

<b>Title:</b> Corporate Transparency and Companies House Register Reform <b>IA No:</b> BEIS045(C)-21-BF <b>RPC Reference No:</b> N/A <b>Lead department or agency:</b> Department for Business, Energy and Industrial Strategy <b>Other departments or agencies:</b> Companies House	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 25 February 2022			
	<b>Stage:</b> White Paper			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Primary legislation			
<b>Contact for enquiries:</b> transparencyandtrust@beis.gov.uk				
<b>RPC Opinion:</b> N/A				

**Summary: Intervention and Options**

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
-£375m	-£234.7m	£27.3m	Qualifying provision

**What is the problem under consideration? Why is government action or intervention necessary?**  
 Companies House currently holds two key economic functions - to incorporate companies, providing them with limited liability, then make information on these companies publicly accessible through the company register. In recent years, the demand for Companies House and their services has significantly increased, and there is evidence this framework is open to abuse, for uses such as fraud and money laundering.

The measures in this Impact Assessment aim to address three core issues:

- Increasing timeliness, usefulness, and accuracy of Companies House data.
- Misuse of UK registered companies and other entities.
- Meeting high levels of demand for Companies House services.

Only government can introduce these changes which would need to take place through primary legislation.

**What are the policy objectives of the action or intervention and the intended effects?**  
 The intended outcomes of intervention are:

- Support enterprise - through improving the usefulness and trustworthiness of the register of companies, which businesses use for due diligence and credit reference decisions.
- Help tackle economic crime - through improving the ability of Companies House to support law enforcement in the fight against economic and serious and organised crime, particularly money laundering, and thus promoting national security.

Were the measures in this Impact Assessment to increase the quality of Companies House information by 5%, then the estimated benefit would offset the estimated cost to business for the entire policy package. This excludes any wider benefits from helping to tackle economic crime.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option**

**Option 0:** 'No change' counterfactual.

**Option 1 (preferred):** A package to reform the role of Companies House, including increasing the powers of the company Registrar to query and remove information on the register, introducing identity verification for directors and persons of significant control and changing requirements around filing of company accounts.

<b>Will the policy be reviewed? It will not be reviewed. If applicable, set review date: To be set out in final IA</b>				
Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)		Traded: N/A		Non-traded: N/A

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister:  Date: 25/02/2022

# Summary: Analysis & Evidence

Description:

## FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -375

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant	Total Cost (Present Value)
Low			
High			
<b>Best Estimate</b>	109.4	30.1	<b>375</b>

### Description and scale of key monetised costs by 'main affected groups'

This Impact Assessment provides stakeholders with our estimates of the costs of the policy package outlined in the Corporate Transparency and Register Reform White Paper. We will continue to build upon our evidence base ahead of a Final Stage Impact Assessment.

#### Business

- Costs of familiarising and complying with different aspects of the policy package, such as the introduction of identity verification, estimated to cost around £10 per individual in time costs.

#### Professional bodies/supervisors

- Increased requirements on professional bodies, such as reporting discrepancies of information received by companies.

#### Public sector

- Implementation cost to Companies House.

### Other key non-monetised costs by 'main affected groups'

Where possible, all costs have been monetised.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant	Total Benefit (Present Value)
Low	Optional	Optional	<b>Optional</b>
High	Optional	Optional	<b>Optional</b>
<b>Best Estimate</b>			

### Description and scale of key monetised benefits by 'main affected groups'

### Other key non-monetised benefits by 'main affected groups'

Key non-monetised benefits are:

- BEIS research from 2019 shows that the willingness to pay of users for Companies House data is around £2,000 per user a year, with higher values enjoyed by those that use it most (around £3,200 a year). Based on these estimates the total value of the information on the company register is between £1 billion and £3 billion a year. These estimates relate to the value of the register in its pre-reform state. Were there to be a 5% improvement in the quality and usefulness of the data then the expected benefit would more than cover the estimated costs of the regulation to business.
- Supporting law enforcement with tackling economic crime, which would in turn support national security.

### Key assumptions/sensitivities/risks

Discount

3.5%

Assumptions and risks have been outlined throughout the Impact Assessment.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 27.3	Benefits:	Net: 27.3	

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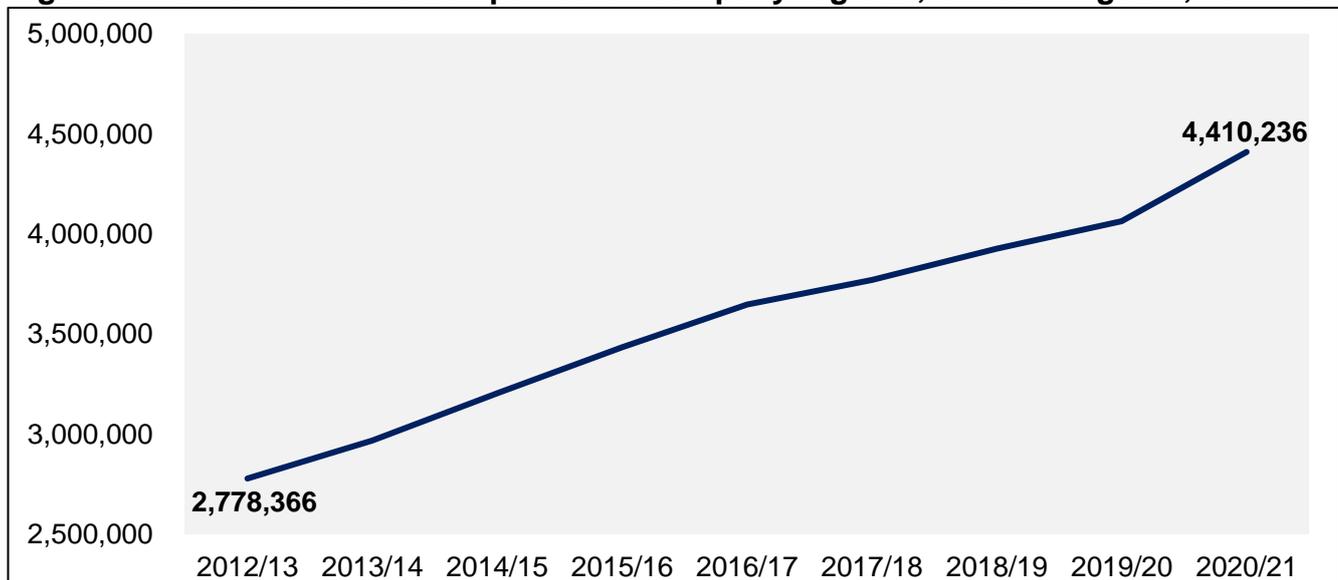
# I. Background

## Background information

### Overview

1. Companies House performs two key economic functions. Firstly, it facilitates the creation of limited companies and a range of other legal entities. It currently costs £12 to incorporate a limited company and most incorporation applications are processed within 24 hours.<sup>1</sup> Incorporation provides shareholders with limited liability for the debts of the company (they are only liable up to the amount unpaid on shares they own in the company) and establishes a company as a legal person separate from its owners.
2. The combination of limited liability and legal personality provides those running companies freedom to take risks in the knowledge that they will not be personally liable for company debts. The three Registrars of Companies (for England and Wales, for Scotland, and for Northern Ireland), supported by the staff of Companies House UK, require a range of information to be submitted to them at the incorporation of a company or other entity, and updated on regular basis.
3. That information is then made accessible by Companies House through the company register for anyone wishing to do business with that company, including the public, regulators and law enforcement agencies.
4. In recent years, there has been increasing demand for Companies House's services. Companies House incorporates hundreds of thousands of companies each year - the number of active companies on the effective register across the UK has increased from around 2.8 million in March 2013 to 4.4 million in March 2021 (see Figure 1 below).<sup>2</sup>

**Figure 1: Number of active companies on company register, United Kingdom, 2012-2021**



Source: Companies House statistical release 2020/21

5. However, this framework is currently open to abuse. There is evidence to suggest the UK's company incorporation system has been used to enable a range of crimes, from small

<sup>1</sup> See: <https://www.gov.uk/limited-company-formation/register-your-company>

<sup>2</sup> See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021>

scale 'phoenix' companies to large international money laundering operations.<sup>3</sup> UK limited companies, limited liability partnerships and limited partnerships have all been used in recent years to help launder the proceeds of crime. This has helped facilitate corruption, fraud, terrorist financing and tax evasion. Some of these cases have been linked to state threats, corrupt regimes and terrorism, thereby undermining global as well as UK national security.

## Reforming the Companies House register

6. In June 2019, the Government published a consultation on Corporate Transparency and Register Reform (referenced throughout as "register reform").<sup>4</sup> It explored a range of options to increase the transparency of companies and other legal entities and proposed several ways to strengthen the integrity of the companies register. The proposed reforms address:
  - Misuse of UK registered entities by international criminals and corrupt elites.
  - Concerns about the accuracy of information held at Companies House.
  - The abuse of personal information on the register.
  - The limited nature of cross checks between Companies House and other public and private sector bodies.
7. The consultation had 1,320 formal responses. Following this initial consultation, in December 2020, the Government invited further views on more specific aspects of reforming the Companies House register.<sup>5</sup>
8. This Impact Assessment accompanies the Corporate Transparency and Register Reform White Paper which builds on the consultation responses received in both 2019 and 2020. This statement sets out the Government's position ahead of introducing these reforms into Parliament.

