMate. In the end, we describe these solutions in brief.

OFAC'S 50% RULE

According to **OFAC's 50 Percent Rule**, property and interests in property of entities **directly** or **indirectly** owned 50 percent or more in the aggregate by one or more blocked persons are considered blocked. "Indirectly", in this case, refers to one or more blocked persons' ownership of shares of an entity through another entity or entities that are 50% or more owned in the aggregate by the blocked person(s).

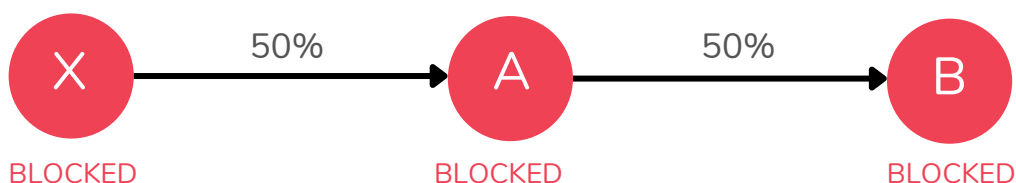


It is important to note that this rule concerns only actual **"ownership"**, and not **"control"**. Thus, if an entity is controlled (but not owned 50 percent or more) by one or more blocked persons, it is not considered automatically blocked pursuant to OFAC's 50 Percent Rule. Yet, one should keep in mind that an extra caution should be taken during transactions with entities that are not blocked, but in which other blocked entities own less than 50 percent stake, because such entities are still at the risk of being blocked at some point. That is why, the solutions designed by Polixis, also include such entities in the immediate surrounding of sanctioned entities, signaling them with special alerts, such as **"sanction related"** or **"sanction affiliated"** entities. Signaling these kinds of relations is also important, because OFAC generally prohibits transactions involving, directly or indirectly, a blocked person, even if the blocked person is acting on behalf of a non-blocked entity. Thus, an extra caution is to be taken when conducting business with non-blocked entities in which blocked individuals are involved.

Below you can find six different scenarios of when an entity can be considered blocked under OFAC's 50% rule. Note, that the same scenarios in most cases also apply to other major international and national sanctions regimes.

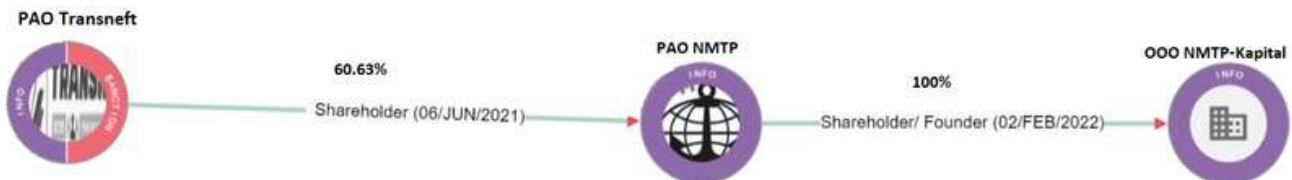
SCENARIO 1

Blocked Person X owns 50% of Entity A, and Entity A owns 50% of Entity B. Entity B is considered to be blocked, because Blocked Person X's 50% ownership of Entity A makes Entity A a blocked person, and Entity A's 50% ownership of Entity B in turn makes Entity B a blocked person.



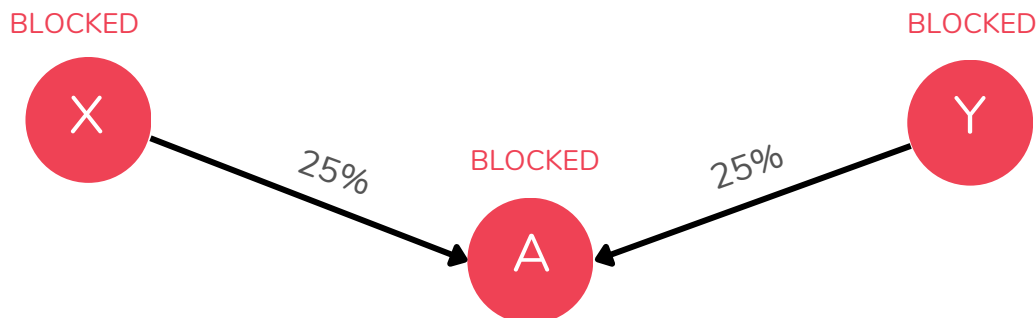
PRACTICAL EXAMPLE FROM POLIXIS DATA

PAO Transneft is under OFAC, EU, Australia, Swiss, Canadian sanctions lists. PAO Tansneft is 60.63% shareholder in **PAO Novorossiyskiy Morskoy Torgovyy Port (a.k.a. PAO NMTP)**. Therefore PAO NMTP is also considered to be blocked. In turn, PAO NMTP fully owns **PAO NMTP-Kapital**, therefore the latter is also considered to be blocked.



