

Russian banker who is under sanctions sold £15m of shares in Philip Hammond crypto firm Copper

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A Russian banker who has been placed under sanctions sold more than £15m of shares in a cryptocurrency firm chaired by the former chancellor Philip Hammond in a transaction that experts say could have attracted scrutiny from US sanctions enforcers. Executives at the London-based Copper Technologies are understood to have become concerned when Mikhail Klyukin, who owned more than 2% of the company, was put on the White House's sanctions list in March 2022. Klyukin was sanctioned because of his role on the supervisory board of the Russian lender Sovcombank, as the US targeted "elites close to [Vladimir] Putin" after the invasion of Ukraine. The Guardian understands that Copper, which has a subsidiary based in New York, helped arrange a transaction designed to remove Klyukin from its shareholder register. The transaction raises fresh questions about the use of cryptocurrency and the transparency around often opaque payment methods, as crypto comes under growing scrutiny from western governments trying to enforce sanctions against Moscow. Copper builds and manages digital systems for companies aiming to invest in, trade or use cryptocurrency. The company told the Guardian that it had complied with applicable sanctions law at all times, based on external legal advice. Copper appears to have effectively acted as an intermediary between Klyukin and a company that was willing to buy the Russian banker's shares. The crypto company is understood to have collected payment from the buyer in sterling, who paid more than £15m for the shares. Copper then converted the sterling into cryptocurrency and transferred those digital assets to Klyukin, 46, the Guardian understands. The share sale appears to have been designed to avoid breaching US sanctions, which prohibit the use of dollars, or the involvement of American citizens, in financial dealings with sanctioned individuals. The US does not have jurisdiction over the use of other countries' currencies or over who foreign citizens do business with. However, legal experts said that Copper could have been targeted by "secondary" sanctions if the US authorities had been aware it was involved in a deal that benefited a Russian subject to restrictions. Secondary sanctions can be levied by Washington against companies or individuals who are not subject to US jurisdiction, if they are deemed to be acting in a way that undermines US sanctions. In practice, this can have consequences such as a company being excluded from the US financial system. The use of cryptocurrency to transfer funds to Klyukin could also have been an aggravating factor, they added. An executive order issued by the US president, Joe Biden, in April 2021 prohibited "deceptive or structured transactions or dealings to circumvent any United States sanctions, including through the use of digital currencies or assets or the use of physical assets". A legal expert on sanctions said: "Whenever there's a [sanctions notice] you've got to be careful. "The US is aggressive at enforcing sanctions and Russia is particularly hot at the moment. If you create a methodology whereby a

[sanctioned individual] gets paid by a currency workaround [...] there's still plenty of risk." They said the most "prudent" thing to do would have been to freeze the shares, rather than allow them to be sold. A second expert said the transaction posed a risk "given how broadly the US interpret their jurisdiction". They added: "I'd have advised against this." Klyukin was already on the White House's sanctions list when the share sale took place in May 2022. He was sanctioned in the US in March 2022 because of his senior position at Sovcombank, Russia's ninth-largest lender. The UK Foreign Office sanctioned him in September 2022, after the share sale had completed, stating that his role with the bank meant he was "involved in obtaining a benefit from or supporting the government of Russia". He has since resigned as a member of the supervisory board of Sovcombank. Copper denied that it acted as an "intermediary" in the share sale. A spokesperson for Copper said the company "takes its ongoing compliance with applicable anti-money laundering, regulatory and sanctions requirements very seriously". "The intention of the transaction referenced was to divest shares in Copper held by a company associated with a sanctioned individual," they said. "We carefully considered the implications, including with the assistance of specialist external sanctions counsel in various jurisdictions, and concluded that the transaction was compliant with all applicable sanctions requirements. That remains the case today." Sources close to Klyukin said that his companies had complied with US sanctions, including with respect to the sale of the shares in Copper. Hammond became chair of the company in January 2023 but was an adviser to the company at the time of the transaction. The Conservative peer previously served as defence secretary, foreign secretary and latterly chancellor of the exchequer between 2011 and 2019, joining the House of Lords in 2020. His role with the company entitled him to a 0.5% stake believed to have had a notional value of up to \$15m (£12m) before a recent downturn in the value of cryptocurrencies. Hammond is understood to have been unaware of the share sale at the time but was informed of it later, during a review of major shareholders. Sources told the Guardian that only a handful of staff at Copper knew the identity of the shareholder who had been placed under sanctions, who held his stake via a Cyprus-based company, Zayelco Ltd. Zayelco's share sale is documented in Companies House filings and the Guardian has established that the company was owned by Klyukin, who also holds a Cypriot passport. Court documents filed in the US in June 2022, as part of an unrelated dispute over a property development, show that Zayelco was "100% owned" by Klyukin. A separate declaration of trust obtained by the Guardian named Klyukin as the Zayelco's "owner" in 2015. Zayelco held two tranches of shares in Copper as of October 2021, 3,611,000 ordinary shares and 960,000 series B shares, according to a Companies House filing. A second filing in May 2022, shortly after Klyukin sold his shares, shows Zayelco's holding reduced to zero. Another company, Wagmi Investments Ltd, then picked up two identical blocks of shares. The company is no relation to a UK-based business of the same name. Copper has been met with scepticism from UK financial regulators, despite the advocacy of the former chancellor. Earlier this year, the Financial Times reported that Copper had attended a meeting with officials from the Treasury after a weekend phone call between Hammond and John Glen, the then Treasury secretary. Hammond said the meeting was not at his request. The call took place as Copper wrestled with regulatory difficulties. The group struggled to obtain full approval to operate from the City regulator, the Financial Conduct Authority, and ultimately withdrew its application and obtained a licence to do business in Switzerland instead. The broader global cryptocurrency crash has also hurt the company, leading to mass lay-offs this year. The downturn – coupled with Copper's failure to obtain a licence in the UK – is thought to have affected the value of "growth shares" in the company held by senior staff, including Hammond. Hammond has been a vocal advocate of the UK embracing digital assets. Earlier this year he said it was "frankly quite shocking" that Britain was lagging behind other countries in creating a regulatory framework for crypto.