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SEC Issues New Guidance Regarding Russia Sanctions and Public Company Disclosures

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In response to Russian President Vladimir Putin's decision to invade Ukraine in February, the U.S. government announced sweeping sanctions against Russia. As the conflict nears the three-month mark, businesses around the world are continuing to address compliance with these sanctions. To that end, the SEC recently issued guidance on how companies affected by the Russian invasion of Ukraine should disclose how the conflict is affecting their operations, including the impact of evolving sanctions.

The guidance, posted by the Division of Corporation Finance on May 2, 2022, advises impacted companies to consider disclosure about a variety of topics, including, if material, whether they have direct or indirect operations, investments, or employees in Russia, Ukraine, or Belarus that may be affected by the war; whether they have material direct or indirect reliance on goods in Ukraine, Russia, or countries supportive of Russia; whether the war is having or is expected to have material impacts on a company's supply chain; or whether the company has material business relationships, assets, or other connections to Russia, Ukraine, or Belarus.

The Division further advised that impacted companies' disclosures of their financial results may need to reflect information related to the sanctions, such as whether they have impaired corporate assets, inventory valuation, or ability to collect on contracts. The SEC further noted that companies should disclose any material issues related to increased cybersecurity risks or volatility in commodity trading prices regardless of whether they have operations in Russia, Belarus or Ukraine.

Despite the wide-ranging categories of information the Division advised companies to consider in making disclosure decisions, it cautioned that the list was not exhaustive. Companies should also consider less obvious potential material risks and impacts, such as the impact that business in Russia or Ukraine may have on the behavior of its customers. They should also be aware of MD&A requirements and disclose known uncertainties that are reasonably likely to have a material impact on the company's results of operations or financial condition.

The ever-changing regulatory and enforcement environment created by the Russian invasion poses unique risks for companies seeking to navigate the global landscape, both in terms of their actions and their public-facing statements. Now more than ever, it is important for companies that have been or could be materially impacted by the conflict in Ukraine to continue to monitor and analyze developments, including indirect, material effects of the resulting sanctions or Finland's decision to join NATO. Companies should understand not just the scope of the sanctions as they currently stand, but also monitor potential further sanction developments, and their potential direct and indirect impact on all aspects of the business and industry.

We have issued client alerts on related U.S. sanctions, which are available here.

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