

SANCTIONS, COVID AND INFLATION: NEED A CRYSTAL BALL TO UPDATE YOUR RISK FACTORS?

Mar 01, 2022

The Ukraine crisis raises a host of potential forward-looking statement qualifiers and risk factors to consider, as U.S. and European leaders swiftly issued several rounds of progressively more severe [sanctions](#) against Russian financial institutions, state-owned agencies, and Russian elites with close ties to President Putin.

Numerous additional parties have been sanctioned and new categories of sanctions have been introduced in more recent days, as have significant export controls. Prior alerts discussed the [February 21 sanctions](#) and [February 22 sanctions](#). In addition to the sanctions against Russian entities and individuals, the U.S. Government has also issued sanctions against entities and individuals in Belarus's defense and financial sectors.

Companies should consider their touchpoints with Russia, Belarus and Ukraine, as the recently issued sanctions cover, among other things, prohibitions on conducting business with certain Russian state-owned banks, as well as their subsidiaries (see the full list of sanctioned parties [here](#)). The sanctions also prohibit (i) new investment by U.S. persons in the so-called Donetsk People's Republic (DNR) or Luhansk People's Republic (LNR) regions of Ukraine (the "Covered Regions"), (ii) the import into the United States (either directly or indirectly) of goods, services, or technology from the Covered Regions and (iii) the export, reexport, sale, or supply (either directly or indirectly) from the U.S. or by a U.S. person of any goods, services, or technology to the Covered Regions.

Companies should carefully consider their current activities and contractual arrangements to identify those that involve Russia, Belarus and the Covered Regions, including with customers, suppliers, or other parties located in those regions, so that they can consider and disclose any material risks in concluding those dealings.

Other potential considerations may include:

- effects on companies with facilities, customers or suppliers in Ukraine;
- the need to review operations in Russia to comply with sanctions;

- exacerbation of shortages of chip supplies or other raw materials, such as natural gas and, particularly in the case of Europe, crude oil and coal;
- commodity, energy and food price volatility and market disruption;
- potential consequences of retaliation (e.g., cyberattacks, such as ransomware that locks up companies' networks, or nuclear threats);
- impacts on financings; and
- effects on economic or capital market conditions generally.

While currently overshadowed by the Ukraine crisis, other evolving risks, including COVID-19 and inflation, also should be considered. As restrictions ease and federal, state and world leaders announce plans to “live with” the virus, risks of new strains continue to emerge and must be weighed. Most companies likely won't want to drop the COVID risk factor in its entirety and instead will focus on tailoring the risk factor to anticipated ongoing challenges, including supply chain constraints, worker retention, changing customer demands and inflation, among other things.

While challenges of the Ukraine crisis, COVID-19 and inflation continue to evolve daily and, in the case of the Ukraine crisis, hourly, companies must be vigilant and meet the challenge of making meaningful forward-looking and risk factor disclosures in light of current developments.

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