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Export Controls & Economic Sanctions Alert

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OFAC issues new Sanctions Advisory on sham transactions and sanctions evasion

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The Advisory highlights sanctions risks and supplements OFAC's existing 50% rule guidance. Learn the red flags, trust risks, and compliance steps.



What's the impact?

- New red flags signal potential sanctions evasion, including non-arm's-length transfers, family or proxy intermediaries, and transfers near designation dates.
- Compliance expectations are rising; companies should double down on due diligence. Financial institutions and private equity firms should scrutinize trusts and complex entities, and block/report property if a sanctioned person retains any interest.

On March 31, 2026, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) issued a new Sanctions Advisory titled "[Guidance on Sham Transactions and Sanctions Evasion](#)" (the Advisory). The Advisory highlights the sanctions risks arising from sham transactions used to evade US sanctions and identifies specific red flags that businesses, financial institutions, and other persons should consider when evaluating whether property may be the subject of a sham

transaction. To illustrate the risk, the Advisory offers case studies drawn from recent enforcement actions, including multi-million-dollar penalty actions against firms that dealt in blocked property through intermediaries and proxies on behalf of sanctioned oligarchs. This alert summarizes the Advisory's key takeaways and compliance considerations.

What are sham transactions?

OFAC defines sham transactions as arrangements in which blocked persons, often operating through proxies or intermediaries, effectuate transfers or establish arrangements that conceal—rather than genuinely extinguish—a continuing interest in property. In other words, the blocked person gives up their property on paper only, while their practical and economic interest remains unchanged. The term “blocked persons” refers to individuals, companies, or other entities that are either designated on the Specially Designated Nationals and Blocked Persons list (the SDN List) or owned, 50% or more, directly or indirectly, individually or collectively, by one or more persons designated on the SDN List. In the Advisory, OFAC emphasizes that the goal of these (sham) arrangements is to evade US sanctions. But because OFAC implements functional definitions of “interest” and “property interest” that look beyond legal formalities to underlying practical and economic realities, sham transactions do not terminate a blocked interest in property.

The Advisory supplements OFAC's existing 50% Rule guidance (OFAC Frequently Asked Question 402) by providing additional due diligence factors to help determine whether a purported divestment actually occurred, or whether an ownership interest transfer was merely a sham. As with all blocked property, the law prohibits US persons from transferring or dealing in property that is the subject of a sham transaction absent specific authorization from OFAC.

OFAC explains how it has observed blocked persons employing opaque legal structures (including trusts), proxies, straw owners, and front businesses to conceal their continuing interest in a variety of property types, including investment vehicles, bank accounts, real estate holdings, private jets, yachts, and companies.

OFAC red flags

The Advisory sets forth a non-exhaustive list of red flags that may indicate a blocked person retains an interest in property that has purportedly been transferred to a non-blocked person. OFAC emphasizes that no single factor is determinative and a functional approach considering the totality of the circumstances is critical. The red flags include:

COMMERCIALLY UNREASONABLE TRANSACTIONS

Transfers of property, in which a blocked person once held an interest, on terms that are not commercially reasonable, lack adequate consideration, or are otherwise not suggestive of an

arm's length transaction may indicate that the blocked person still retains an interest in the property. Conversely, evidence that a transaction was between unrelated parties, at fair market value, in a competitive market, would tend to demonstrate that a bona fide transfer occurred.

TRANSFER TO FAMILY MEMBERS OR CLOSE ASSOCIATES

Transfers by a blocked person to a family member or close associate can be evidence of a sham transaction. The transferee may be acting as a proxy, facilitator, money manager, or agent for the blocked person. The nature and scope of the relationship between the blocked person and a nominal owner of the transferred property may also be relevant, including formal or informal agreements and agent-principal or other close relationships.

UNCLEAR PURPOSE OF TRANSFER

Transfers lacking an apparent business purpose may indicate an attempt to obfuscate a blocked person's continued interest in property. Likewise, transfers to an individual with little or no relevant experience or expertise with respect to the transferred property may be evidence of a sham transaction.

UNDULY COMPLEX CORPORATE STRUCTURES INVOLVING HIGHER-RISK JURISDICTIONS

The presence of unnecessarily complex legal structures without a discernible legitimate purpose—such as multi-layered LLCs, partnerships, or trusts—may indicate an effort to conceal an ownership interest. This risk is heightened when holding entities are domiciled in jurisdictions that have little connection to the property they hold, lack robust regulatory and supervisory controls, or offer laws and structures that enable obfuscation in property ownership.

CONTINUED INVOLVEMENT OF A BLOCKED PERSON

Facts or circumstances suggesting a blocked person remains involved in the use, management, or disposition of property—including through proxies or intermediaries—may indicate that the blocked person continues to retain an interest in property.

TRANSFER NEAR THE TIME OF DESIGNATION

Transfers completed shortly before or after OFAC designates a person as a sanctioned party should raise suspicion and trigger further analysis.

EVASIVE RESPONSES REGARDING A BLOCKED PERSON'S INVOLVEMENT

Evasive or vague responses or failures to respond to questions from counterparties, key intermediaries, or gatekeepers regarding a blocked person's involvement in property may indicate an intent to conceal a continuing interest.