SCENARIO 2

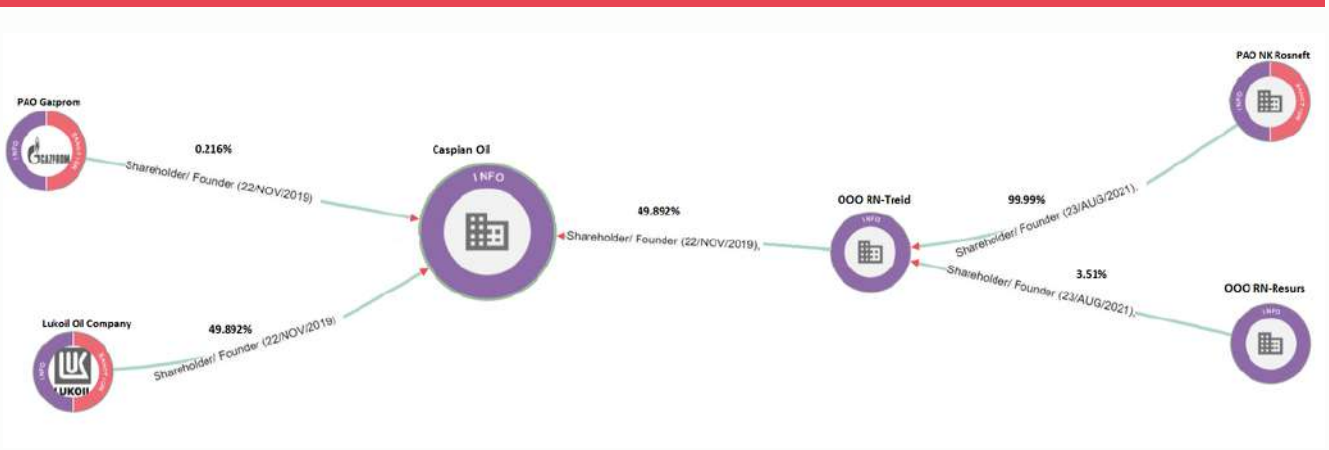
Blocked Person X owns 25% of Entity A, and Blocked Person Y owns another 25% of Entity A, Entity A is considered to be blocked. This is so because Entity A is owned 50% or more in the aggregate by one or more blocked persons.



PRACTICAL EXAMPLE FROM POLIXIS DATA

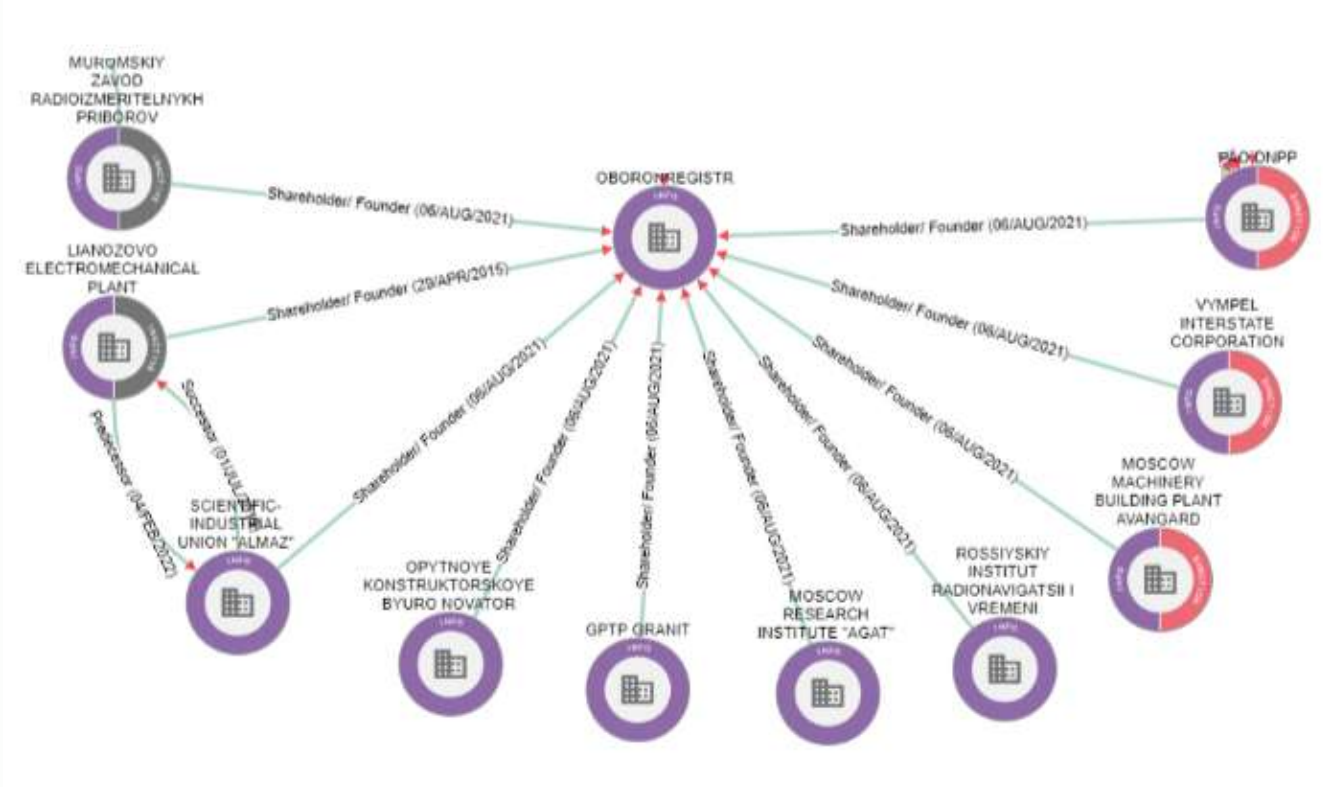
PAO Gazprom, which is under OFAC, Canadian and Australian sanctions, owns 0.216% stake in **OOO Kaspiyskaya Neftyanaya Kompaniya (a.k.a. Caspian Oil Company)**. At the same time, **PAO Neftyanaya Kompaniya Lukoyl (a.k.a. Lukoil Oil Company)**, which is sanctioned by OFAC, owns 49.892% stake in Caspian Oil Company. Their aggregate ownership in the company makes 50.108%, which is enough to consider Caspian Oil Company also blocked.

