
April 27, 2026

OFAC Issues Guidance on “Sham Transactions” and Sanctions Evasion

On March 31, 2026, the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) issued a sanctions advisory providing guidance on sham transactions used to evade U.S. sanctions (the “Sanctions Advisory”).¹ The Sanctions Advisory identifies specific red flags that may indicate a blocked person has used a purported transfer of property to conceal a continuing interest in property, and it urges persons dealing in such property to apply a functional, totality-of-the-circumstances analysis rather than relying on legal formalities. This guidance is the latest step in a broader OFAC enforcement campaign focused on the role of non-bank “gatekeepers,” including private equity firms, venture capital firms, real estate companies, trust and corporate formation services, attorneys, and other professional intermediaries, in facilitating sanctioned persons’ access to the U.S. financial system.²

The Sham Transactions Sanctions Advisory

The Sanctions Advisory addresses OFAC’s concern that persons blocked by OFAC are employing “sham” transactions to evade U.S. sanctions by transferring property on paper while retaining practical and economic control over it. OFAC defines sham transactions as those in which blocked persons, “often operating through proxies or other intermediaries, effectuate transfers or establish arrangements that conceal—rather than genuinely extinguish—a continuing interest in property.”³ Because OFAC broadly defines “interest” and “property interest,” sham transactions do not terminate a blocked interest in property, and, where a sufficient U.S. nexus is present, such property cannot be transferred or dealt in absent authorization from OFAC.⁴

Under OFAC’s 50 Percent Rule, any entity owned 50 percent or more, in the aggregate, by one or more persons on the Specially Designated Nationals and Blocked Persons List (the “SDN List”) is itself considered blocked, even if the entity is not separately identified on the SDN List.⁵ OFAC noted in an FAQ issued in 2014 that, if “one or more blocked persons divest their ownership stake such that the resulting combined ownership by blocked persons is less than 50 percent, the entity is no longer considered automatically to be a blocked entity,” but “urges caution” in dealing with such entities and noted that “sufficient due diligence should be conducted to determine that any purported divestment in fact occurred and that *the transfer of ownership interests was not merely a sham transaction.*”⁶

¹ See U.S. Dep’t of Treasury, *OFAC Sanctions Advisory: Guidance on Sham Transactions and Sanctions Evasion* (Mar. 31, 2026), available [here](#).

² See Corporate Compliance Insights, *The State of OFAC Sanctions Enforcement in 2025-26* (Mar. 16, 2026), available [here](#).

³ U.S. Dep’t of Treasury, *OFAC Sanctions Advisory: Guidance on Sham Transactions and Sanctions Evasion* (Mar. 31, 2026), available [here](#).

⁴ *Id.*

⁵ U.S. Dep’t of Treasury, *Revised Guidance on Entities Owned by Persons Whose Property and Interests in Property Are Blocked* (Aug. 13, 2014), available [here](#).

⁶ U.S. Dep’t of Treasury, OFAC FAQ 402, available [here](#) (emphasis added). The FAQ noted that divestments “must occur entirely outside of U.S. jurisdiction and must not involve U.S. persons.”

While OFAC’s concern about “sham transactions” is not new, the Sanctions Advisory follows on recent OFAC enforcement actions—*GVA Capital* and *IPI Partners*—that involve such allegations and have created some uncertainty among sanctions practitioners about OFAC’s views on the 50 Percent Rule and its approach towards potential evasion of that rule.

In the Sanctions Advisory, OFAC notes that it has “encountered numerous instances” in which blocked persons have used opaque legal structures, including trusts,⁷ straw owners, front businesses, and proxies, to conceal continuing interests in a wide range of assets, including investment vehicles, bank accounts, real estate holdings, private jets, yachts, and companies. For example, one blocked oligarch transferred ownership of a private jet to a trust whose sole beneficiary was his unsanctioned wife while continuing to use the jet himself. In another case, a designated narcotrafficker funded a bank account in his wife’s name and continued to benefit through her management of the account. Following its designation, a company sanctioned for narcotics trafficking was reincorporated under a different name with new nominal owners while continuing the blocked company’s operations.