## Focus of this Impact Assessment

9. This Impact Assessment provides stakeholders with our current estimates of the costs and benefits of the policy package outlined in the White Paper. We will continue to build upon our evidence base ahead of a Final Stage Impact Assessment. Therefore, at this stage, estimates of costs, benefits and companies impacted should be considered indicative. We would welcome stakeholder feedback on our current estimates.
10. We assess costs over a ten-year appraisal period and present our estimates in terms of present value costs for this period for business (NPV) and equivalent annualised net direct costs to business (EANDCB). As per current regulatory guidance, all costs are given in 2019 prices and this Impact Assessment uses 2020 as the base year for the present value calculation.<sup>6</sup>

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<sup>3</sup> Phoenixing, or phoenixism, are terms used to describe the practice of carrying on the same business or trade successively through a series of companies where each becomes insolvent (can't pay their debts) in turn. See: <https://www.gov.uk/government/publications/phoenix-companies-and-the-role-of-the-insolvency-service/phoenix-companies-and-the-role-of-the-insolvency-service>

<sup>4</sup> See: <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform>

<sup>5</sup> See: <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-improving-the-quality-and-value-of-financial-information-on-the-uk-companies-register> and <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-powers-of-the-registrar>

<sup>6</sup> See: <https://www.gov.uk/government/collections/impact-assessments-guidance-for-government-departments>.

11. The Final Stage Impact Assessment will be subject to full Regulatory Policy Committee scrutiny.

### Costs

12. Not all companies will be impacted by all the measures within the policy package. For this reason, we explore the costs of each individual proposal separately under the relevant section within the Impact Assessment.
13. Additionally, many of the costs of this reform package will fall on Companies House. Companies House is undertaking an ambitious transformation programme to deliver register reform, which will require investment in digital transformation, new processes and new skills.
14. The main elements of Companies House transformation are:<sup>7</sup>
  - Simplifying the customer journey through Companies House webpages, reducing the time taken to complete the process.
  - Automating the processes behind Companies House core functions, speeding up the checks and validation for opening and closing a company, submission of filings, annual confirmation statements and payment of fees.
  - Providing the infrastructure to efficiently deliver new data verification functions. It will do so by implementing identity-based access systems.
  - Simplify the process for customers to report errors in their information.
  - Allowing closer integration of Companies House with partner bodies tasked with tackling economic crime. This will enable Companies House to identify suspicious activities more readily within its systems and allow more efficient and secure exchange of data.
15. Given the requirement for Companies House transformation to deliver register reform, and linkages between different elements of register reform, it is impossible to allocate transformation costs to individual reform measures. Hence, we treat transformation costs as indivisible.
16. The costs to Companies House are excluded from the EANDCB as they sit outside of the Better Regulation Framework.<sup>8</sup> However, they are included in the calculation of the ten-Year Net Present Social Value (NPSV). Costs to Companies House are outlined under part **IV**.

### Benefits

17. Where there are individual benefits to proposals, we consider these in the appropriate section. However, many of the benefits of reforming the Companies House register occur to society as a whole and depend on the interaction of the proposals. For example, many of the measures are being introduced with the goal of supporting law enforcement in

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<sup>7</sup> See: <https://www.gov.uk/government/news/new-vision-for-companies-house-set-out-in-2020-25-strategy>

<sup>8</sup> In theory the costs could be funded through a) public expenditure or b) through a levy imposed by Companies House. Both fall outside the Better Regulation Framework. See:

<https://www.gov.uk/government/publications/better-regulation-framework>

tackling economic crime and supporting national security. For this reason, we consider the benefits of the entire policy package separately in part V of the Impact Assessment.

### **Problem under consideration**

18. The measures in this Impact Assessment aim to address three core issues:
- Increasing timeliness, usefulness, and accuracy of Companies House data.
  - Misuse of UK registered companies and other entities.
  - Meeting high levels of demand for Companies House services.

### **Increasing the timeliness, usefulness and accuracy of Companies House data**

19. Information on companies needs to be accurate and as up to date as possible to be most valuable to users. Publicly available information provided by Companies House can help overcome information asymmetries between different parties (for example, companies, lenders, customers) and provide economic value. Examples include:
- **When businesses are seeking finance** as Companies House data is a key source when credit scores and lending decisions are made. In their evidence to the non-bank lending taskforce, the Business Information Providers Association suggested that typically credit scores for unincorporated business, due to a lack of data on them, were around 40% lower than for those registered at Companies House.<sup>9</sup> Such lower credit scores can act as a barrier to accessing finance.
  - **Reducing transaction costs**, particularly by helping contracting parties (supplier businesses, customers or others) assess better the risk associated with a transaction and reduce 'search costs' associated with due diligence checks.
  - **Creating a market for secondary data providers** who use Companies House data as a key input to their own commercially available data products, for example by linking further financial information with ownership and legal information provided by Companies House.
20. The company register is a core element of the information infrastructure underpinning the UK's business environment. The benefits that can be attributed directly to Companies House data were highlighted by novel research, commissioned by BEIS and Companies House and published in September 2019. It estimated the economic value of the data to users, provided by Companies House publicly and free of charge, to be up to £3 billion annually.<sup>10</sup> These figures include benefits to 'direct UK based business users' only. They do not, for example, include a monetised estimate for the benefits associated with helping to tackle economic crime.<sup>11</sup>
21. This research, customer feedback, and a recent Post-Implementation Review of the People with Significant Control regulations show that the value of the information could be even greater if: a) reliability and accuracy could be improved, and, b) the data was presented in a more user-friendly searchable format.<sup>12</sup>

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<sup>9</sup> See: [https://www.bipa.uk.com/media/1525/201202\\_bipa\\_evidence\\_non-banklendingtaskforce.pdf](https://www.bipa.uk.com/media/1525/201202_bipa_evidence_non-banklendingtaskforce.pdf)

<sup>10</sup> See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

<sup>11</sup> For more detail on the research findings, please refer to the published research reports referenced above. We can provide additional information upon request.

<sup>12</sup> See: <https://www.gov.uk/government/publications/people-of-significant-control-psc-register-review-of-implementation>

## Misuse of UK registered companies and other entities

22. The 2019 consultation set out several concerns about the fraudulent filing of information and misuse of UK registered companies and other entities, which have featured prominently in international money laundering schemes. These included:
- Misuse of UK registered entities by international criminals and corrupt elites.
  - Concerns about the accuracy of information held at Companies House.
  - The abuse of personal information on the register.
  - The limited nature of cross-referencing between Companies House and other public and private sector bodies.
23. In particular, the Registrar currently has no power to query information upon registration, and they have limited powers to remove information post registration, including fraudulent information. Whilst the number of reports of inaccurate data remains extremely low relative to the size of the Register, the Post Implementation Review of the Registrar of Companies and Applications for Striking Off (Amendment) Regulations 2016 and The Companies (Address of Registered Office) Regulations 2016 identified several instances where greater registrar powers would benefit users.<sup>13</sup> For example:
- There have been instances where directors have been fraudulently appointed to companies and affected individuals have applied to the Registrar to have their details removed, only to find that the offending company subsequently re-appoints them.
  - There have been instances where a company subsequently files a change of registered office address and reverts to a previously disputed address.
24. Restrictions within the current framework mean the Registrar is unable to tackle such abuses. Whilst such abuse is not widespread, it is unfair to ask those negatively affected individuals, e.g., those resident at the incorrect office address, to keep re-applying to the Registrar. Case studies of misuse of UK companies are given below.

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<sup>13</sup> See: [https://www.legislation.gov.uk/uksi/2016/423/pdfs/uksiod\\_20160423\\_en.pdf](https://www.legislation.gov.uk/uksi/2016/423/pdfs/uksiod_20160423_en.pdf)

## **Case studies**<sup>14</sup>

### **Case study one: Phoenix trading**

The practice of phoenix trading and the exploitation of creditors who deal with companies in good faith manipulates the principle of legal identity without liability. Typically, assets are sold undervalue to an associated company with a similar name and common directors. The associated company will continue trading on the same basis, free from debt which has been parked in the old company.

In the recent case of the Insolvency Service v Wallace, two individuals were prosecuted for making false representations to the High Court to secure a validation order enabling them to access funds in a frozen company bank account. It is reported that one of the individuals committed fraud in anticipation of the winding up of the same company by diverting £111,000 to a phoenix company. That individual was disqualified as a director for nine years. There are existing controls that address phoenix trading, but these only apply once the misconduct is identified through the insolvency regulatory framework.

### **Case study two: Using UK companies to defraud the furlough scheme**

In 2021 HMRC seized £26.5 million in previously claimed furlough cash from the accounts of a series of companies registered at Companies House. An 'entrepreneur' registered four fake companies that claimed to be an IT services company, a corporate charity, a research hospital and a religious institute. These shell companies were all registered to a virtual address and each claimed to have dozens of employees and had similar company names. Each company received between £5 and £10 million in furlough funding.