On the other hand, Caspian Oil Company's third shareholder is **OOO RN-Treid**, which itself does not appear to be on official sanctions lists. Yet, it is owned by another sanctioned company - **PAO NK Rosneft**, which controls 99.99% stake in the company, meaning that OOO RN-Treid is also a blocked entity.



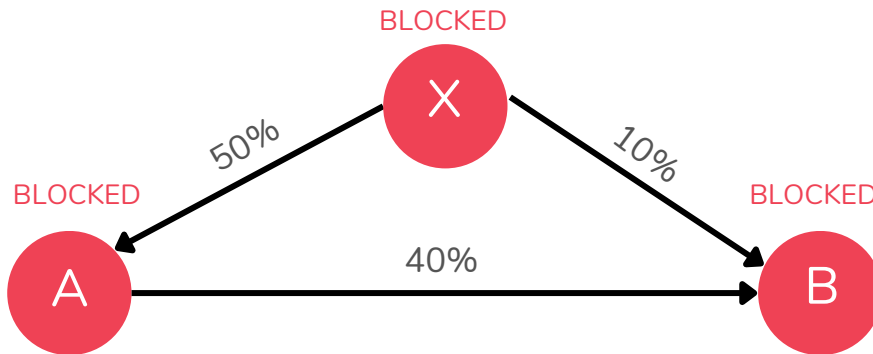
PRACTICAL EXAMPLE WHEN AGRAGATE OWNERSHIP TOTALS LESS THAN 50%

OOO Oboronregistr has three sanctioned entities among its shareholders, namely **PAO Mezghosudarstvennaya Aktsionernaya Korporatsiya Vypmel (a.k.a. Vypmel Interstate Commercial Corporation)**, which holds 4,6636% stake, **PAO Dolgoprudnskoye Nauchno Proizvodstvennoye Predpriyatiye (a.k.a. PAO DNPP)**, which holds 15,9960% stake, and **OOO Moskovskiy Mashinostroitelniy Zavod Avangard (a.k.a. Moscow Machinery Building Plant Avangard)**, which holds 3.3311% stake. This means that OOO Oboronregistr cannot be considered blocked, since the aggregate ownership of the sanctioned entities in this entity equals 23.9907%, that is lower than 50%.

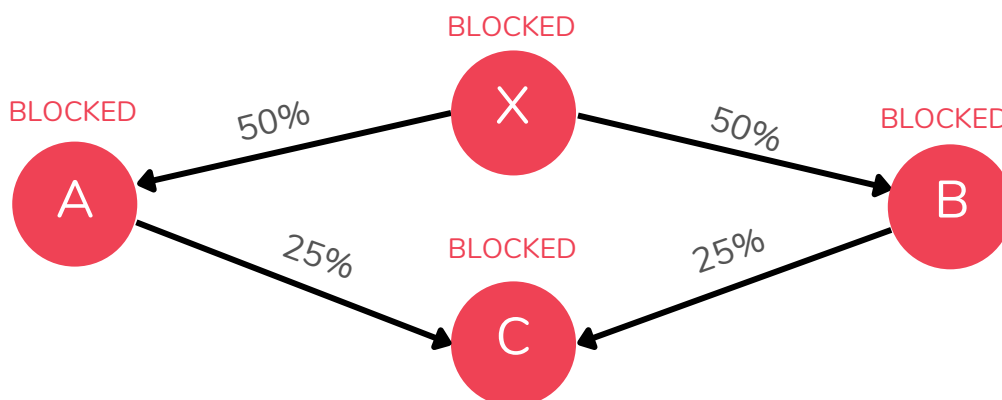


SCENARIO 3

Blocked Person X owns 50% of Entity A and 10% of Entity B. Entity A owns 40% of Entity B. Entity B is blocked due to the 50% aggregate ownership by Blocked Person X and Entity A, which are themselves both blocked persons.

