



## Bill introduced in Russian State Duma allowing suspension and termination of contracts due to sanctions

7 April 2022

On 22 March 2022, Pavel Krasheninnikov, Head of the State-building and Legislation Committee of the Russian State Duma, submitted a [bill](#)\*, which makes it possible to terminate and suspend obligations due to sanctions imposed on Russia. The bill also establishes the possibility for parties to be released from liability for breach of contract.

The following describes this legislative initiative in more detail:

### Termination of obligations

According to the bill, an obligation is terminated in full or in part if its performance “objectively becomes definitively impossible” “in the context of ‘unfriendly’ actions of foreign states and international organisations associated with the imposition of restrictive measures” against Russian individuals and companies (i.e. foreign sanctions).

### Exemption of liability for breach of obligations

The bill provides an exemption from liability for a breach of obligation for a person who proves that proper performance has “objectively proved to be temporarily impossible” in the context of foreign sanctions. In this case, the obligations securing the defaulted transaction are also unenforceable unless the parties agree otherwise after the bill comes into force.

### Termination of contract

The bill introduces the right to unilaterally terminate a contract if the other party to the contract has not performed, or performed improperly, its obligation because such performance is temporarily impossible in the context of sanctions. The party authorised to do so must give a termination notice to the other party within a reasonable time. The collateral securing the obligations of the parties, which shall survive the unilateral termination of the contract or are connected with the termination, shall continue to exist, unless otherwise provided for by law or the contract.

### Security deposit

The bill substantially modifies the treatment of security payments. Under this draft law, after 23 February 2022, the parties may enter into an agreement for a security payment to secure other obligations. The payment could consist of the deposit of shares, bonds, other securities or generic items.

### Repayment by Russian joint-stock companies of loans issued by their foreign controlling persons

The bill entitles Russian joint-stock companies, instead of repaying a loan to lenders who are foreign controlling persons of such companies, to place additional shares of a certain category or type in favour of such lenders. At the same time, joint-stock companies are allowed to issue preferential shares whose nominal value may exceed 25% of the share capital.

The bill does not require proof of a causal link between the imposition of sanctions and the decision to place additional shares in favour of a lender instead of repaying the loan and paying interest on it.

### Protection not for all

According to the bill, the above support measures do not apply to persons who “contributed to the ‘unfriendly’ actions of foreign states and international organisations related to the imposition of restrictive measures” against Russian individuals and organisations. The bill does not clarify exactly what is meant by “contributing”.

### Letter from the Chamber of Commerce and Industry of the Russian Federation

In connection with the bill, the Chamber of Commerce and Industry of the Russian Federation has suspended its review of applications for the issuance of findings of force majeure under contracts that were concluded within the framework of domestic economic activity in connection with sanctions on foreign components and equipment (Letter No. [PR/0181](#)\* of the Chamber of Commerce and Industry of the Russian Federation dated 22 March 2022).

\* *In Russian*

For further information, please email the authors or your usual contact at our firm.

## Authors



### Georgy Daneliya

Counsel

Commercial

**E** [georgy.daneliya@cmslegal.ru](mailto:georgy.daneliya@cmslegal.ru)



### Igor Sokolov

Senior Associate

Dispute Resolution

**E** [igor.sokolov@cmslegal.ru](mailto:igor.sokolov@cmslegal.ru)



### Konstantin Baranov

Partner

Head of Banking & Finance

**E** [konstantin.baranov@cmslegal.ru](mailto:konstantin.baranov@cmslegal.ru)



### Elena Tchoubykina

Counsel

Banking & Finance

**E** [elena.tchoubykina@cmslegal.ru](mailto:elena.tchoubykina@cmslegal.ru)

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