## **Meeting high levels of demand for Companies House services**

25. Over 99.9% of incorporations in the 2020/21 financial year were filed electronically, with 91.4% of all documents filed with Companies House being filed electronically.<sup>15</sup> Additionally, in 2015, Companies House introduced Companies House Service (CHS), where all public digital data was made free. Companies House saw 10 billion free data requests in 2020/21, up from 1.3 billion in 2015/16 (see Figure 2).<sup>16</sup>

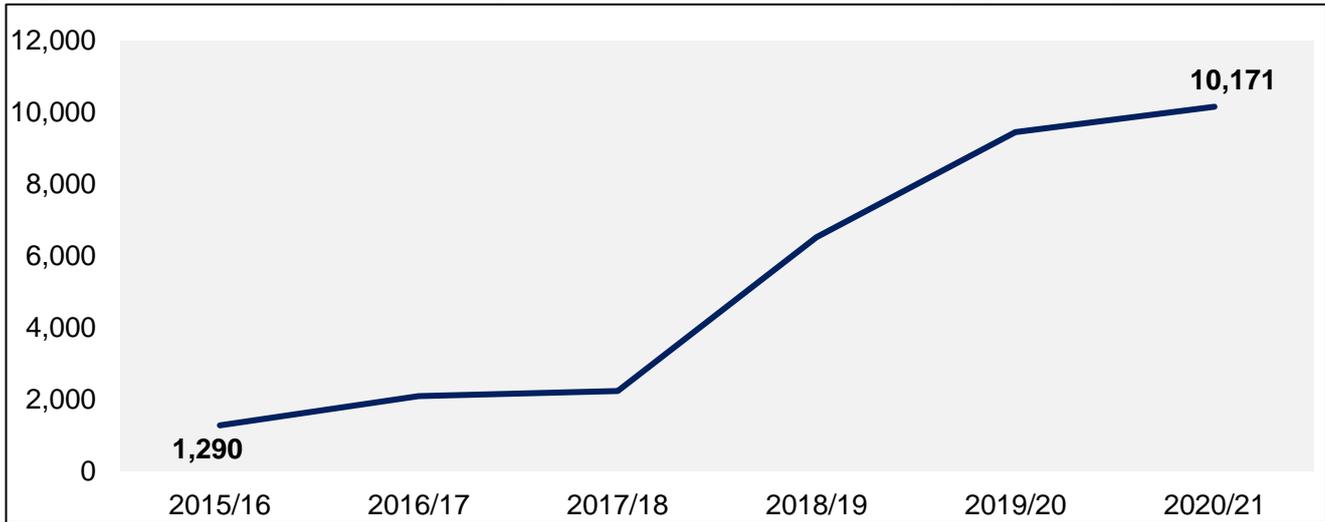
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<sup>14</sup> For case study one, see: [Insolvency Service vs Wallace](#). For case study two, see: [Financial Times – UK taxman seizes £26.5m furlough funds from 'entrepreneur'](#)

<sup>15</sup> See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>, Table 9

<sup>16</sup> See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>

**Figure 2: Total searches of Companies House records annually (millions), 2015-2021**



Source: Companies House management information 2020/21

26. The rising demand for Companies House data and services means that existing resources at Companies House are increasingly stretched. Using scalable technological solutions, such as e-filing with automated tagging, would enable external users to process data on the register more easily, whilst also enabling Companies House to minimise resource-intensive manual processes.

## II. Rationale for intervention

27. We now consider the rationale for intervention, based on the issues identified in the problem under consideration section. Figure 3 below summarises the rationales for intervention against each problem identified, which we then discuss in full.

**Figure 3: Rationales for intervention to problems identified**

	Provision of public goods	Addressing criminal behaviour	Reducing negative externalities	Reducing information asymmetries
Increasing the timeliness, usefulness and accuracy of Companies House data	X	X		X
Misuse of UK registered companies and other entities	X	X	X	X
Meeting high levels of demand for Companies House services	X			

### Provision of public goods

28. The register of companies and the data contained within it create direct economic value to the UK as well as very tangible wider socio-economic impacts, for example in the fight against criminal activity.
29. The data has the characteristics of a public good - it is non rivalrous in consumption. For example, one business' use of it does not stop another business from using it. Whilst in principle persons could be excluded from using the data<sup>17</sup>, there has been a consensus for nearly two hundred years that the data should be publicly available:
- The legislation which created limited liability did not pass Parliament uncontested, particularly because of the opportunity it offers to avoid debts to creditors when a company is wound up. The 19<sup>th</sup>-century legislators who gave persons the power to create such entities anticipated the risk of misuse, by requiring certain particulars of companies and their directors to be disclosed with the Registrar of Companies, a position created in 1844.<sup>18</sup> Thus early on it was recognised that access to information

<sup>17</sup> For example, through a fee mechanism. In this sense as users can be excluded from its use, Companies House data is not a pure public good. That said as we note there are good public policy reasons for its widespread availability. Note also that the marginal cost of providing CH data to users is zero. Costs are fixed and must be incurred for the collection of data. In this case the imposition of a fee would transfer some of the consumer from users to the government and reduce the demand for CH data. The reduction in demand constitutes a welfare loss.

<sup>18</sup> Introducing the Joint Stock Companies Bill in 1856, Robert Lowe said "It is right the experiment should be tried; and, in my judgment, the principle we should adopt is this - not to throw the slightest obstacle in the way of limited companies being formed - because the effect of that would be to arrest ninety-nine good schemes in order that the bad hundredth might be prevented; but to allow them all to come into existence, and when difficulties arise, to arm

on limited liability companies was in the public interest.

- Recently there are growing concerns around a further risk. By giving the company 'legal personality' – such that it can hold property and contract in its own name, real people can hide behind it to avoid having their own names linked to their activities. Companies Act legislation has always required company directors and shareholders to be registered, but in the context of the globalisation of finance and the rise of the offshore investment, it became possible to create complex corporate structures to obscure ownership of assets to a far greater degree. Some of this was done by law-abiding people seeking privacy, but also by those looking to evade tax or launder the proceeds of crime or corruption.

30. The aim of the regulations is therefore to improve the quality of the 'public good' being provided both in terms of the quality of the information and the quality of the user experience.

### **Addressing criminal behaviour**

31. Establishing and enforcing a common set of rules is a key and well-established role of the State. Where there are deficiencies in the legal framework which enable individuals or entities to commit crimes, then there is a clear rationale for government intervention.

32. As previously described, the anonymity of corporate structures can facilitate criminal activities. This anonymity has been reduced by the UK's domestic Persons of Significant Control (PSC) register<sup>19</sup>, but corporate entities are still vulnerable to abuse. Recent years have seen growing instances of misuse of companies through money laundering and fraud, challenges safeguarding personal data held and concerns over the accuracy of the companies register.

33. While law enforcement agencies have powers to investigate and recover the proceeds of crime, corporate structures can make it difficult to identify the individuals responsible for criminal activity – resulting in less efficient and effective investigations. Investigations and recovery are often even more complex where the relevant parties are based abroad.

34. Crime imposes significant costs including the damage to the victim's welfare, inefficient resource allocation and a forced redistribution of income, lost economic activity/output, and costs to the criminal justice system, including the police. We explore this further under part V of the Impact Assessment which covers benefits of this policy package.

### **Reducing negative externalities**

35. Illicit activity can impose negative externalities on licit UK corporate entities and the UK's reputation. Media articles and negative public opinion regarding illicit behaviour can lead to an erosion of trust in UK businesses generally. We also note that a significant amount of abuse occurs from foreign organised criminal organisations, and this damages international prosperity and undermines the UK's reputation as a responsible place to do business.<sup>20</sup>

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the courts of justice with sufficient powers to check extravagance or roguery in the management of companies, and to save them from the wreck in which they may be involved."

<sup>19</sup> A person with significant control (PSC) is someone who owns or controls your company. They're sometimes called 'beneficial owners'. See: <https://www.gov.uk/guidance/people-with-significant-control-pscs>

<sup>20</sup> For example, see: [http://www.transparency.org.uk/publications/offshore-in-the-uk/#.WungAQj4\\_yQ](http://www.transparency.org.uk/publications/offshore-in-the-uk/#.WungAQj4_yQ)

## Reducing information asymmetries

36. In economic transactions one party to the transaction usually must acquire information about the other party to understand sufficiently the quality and risks associated with the goods, service or investment opportunity on offer. Where there is an asymmetry in the information held by the two transacting parties (i.e., one party possesses information another does not) then there is the risk that productive transactions do not go ahead, or go ahead at a higher cost, due to greater risks of making sub-optimal investments, not being paid correctly or inadvertently financing crime.
37. There are several information asymmetries in the current company system. For example, with Companies House unable to proactively share its data with law enforcement agencies, there are information gaps between the two parties which could identify those undertaking economic crime.

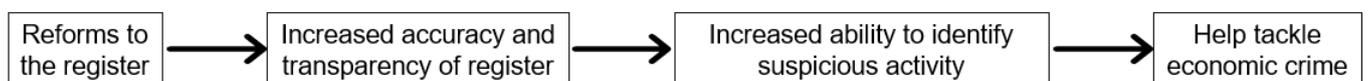
## Policy objectives

38. Based on the above, the intended outcomes of the policy are to:
- Support enterprise - through improving the usefulness and trustworthiness of the register of companies, which businesses use for due diligence and credit reference decisions.
  - Help tackle economic crime - through improving the ability of Companies House to support law enforcement in the fight against economic and serious and organised crime, particularly money laundering, and thus promoting national security.
39. A model for each of these policy objectives are outlined below. We will continue to build upon these, and how these reforms link together, in the Final Stage Impact Assessment.

Supporting enterprise:



Help tackle economic crime:



### III. Package of reforms

40. Part III of the Impact Assessment considers the individual reforms set out in Figure 4 below. The costs to Companies House (part IV) and the benefits (part V) of the proposals are covered in separate sections.

**Figure 4: Summary of the register reform proposals**

<b>Section 1</b>	<b>Registrar's powers</b>	Powers for the Registrar to allow them to query information submitted to Companies House and broaden the Registrar's powers to allow them to remove information from the register to better ensure its accuracy.
<b>Section 2</b>	<b>Identity verification</b>	Measures to know who is setting up, managing, and controlling corporate entities, including compulsory identity verification for all directors and PSCs and those who file on behalf of an entity.
<b>Section 3</b>	<b>Third-party agents</b>	Increased checks on intermediaries who incorporate a company on behalf of others. Only properly supervised agents would be able to file on behalf of entities.
<b>Section 4</b>	<b>Transparency of ownership</b>	Specific proposals to increase transparency of information presented on the company register.
<b>Section 5</b>	<b>Data sharing</b>	Measures to deter the abuse of corporate entities, e.g., data sharing, intelligence sharing.
<b>Section 6</b>	<b>Privacy</b>	Removal of restrictions to enable personal information to be removed from the register.
<b>Section 7</b>	<b>Improving financial information on the register</b>	Changes to the way accounts are filed with Companies House.