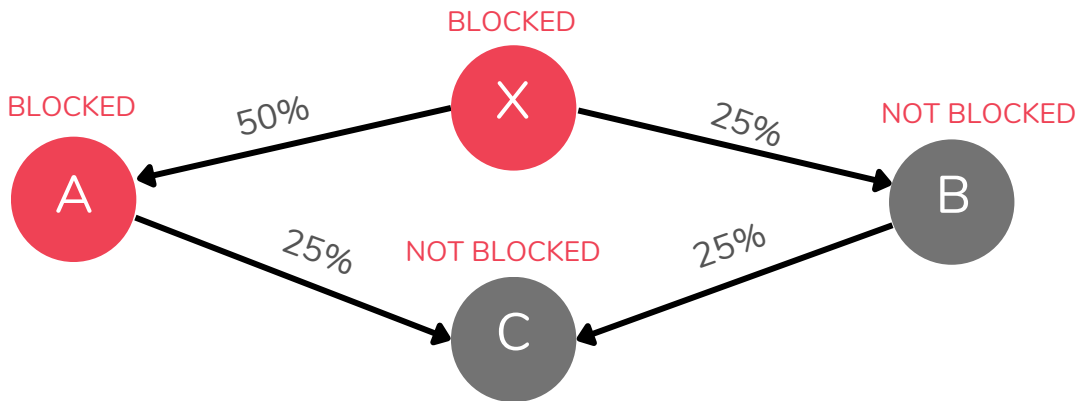
**SCENARIO 4**

Blocked Person X owns 50% of Entity A and 50% of Entity B. Entities A and B each own 25% of Entity C. Entity C is considered to be blocked. This is so because, when Blocked Person X's indirect ownership of Entity C through Entity A and Entity B is totaled, it equals 50%.

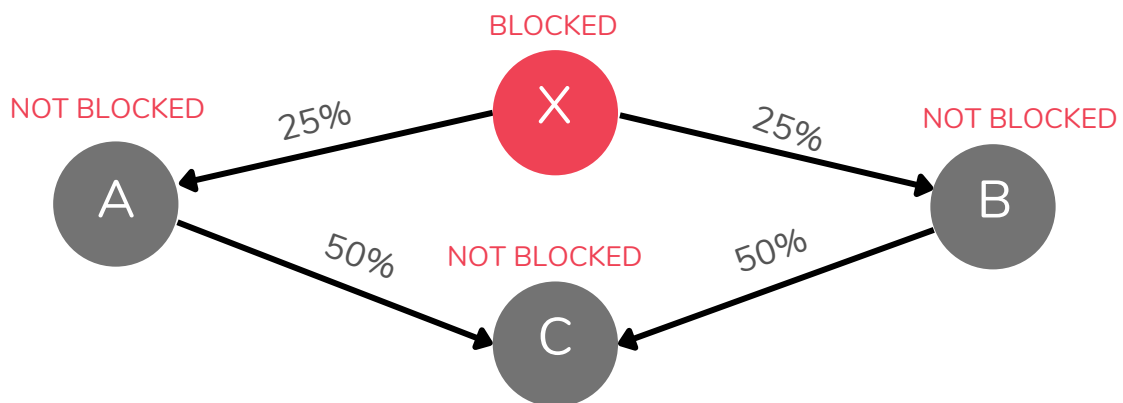


SCENARIO 5

Blocked Person X owns 50% of Entity A and 25% of Entity B. Entities A and B each own 25% of Entity C. Entity C is not considered to be blocked, it is not 50% or more owned by Blocked Person X. Blocked Person X's total ownership of Entity C therefore does not equal or exceed 50%.

**SCENARIO 6**

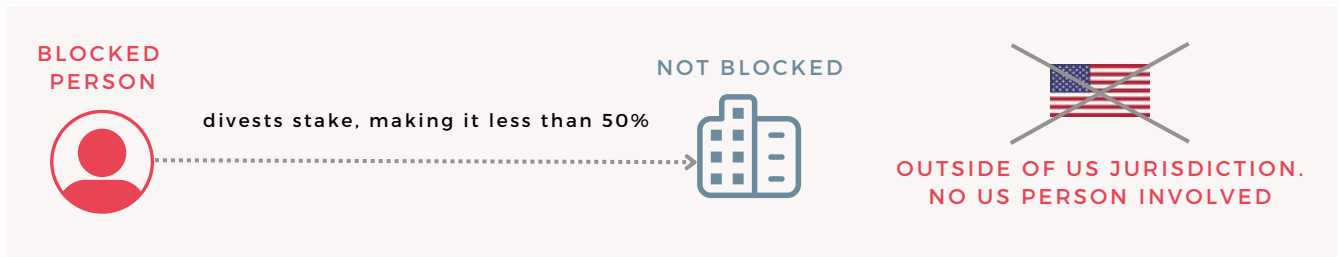
Blocked Person X owns 25% of Entity A and 25% of Entity B. Entities A and B each own 50% of Entity C. Entity C is not considered to be blocked, because Blocked Person X's 25% ownership of each of Entity A and Entity B is below 50%.



