Title: When payment obligations meet sanctions regimes: Beneathco v RJ O'Brien Ltd

Overview: The Commercial Court held that an FCA-regulated broker was not obliged to transfer US$16.5 million to a client designated under US Iran sanctions, as doing so would breach US law. The case clarifies the narrow scope of the Ralli Bros principle and highlights the importance of licences in sanctions compliance.

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Author(s): Shaistah Akhtar, Partner
shaistah.akhtar@mishcon.com

Maggie Christiansen, Legal Director
maggie.christiansen@mishcon.com

Frances Beddow, Associate
frances.beddow@mishcon.com

Lillie Hempsell, Trainee Solicitor
lillie.hempsell@mishcon.com

Full Article

In brief

- In *Beneathco v RJ O'Brien Ltd* [2025] EWHC 3079 (Comm) the English Commercial Court held that an FCA-regulated broker was not obliged to transfer US$16.5 million held in its client account to a petroleum trader designated under US Iran sanctions, as doing so would breach US sanctions law.
- The case demonstrates how a party can be exempt from fulfilling its contractual obligations under an English law-governed contract where performance of the contract is legal in the UK, but unlawful under another country's sanctions regime.
- However, the scope for relying on such an exemption is narrowly constrained.

Background

Beneathco is a Dubai petroleum trader which, in 2019, became a client of RJ O'Brien Ltd ("RJOL"), an FCA-regulated broker. However, on 23 January 2020, Beneathco was designated by the United States Office of Foreign Assets Control ("OFAC") under US Iran sanctions. The following day, Beneathco instructed RJOL to liquidate its largest open trading position, creating a US$16.5 million positive balance, and to transfer that amount in AED to Beneathco's account with a Dubai bank. RJOL liquidated Beneathco's trading positions but blocked the transfer of the funds, citing the OFAC designation. It informed Beneathco that any transfer would require an OFAC licence.

In August 2021, RJOL's US affiliate ("RJOA") applied for a licence to enable RJOL to make the payment. However, the application was rejected in April 2025. RJOA also self-reported the liquidation of Beneathco's trading positions to OFAC, to which OFAC responded by issuing a

cautionary letter noting that it may take "future enforcement action should new or additional information warrant renewed attention".

Beneathco issued proceedings on 7 June 2024, almost a whole year before OFAC gave its decision on the licence application from RJOA, alleging it was an implied term of the agreement between it and RJOL that RJOL was required to execute Beneathco's instructions to pay monies out of its accounts in a currency of its choosing. RJOL's defence argued that it had no obligation to comply with Beneathco's instruction in light of the OFAC designation and denying that any such implied term existed (or, alternatively, contending that the only implied term was an obligation on RJOL "to pay Beneathco on demand the monies standing to its account in the currency of that account (US$)").

Additionally, in late 2024/early 2025, family members of Yitzchak Weinstock (who was killed by Hamas in 1993) sought to enforce a US default judgment against Iran by targeting Beneathco's assets. In August 2025, the US District Court ordered RJOL to turn over the sums it held for Beneathco to the Weinstock family. RJOL filed a motion to stay that order pending an appeal.

Payment obligations and implied terms

Simon Colton KC, sitting as a judge of the High Court, considered the relationship between RJOL and Beneathco and found that, whilst this was not a banker-customer relationship, RJOL held the US$16.5 million on trust for Beneathco pursuant to the CASS 7 (Client Money Rules) and in his view did not owe a debt. This was significant because it meant that RJOL's obligation was to pay the specific US$16.5 million held for Beneathco in RJOL's client account, rather than the equivalent value held elsewhere.