41. Within each section the following aspects will be covered:
- **Policy overview** providing a background to this proposal
  - **Descriptions of options considered**, including against the 'do nothing' counterfactual
  - **Summary and preferred option with description of implementation plan**
  - **Monetised and non-monetised cost of each option**
  - **Direct costs and benefits to business calculations**

42. Part VI presents a summary of the costs and benefits of this policy package.

#### **Assumptions and risks**

43. The assumptions and risks within this analysis are outlined throughout the Impact Assessment.
44. One of the most important assumptions which has been made throughout the Impact Assessment is the amount of time it takes individuals within companies to familiarise/comply with different aspects of the policy package. Thus, there is a risk that

these time costs may be different, and therefore the overall cost of the policy package will be higher.

45. Other assumptions made within include:

- The number of individuals who need to identity verify, based on Companies House data
- The number of third-party agents, based on Companies House data
- Who is familiarising with the policy change
- The estimated number of filleted accounts, based on Companies House intel and data

46. We will continue to test these assumptions with stakeholders ahead of the Final Stage Impact Assessment and would welcome feedback from readers.

# Section 1: Registrar's powers

## Policy overview

47. Currently, the Registrar's primary responsibilities are incorporating companies and displaying information about those companies on the public register. Information about companies is provided to the Registrar on incorporation and throughout the lifetime of the company through submission of various statutory filings, such as accounts and confirmation statements.
48. Companies House is currently required by law to accept information if it is 'properly delivered' and has very limited powers to correct or query information if it suspects that something submitted to it is erroneous or fraudulent. This means that filings receive only limited checks before acceptance e.g. that the right data fields have been completed. If a filing passes these checks, Companies House is legally obliged to accept it, regardless of whether there is suspicion about the content of the filing. The number of reports of inaccurate data remains extremely low relative to the size of the register. For example, from 1 April 2020 to 31 March 2021, there were 7.6 million directorships on the register.<sup>21</sup> Companies House management information shows they processed around 1,400 applications to remove material about a director.<sup>22</sup>
49. The Registrar also has limited powers to remove material from the register, the limited scope of which leads to stakeholder complaints. For example, from January to December 2021 Companies House data shows there were 9,000 applications to rectify director/secretary details or a registered office address.<sup>23</sup>
50. The Post Implementation Review of the Registrar of Companies and Applications for Striking Off (Amendment) Regulations 2016 and The Companies (Address of Registered Office) Regulations 2016 identified several instances where greater Registrar powers would benefit users. For example:<sup>24</sup>
  - There have been instances where directors have been fraudulently appointed to companies and affected individuals have applied to the Registrar to have their details removed, only to find that the offending company subsequently re-appoints them.
  - There have been instances where a company that has used a registered office address without being authorised to do so is moved to the 'default' address, provides an alternative registered office address, then subsequently files another change of registered office address and reverts to the previously disputed address.

## Description of options considered

### **Option 0: Do nothing**

51. This option acts as the 'do nothing' counterfactual against which changes are assessed. Stakeholders during our first-stage consultations strongly supported the proposals in principle. For example, 79% of respondents agreed that Companies House should have more discretion to query information before it is placed on the register, and to ask for evidence where appropriate.

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<sup>21</sup> See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021>

<sup>22</sup> To note, not all of these applications can be considered as fraudulent activity.

<sup>23</sup> Unpublished Companies House data

<sup>24</sup> See: [https://www.legislation.gov.uk/uksi/2016/423/pdfs/uksi016\\_0423\\_en.pdf](https://www.legislation.gov.uk/uksi/2016/423/pdfs/uksi016_0423_en.pdf)

52. Under Option 0 the existing limitations to Companies House ability to engage more proactively on these issues, such as lack of power to tackle fraud and other abuses, would therefore continue.

### **Option 1: Broadening existing powers and introduce new powers to Companies House (preferred option)**

53. This option will mean that the Registrar would no longer be obliged to accept documents that are delivered to her where there is reason to query the information provided, as well as to query information already on the register when it comes to the Registrar's attention that it might be inaccurate, fraudulent or suspicious.
54. The main elements to this option are:
- Introducing a querying power that can be exercised pre and post registration.
  - Broadening powers to remove and rectify information on the register.
  - Ensure that the Registrar can apply the querying power to company names.
55. There are also other, more technical changes to the Registrar's powers such as a new function to 'promote and maintain the integrity of the register and the UK business environment'; extension of the 'proper delivery' requirements and closing loopholes that allow companies to continue to operate without providing a valid registered office address. We focus on the three policy areas outlined above and describe each of the policy elements in turn below.

#### Introducing a querying power pre and post registration

56. The Registrar currently has no power to proactively query the accuracy of information she receives. As mentioned, we propose to introduce such a querying power which can be used in cases of identified 'errors and anomalies'.
57. Under this option, the Registrar will be able to query information contained in any filing delivered to her, both pre and post registration. This will include filings that have legal consequence, which means filings which take legal effect upon registration at Companies House. These include incorporation and change of registered office address.
58. The intention is to exercise the querying power using a risk-based approach, ensuring that information is prioritised for querying based on the risk it presents to the integrity of the register and its users, where it represents a risk to the UK's reputation as a good place to do business, or where a corporate structure is potentially being used to facilitate crime.

#### Broadening powers to remove from and rectify information on the register

59. The Registrar currently has very limited powers to remove material from the register. In the December 2020 Powers of the Registrar consultation, we proposed giving the Registrar greater powers to administratively remove information to increase its accuracy. Respondents to the consultation were generally in favour of the proposals. We therefore propose that the Registrar should have a discretionary power to remove material which impacts the integrity of the register.
60. Secondly, we propose that new removal powers will be able to be exercised following use of the new querying power. In other words, if the response to a query indicates that information is incorrect or inaccurate, the Registrar will have the discretion to remove the

information in question. In addition, where no response is received to a query, the Registrar will be able to remove the information if it is judged to be inaccurate, misleading, or otherwise affects the integrity of the register.

61. Finally, we propose to broaden the scope of these powers so that they can apply to information that currently cannot be removed or rectified. For example, while existing powers under section 1095 of the Companies Act allow the removal of information related to directors, company secretaries or LLP members, they do not, for example, apply to filings such as Persons with Significant Control (PSC) filings. We thus propose to broaden the power to apply to any filing.

#### Ensure that the Registrar can apply the querying power to company names

62. We intend also to apply the new querying power in the context of company names to enable the Registrar to act on evidence or suspicion that a company name is to be used for malicious or fraudulent purposes or in that, in a small number of cases, the ability to register a company name is currently being abused.
63. For example, there are a few cases where companies are proposed, or registered, that are part of a campaign to target a company, organisation, or individual with whom the applicant has no connection, where the name of an international organisation or institution is being used (e.g. a bank) or where there is intelligence of fraud or other criminal activity. The ability to query the legitimacy of the company name before it is registered will help stop these instances.
64. There are two scenarios where this power would be used:
- A company would be asked to change their name at incorporation - if they do not comply then no incorporation would occur.
  - The company name is missed at incorporation but receives a complaint from a third party. If the Registrar is satisfied that the complaint is fair, then the company will be asked to change their name; if no change is made then the Registrar will replace the company's name with their Company Registration Number (CRN).
65. The aim of this additional power is to target the cases below in an act of preventing public harm and protecting the integrity of the register. The evidence that would be typically required is listed under each target:
- **Body or individual that has no connection to the company in question**
    - Evidence of connection to the individual, company, body or organisation; and
    - Confirmation from third party if applicable that the connection is genuine
  - **Current affairs to give a false veneer of legitimacy to criminal activity**
    - Evidence of company's association with the name and what they intend to do; or
    - Raise separate query with regulators to get other views, such as the FCA
  - **Mimicking international bodies**
    - Similar evidence to above

#### Summary and preferred option with description of implementation plan

66. Option one is our preferred option and will be given effect through primary legislation and the option is also likely to require changes to secondary legislation.

67. We have set out in the section above the core elements of the proposal and explained in the background section how these fit into the wider reform agenda.
68. Once the new arrangements are in place, Companies House will be responsible for the implementation, ongoing operation and enforcement of the arrangements which will fall within their wider transformation programme.

### **Monetised and non-monetised costs of each option**

#### **Option 0: Do nothing**

69. This no-change/status quo option acts as the counterfactual against which other proposals will be assessed.

#### **Option 1: Broadening the Registrar's existing powers and introduce new powers for the Registrar (preferred)**

##### **Introducing a querying power pre and post registration**

70. The Registrar currently has no power to proactively query the accuracy of information she receives. We propose to introduce such a querying power which we intend to apply also to company names, and which can be used where the information may pose a risk to the integrity of the register.
71. We expect that other measures planned under register reform will incentivise or force compliance through the design of electronic forms. For example, an individual completing a form online could be presented with drop-down box options, for which they must provide answers based on the available options. This is likely to reduce the number of errors on the register.
72. At the post-registration stage, the power will be exercised using a risk-based approach, which will enable the Registrar to prioritise those filings that pose the most risk to the integrity of the register, including potentially suspicious or fraudulent activity. We initially expect the querying power to be exercised more frequently but also expect, as the Registrar's knowledge base develops, that queries will be less frequent, especially since much information with malicious intent would be removed from the register or simply not make it on to the register any more considering the proposed changes.
73. We cannot say with certainty the number of queries that would take place following the introduction of these new powers. However, a helpful indication of how often the querying power could be exercised is the number of instances in which there may be companies or individuals operating within companies acting unlawfully. Figure 12 below provides an overview from recent years of the number of instances when Companies House has received a Government Agency Intelligence Network (GAIN) request or Data Protection Act (DPA) request from law enforcement bodies e.g. the National Crime Agency (NCA).<sup>25</sup>

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<sup>25</sup> Law enforcement partners are able to request specific personal information on a individual(s) if they provide satisfactory justification for doing so e.g. they have evidence that the individual(s) are laundering money via a company.

