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Comment by Olga Sorokina, managing partner of O2 Consulting, on case 683 Capital Partner

On March 17, Vladimir Putin signed an order authorizing a number of foreign investment companies from the US and the UK to sell their Russian assets without further approval.

The list includes American companies Franklin Templeton, Harding Loevner, Grantham Mayo Van Otterloo & Co. LLC (GMO), Jane Street, as well as British Carrhae Capital and Baillie Gifford. The transactions will be carried out through US hedge fund 683 Capital Partners, which has been granted the right to acquire these assets for subsequent transfer to Russian entities - SFO «Cepheii-2» and SPFS «Modern Ruble».

Olga Sorokina, managing partner of O2 Consulting and expert in M&A transactions, commented on the case 683 Capital Partner as follows:

The decision allows 683 Capital Partners, LP to buy shares of Russian companies from a number of foreign investors, including large Western investment funds and management companies (Baillie Gifford, Franklin Advisers, Jane Street, etc.). This may be due to several factors:

- For foreign investors selling assets

In the face of sanctions and restrictions on capital movements, western investors want to get rid of Russian assets. The sale of such assets is possible solely through a special decision of the President/government commission and involves complex bureaucratic processes and risks associated with the transaction itself and its settlement. The potential buyers for such deals are usually Russian companies and funds, whose interaction with foreign investors requires separate approvals by regulators, financial institutions, and others. Many companies are deprived of the possibility to receive funds from the RF, and sometimes even limited in their ability to conduct transactions with Russian residents.

The sale of assets to a foreign buyer (from an 'unfriendly' in relation to the RF jurisdiction) allows this process to be significantly simplified by transferring the structure of the transaction and its calculations to the foreign perimeter. As a rule, these transactions are carried out with a significant discount, but companies are ready for it, so that it is possible to make payments in foreign currency at a foreign bank and avoid the risk of blocking by banks and other station risks.

- Asset consolidation in the Russian jurisdiction

From the document we see that the Buyer is 683 Capital Partners, and then the assets are transferred to Russian entities - specialized financial companies and investment funds. This may mean an attempt to consolidate assets at the level of a single counterparty and subsequently redistribute assets within the Russian financial system under control.

- Liquidity support and market stabilization

Uncontrolled outflows of foreign investors can destabilize the market and affect stock prices. A controlled buyout helps to avoid this situation.

As a result, the decision is likely to reduce the share of foreign capital in Russian companies and redistribute assets in favor of Russian or friendly investors.

This decision was taken within the framework of the Presidential Decree 520 of 5 August 2022, which regulates transactions with foreign assets in response to sanctions.

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Main aspects:

- In the sanctions environment, Western investors face restrictions on exit from Russian assets. It is extremely difficult for them to sell the paper and, even more, to withdraw funds. In fact, transactions are practically blocked. Such ad hoc solutions actually offer foreign owners a mechanism to exit Russian assets, while, as I pointed out above, it is a controlled exit mechanism in which assets remain in the Russian system.

- Transactions are exempt from the need to obtain additional permits and approvals, which bypasses traditional bureaucratic barriers, speeding up the process of asset transfer.

- The list of foreign vendors includes companies from jurisdictions that support sanctions against Russia. This confirms the trend towards 'crowding out' unfriendly capital from Russian assets.

This solution may thus be part of a broader strategy to restructure Russia's financial system under sanctions pressure, aimed at reducing dependence on Western capital and strengthening the domestic market.

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