



Observatoire ARGA

**Secondary Sanctions Risks and the “Reputational Contagion”
Effect: A Structural Assessment for the U.S. Financial System**

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INTRODUCTION

U.S. sanctions mechanisms have become one of the most influential instruments of global economic policy. Their impact extends beyond direct designation on sanctions lists and affects a broad range of actors associated with listed individuals or entities.

At the same time, the phenomenon of secondary sanctions risk is intensifying — situations in which actors not formally designated become subject to restrictions or market pressure due to indirect association.

This report analyzes the structural risk of “reputational contagion” arising from sanctions processes and automated compliance mechanisms.

The objective is to assess how secondary sanctions effects may influence the resilience of the U.S. financial system and what regulatory tools could mitigate disproportionate consequences.

CONCEPT OF SECONDARY SANCTIONS RISK

2.1 Direct and indirect consequences

Direct consequence: inclusion on a sanctions list.

Indirect consequences may include:

- termination of banking relationships;
- denial of financing;
- contract termination;
- transaction blocking without formal prohibition.

2.2 Expansive risk interpretation

Financial institutions often apply an expansive approach to sanctions risk assessment, including:

- second- and third-level network analysis;
- beneficial ownership evaluation;
- business and family association analysis.

2.3 Reputational factor

Even without formal designation, actors may be perceived as high-risk due to public discourse or media context.

THE “REPUTATIONAL CONTAGION” EFFECT

3.1 Mechanism of propagation

Sanctions signal → automated screening → internal risk escalation → defensive compliance → termination of relationships → market reaction.

3.2 Amplification through automation

Algorithmic systems tend to account for indirect associations, increasing the probability of secondary restrictions.

3.3 Accumulative effect

Reputational risk may accumulate through:

- media publications;
 - analytical reports;
 - rating agency assessments.
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SYSTEMIC IMPLICATIONS FOR THE U.S. FINANCIAL SYSTEM

4.1 Excessive isolation

Actors may be effectively excluded from the financial system without formal sanctions status.

4.2 Market destabilization risk

Indirect sanctions signals may affect:

- asset valuations;
- investment decisions;
- cross-border transactions.

4.3 Regulatory uncertainty

The absence of clear guidance for managing secondary risks reinforces defensive compliance behavior.

INTERNATIONAL CONTEXT

5.1 European Union

The EU also faces secondary effects challenges, though judicial oversight partially mitigates risks.

5.2 United Kingdom

The UK is developing proportionality-focused guidance for restrictive measures.

5.3 Global market

The expansion of sanctions regimes intensifies reputational contagion across the global financial system.

REGULATORY RISKS

- Increase in unjustified termination of banking relationships
 - Growth in litigation
 - Overload of compliance systems
 - Potential decline in trust in U.S. financial infrastructure
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RECOMMENDATIONS

Develop Treasury / OFAC guidance on management of secondary sanctions risks.

Clarify criteria for assessing indirect association.

Encourage proportionality in defensive compliance measures.

Develop mechanisms for rapid correction of reputational impact following delisting.

Enhance transparency of regulatory communication with financial institutions.

CONCLUSION

Sanctions mechanisms remain a central instrument of U.S. policy. However, their effectiveness depends on the system's ability to distinguish between direct threats and secondary reputational effects.

A balanced approach to managing secondary sanctions risks can strengthen the resilience of the U.S. financial system and minimize disproportionate consequences for actors not subject to direct restrictions.

This report aims to support professional dialogue on structural aspects of secondary sanctions risks and their impact on the U.S. financial architecture.