<sup>26</sup> GAIN is a multi-agency network mainly made up of public sector agencies, set up to exchange information about organised criminals.

**Figure 12: Law enforcement referrals to Companies House (2015-2021)**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
GAIN	700	900	1100	1700	1400	600
DPA Requests	600	1100	1400	1100	2700	8600
<b>Total requests from partners</b>	<b>1400</b>	<b>2000</b>	<b>2500</b>	<b>2800</b>	<b>4100</b>	<b>9300</b>

Source: Companies House management information 2021. Table may not add up due to rounding.

74. The vast majority of companies and other corporate entities are set up for legitimate activities. These proposals are to a large extent intended to protect them from those who try to abuse the UK framework. We therefore do not anticipate any regulatory burden for companies that are acting legitimately. The powers introduce a burden on the small fraction of entities that file information incorrectly on purpose or even with criminal intent. In these cases, we do not regard the exercise of the power as a regulatory burden, rather it is a measure to ensure compliance.
75. When the Registrar has queried information, providing satisfactory evidence should be relatively straightforward in cases of misunderstanding or if there is a genuine mistake as the entity should have it readily available. Where an entity has made a genuine mistake and this is rectified via this power, then this should also be in the interest of the entity itself. A true, significant burden should only arise in precisely those instances where entities did not comply with existing rules and standards or where they were trying to mislead on purpose.

#### Broadening powers to remove and rectify information from the Register

76. For the same reasons set out in the assessment of the querying power, we expect that the above proposals to result in a negligible burden to currently compliant entities.
77. Where the power introduces burden on the small fraction of entities that file information incorrectly on purpose or even with criminal intent, we do not regard the exercise of the power as a regulatory burden, rather it is a measure to ensure compliance.
78. To support this, a Post Implementation Review (PIR) published in 2016 covered legislation granting the Registrar powers to change or remove specific company information from the register. Specifically, the powers applied to a director's appointment details or a company's registered office address.<sup>27</sup> The PIR shows that there were very few cases for either measure where those subject to the powers provided satisfactory evidence to challenge the removal of the director or change of office address.

#### Ensure that the Registrar is able to apply the querying power to company names

79. The Registrar will have the power to ask companies to change their name, both pre- and post-registration, although we anticipate more pre-registration queries.<sup>28</sup>
80. We anticipate that there would be very few cases. For example, the Company Names Tribunal service, which deals with complaints between companies over the registering of

<sup>27</sup> See: <https://www.legislation.gov.uk/ukxi/2016/599/resources>

<sup>28</sup> At the pre-registration stage, the registration would be rejected.

names, deals with below two hundred cases a year (Figure 13).<sup>29</sup> Most cases are undefended.<sup>30</sup>

**Figure 13: Company names tribunals decisions, 2017-2020**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Undefended decisions</b>	128	150	123	67
<b>Defended decisions/other</b>	9	22	7	11
<b>Total</b>	<b>137</b>	<b>172</b>	<b>130</b>	<b>78</b>

Source: Company Names Tribunal Service 2021. Table may not add up due to rounding

81. Therefore, we expect that costs arising from the changing of company names will be minimal as the power will primarily be exercised where there is an identified error, anomaly or inaccuracy which appears fraudulent, suspicious or may impact the integrity of the register or wider business environment.

**Direct costs and benefits to business calculations**

82. We have set out why we think there will be no costs to compliant businesses from these proposals.

<sup>29</sup> See: <https://www.gov.uk/government/organisations/company-names-tribunal/about>

<sup>30</sup> See: [Company Names Tribunal defended decisions and orders - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/614247/Company_Names_Tribunal_defended_decisions_and_orders_-_GOV.UK.pdf) and [Company Names Tribunal undefended decisions and orders - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/614247/Company_Names_Tribunal_undefended_decisions_and_orders_-_GOV.UK.pdf)

## Section 2: Identity verification

### Policy overview

83. The current legal framework requires Companies House to accept information from corporate entities and individuals, such as directors, in good faith. There are no checks to confirm that someone registered as a director or PSC has given their consent or is even a real person.
84. There are some cases of UK corporate entities showing false claims that individuals are company directors, as well as providing false information. In a particularly notable case, in Autumn 2020, thousands of Suspicious Activity Reports from the US Financial Crimes Enforcement Network were leaked. The reports alleged that 3,267 UK limited liability partnerships (LLPs) and limited partnerships (LPs) were set up for suspicious purposes by registration agents between 1999 and 2017. In general, ownership of these LPs and LLPs was hidden by registering them with owners that were companies based in so called 'secrecy jurisdictions' - where companies can be registered without publicly revealing who owns them. This allowed the UK partnerships to be owned and controlled anonymously and potentially used to launder money.<sup>31</sup>

### Description of options considered

#### **Option 0: Do nothing**

85. This option acts as the 'no change' counterfactual. There would be no costs, but the issues outlined above would remain unaddressed. For this reason, this is not the preferred option.

#### **Option 1: Introduction of identity verification (preferred option)**

86. Responses to our September 2019 consultation showed overall support for introducing identity verification to help ensure that the identities behind companies were real.<sup>32</sup> Representatives from business, professional bodies, law enforcement and civil society strongly supported the proposals, demonstrating a clear consensus that tighter requirements on verification are the way forward:
- 91% of respondents agreed with the general premise that Companies House should have the ability to check the identity of individuals on the register. Respondents highlighted benefits of identity verification such as increased accuracy of Companies House data and the prevention of economic crime.
  - 81% of respondents agreed with the proposal for mandatory identity verification of directors, recognising it to be essential for effective implementation of the verification policy.
  - 88% of respondents also agreed that identity checks should be extended to existing directors and PSC.
  - 84% agreed that that government should require presenters to undergo identity verification and not accept proposed incorporations or filing updates from non-verified persons.

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<sup>31</sup> See: <https://www.icij.org/investigations/fincen-files/how-signatures-in-public-data-helped-expose-the-uks-dirty-money-cottage-industry/>

<sup>32</sup> See: <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform>

87. Responding to its 2019 consultation, the Government therefore outlined that it will:
- Introduce compulsory identity verification for all directors (and equivalent) and PSCs of UK registered entities.<sup>33</sup>
  - Introduce compulsory identity verification for all individuals who file information on behalf of a UK registered entities (non-Anti Money Laundering registered presenters),<sup>34</sup>
  - Continue to allow company incorporations and filings to be made either directly at Companies House or via an agent. In future, only properly supervised agents would be able to file information (referred to as a third-party agent).<sup>35</sup> They will be required to provide evidence of the verification they have undertaken, and we will avoid duplicating identity checks.
  - Additionally, overseas relevant legal entities (RLEs), will also be subject to identity verification requirements.<sup>36</sup> We accept that overseas RLEs may have management structures that are different to those in the UK and may not have recognisable directors. In this case, we will require an RLE to nominate a related individual, ideally in a management capacity, to identity verify (i.e. a managing officer).
88. The aim of identity verification is to help improve the reliability of the information on the register by requiring individuals associated with UK registered entities to prove they are who they say they are. This will also add confidence that only verified individuals can be listed as directors or equivalents, PSCs or presenters of these entities.
89. Companies House will ensure the identity verification is inclusive and accessible and will provide digitally assisted methods for those who need support to verify their identity electronically. However, the operational process is still being developed, which has implications for our cost estimates, making them tentative at this stage.

## **Option 2: Option 1 with the addition of shareholder verification**

90. Option two is option one with the addition of shareholder verification. Management information from Companies House suggests that approximately 50% of shareholders of (non-traded) private limited companies are also PSCs.<sup>37</sup> This means the additional task of verification would fall to those shareholders who are not deemed to exercise significant influence of control, which could generate a disproportionate burden on investors. The Government is wary of extending burdens to investors and views the requirement to verify all shareholders as a disproportionate burden. Further measures on changing

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<sup>33</sup> Registered entities include companies, corporate bodies subject to Companies Act 2006 disclosure requirements and certain non-corporate forms with similar disclosure requirements.

<sup>34</sup> A non-Anti Money Laundering (AML) presenter is anyone submitting filings to Companies House (including incorporations) through a direct account (i.e., not through a third-party agent). To file, presenters will need to create an account and verify their identity with Companies House. If an individual already has a verified account with Companies House (i.e., if they are a director or PSC) then they will not need to verify again to be a presenter. A common example of a non-AML presenter would be a company secretary.

<sup>35</sup> A third-party agent will in all cases be a Trust or Company Service Provider ('TCSP', as defined in the Money Laundering and Terrorist Financing (Information on the Payer) Regulations 2017 (the 'MLR'), or offer or intend to offer services which fall within that definition.

<sup>36</sup> An RLE is an entity that meets the PSC threshold of control and also meets conditions on relevance (holding its own PSC register or trading on certain regulated markets) and registrability (it must be the first entity in a chain of ownerships). If an RLE fulfil these conditions, it must be registered on a company's PSC register.

<sup>37</sup> Internal Companies House analysis, 2019

requirements of shareholders are covered under the transparency of ownership section of the Impact Assessment.

