EXPLANATORY MEMORANDUM TO

THE NATIONAL SECURITY ACT 2023 (FOREIGN ACTIVITIES AND FOREIGN INFLUENCE REGISTRATION SCHEME: EXEMPTIONS FOR CERTAIN FOREIGN POWER INVESTMENT FUNDS, EDUCATION, GOVERNMENT ADMINISTRATION AND PUBLIC BODIES) REGULATIONS 2025

2025 No. [XXXX]

1. Introduction

1.1 This explanatory memorandum has been prepared by the Home Office and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Dan Jarvis, Minister of State for Security at the Home Office, confirms that this Explanatory Memorandum meets the required standard.

2.2 The Deputy Director of the State Threats Unit at the Home Office confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 The Foreign Influence Registration Scheme policy team email: FIRS@homeoffice.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument relates to the Foreign Influence Registration Scheme in Part 4 of the National Security Act 2023 (c. 32). It introduces a number of exemptions from the need to register under the scheme. It is designed to ensure the proportionality of the scheme by reducing the amount of routine activity or activity which is already transparent which needs to be registered with the scheme.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The National Security Act 2023 is designed to make the UK a harder target for states who seek to conduct hostile acts against the UK. It ensures UK law enforcement and

intelligence agencies have the modern tools, powers, and protections they need to tackle these threats.

5.2 The Foreign Activities and Foreign Influence Registration Scheme ("FIRS"), contained within Part 4 of the National Security Act 2023 ("2023 Act"), is one of the measures which will tackle these threats. It has been created following a recommendation by the Intelligence and Security Committee in its 2020 Russia Report.[1] It aims to increase transparency of foreign power influence over UK democracy and provide greater assurance about the activities of specified foreign powers, and specified entities controlled by foreign powers, which pose the greatest risk to the UK. It will do this by requiring individuals or organisations to register with the Secretary of State where they form certain arrangements with foreign powers or carry out certain activities in the UK. This will therefore strengthen the integrity of UK politics and institutions and protect the UK from state threats.

5.3 The scheme itself is split into two parts: the "political influence tier" (sections 69 to 72 of the 2023 Act) and "the enhanced tier" (sections 65 to 68 of the 2023 Act). The political influence tier will require individuals or organisations to register where they are directed by a foreign power to carry out, or arrange for others to carry out, political influence activities in the UK. Political influence activities include communication, public communication, or disbursement activity intended to influence a political matter. Certain information related to registered arrangements will be included on a public register. This will increase transparency of foreign power influence over UK democracy.

5.4 The enhanced tier of the scheme contains a power enabling the Secretary of State to specify foreign powers, or foreign power-controlled entities, where it is considered reasonably necessary to protect the safety or interests of the UK. Whilst the political tier only deals with foreign power-directed activities involving political influence, the enhanced tier of FIRS will cover all activity directed by specified foreign powers. The enhanced tier requires those being directed by a specified foreign power, or specified foreign power-controlled entity, to register relevant activities that they carry out, or arrange for others to carry out, in the UK. Unless specified otherwise in regulations, relevant activities means all activities. Specified foreign powers do not need to register relevant activity which they carry out themselves, providing they do not make a misrepresentation about their activities or the capacity in which they are acting. However, the enhanced tier does require that specified foreign power-controlled entities must register activities which they carry out themselves in the UK. This will provide a greater assurance of the activities of these specified powers and entities and deter the use of covert arrangements by them.

5.5 A number of exemptions from registration are included in Schedule 15 to the 2023 Act, such as where the UK is a party to the arrangement, or where the arrangement relates to the carrying on of a legal activity by a lawyer. This instrument introduces further exemptions to the scheme, which have been created to ensure the proportionality of the scheme by not requiring some types of routine activity, or activity which is inherently already transparent, to be registered.

5.6 These exemptions have been drafted to be sufficiently narrow so as not to create a loophole to enable foreign powers to channel their activities covertly through exempt entities and therefore evade the scheme. These exemptions also reduce some of the administrative burden on businesses, organisations, and charities by exempting

[1] https://isc.independent.gov.uk/wp-content/uploads/2021/01/20200721_HC632_CCS001_CCS1019402408-001_ISC_Russia_Report_Web_Accessible.pdf

routine administrative services, routine scholarship arrangements and situations where UK public bodies are party to arrangements.