Trusts and other legal arrangements

OFAC specifically cautions that trusts and similar legal arrangements, although broadly used for legitimate purposes, have at times been used in sham transactions to obscure links between blocked persons and their interests in property. The Advisory notes that in December 2025, OFAC entered an enforcement settlement agreement with a US person attorney who apparently violated US sanctions while serving as the fiduciary of a blocked person's family trust, finding that the attorney should reasonably have known that the blocked person used a proxy to retain control over decisions related to the trust.

Enforcement precedents

The Advisory highlights several significant enforcement actions illustrating OFAC's willingness to take aggressive action against persons who deal in blocked property through sham structures:

- / In December 2025, OFAC entered into an enforcement settlement with IPI Partners, a Chicago-based private equity firm, for soliciting, receiving, and maintaining investments from a sanctioned Russian oligarch for four years, where senior leadership knew the blocked person was the source of funds.
- / In June 2025, OFAC imposed a \$215,988,868 penalty on GVA Capital Ltd., a San Francisco-based venture capital firm, for knowingly managing an investment for a sanctioned Russian oligarch through the oligarch's nephew, who the firm knew served as a proxy for the blocked person.
- / In June 2024, the United States designated Sentimare Enterprises Limited and four Liechtenstein-based foundations through which Vladimir Potanin, a designated Russian oligarch, had transferred ownership to his minor children, concluding that Potanin retained an interest in the foundations.
- / In June 2022, OFAC issued a Notification of Blocked Property to Heritage Trust, a Delaware-based trust in which OFAC-designated Russian oligarch Suleiman Kerimov held a property interest through a series of legal structures and front persons.

Compliance recommendations

Parties seeking to comply with US sanctions may nonetheless deal in property in which a blocked person previously held an interest but no longer does. In the Advisory, OFAC acknowledged that this situation exists and does not wish to interfere in such lawful transactions undertaken in good-faith compliance with OFAC sanctions. However, it cautions that upon encountering information indicating a blocked person previously held an interest in property, parties should review all available information for any of the above-listed red flags and resolve any that are present before proceeding with the transaction. Remember to thoroughly document everything you did to resolve any issues you identify.

US persons must block any property in their custody or control or in the United States if a blocked person retains an interest in it. US persons must also report the blocking to OFAC within a specific timeframe. Further, they should refrain from directly or indirectly dealing in any property in which a blocked person has an interest without first obtaining an OFAC authorization.

In light of this Advisory, businesses, including exporters, financial institutions, private equity firms, and venture capital firms should consider the following practical steps:

ENHANCE SCREENING PROCEDURES

Compliance teams should integrate the Advisory's red flags into existing sanctions screening and due diligence procedures, particularly when evaluating transactions involving property that may have been recently transferred by or on behalf of a blocked person.

SCRUTINIZE TRUST STRUCTURES AND COMPLEX ENTITIES

Particular attention should be paid to trust structures, complex multi-layered corporate entities, and arrangements involving family members or close associates of designated persons.

STRENGTHEN OWNERSHIP AND "KNOW YOUR INVESTOR" ANALYSES

Given the severe penalties in the GVA Capital and IPI Partners enforcement actions, private equity and venture capital firms should closely scrutinize ultimate beneficial ownerships.

DIRECTLY INCORPORATE SANCTIONS CONTROLS INTO CONTRACTS

Businesses should review and, where appropriate, strengthen sanctions representations and warranties in their agreements, including customer agreements, NDAs, supply agreements, limited partnership agreements, and subscription documents, and where appropriate require counter-parties to disclose the identity of ultimate beneficial owners and confirm that no blocked person holds a direct or indirect interest in the counter-party or other parties involved.

The underlying agreements should also incorporate ongoing compliance covenants that obligate counter-parties to promptly inform of any change in beneficial ownership or designation status.

IMPLEMENT ESCALATION PROCEDURES INTO ONBOARDING PROCESSES

OFAC will impose severe penalties on firms that knowingly manage investments through proxies such as family members of blocked persons, as demonstrated by the \$216 million GVA enforcement action. Financial institutions, and private equity and venture capital firms should implement escalation procedures requiring that any red flags identified during investor onboarding or ongoing monitoring, including transfers involving family members, close associates, or intermediaries with limited investment experience, are promptly elevated to senior compliance personnel and, where appropriate, outside counsel.

IDENTIFY HIDDEN INTERESTS

The Advisory underscores that OFAC will look beyond legal formalities and apply a functional analysis to determine whether a blocked person retains an interest in property, making it essential that compliance programs adopt a similarly substance-over-form approach. For financial institutions and private equity and venture capital firms, this means that reliance on formal ownership records alone is insufficient; compliance teams must assess the economic realities of investor relationships and be prepared to identify and address situations where a blocked person may retain a practical interest through nominees, proxies, or layered structures.

CONSULT COMPLIANCE COUNSEL

As OFAC's enforcement intensifies, businesses and financial institutions must respond to complex and high-risk regulatory challenges. Nixon Peabody's [Export Controls & Economic Sanctions team](#) offers practical insights, compliance solutions, and strategies to help clients identify risks, respond to government inquiries, and confidently pursue global business objectives. For more information on the content of this alert, please contact your Nixon Peabody attorney or:

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