### **Option 3: Verifying the link between directors/PSCs and their companies**

91. This option would verify that an individual was in fact a director or a PSC of their company. We did not consult on this option, but we did initially explore it. Whilst it was attractive to verify that an individual was linked to a company, Companies House would require information to confirm that each director or PSC was legitimately linked to its company. This would essentially require Companies House to undertake checks on every director appointment or PSC registration and might involve seeking corroboration from multiple sources, and may significantly slow down incorporation processes, as well as creating considerable expense for both business and Companies House. As explained below, we currently understand there to be over one million new officers on the register every year, as well as this being a significant increase in burden on business due to the information they need to prepare when registering a company. Additionally, the querying power discussed in the previous section will apply to both director and PSC information, enabling Companies House to probe the link between a director/PSC and a company on a risk basis. For the reasons outlined above, this option was not taken forward.

### **Summary and preferred option with description of implementation plan**

92. Option one is our preferred option and will be given effect through primary legislation. We have set out in the section above the core elements of the proposal and explained in the background section how these fit into the wider reform agenda.
93. Once the new arrangements are in place, Companies House will be responsible for the ongoing implementation, operation and enforcement of the arrangements which will fall within their wider transformation programme.

### **Monetised and non-monetised costs of each option**

#### **Option 0: Do nothing**

94. The 'do nothing' option provides the counterfactual scenario for the assessment of the other options.

#### **Option 1: Introduction of identity verification (preferred option)**

##### **Numbers in scope**

95. To estimate the costs of this policy, we need to understand the number of individuals who will be impacted. The Government is proposing that identity verification will apply to all existing directors or equivalents and PSCs ('the stock') and new directors/equivalents and PSCs who join the register ('the flow'). There are also individuals who file information on behalf of a company who will also need to identity verify (non-AML presenters).
96. We take each of these groups in turn.

##### *The stock of current directors and PSCs who will need to be identity verified*

97. Under the policy proposal, the following officers fall into the categories of directors, PSCs and equivalents who will be required to verify their identity:<sup>38</sup>

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<sup>38</sup> List of required officer types provided by Companies House.

- Directors of companies
- General Partners of Limited Partnerships (LPs) including Scottish Limited Partnerships
- Limited Liability Partnership (LLP) Members
- Individual PSCs and managing officers of Relevant Legal Entities<sup>39</sup>
- Natural person directors of corporate directors
- LLP Corporate Members
- Natural persons of LP Corporate General Partners
- Overseas directors
- Individual PSCs of Scottish General Partnerships and Scottish Limited Partnerships
- Individual PSCs of unregistered companies

98. Therefore, we need to understand the current number of these officer types.

99. There is a considerable overlap between directors and PSCs as most companies are small, with one or two directors at most. In these cases, the directors meet one or more the conditions for significant control and therefore are PSCs. For example, Companies House statistics shows that in 2020/21 there were 1.60 directorships per company and 1.28 PSCs per company.<sup>40 41</sup> As an individual only needs to identity verify once, adding the numbers of PSCs and directors separately would lead to double counting, which would overestimate the costs of this proposal.

100. To eliminate the double counting, Companies House used two approaches to matching individual Companies House records to identify 'unique officers' at the end of the financial year 2020/21 – the count of unique individuals on the register who are a director or a PSC. In each case records were matched on forename, surname, address, and date of birth. The approaches were:

- A search within each entity record, where officer matches were identified within the same company record and then de-duplicated. This approach should capture duplications within an entity but does not capture duplications across the register. It therefore represents an upper limit for unique officers.
- A search within the register to estimate the lower limit for unique officers. Company record detail was removed from the matching criteria outlined above. Matching was applied against the remaining criteria across all officers and de-duplicated.

101. Additionally, Companies House does not currently collect data on the officers of Limited Partnerships, and therefore needed to estimate the number of General Partners that would need to be identity verified.<sup>42</sup> To do this, we took the average number of officers per active

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<sup>39</sup> For now, we will focus our analysis on officers and non-AML presenters, as they make up the vast majority of individuals who would need to identity verify.

<sup>40</sup> See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021>

<sup>41</sup> Directorships is not the same as a count of directors as an individual may hold multiple directorships.

<sup>42</sup> Officer details of LLPs are currently collected, however.

company and multiplied by the number of estimated active Limited Partnerships, suggesting 16,461 General Partners.<sup>43</sup>

102. Based on the analysis outlined above, we estimate that there are currently between 5.7 million (low) and 8.8 million (high) unique individuals that would need to identity verify. Averaging these, we get a central estimate of 7.25 million. This is summarised in Figure 5 below.

**Figure 5: Estimated current stock of officers who must identity verify**

	Low	Central	High
<b>Total</b>	5,700,000	7,250,000	8,800,000

Source: Internal Companies House data and analysis, 2020/21. Includes estimates on the number of General Partners of LPs

103. We then need to estimate the split between those who will identity verify digitally and identity verify through digitally-assisted methods:

- When using the same de-duplication methods outlined above, there are around 56,000 unique officers in the high scenario who had not submitted any digital transactions but had submitted at least one paper transaction and 46,000 in the low scenario.
- We assume that officers submitting a paper transaction are most likely to use an assisted-digital verification process, but we recognise that the continuing shift to digitisation at Companies House may reduce the size of this group as they switch to digital filing.

104. Based on the above, we estimate between 46,000 and 56,000 would be assisted-digital verifiers (Figure 6), with a central estimate of 51,000 being an average of the two values.

**Figure 6: Estimates current stock of officers who must identity verify, digital and assisted-digital verifiers**

	Low	Central	High
<b>Assisted-digital verifiers</b>	46,000	51,000	56,000
<b>Digital verifiers</b>	5,660,000	7,200,000	8,740,000
<b>Total</b>	5,700,000	7,250,000	8,800,000

Source: Internal Companies House data and analysis 2020/21. Totals may not add up due to rounding. Includes estimates on the number of General Partners of LPs.

*The flow of new officers who will need to be identity verified*

105. We now need to estimate the flow of individuals who identity verified over the ten-year appraisal period. This will be determined by the number of new directors and PSCs each year through either a new incorporation or appointed through an event driven filing (e.g. change in director).<sup>44 45</sup>

106. It is important to note that the length of time for which the identity verification is valid ('the retention period') is yet to be determined. For this reason, our analysis assumes that once an individual is verified, they will remain so. Therefore, as the flow progresses, the stock of

<sup>43</sup> Assuming a best estimate of 7.25 million officers and 4 million active companies produces an average of 0.56 officers per company. As of 31 December 2020, Companies House internal analysis estimates there were 29,300 active Limited Partnerships, thus we estimate there are 16,461 general partners.

<sup>44</sup> Given the small number of general partners of Limited Partnerships estimated, we will not consider these within our estimates of the flow.

<sup>45</sup> For example, an event driven filing occurs where an existing company replaces a director.

identity verified individuals will be bigger than the current number of directors or PSCs at a point in time. If a retention period is introduced, then this would lead to an outflow of individuals losing their verified status and this would reduce the stock of identity verifications. Once the retention period has been determined, we will incorporate this into our analysis.<sup>46</sup>

*Number of unique officers appointed each year on the register*

107. Companies House have provided estimates of the number of new unique officers on the companies register each year in the past five years. This was done by looking at the earliest appointment date of an officer each year. The estimate of new appointments between 2016 and 2021 is shown in Figure 7. These numbers are using the within each entity record methodology, which provides us with the values in the high scenario above.

**Figure 7: Estimated number of new unique officers appointed each year (search within each entity record), 2016-2021**

	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Total unique officers appointed (via incorporation &amp; event driven filings)</b>	2,158,355	1,417,295	1,431,100	1,432,089	1,557,765

Source: Internal Companies House data and analysis 2020/21

108. It’s also important to note the volumes were higher in 2016/17 due to the implementation of the Fourth-Anti Money Laundering Directive 2016. Following implementation there was a twelve-month transition period for all existing companies to inform Companies House of their PSC with new incorporations informing us upon incorporation, which caused the spike in new appointments during that period.

109. For simplicity at this stage, we take an average of the number of new officers appointed each year over the past four years (2017-2021) for our calculations, which is **approximately 1.5 million**. Given this is based on the high scenario values, we currently envisage this to be an upper bound estimate. We will continue to explore the available data ahead of the Final Stage Impact Assessment.

*For non-Anti Money Laundering (AML) registered presenters to Companies House*

110. In many companies, especially small and micro-businesses, it is the director who submits filings. Larger companies may have dedicated resource, such as company secretaries, who file on a director’s behalf. In this scenario, to submit a filing, company secretaries will need to have verified their identities as presenters.

111. We were unable to obtain any data on the number of presenters from both desk-based research and Companies House because it is not possible to accurately tell who in a company is a non-AML presenter due to the many roles that fall under the categorisation. Essentially, any company employee that is permitted by their employer to file on behalf of their company could be classed as a non-AML presenter.

112. Therefore, we make two assumptions:

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<sup>46</sup> Additionally, we will continue to explore the number of these officers who are based overseas, as they may fall out of direct costs to business calculations under Green Book guidance to cost where economic activity is taking place in the UK.

- That it would only be medium and large UK companies who would have a non-AML presenter file on their behalf e.g., the company secretary. We assume that for each of these companies, this will be one individual.
- That non-AML presenters in medium and large companies will verify digitally because they will already be familiar with digital filing processes with government. For example, it has been mandatory for large companies to file their accounts digitally with HMRC since 2011.<sup>47</sup>

113. Analysis using the FAME database suggests that in September 2021, there were around 163,000 medium and large UK companies.<sup>48 49</sup> From this, we therefore estimate that there are 163,000 non-AML presenters who will also be required to verify their identity under the proposed requirements.

