EXPLANATORY MEMORANDUM TO

THE SANCTIONS (EU EXIT) (TREASURY DEBT) REGULATIONS 2025

2025 No. 712

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Foreign, Commonwealth and Development 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 Stephen Doughty MP, Minister of State at the Foreign, Commonwealth and Development Office, can confirm that this Explanatory Memorandum meets the required standard.

2.2 Abigail Culank, Deputy Director for Sanctions at the Foreign, Commonwealth and Development Office, can confirm that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 The Sanctions Directorate at the Foreign, Commonwealth and Development Office, Telephone: 0207 008 8553 or email: fcdo.correspondence@fcdo.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 will provide an exception to prohibitions imposed by sanctions regulations implementing financial sanctions under various United Nations (UN) regimes. The exception will ensure that payments in respect of His Majesty's Treasury sovereign debt products[1] can be made (and that those payments can be facilitated) when that payment would be to a person placed under those financial sanctions by the UN (a UN Designated Person or "UN DP"), or to another person where the effect of making that payment is to make funds available to, or for the benefit of, a UN DP. The legal basis for the exception is the prior obligations derogation contained within the aforementioned UN regimes.

4.2 This instrument is made under the Sanctions and Anti-Money Laundering 2018 (c. 13) ("the Sanctions Act") to make amendments to:

a. The South Sudan (Sanctions) (EU Exit) Regulations 2019 (S.I. 2019/438)

b. The Central African Republic (Sanctions) (EU Exit) Regulations 2020 (S.I. 2020/616)

[1] Any transferable security, money-market instrument, loan or credit entered into or issued by, or on behalf of His Majesty's Treasury in respect of funds borrowed by or on behalf of His Majesty's Treasury.

c. The Yemen (Sanctions) (EU Exit) (No. 2) Regulations 2020 (S.I. 2020/1278)

d. The Libya (Sanctions) (EU Exit) Regulations 2020 (S.I. 2020/1665)

e. The Haiti (Sanctions) Regulations 2022 (S.I. 2022/1281).

Where does the legislation extend to, and apply?

4.3 The instrument extends to the whole of the United Kingdom ("UK").

4.4 The territorial application of this instrument is also the same as the territorial application of the instrument that it amends. That is, it applies to the whole of the UK.

4.5 This instrument also applies to conduct by UK persons where that conduct is wholly or partly outside the UK, and to conduct undertaken by any person in the territorial sea adjacent to the UK. "UK person" is defined in section 21(2) of the Sanctions Act.

5. Policy Context

What is being done and why?

5.1 The purpose of this instrument is to provide a clear legal basis for persons responsible for making or facilitating payments in respect of His Majesty's Treasury sovereign debt products to or for the benefit of UN DPs (including when a UN DP is the legal holder of that debt or a beneficiary under a separate arrangement), whilst also preventing UN DPs from being able to access the funds paid.

5.2 From 10th July 2025, any act to transfer funds to a UN DP will not be prohibited if:

a. It is to satisfy an obligation owed by His Majesty's Treasury to the UN DP in respect of His Majesty's Treasury sovereign debt; and

b. The person undertaking that act has reasonable cause to suspect the above obligation arose before the UN DP was designated and takes reasonable steps to ensure the payment is made into a type of account specified by the exception.

5.3 From 10th July 2025, any act to transfer funds to a person other than a UN DP where the effect of the transfer to that person is to make funds available to a UN DP will not be prohibited if:

a. the person undertaking that act knows or has reasonable cause to suspect that the effect of the transfer will be to enable the satisfaction of an obligation of any person to the UN DP in respect of His Majesty's Treasury sovereign debt; and

b. the person takes reasonable steps to satisfy themselves that the above obligation arose before the UN DP was designated and to ensure the payment is made into a type of account specified by the exception.

5.4 Additionally, any act to enable a transfer of funds in respect of His Majesty's Treasury debt in order to satisfy an obligation owed by His Majesty's Government to a UN DP, or where the effect of the transfer will be to enable another person to satisfy an obligation to a UN DP in respect of His Majesty's Treasury debt, will not be prohibited.

5.5 The exception specifies the types of accounts into which the funds that are the subject of the payment must ultimately be credited. These include a frozen or relevant account, or accounts with a non-UK entity or a third country central securities depository (CSD) where (i) the DP is also sanctioned and (ii) the jurisdiction has 'corresponding' (as defined in this instrument) prohibitions, exceptions, and licensing grounds to the UK. It does not apply to payments outside these categories.

5.6 Further detail on jurisdictions under (ii) will accompany the legislation and can be found on GOV.UK in the Office of Financial Sanctions implementation (OFSI) General Guidance – Section 6 (Exceptions and Licensing).

What was the previous policy, how is this different?

5.7 A General Licence ((GL) INT/2024/5294388) was issued by OFSI in October 2024 regarding payments in respect of His Majesty's Treasury sovereign debt products due to persons placed under financial sanctions by the UK's autonomous sanctions regulations (non-UN DPs). This clarified the circumstances under which these payments to non-UN DPs could be permitted. The derogations in the UN sanctions regimes, as currently implemented by the applicable UK sanctions regulations, do not allow OFSI to add payments to UN DPs to the GL.