The Sanctions Advisory identifies seven categories of red flags that may indicate a blocked person retains an interest in purportedly transferred property. These red flags are intended to be applied on a risk-based basis “in situations where information suggests that a blocked person possessed a prior, documented interest in property.” The red flags focus on indicia that the transaction was not a “bona fide” transfer, such as commercially unreasonable terms, transfer to family members or close associates, unclear purpose of transfer, unduly complex corporate structures involving higher-risk jurisdictions, the continued involvement of a blocked person, transfer near the time of designation, or evasive responses regarding a blocked person’s involvement. In the Appendix to this memorandum, we summarize the red flags in greater detail.

OFAC notes that if “persons encounter information indicating that a blocked person previously held an interest in property, OFAC recommends a review of available information to evaluate if any of the above-listed red flags are present.” OFAC states that it “does not seek to disturb legitimate dealings performed in good-faith compliance with OFAC sanctions involving property in which no blocked interest exists.”

Recent Enforcement Actions Highlighted in the Sanctions Advisory

In the Sanctions Advisory, OFAC notes that it “will continue to identify, prevent, and intervene against [sham transactions], including through enforcement and designation actions.” The Sanctions Advisory identifies recent enforcement actions that involved dealings in transferred blocked property. These include:

- **GVA Capital Ltd.** In June 2025, OFAC imposed a \$215,988,868 penalty—the statutory maximum—on GVA Capital, a San Francisco-based venture capital firm, for knowingly managing an investment for Suleiman Kerimov, a sanctioned Russian oligarch, through his nephew, whom GVA Capital knew served as Kerimov’s proxy, and for failing to comply with an OFAC subpoena.⁸ OFAC emphasized the “risk that U.S. persons face when relying on formalistic ownership arrangements that obscure the true parties in interest behind an entity or investment, without sufficiently considering factors such as control or influence over that investment.” OFAC rejected GVA Capital’s reliance on a legal opinion that its immediate client was not technically blocked under the 50 Percent Rule.
- **IPI Partners, LLC.** In December 2025, OFAC announced an \$11,485,352 settlement with IPI Partners, a Chicago-based private equity firm, for the “solicitation, receipt, and continued maintenance of investments” indirectly on behalf of Kerimov for four years following his designation.⁹ OFAC found that IPI’s senior leadership knew that the blocked person was the source of funds and had reason to know that the blocked person ultimately made relevant investment decisions. IPI also had reason to know it was dealing indirectly with the blocked person through his representative. OFAC stated that private equity firms must have “a clear understanding of their sanctions risks and compliance obligations, and implement effective, risk-based controls,” including for “indirect” dealings with SDNs.

⁷ The Sanctions Advisory devotes particular attention to trusts and similar legal arrangements, noting that although they are broadly used for legitimate purposes, trusts “have at times been used in sham transactions to obscure links between blocked persons and their interests in property.”

⁸ See U.S. Dep’t of Treasury, *OFAC Imposes \$215,988,868 Penalty on GVA Capital Ltd. for Violating Ukraine/Russia-Related Sanctions and Reporting Obligations* (June 12, 2025), available [here](#); Paul, Weiss, *OFAC Imposes \$216 Million Penalty on Silicon Valley Venture Capital Firm for Russian Sanctions Violations* (June 30, 2025), available [here](#); Paul, Weiss, *2025 Year in Review: Economic Sanctions and Anti-Money Laundering Developments* (Dec. 18, 2025), available [here](#).

⁹ See U.S. Dep’t of Treasury, *IPI Partners, LLC Settles with OFAC for \$11,485,352 Related to Apparent Violations of Ukraine-/Russia-Related Sanctions* (Dec. 2, 2025), available [here](#); Paul, Weiss, *OFAC Reaches \$11.5 Million Resolution With Private Equity Firm for Indirect Dealings With a Sanctioned Party* (Dec. 8, 2025), available [here](#); Paul, Weiss, *2025 Year in Review: Economic Sanctions and Anti-Money Laundering Developments* (Dec. 18, 2025), available [here](#).

