

To: All Members

Ref: 18/103

Classification: Brands Warehousing

Date: 10 April 2018

Subject: **Rusal Brands – US Sanctions**

Summary

1. This Notice updates the market on the Russia-related sanctions imposed by the Office of Foreign Assets Control ("**OFAC**") on 6 April 2018, involving the designation of United Company Rusal ("**Rusal**") as a Specially Designated National ("**SDN**") under Executive Order 13661 and 13662 and the Ukraine-related Sanctions Regulations (the "**Sanctions**").
2. This Notice further announces a decision of the Special Committee pursuant to its powers under Regulation 17 of Part 3 of the LME Rulebook to introduce a temporary conditional suspension on placing Rusal metal on Warrant with effect from 00.01 UK time on 17 April 2018 unless the metal owner can demonstrate to the satisfaction of the LME that it will not constitute a breach of the Sanctions. The temporary conditional suspension shall continue until further notice, allowing the LME to engage with stakeholders to determine the appropriate longer-term approach.

Defined Terms

3. Capitalised terms not otherwise defined in this Notice shall have the meaning ascribed to them in the Rulebook.

Background

4. The LME's understanding of the Sanctions is set out below. This Notice sets out the LME's understanding of the law on which its decisions are based. It does not constitute legal advice or guidance and should not be relied on by any person.
5. Unless licensed by OFAC, the Sanctions block the property and interests in property of Rusal and any entity owned 50% or more by Rusal (and/or other SDNs) that are in the United States or in the possession or control of a US Person. For this purpose, the Sanctions define "US Persons" to include: (a) all



US-domiciled entities, including their non-US branches, (b) any US citizens or US green card holders globally, and (c) all persons in the United States.

6. Unless licensed by OFAC, the Sanctions also prohibit the following actions to the extent they involve US Persons or the US financial system ("US Elements"):
 - (a) *The making of any contribution or provision of funds, goods, or services by, to, or for the benefit of [Rusal];*
 - (b) *The receipt of any contribution or provision of funds, goods, or services from [Rusal]; and*
 - (c) *Any transaction that evades or avoids, has the purpose of evading or avoiding, causes a violation of, or attempts to violate any of [these] prohibitions.*
7. In addition, OFAC has issued two new general licenses (the "General Licenses") to permit certain exit-related transactions involving Rusal.
 - (a) General License 12 authorizes, until 5 June 2018, the involvement of US Elements in actions to maintain or wind down existing operations or contracts with Rusal and 11 other newly-designated SDN companies and their 50% or more owned subsidiaries. However, the license does not apply to exports from the United States and requires the blocking by US Persons of any payments to or for the direct or indirect benefit of a blocked person.
 - (b) General License 13 authorizes, until 7 May 2018, the involvement of US Elements in divestitures and transfers of debt, equity, or other holdings in Rusal, EN+ Group PLC and GAZ Group to non-US persons who are not blocked persons, but not investments in or sales to or by any blocked persons.
8. The above Sanctions (referred to as primary Sanctions) apply to transactions of non-US persons only to the extent that they involve US Elements.
9. Separately, secondary Sanctions (under Section 228 of CAATSA) expose non-US persons to the risk of a Sanctions designation by OFAC if they facilitate significant transactions with Rusal or other Russia-related blocked persons, unless a general license would permit those transactions to involve US Elements. In addition, under Section 226 of CAATSA, OFAC also could impose a secondary Sanctions designation on any non-US financial institution that knowingly facilitates a "significant financial transaction" on behalf of any Russian blocked persons.



Rusal Brands

10. The following LME listed brands are produced by Rusal (the “**Rusal Brands**”). All the Rusal Brands are for primary aluminium, unless otherwise stated.

BAZ SUAL	Bogoslovsky Aluminium Plant of Siberian-Urals Aluminium Company
BOAZ	JSC Boguchany Aluminium Smelter
KAZ SUAL	Kandalaksha Aluminium Plant of Siberian-Urals Aluminium Company
KPA3	Open Joint Stock Company Krasnoyarsk Aluminium Smelter
IRKAZ SUAL	OJSC SUAL Branch Irkutsk Aluminium Plant Siberian-Urals Aluminium Company
NAZ SUAL	Nadvoitsky Aluminium Plant of Siberian-Urals Aluminium Smelter
RUSAL B	Open Joint Stock Company RUSAL Bratsk Aluminium Smelter (as well as primary aluminium, this brand is also listed for aluminium alloy and NASAAC)
RUSAL I	OJSC «RUSAL Bratsk» branch in Shelekhov
RUSAL K	Open Joint Stock Company RUSAL Krasnoyarsk Aluminium Smelter
RUSAL KH	Open Joint Stock Company RUSAL Sayanogorsk Aluminium Smelter
RUSAL N	Open Joint Stock Company RUSAL Novokuznetsk Aluminium Smelter
RUSAL S	Open Joint Stock Company RUSAL Sayanogorsk Aluminium Smelter
UAZ SUAL	Uralsky Aluminium Plant of Siberian-Urals Aluminium Company
VGAZ SUAL	Volgograd Aluminium Plant of Siberian-Urals Aluminium Company