5.8 This instrument extends the scope of the policy in relation to payments in respect of His Majesty's Treasury sovereign debt products due to non-UN DPs to UN DPs. Prior to this instrument, the exception which implemented the prior obligations derogation in the UN sanctions regime did not apply to all entities involved in payments in respect of His Majesty's Treasury sovereign debt products due to a UN DP; and did not permit payments into accounts into entities within corresponding jurisdictions who do not have a UK presence. This instrument addresses the aforementioned and clarifies the circumstances under which payments to UN DPs can be permitted. The General Licence remains in place in relation to payments due to all non-UN DPs.

6. Legislative and Legal Context

How has the law changed?

6.1 The Sanctions Act establishes a legal framework which enables His Majesty's Government to impose sanctions for a number of purposes, which include the interests of international peace and security and the furtherance of a foreign policy objective of the government of the UK.

6.2 This instrument is made in exercise of powers conferred by sections 1, 15, 45 and 54 of the Sanctions Act. It makes amendments to the Regulations set out at section 4 above, which were made under the Sanctions Act for the purposes within section (1).

6.3 This instrument amends the manner in which the 'prior obligations' derogation in the following paragraphs of the UNSCRs set out below is implemented by the Regulations:

a. Paragraph 14 of United Nations Security Council Resolution 2206 (2015) South Sudan

b. Paragraph 18 of United Nations Security Council Resolution 2399 (2018) Central African Republic

c. Paragraph 13 of United Nations Security Council Resolution 2140 (2014) Yemen

d. Paragraph 20 of United Nations Security Council Resolution 1970 (2011) Libya

e. Paragraph 8 of United Nations Security Council Resolution 2653 (2022) Haiti

Why was this approach taken to change the law?

6.4 It was necessary to amend the manner in which the prior obligations derogation was implemented as per 6.2 and 6.3 above because it was considered this did not apply to all persons involved in making the relevant payments to UN DPs. An exception was considered to be the most appropriate approach because it will provide greater

certainty to those seeking to use it since its criteria can be set out in detail and will apply automatically.

7. Consultation

Summary of consultation outcome and methodology

7.1 There is neither a requirement in the Sanctions Act for public consultation on instruments made under the Act, nor is there any other legal obligation to consult in respect of this instrument.

7.2 No formal written consultation has been carried out on this instrument. However, informal stakeholder engagement has taken place with key persons involved in the payment and facilitation of relevant His Majesty's Treasury debt payments.

7.3 His Majesty's Government will continue engagement with stakeholders on the implementation of UK sanctions.

8. Applicable Guidance

8.1 In accordance with section 43 of the Sanctions Act, guidance has been published in relation to the prohibitions and requirements under the Regulations amended by this instrument.

8.2 This guidance will be updated to reflect the amendments to those Regulations made by this instrument.

8.3 OFSI will also publish guidance further clarifying how affected persons may implement this exception to sanctions legislation.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument. While it has not been possible to monetise the direct costs to business, His Majesty's Government has judged that the direct costs to business are minimal and would not breach the De Minimis threshold of £10m per annum, so a full Regulatory Impact Assessment has not been produced.

9.2 Fully quantifying costs is not possible as His Majesty's Government does not hold this data given that His Majesty's Treasury has no relationship with any person beyond the holder of the debt (which is not necessarily the UN DP) and cannot realistically gain possession of this data. The annual cost to business is assessed to sit significantly below the De Minimis threshold.

Impact on businesses, charities and voluntary bodies

9.3 There is no, or no significant, impact on business, charities or voluntary bodies because affected firms are already required to comply with UK financial sanctions; due diligence is conducted as a routine assessment of financial sanctions compliance. As such, these firms are obliged to monitor their exposure to financial sanctions and should routinely conduct familiarisation and screening exercises as part of their compliance efforts. Therefore, costs associated with this measure should be considered minimal.

9.4 The Regulations are not expected to significantly impact on small businesses. Any expected costs will be marginal and given that there are a few cases, any impacts will

be significantly below the £10m threshold. No blanket exemptions will be made in favour of small firms as there is no evidence to suggest small businesses will be disproportionately affected. Carving out small businesses from the scope of this exception would also undermine the overall sanctions framework.

9.5 There is no impact on the public sector as this is an update to existing legislation.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 If His Majesty's Government determined that it was no longer appropriate to maintain a sanctions regime or specific sanctions measures, that regime would be removed or amended accordingly. In the case of the regulations that this instrument amends (at 4.2 above), that would include the measures introduced by this instrument. As such, the Minister does not consider that a review clause in this instrument is appropriate.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument, contains UN obligations as defined in section 55(7) of the Sanctions Act which means that in accordance with section 55(6), it is subject to the negative procedure in Parliament. It is laid before Parliament on 19th June 2025 and comes into force on 10th July 2025.

12. European Convention on Human Rights

12.1 As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

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.