Foreign Power Investment Funds exemption

5.7 This instrument introduces an additional exemption from registration under the political influence tier for foreign power investment funds. This ensures that the scheme does not act as a barrier (actual or perceived) for inward investment from these funds, which manage significant amounts of investible capital globally and are important for the UK economy. It also ensures the scheme remains proportionate, by not requiring the registration of arrangements which, by nature, are already inherently transparent.

5.8 The exemption has been drafted in such a way as to ensure that covert influence activities which are not related to genuine investment activities cannot be channelled through foreign power investment funds and thus evade the registration requirements. Furthermore, it has been designed to ensure that only entities with conventional features of a sovereign wealth fund or public pension fund can benefit, so as to avoid creating a loophole whereby covert political influence activities can be channelled through a wider range of commercial entities.

5.9 The exemption will only apply: where a foreign power owns or controls the fund; where the fund's principal activities are making and managing investments for the foreign power; where the foreign power provides some funds for the investments; and, where the investments are intended to benefit the foreign power or enable the payment of pensions. It will only apply where the fund is acting at the direction of the foreign power which owns it and is carrying out political influence activity related to investments.

UK public bodies exemption

5.10 This instrument introduces an exemption for arrangements to which UK public bodies are party. As UK public bodies are already subject to accountability arrangements with UK Government Ministers and/or Parliament, these arrangements should already be transparent without needing to be registered on FIRS.

5.11 The exemption will only apply to arrangements to which employees of a public body are party where they are acting in their professional capacity. Therefore it would still be registerable if, for example, a member of staff of a UK public body enters into an arrangement with the specified foreign power's central bank in their capacity as a private individual where they are directed to pass confidential financial records to the specified foreign power. This exemption will not apply where a UK public body is being directed by a foreign power (including a specified foreign power) to carry out political influence activity in the UK. It will also not apply to arrangements to which UK local authorities and education institutions, such as universities, are party.

Government administrative services exemption

5.12 This instrument introduces an exemption for certain government administrative services. This will apply to arrangements under which individuals or entities are directed to carry out activity in the UK by a specified foreign power in order to facilitate certain government administrative services, such as issuing a visa, notarising a birth, marriage, or death, or advising on tax requirements.

5.13 This exemption only applies to activity that is reasonably necessary as part of routine government administrative services, and the list of services outlined in the legislation is exhaustive. This is to reduce the risk of creating a loophole through which specified

foreign powers and entities can channel covert activities and avoid this being registered with the scheme.

5.14 This exemption will only apply to reasonably necessary activity related to three categories of administrative services: consular services, immigration services, and tax services, and includes services such as visa applications, residency permits, and tax filing assistance.

Scholarships and education providers exemption

5.15 This instrument introduces an exemption for scholarships and education providers. This will apply to arrangements under which a specified foreign power directs the carrying out of activity by someone studying in the UK that is reasonably necessary as part of a standard scholarship arrangement. This will also apply where a UK education provider (such as a university or college) is facilitating the making of such an arrangement. The exemption has been narrowly drafted to ensure that standard scholarship activity directed by a specified foreign power does not need to be registered with FIRS (as it has limited operational utility) while still requiring a person getting a scholarship to register where they are being directed to conduct activity that falls outside of a standard scholarship agreement to ensure that the transparency objectives of the scheme are achieved.

5.16 The exemption will only apply to activity being directed in the UK that is reasonably necessary to comply with the standard conditions of funding from a specified foreign power. This exemption applies to scholarships provided at the level of further and higher education. This exemption also applies to both the student carrying out the activity pursuant to the scholarship and to a UK education provider who may be facilitating the making of a scholarship arrangement.

What was the previous policy, how is this different?

5.17 This statutory instrument relates to a new scheme, which has no precedent in the UK. Existing exemptions to the scheme are in Schedule 15 of the 2023 Act and include exemptions for foreign powers themselves, diplomats and their family members and lawyers carrying out legal activities. However, a provision was included in the Act for further exemptions to be made through regulations, should a policy requirement arise. This instrument sets out additional exemptions for the reasons set out above.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument amends the persons affected by the Foreign Influence Registration Scheme by introducing an exemption for foreign power investment funds from the political influence tier registration requirements, and by introducing three exemptions on routine government administrative services, scholarship and education provider arrangements and arrangements to which UK public bodies are party under the enhanced tier registration requirements. As this instrument will come into force upon commencement of the scheme, the introduction of this exemption does not have any impact on the status quo (any individual or body that may benefit from or fall outside of the scope of these exemptions are not currently required to comply with the scheme as the requirements are not in force at the time of laying this statutory instrument).