11. BAZ SUAL, KPA3, IRKAZ SUAL AND UAZ SUAL are delisted but warrants still remain in warehouse.

12. VGAZ SUAL is suspended.



LME analysis

13. The LME acknowledges that the Sanctions have caused concern in the market.
14. Firstly, the LME recognises that certain Members have raised concerns as to how to settle LME Contracts with sanctioned persons. While it is for Members to determine how to settle Contracts with sanctioned persons, the LME is willing to work with Members to explore appropriate solutions as far as possible. Members who would like to discuss particular concerns are invited to contact the Exchange.
15. Secondly, the LME recognises that certain Members and Clients are concerned that, if they were (in the course of settlement of an LME Contract) to take delivery of LME Warrants relating to metal of Rusal Brands, this could place them at risk of violating the Sanctions. In particular, the LME understands, from its informal discussions with stakeholders thus far, that market participants are generally comfortable that dealing in Warrants of Rusal Brands relating to metal which has been produced and supplied by Rusal prior to 6 April 2018 would not constitute a Sanctions risk, provided that:
 - (a) such dealings do not involve any blocked persons (as defined in the Sanctions) directly or indirectly;
 - (b) the metal was produced and supplied by Rusal prior to 6 April 2018 and Rusal no longer had any property interest in the metal after that date; and
 - (c) neither Rusal nor any blocked persons (as defined in the Sanctions) would contribute or receive funds, goods or services in connection with any dealings in the metal.
16. However, certain market participants have concerns that dealing in Warrants of Rusal Brands relating to metal which has been produced and supplied by Rusal on or after 6 April 2018 may constitute a Sanctions risk.
17. In particular, the LME notes concern in the market that, even though the General Licenses provide exclusions after the date of 6 April 2018, they are not sufficiently broad in scope to provide full comfort to market participants that metal produced and supplied within the dates of the General Licenses would not be subject to Sanctions.
18. It is for individual stakeholders on the LME to determine if particular brands are acceptable for their use given their legal or regulatory framework. However, if a given brand creates issues (such as, without limitation, sanctions risk or other risks to the orderly operation of the market) for a sufficiently large number of market participants, then the LME will consider appropriate actions, which may include suspension or delisting of the brand.



Temporary Conditional Suspension

19. Acting pursuant to its powers under Regulation 17 of Part 3 of the LME Rules, the Special Committee has issued the following direction.
20. With effect from 00.01 UK time on 17 April 2018 (the "effective date"), any metal owner wishing to place metal of any Rusal Brand on Warrant may only do so where the metal owner is satisfied, and can demonstrate to the reasonable satisfaction of the LME, that it will not involve any breach of the Sanctions. This must include a written confirmation from the metal owner that the conditions listed in paragraph 15(a) – (c) have been met.
21. After the effective date, a warehouse company should only accept Rusal Brand metal onto Warrant once it has received confirmation from the LME that it is satisfied that the conditions above have been met. In making such decision, the LME may request such information from the metal owner or other parties as it considers necessary in its sole discretion and shall be entitled to rely on the information provided by such parties. The LME shall not be liable for any loss which a metal owner or any other party may incur as a result of the temporary suspension, including without limitation any delay in putting the metal on Warrant whilst the requisite information is provided and considered by the LME, or any action brought by any regulatory authority as a result of its dealings in LME warranted metal.
22. In setting the date of 00.01 UK time on 17 April 2018, the LME has taken the view that – given the logistical lead time to deliver metal to LME warehouse and place it on Warrant – it is reasonable to assume that metal warranted before this date would have been produced and supplied by Rusal prior to 6 April 2018. This does not affect the application of the Sanctions to participants. Metal owners should not place metal on Warrant, whether before or after 17 April 2018, if they do not believe this assumption is valid or correct with respect to that particular metal.
23. The temporary conditional suspension shall continue until further notice. The aim of the temporary conditional suspension is to ensure that metal potentially subject to the Sanctions does not enter the LME network, and provides time for the LME to work with regulators, Members and Clients to establish a longer-term view on the continued listing of the Rusal Brands. The market will be updated in due course.



24. In making such decision, the LME Special Committee has taken into account the need to maintain a fair and orderly market and the interests of all relevant market participants.

Matthew Chamberlain
Chief Executive Officer

cc: Board directors

Aluminium Committee

Physical Market Committee

User Committee