CURIOUS FACTS ON OFAC'S 50% RULE

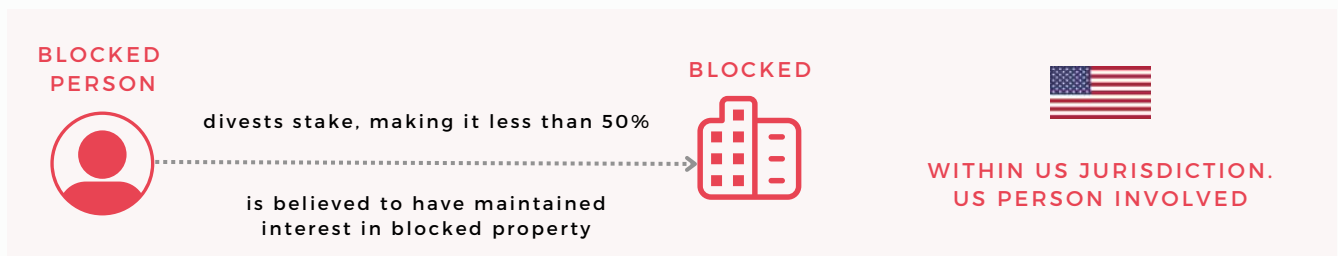


A question that is frequently asked is whether the 50% rule applies to entities after their blocked owners **divest** their stakes in these entities. OFAC's answer to this is that after one or more blocked persons divest their ownership stake, as a result of which the combined ownership by blocked persons becomes less than 50%, the entity is no longer considered to be blocked. One important nuance here is that such divestment transactions must occur **entirely outside of U.S. jurisdiction** and must **not involve U.S. persons**.



However, OFAC urges caution when dealing with entities, to whom the stakes of blocked persons were divested, as those entities may become the subject of future designations or enforcement actions by OFAC.

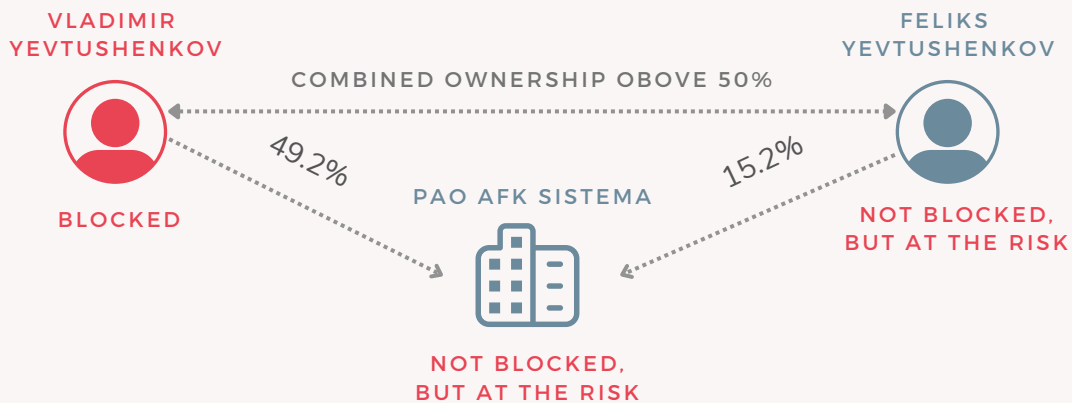
Contrary to that, if the property of an entity owned 50% or more by a single blocked person, or in the aggregate by more than one blocked persons, comes **within the United States or within the possession or control of a U.S. person** and is blocked, the property remains blocked even if the blocked persons' ownership of the entity subsequently falls below 50%, because the blocked persons are considered to still **have an interest in the blocked property**.



PRACTICAL EXAMPLES FROM POLIXIS DATA

In April 2022, Russian businessman **Vladimir Petrovich Yevtushenkov**, who fell under UK, Australian and New Zealand sanctions, transferred 10% of **PAO AFK Sistema** to his son **Feliks Vladimirovich Yevtushenkov**. As a result of the transaction, the share of Felix Yevtushenkov in the authorized capital of PAO AFK Sistema amounted to 15.2%, while Vladimir Yevtushenkov retained a 49.2% stake.

Although at the moment, Vladimir Yevtushenkov's stake is below 50% in the company, if his son also falls under sanctions, their combined interest in the company will be above 50% and the company will be considered blocked. So an extra caution needs to be applied, when engaging in transactions with PAO AFK Sistema.



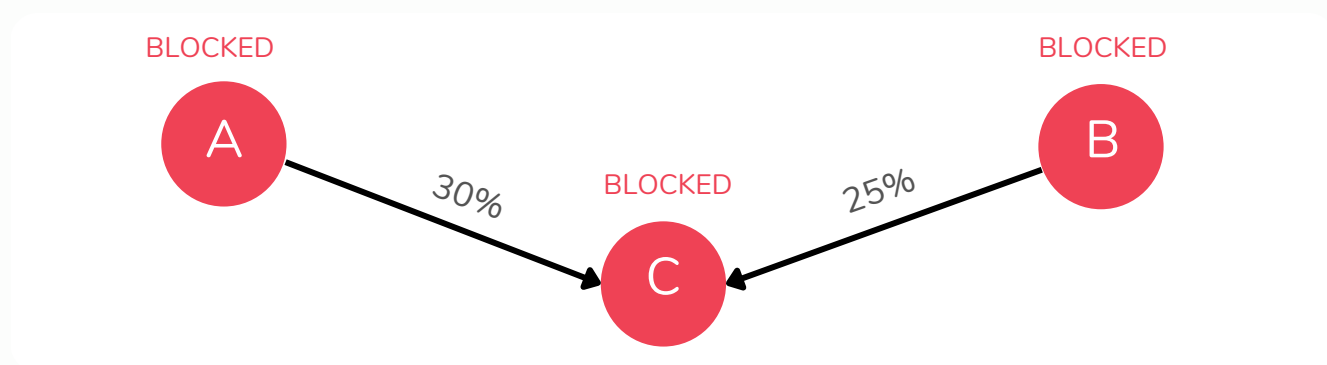
Another curious example is the one of Russian businessman **Andrey Igorevich Melnichenko**. After falling under OFAC, EU, Swiss, UK, Canadian, Australian sanctions, Melnichenko ceased to be the beneficiary of **EuroChem Group AG** and resigned from his executive roles at the company. Melnichenko reportedly used to own 90% of the shares in EuroChem group. He reportedly ceded control of EuroChem Group AG to his spouse **Aleksandra Melnichenko**, who is the beneficial owner of **Firstline Trust**, managed by **Linetrust PTC Ltd**, which, in turn, represents the ultimate owner of **EuroChem Group AG**.