114. We also need to estimate the flow on the number of new non-AML presenters who will need to identity verify. The flow could be a result of two factors:

- New large or medium sized companies join the register - a snapshot of data from FAME between September 2020 to September 2021 found less than 50 new large and medium sized companies incorporated in the UK out of an approximate 700,000 incorporations. We therefore assume the number of new companies using non-AML presenters each year will be negligible.
- The turnover of staff who act as non-AML presenters (e.g. if they change job) - in 2020, the average job tenure was 8.6 years.<sup>50</sup> Therefore, we assume that after 8.6 years the entire population of presenters would change. We spread this change proportionately out over the 8.6 years to assume around 19,000 new presenters each year. This is summarised in Figure 8 below.

**Figure 8: Estimated number of non-AML presenters who would need to identity verify**

Current stock	New presenters each year over 10-year appraisal period
163,000	19,000

Source: Internal analysis using the FAME database (September 2021) and OECD job tenure data

### Familiarisation costs

#### *Individuals who verify their identity*

115. Individuals will need to familiarise themselves with this policy change. The operational details of how individuals will become aware of this policy is still being determined. However, we envisage that the process itself will not be particularly burdensome. For example, an individual verifying themselves will need to understand how to complete the process and individuals verifying through a third-party agent will need to understand what they need to do with the third-party agent to complete the process.

<sup>47</sup> See:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/942160/Consultation\\_on\\_improving\\_the\\_quality\\_and\\_value\\_of\\_financial\\_information\\_on\\_the\\_register.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/942160/Consultation_on_improving_the_quality_and_value_of_financial_information_on_the_register.pdf)

<sup>48</sup> The FAME database contains information on companies registered at Companies House in the UK. It covers company financials, in detailed format, with up to 10 years of history, detailed corporate structures and the corporate family, shareholders and subsidiaries. Figures from the FAME database may differ slightly from Companies House annual publications, as FAME extracts and captures data from the company register more frequently.

<sup>49</sup> For any company larger than a small company defined by, see: <https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts>

<sup>50</sup> See: [https://stats.oecd.org/Index.aspx?DataSetCode=TENURE\\_AVE#](https://stats.oecd.org/Index.aspx?DataSetCode=TENURE_AVE#)

116. Therefore, at this stage, we assume that this will take an average of fifteen minutes per individual to understand what is expected of them. These costs will apply to any individual that needs to verify their identity.
117. We cost this at the opportunity cost of their time valued using the median hourly pay rate (excluding overtime) for managers, directors and senior officials from the Annual Survey of Hourly Earnings (ASHE) in 2020, uplifted by 20% to account for non-wage labour costs.<sup>51</sup>  
<sup>52</sup> Using the GDP deflator to bring this into 2019 prices, this is £23.69.<sup>53</sup>
118. There may be some circumstances where individuals will seek professional/legal advice or will engage directly with Companies House, perhaps at a company level rather than an individual level. We will continue to explore the likelihood and scale of this.

### *Third-party agents*

119. Third-party agents will also need to familiarise themselves with the identity verification process. This falls into a wider set of proposals on third-party agents, which we explore below.

### One-off costs

120. The section below outlines the one-off costs for business of having to comply with the identity verification requirements.

### *Identity verification for individuals verifying on their own account*

121. Where individuals successfully verify an identity digitally, they will incur the time cost of doing so. We expect the process of identity verification, when done digitally, to take a few minutes. This is the case for digital systems, already deployed by some banks. However, to account for the possibility of mistakes caused by a lack of familiarity with the process we use a range of five (low) to fifteen (high) minutes for completing the digital identity verification process, which is consistent with the Government Digital Service's estimate for how long it would take to verify using their service.<sup>54</sup> Therefore we use a central estimate of ten minutes.
122. Again, we use the ASHE earnings data for directors in our calculations. Given that we do not know who will be verifying their identity in the instance of a non-AML presenter, we also use the wage rate of a director. This is likely to be an overestimate, as the hourly wage for a company secretary is £13.73 (in 2019 prices, including non-wage labour costs), but for simplicity, we keep it consistent at this stage.
123. There may be a fee charged at the point of verification, though at present, the Government Digital Service 'Verify' platform does not charge the end user for the service. As a charge for a service, the fee would not be included within the EANDCB.<sup>55</sup> Given the uncertainty over the fee we do not include it in our cost estimates though we do include the costs to

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<sup>51</sup> See:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashtable14>

<sup>52</sup> Non-wage costs include sickness, maternity and paternity pay, National Insurance contributions and pension contributions.

<sup>53</sup> GDP deflator data, source: <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp>

<sup>54</sup> See: <https://www.gov.uk/government/publications/introducing-govuk-verify/introducing-govuk-verify>

<sup>55</sup> Taxes, duties, levies or charges fall under the statutory exclusion of the SBEE Act (section 22). See: <https://www.gov.uk/government/publications/better-regulation-framework>

Companies House of delivering identity verification in the Net Present Social Value (NPSV).<sup>56</sup> These costs are set out in a separate section of the Impact Assessment (part IV).

#### *Those who verify their identity digitally via a third-party agent*

124. Here we assume that individuals who verify their identity digitally or with a third-party agent will undergo a similar process to that above, and therefore it will also take them between five (low) to fifteen (high) minutes to complete this process, with a best estimate of ten minutes. We use the same methodology of using time costs as outlined above.
125. Additionally, it is unclear whether third-party agents would charge for this service as they commonly charge for incorporation services as a package and the cost of the package must be competitive with incorporation and other services provided by Companies House. For now, we assume there is no additional cost but will test this further.

#### *Identity verification for assisted-digital verifiers*

126. Currently, the details of the process for assisted digital verification are still being explored. There are several possible assisted digital models under consideration, including possible use of the counter services of other government departments to support individuals to complete the digital verification process.
127. At this stage, there is minimal evidence of how much this will cost individuals in terms of time spent, although it is likely that it will be more than the direct digital route, particularly if an individual is required to visit a third-party office to undertake this process. Therefore, for now, we assume this will take between thirty (low) and sixty minutes (high) to complete (and therefore a central estimate of forty-five minutes). We will continue to explore the costs of this going forward as this policy develops.

#### Annual costs

128. For any new identify verifiers, they will need to understand this policy and get their identity verified, thus will incur familiarisation and one-off costs of this policy. For now, we assume that these costs are similar to those incurred by the current stock of officers. However, it is possible that familiarisation costs will be lower after the first year, as it becomes business as usual for new officers.
129. Additionally, we assume that once digital processes become embedded at Companies House then all identity verification takes place using digital methods. This means that the flow does not use the assisted digital verification route.

#### **Direct costs and benefits to business calculations**

130. Figure 9 below provides an overview of the cost estimates in the low, central and high scenarios outlined above. For our central estimate, we get a Net Present Value of -£185m and an Equivalent Annual Net Direct Cost to Business of £21m.

#### **Figure 9: Summary of cost estimates for identity verification over 10-year appraisal period**

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<sup>56</sup> Assuming full cost recovery, the appropriate NPSV treatment is either to include either the fee for identity verification or the costs incurred by Companies House to deliver identity verification. To include both would lead to double counting.

	Estimated stock of digital identity verifiers in 2021	Estimated stock of assisted-digital identity verifiers in 2021	Estimated stock of non-AML presenter verifiers in 2021	Estimated flow of new identity verifiers	NPV (£m)	EANDCB (£m)
<b>High scenario</b>	8,800,000	56,000	163,000	1,500,000	-240	28
<b>Central scenario</b>	7,200,000	51,000			-185	21
<b>Low scenario</b>	5,700,000	46,000			-136	16

131. On an individual level, the central scenario amounts to around £10 in time costs per officer for digital verifiers and £25 per officer for assisted-digital verifiers.

## Section 3: Third-party agents

### Policy overview

132. Setting up and operating a company used to be a complex, largely paper-based process. Many people used third parties - i.e. Trust or Company Service Providers (TCSPs), including (for example) company formation agents, solicitors and accountants - to assist them. As Companies House processes have moved online and become more efficient, fewer are doing so. We estimate that around 50% of new incorporations currently use an agent.<sup>57</sup>
133. These agents are required by the Money Laundering Regulations to carry out customer due diligence checks on their customers, which includes verifying their identity.<sup>58</sup> These requirements are slightly different to those proposed under identity verification, as they are currently required to verify a 'customer', rather than the specific requirements on directors (or equivalents) and PSCs.
134. Intelligence from law enforcement suggests that those using companies to carry out criminal or corrupt activity and/or launder the proceeds overwhelmingly use agents. The agent's involvement may be witting or unwitting.

### Description of options considered

#### **Option 0: Do nothing**

135. The 'do nothing' option is the counterfactual against which changes are assessed. We do not think this addresses the issues raised around criminal or corrupt activity outlined above and therefore is not the preferred option.

#### **Option 1: Registration of third-party agents (preferred option)**

136. In its 2020 consultation response, the Government set out its intention that, to file information on a client's behalf, a third-party agent would first need to open an account with Companies House. This would include details of the agent and its supervision for anti-money laundering purposes ('AML supervisor').<sup>59</sup>
137. The Government proposes that Companies House will require a third-party agent to submit the following information:
- The name, physical address, and email address of the third-party agent.
  - The registration number or a copy of the certification details given to the third-party agent by their supervisor, where this exists.
  - The name of the natural person who is submitting the application for registration.
  - The account credentials supplied to the natural person by Companies House.

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<sup>57</sup> Based upon the percentage of software filings (often used by agents) measured against the total digital filings for specific transaction types in 2020/21.