6.2 The instrument will come into force when Part 4 of the 2023 Act comes into force. A separate commencement instrument will be made bring Part 4 into force.

Why was this approach taken to change the law?

6.3 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 The Government held a public consultation from 8 September 2023 to 1 December 2023, which sought feedback on issues related to regulations, including exemptions from the scheme. A consultation response setting out the Government's position on the responses received is available on gov.uk.[2]

7.2 The consultation requested feedback on draft guidance on the scheme, as well as issues surrounding the publication of information and exemptions. Consultation respondents suggested a range of further exemptions which could be introduced to the scheme and raised concerns about the proportionality of the enhanced tier. The exemptions introduced through this instrument respond to some of these concerns by ensuring that registration requirements do not apply to arrangements which are already inherently transparent, or which relate to routine administrative activity.

7.3 Between September and December 2023, the Home Office also held consultation panels with representatives from the media sector, legal sector, business, finance, consultancy and lobbying sectors, and research, academia and higher education sectors. The Home Office asked panel members about the scenarios in which their sectors may be affected by the scheme, with a view to informing the development of sector-specific guidance. The Home Office conducted further targeted engagement with academia, business, media, charities and defence sectors on guidance in Autumn 2024. Panel members provided constructive feedback about how the requirements may impact on their respective sectors, including common scenarios within the sector in which registration may be required, and this feedback has been used to created targeted sector-specific guidance.

7.4 Between December 2024 and January 2025, the Home Office consulted the International Forum of Sovereign Wealth Funds, the Global Infrastructure Investor Association and the British Private Equity and Venture Capital Association on the proposed drafting of the exemption for sovereign wealth funds.

8. Applicable Guidance

8.1 Guidance on compliance with the Foreign Influence Registration Scheme, including on these exemptions, has been published alongside this instrument and is available on gov.uk.[3]

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full impact Assessment has been published in relation to the scheme as a whole. No impact assessment has been published for this specific instrument because its effect is to limit the scope of the overall scheme, excluding certain individuals or bodies. It

[2] https://www.gov.uk/government/consultations/foreign-influence-registration-scheme-draft-guidance
[3] https://www.gov.uk/government/collections/foreign-influence-registration-scheme

therefore does not have a substantive impact on the scope or groups affected by the scheme overall.[4]

9.2 Further impact assessments have, however, been published related to the specification of foreign powers and other persons under the enhanced tier alongside the laying of relevant statutory instruments.

Impact on businesses, charities, and voluntary bodies

9.3 This instrument has minimal impact on business, charities, or voluntary bodies.

9.4 With regard to the exemption for Foreign Power Investment Funds, the only macro impact relevant to businesses may be that the exemption mitigates any risk that the UK economy is unduly impacted should foreign power investment funds have been deterred from investing in the UK.

9.5 With regard to the exemptions on the enhanced tier, the impact of this instrument is that the administrative burden to register is lessened by exempting routine government administrative services, scholarship and education provider arrangements and arrangements to which UK public bodies are a party.

9.6 There is no significant impact on small or micro businesses.

9.7 There is no significant impact on the public sector. The set-up costs of administering the scheme as a whole are detailed in the published impact assessment, and this instrument has no impact on those costs.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The provisions of the 2023 Act and, by extension, the provisions of this instrument, will be subject to the normal post-legislative review three to five years after Royal Assent.

10.2 The Secretary of State will produce an annual report on the operation of the scheme in accordance with section 82 of the National Security Act 2023, and this will be used as an opportunity to review other provisions of the scheme, including those in this instrument.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 A number of other instruments related to the Foreign Influence Registration Scheme are being laid within a similar timeframe. These include a negative instrument related to the information required at registration, and affirmative instruments related to the publication of information and the foreign powers or other persons specified under the enhanced tier.

12. European Convention on Human Rights

12.1 The Security Minister, Dan Jarvis, has made the following statement regarding Human Rights:

[4] https://www.gov.uk/government/publications/national-security-bill-overarching-documents/impact-assessment-foreign-influence-registration-scheme-accessible

"In my view the provisions of The National Security Act 2023 (Foreign Activities and Foreign Influence Registration Scheme: Exemptions for Certain Foreign Power Investment Funds, Education, Government Administration and Public Bodies) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").