- **Unnamed U.S. Individual (Attorney/Fiduciary).** In December 2025, OFAC announced a \$1,092,000 settlement with a U.S. individual—an attorney who formerly served as a U.S. government official—for acting as a fiduciary for a trust funded by a sanctioned Russian oligarch and continuing to manage funds for the trust post-designation.¹⁰ OFAC noted that this action “demonstrates the importance for U.S. persons operating in the trust and corporate services sector of developing and maintaining a thorough understanding of sanctions-related risks.”

Key Takeaways

In light of this Sanctions Advisory and OFAC’s broader enforcement posture, companies should take this opportunity to integrate the red flags identified in the Sanctions Advisory into their sanctions compliance programs and, particularly, their onboarding and due diligence procedures. OFAC has emphasized that firms should maintain “effective, risk-based controls” for identifying both direct and indirect exposure to sanctioned persons,¹¹ with compliance programs designed, to look, when appropriate, beyond formal ownership structures to assess underlying control, influence, and economic benefit, consistent with OFAC’s functional approach to identifying blocked property interests.¹² In practice, this means conducting, when the circumstances warrant, deeper, risk-based diligence into the beneficial ownership, source of funds, and control relationships behind investors and counterparties; probing, as needed, responses to diligence questions; and implementing procedures for periodic re-screening and updating of diligence on existing investors and counterparties, particularly following new OFAC designations. Firms should also ensure that when seeking sanctions legal and compliance advice, they provide outside counsel or other advisors with all material information, including informal or relationship-based knowledge about the identities and roles of the parties involved.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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¹⁰ See U.S. Dep’t of Treasury, *OFAC Settles with an Individual for \$1,092,000 Related to Apparent Violations of Ukraine-/Russia-Related Sanctions* (Dec. 9, 2025), available [here](#); Paul, Weiss, *2025 Year in Review: Economic Sanctions and Anti-Money Laundering Developments* (Dec. 18, 2025), available [here](#).

¹¹ See, e.g., U.S. Dep’t of Treasury, *IPI Partners, LLC Settles with OFAC for \$11,485,352 Related to Apparent Violations of Ukraine-/Russia-Related Sanctions* (Dec. 2, 2025), available [here](#).

¹² OFAC has made clear that the scope of diligence that is appropriate is driven by the particular circumstances, noting that, “[i]n some cases, an analysis of equity ownership in an entity in accordance with OFAC’s 50 Percent Rule may be sufficient to address OFAC sanctions risk.” *Id.*

Appendix: Red Flags Identified in OFAC’s Guidance on Sham Transactions and Sanctions Evasion

The following is a summary of the “non-exhaustive” list of red flags identified by OFAC in its Sanctions Advisory as potential indicia of sham transactions. OFAC noted that “no factor” is “determinative” and noted that U.S. persons should adopt a “functional approach that considers the totality of circumstances” in evaluating “whether a transaction was a sham.”

1. **Commercially unreasonable transactions.** “Transfers of property in which a blocked person once held an interest on terms that are not commercially reasonable, lacking adequate consideration, or otherwise not suggestive of an arm’s length transaction.”
2. **Transfer to family members or close associates.** “Transfers by a blocked person to a family member or close associate,” who “may be acting as a proxy, facilitator, money manager, or agent for the blocked person.” “[T]he nature and scope of the relationship between the blocked person and a nominal owner of the transferred property may also be relevant,” including “[f]ormal or informal agreements,” “agent-principal” relationships, and “other similar factors.”
3. **Unclear purpose of transfer.** Transfers lacking an “apparent business purpose,” or “transfers to an individual with little or no relevant experience or expertise with respect to the transferred property.”
4. **Unduly complex corporate structures involving higher-risk jurisdictions.** “The presence of unnecessarily complex legal structures”—such as “certain multi-layered limited liability companies, partnerships, or trusts”—without “a discernible legitimate purpose.” “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.”
5. **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.”
6. **Transfer near the time of designation.** “Transfers completed close in time to a person’s designation . . . such as when a purported transfer occurs immediately before or after a designation.”
7. **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.”