Regarding the contractual position, as there was no detailed contract between the parties, the judge considered whether an "unwritten contract" containing implied terms existed. He noted that any terms to be implied should *"(i) be implied in light of the express terms, commercial common sense, and facts known to both parties [...]; (ii) be limited to those which are obvious and necessary to give business efficacy to the contract; and (iii) if different, go no further than is obvious and necessary."*

The judge rejected Beneathco's proposed implied terms that would have required RJOL to convert the US$16.5 million into Beneathco's chosen currency or to pay any person Beneathco nominated. He held that RJOL's contractual and trust obligations extended only to making payment to Beneathco itself, on demand, in US dollars. Accordingly, RJOL was not obliged to convert the payment into AED or to make payment to the Weinstock family as instructed, and was therefore not in breach of any implied terms.

Sanctions

However, the judge also considered an alternative sanctions analysis in the event that RJOL was obliged to perform either instruction. The question here was whether US sanctions meant RJOL would be exempt from complying with its payment obligations.

The so-called Ralli Bros principle exempts a party from contractual performance in circumstances where the contract requires an act to be done in a place where it would be unlawful to carry it out (even though that act is not unlawful under English law). However, this is

a very limited exemption and will not excuse non-performance if: (i) the illegality relates to a preparatory step to performance; or (ii) a licence is available that would make performance lawful.

Following his earlier finding that the US$16.5 million was held on trust for Beneathco, the judge concluded that the payment of the specific sum held in Beneathco's account was a contractual requirement and not merely a preparatory step.

In light of this, he examined whether transferring that US$16.5 million would necessarily involve the use of the US banking system, and hence be illegal in a place where performance was contractually required. He noted that it would not be sufficient for RJOL to show that use of the US banking system would be the usual, or most convenient, way of making payment, or that there was a risk one of its banks would choose to use a US correspondent bank. However, on the balance of probabilities, he found that payment of US$16.5 million from any of the banks used by RJOL would have involved the use of a US bank.

The judge then considered whether RJOL could have obtained a licence. He noted that RJOA had unsuccessfully applied for an OFAC licence and that, whilst OFAC noted that an application by RJOL itself, instead of its US affiliate, would have had "much higher" chances of success, no probability was given. Further, given that it took OFAC over three and a half years to reject the licence application, the judge concluded that it was unlikely any licence would have been obtained in time to comply with Beneathco's original payment instruction and that any application in respect of payment to the Weinstocks would equally likely have been refused.

He also held that the UK Blocking Regulation (which protects against the extra-territorial application of some foreign laws) did not prevent the application of the Ralli Bros principle in these circumstances, as (among other things) the relevant unlawful activity (i.e. the involvement of a US correspondent bank) would take place within US territory.

Therefore, the judge held that the Ralli Bros principle would have exempted RJOL from making the payment if he had found that it did have an obligation to send the funds under the alleged implied terms.

Impact on the sanctions landscape

As well as being a salient reminder of the challenges facing parties when seeking to rely on implied contractual terms, this judgment offers valuable guidance on the applicability of the Ralli Bros principle in the context of US$-denominated agreements which are subject to US sanctions: namely, that an essential part of contractual performance (here, the obligation to pay an amount of US dollars held on trust) must take place in a jurisdiction where it is unlawful (here, requiring US correspondent banks to facilitate the payment) for the principle to operate.

As the sanctions landscape increasingly diverges between the UK and EU post-Brexit, and the US pursues its own policy objectives under President Trump's second administration, there is a growing risk that parties will find themselves facing a complex patchwork of global sanctions and contractual obligations which potentially contain competing or conflicting obligations. The Ralli Bros principle may offer an escape hatch in this difficult position – but this judgment reiterates how narrow an exception it is. On the facts here, it would not have applied if RJOL

owed Beneathco a debt (rather than holding the funds on trust) or if RJOL had not been required to use the US banking system to effect the transfer

As ever, licences also remain critical – RJOL would similarly have fallen outside the scope of the Ralli Bros principle if it could have obtained an OFAC licence. Given the lengthy timelines for obtaining an OFAC licence (over three and a half years in this case), this means that licences will need to be an early consideration as soon as any foreign sanctions issues arise.