Following the events, Aleksandra Melnichenko fell under EU, Swiss, and Canadian sanctions. She later tried to contest the sanctions against her in EU court. The litigations are ongoing.

EU'S 50% RULE



Similar to OFAC regulations, under EU sanctions, entities owned 50% or more by a sanctioned individual or entity are considered to be sanctioned. The aggregate ownership rule also applies in EU's case. Thus, if two or more sanctioned persons are each minority shareholders of a non-sanctioned entity, but their aggregate ownership amounts to more than 50% of that entity, then that entity should be considered sanctioned.



Entity C is considered to be blocked, because where multiple blocked persons together own 50% or more of an entity, it should be treated as owned in the aggregate by blocked persons, and subject to asset freeze sanctions.



Note, that unlike OFAC, which specifically highlights the importance of entities being "owned" and not "controlled" by the blocked persons or entities to be considered also blocked, EU sanctions also include **specific parameters of "control"** when considering collateral sanction exposure. EU's blocking sanctions, can also apply where there is control and not just ownership.

EU'S PARAMETERS OF CONTROL

When assessing whether a legal person or entity is controlled by another person or entity, the following criteria should be assessed:

- (a) having the right or exercising the power to appoint or remove a majority of the members of the administrative, management or supervisory body of such legal person or entity;
- (b) having appointed solely as a result of the exercise of one's voting rights a majority of the members of the administrative, management or supervisory bodies of a legal person or entity who have held office during the present and previous financial year;
- (c) controlling alone, pursuant to an agreement with other shareholders in or members of a legal person or entity, a majority of shareholders' or members' voting rights in that legal person or entity;

- (d) having the right to exercise a dominant influence over a legal person or entity, pursuant to an agreement entered into with that legal person or entity, or to a provision in its Memorandum or Articles of Association, where the law governing that legal person or entity permits its being subject to such agreement or provision;
- (e) having the power to exercise the right to exercise a dominant influence referred to in point (d), without being the holder of that right;
- (f) having the right to use all or part of the assets of a legal person or entity;
- (g) managing the business of a legal person or entity on a unified basis, while publishing consolidated accounts;
- (h) sharing jointly and severally the financial liabilities of a legal person or entity, or guaranteeing them.

UK'S 50% RULE

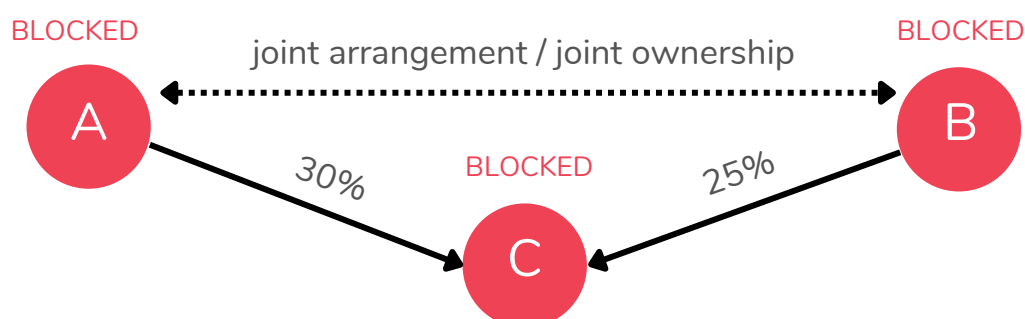


Just like in EU's Case, UK states that asset freeze and some financial services restrictions will apply to entities that are "**owned**" or "**controlled**", directly or indirectly, by a designated person. Ownership refers to the situation when a person holds (directly or indirectly) more than 50% of the shares or voting rights in an entity.

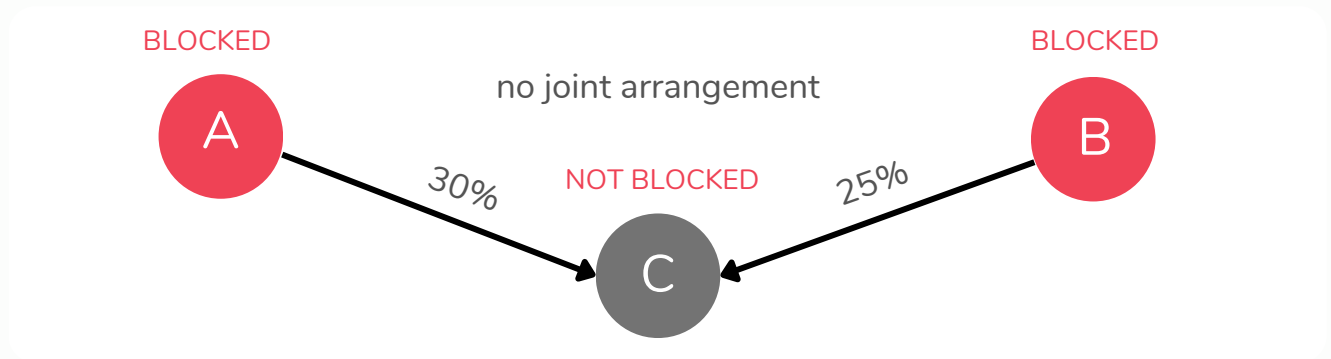
Thus, if Entity X is not sanctioned, but its majority owner (owning more than 50% stake) is sanctioned, then Entity X is also subject to the same restrictions as its sanctioned majority owner.



When it comes to the question of aggregate ownership, UK regulations introduce some nuances to be considered. OFSI states that it **would not automatically aggregate** ownership of multiple designated persons' holdings in a company, unless, for example, the shares or rights are subject to a **joint arrangement** between the designated parties or one party controls the rights of another.



Consequently, if each of the designated person's holdings falls below the 50% threshold in respect of share ownership and there is **no evidence of a joint arrangement** or that the shares are held jointly, the company would not be directly or indirectly owned by a designated person.



UK'S PARAMETERS OF CONTROL

Control in OFSI's regulation refers to the situations when:

- (a) the person has the right (directly or indirectly) to appoint or remove a majority of the board of directors of the entity; or
- (b) it is reasonable to expect that the person would be able to ensure the affairs of the entity are conducted in accordance with the person's wishes.

This could, for example, include:

- appointing, solely by exercising one's voting rights, a majority of the members of the administrative, management or supervisory bodies of an entity, who have held office during the present and previous financial year
- controlling alone, pursuant to an agreement with other shareholders in or members of an entity, a majority of shareholders' or members' voting rights in that entity
- having the right to exercise a dominant influence over an entity, pursuant to an agreement entered into with that entity, or to a provision in its Memorandum or Articles of Association, where the law governing that entity permits its being subject to such agreement or provision
- having the right to exercise a dominant influence referred to in the point above, without being the holder of that right (including by means of a front company)
- Having the ability to direct another entity in accordance with one's wishes. This can be through any means, directly or indirectly. For example, it is possible that a designated person may have control or use of another person's bank accounts or economic resources and may be using them to circumvent financial sanctions.

LITERATURE

[Revised Guidance On Entities Owned By Persons Whose Property And Interests In Property Are Blocked, Department Of The Treasury, 13 August 2014](#)

[Restrictive Measures \(Sanctions\) - Update on the EU Best Practices for the effective implementation of restrictive measures, Council of the European Union, 24 March 2015](#)

[Asset Freeze And Prohibition To Make Funds And Economic Resources Available Related Provision: Council Regulation 269/2014](#)

[General guidance for financial sanctions under the Sanctions and Anti-Money Laundering Act 2018, Office of Financial Sanctions Implementation \(OFSI\)](#)

ABOUT POLIXIS

Polixis is a best-in-class RegTech and advisory firm, headquartered in Geneva, Switzerland. We are proud to have served some of the world's most demanding companies since 2012, ranging from Tier 1 Global Banks to more localised companies in need of Risk & Compliance solutions.

We offer software and data solutions, as well as advisory services to our clients.

We own and operate some of the market's largest AML Compliance datasets, available both as API, and as FTP Bulk Downloads.

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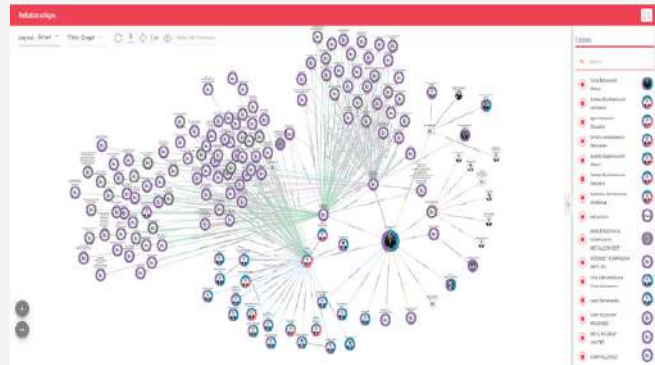
Emma Deyneka - emma.deyneka@polixis.com
Enrico Cecere - enrico.cecere@polixis.com



POLIXIS SOFTWARE SOLUTIONS

ABOUT ARDIS


ARDIS is designed for conducting complex AML, PEP, sanctions and KYC research. It is a perfect solution for both Front Office and Compliance teams to enhance existing KYC, review or conduct new on-boarding.



ARDIS allows to go the extra mile, by providing not only risk, but also economic and broader KYC information, counterparty exposure, company affiliations, links between individuals and entities, shipping and aircraft registries, and more. It focuses on Source of Wealth Corroboration, Economic Information along with traditional risk information such as PEPs, Sanctions and Adverse Media Analysis.

KEY IDENTIFIERS

Ziad Khalaf Al Manaseer



AKA
زياد خلف المنصور, Ziyad Khalaf Mohammad Al Manaseer, Ziyad Manasir, Ziad Khalaf Mohamed Almanaseer, زياد خلف المنصور المنصور, Ziyad Manaseer, Ziyad Khalaf Mohammed Manaseer, Ziyad Al Manassir, زياد مناسير, Manasir Ziad Khalaf Mohamed, Mansir Ziad Khalaf Mohamed Manasir, Ziyad Manasir, زياد مناسير, Ziad Khalaf Mohammad Al Manaseer, Ziad Khalaf Al Manasir

ARDIS ID
P01011039724270801586725821

Unique National Identifier
TIN: 770303428416, National ID: 9651000176

Related Dates
Date of Birth: 12/DEC/1905

Possible Addresses
pereulok kapranova 4 apt. 9 moscow russian federation

Status
Active

OVERALL RISK
The overall risk assessment was conducted based on Polixis's proprietary risk assessment methodology. The key components of our assessment include: Political Compliance Country Risk scoring, Exposure to Sanction risk, Criminal charges, Exposure to a Politically Exposed Person, Equity exposure to state, Adverse Regulatory Information



BUSINESS PROFILE

We have identified the selected individual in connection to several entities spread across 14 jurisdictions, Saudi Arabia, Lebanon, Qatar, British Virgin Islands, Jordan, France, Yemen. Ziad Khalaf Al Manaseer has directorship/corporate positions in 30 legal entities. He/she also appears as shareholder in 38 legal entities.

He/she also appears to be related to a **Listed Entity**. The list of associated entities and individuals together with the visualization of links between them is provided below.

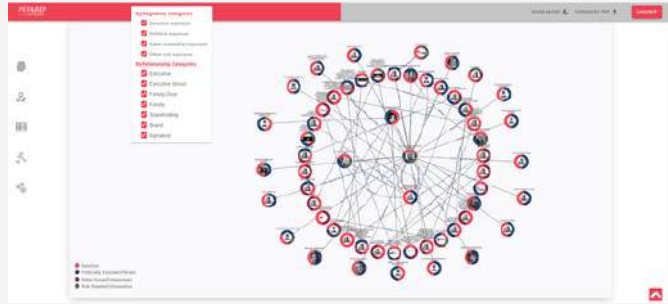
INDIVIDUAL AND CORPORATE IDENTIFIERS:

03
The name in original language: زياد خليفة المنصور المنصور
The name in Arabic: زياد خلف المنصور
Alert: Please be aware that the information is not verified.
Risk: It is a listed entity.
Status: It is a sanctioned entity.

General	ARDES ID: L000016100000197854... FI	National ID: 9651000176	06011909
	Country: Jordan	Residence: Jordan	13/MAR/2020
Entity Affiliation According to Forbes Arabia Wealth List	Affiliation: founder, chairman of the board of directors	Entity: Capital Management	20/10/2018, 16/10/2018
Ownership According to Forbes Arabia Wealth List	Entity: Ziad Khalaf Al Manaseer - founder of an administration	Exact percentage unknown	Estimated total (USD) of net worth: Not disclosed
	Entity: Mansir Khalaf Mohamed Manasir - founder of an administration	Exact percentage unknown	Estimated total (USD) of net worth: Not disclosed
Shares in Other Entities According to American Stock Exchange	Entity: United States of America - LLC - American Stock Exchange	RD: 19716	80.77%

ABOUT PEP&REP

PEP & REP is a comprehensive PEP, Sanction, and other risk relevant information database/ software, deployable as API, web-based application, and bulk data.

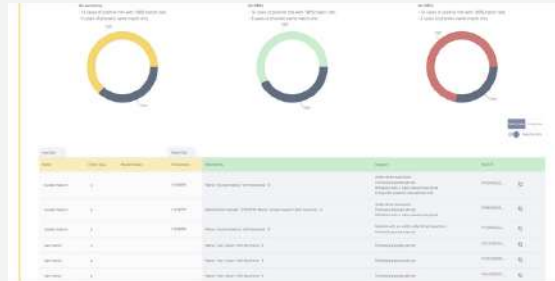


Its recommended use is for fast robust screening of core risks such as PEP, Sanctions, Batch Screenings, Transaction and Payment Monitoring.

PEP & REP has one of the World's Biggest Collection of risk data. It differs from existing legacy tools by the size of its synthetic data.

ABOUT CHECK MATE

Check Mate is designed for real time batch screening of your existing customers against any type of regulatory risk, including sanctions, political exposure, and all sorts of regulatory lists (warning and wanted lists).



All you need to do is upload your client data in a dedicated Excel format in our system, define specific parameters needed for the screening (e.g. sanction, sanction related, sanction beneficiary, third party exposure, equity exposure, PEP, PEP Associate, PEP shareholding, SOE, SOE Associate, SOE Shareholding, regulatory risk, crime), and let the software do its magic. Eventually you get a detailed report on all positive hits matching your selected criteria.

DISCLAIMER



This is not investment advice and no decisions shall be taken based on this analysis. The analysis above merely presents various sanction jurisdictions rules, and some data used may not be up to date at time of consultation.