<sup>58</sup> See: <https://www.gov.uk/guidance/money-laundering-regulations-your-responsibilities>

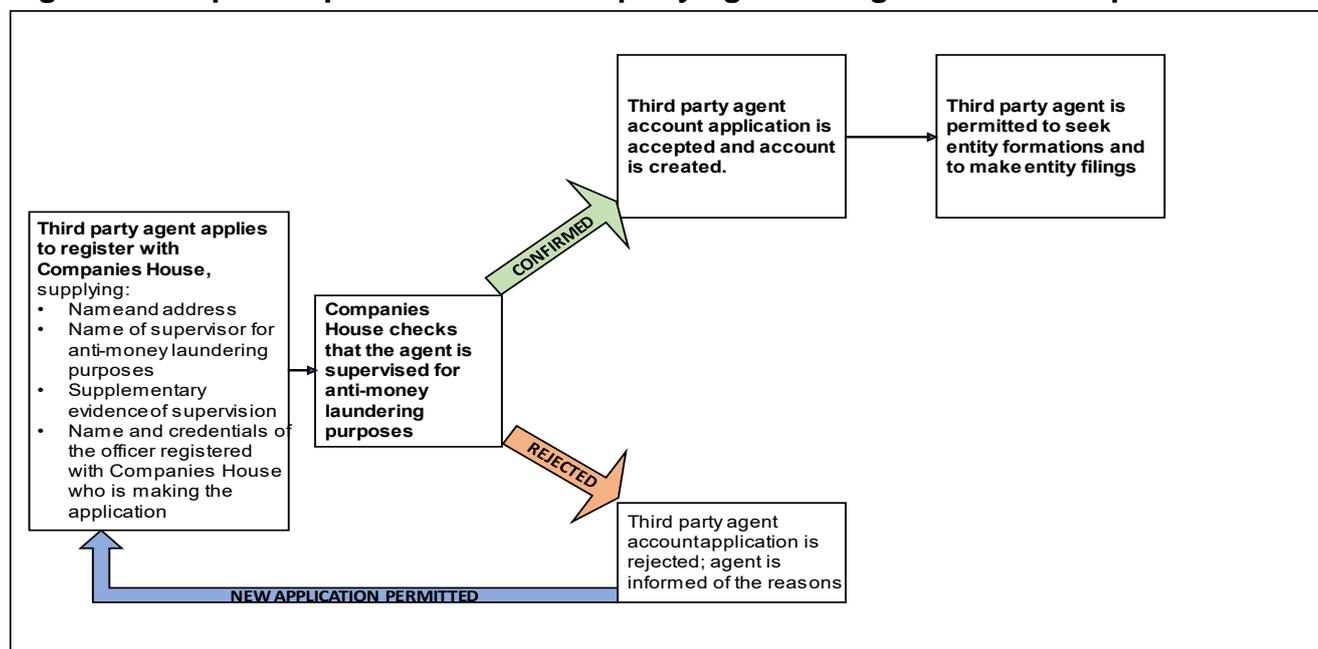
<sup>59</sup> This includes Professional Body Supervisors such as the major accountancy bodies (listed in Schedule 1 of the Money Laundering Regulations), HMRC and FCA. This list can be found here:

<https://www.legislation.gov.uk/uksi/2017/692/schedule/1/made>

- The legal form of the agent and where it is registered.

138. Companies House will then check that the agent is supervised for AML purposes prior to the third-party agents account application being accepted and created. This can be shown diagrammatically in Figure 10:

**Figure 10: Expected process for a third-party agent to register with Companies House**



139. In addition to this:

- Companies House will inform AML supervisors when a third-party agent has registered with Companies House or if a third-party agent's activity might be suspicious. Data sharing mechanisms and approaches are currently being explored.
- To protect Companies House register integrity, the Registrar would have the discretion to query information that is provided to her by a third-party agent. The querying power is covered in the powers section of the Impact Assessment.
- As only supervised third parties may make filings, we will seek to require supervisors to inform Companies House if they: (i) have sanctioned a third-party agent for activities that compromise their ability to undertake identity verification checks or (ii) cease supervision of a third-party agent.
- Finally, currently third-parties based overseas (and so not subject to the UK Money Laundering Regulations) are permitted to form companies in the UK. We propose that we require all third-party agents to be made subject to UK regulations and for all third-party agents to be registered in the UK. We also propose that the Secretary of State be given the power to recognise agents operating in overseas jurisdictions that have standards equivalent to the UK, should this be required in the future (for example to meet any future international agreements).

### **Summary and preferred option with description of implementation plan**

140. Option one is our preferred option and will be given effect through primary legislation. We have set out in the section above the core elements of the proposal and explained in the background section how these fit into the wider reform agenda.

141. Once the new arrangements are in place, Companies House will be responsible for the ongoing operation and enforcement of the arrangements which will fall within their wider transformation programme.

### **Monetised and non-monetised costs of each option**

#### **Option 0: Do nothing**

142. The 'do nothing' option provides the counterfactual scenario for the assessment of the other options.

#### **Option 1: Registration of third-party agents (preferred option)**

##### Numbers in scope

143. We currently do not know how many agents there are currently filing on behalf of companies. We assume that third-party agents, whose role it is to set up and file on behalf of companies, will most likely be using software to do so rather than directly through the Companies House website. Based on this, Companies House estimated the number of agents by looking at the number of unique email addresses belonging to filers who use software. This may potentially be an overestimate, as:

- Individuals themselves can also buy software to undertake their filing but are significantly less likely to do this than go through the free Companies House service.
- By looking at unique email addresses, we run the risk of double counting as agents may have more than one email address for their company.

144. We will use this approach in our current analysis and explore other methods to assess the number of third-party agents at a later stage.

145. Between 1 April 2020 and 31 March 2021, Companies House internal analysis found a total of 25,614 unique email addresses by those who filed using software. Therefore, we assume for now that there are currently approximately 26,000 third-party agents.<sup>60</sup>

146. We will undertake further work to estimate the flow of new third-party agents going forward.

##### Familiarisation costs

147. Third-party agents will need to familiarise themselves with two policy changes:

- They will need to set up an account with Companies House and provide specific information to them outlined earlier in this section.
- Complying with the introduction of identity verification for directors (or equivalents) and PSCs.

148. The process for how Companies House will engage with business on this policy change is still being determined. However, we currently envisage that, within a third-party agency, it must be a director (or equivalent) who will need to familiarise with the two policy changes. We therefore use the hourly wages (excluding overtime) for managers, directors and

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<sup>60</sup> This does not include third-party agents who do not currently file digitally, although as outlined in the financial information section, we know most companies do so.

senior officials using Annual Survey of Hourly Earnings (ASHE) data.<sup>61</sup> Using 2019 prices and uprating to include non-wage labour costs, this leads to an hourly cost of £23.69.

149. Given what is currently expected of third-party agents, we assume it will cost between thirty minutes (low) and one hour (high) of a company director of a third-party agent time to familiarise with this policy change. We therefore assume a central estimate of forty-five minutes. This cost is likely to vary depending on entity size.

#### One-off costs

150. Third-party agents will need to register with Companies House and provide the information outlined in paragraph 137.

151. It will depend on the organisation as to who will register the third-party with Companies House. For example, we imagine that for smaller companies it is likely to be the director but could potentially be a business manager for a larger company. For simplicity, we will use the hourly wages for directors as before.

152. At this stage, we assume that it takes between forty-five minutes (low) and seventy-five minutes (high) to complete this process. We therefore assume a best estimate of one hour, although we envisage it could potentially be quicker if they have all this information to hand and the registration runs smoothly.

#### Annual costs

153. As it stands, the ongoing costs to third-party agents are likely to be negligible. There may be instances where re-verification is required, for example if someone changes their name, to meet the requisite level of assurance or enable the third-party agent to obtain supplementary documentation. We will consider the likelihood of this going forward.

154. As mentioned above, we are still exploring the flow of new third-party agents, and therefore our current analysis only covers the current estimated stock of agents.

#### Costs to professional bodies

155. There will be some costs for the supervisors of third-party agents. They will need to familiarise themselves with these policy changes and understand the relationship they will build with Companies House. There are around twenty-five supervisory bodies, and we assume that each faces the same familiarisation costs as third-party agents, although supervisory bodies vary in size and therefore will likely face different costs.

156. They will also incur costs informing Companies House if a third-party agent has been sanctioned and where the supervisor ceases supervision of a third-party agent. There are similar requirements under existing Money Laundering Regulations. It is therefore likely that the additional ongoing costs will be small though we will keep this assumption under review.

#### **Direct costs and benefits to business calculations**

157. As outlined above, our cost calculations have focused on year one costs and therefore can be seen as our lower bound estimates. Figure 11 below summarises the costs of this policy.

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<sup>61</sup> See:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoc2010ashtable14> - Wages uprated by 20% to include non-wage labour costs.

**Figure 11: Estimated year one costs for policy changes to third-party agents**

	<b>Estimated number of third-party agents</b>	<b>Number of supervisors</b>	<b>NPV (£m)</b>	<b>EANDCB (£m)</b>
<b>High scenario</b>	26,000	25	-1.37	0.16
<b>Central scenario</b>			-1.06	0.12
<b>Low scenario</b>			-0.76	0.09

## Section 4: Transparency of ownership

### Policy overview

158. The purpose of the company register is to provide details of company ownership. This was a necessary condition for passing legislation in the nineteenth century offering limited liability to a company's members.
159. This was strengthened by the introduction of the PSC rules in 2016, which introduced the requirement to look through legal share ownership and disclose those who hold the right to exercise, or who exercise, significant influence or control over the company (i.e., the beneficial owners).<sup>62</sup>
160. Currently, all companies, whether traded or not, are required to provide details of shareholders to Companies House on incorporation and indicate on a subsequent confirmation statement whether there have been any changes. Private companies are required to provide names for all shareholders and traded companies are required to provide the same (and addresses) for all shareholders holding more than 5% of the company's share capital.
161. However, users of the register have told us that there are some problems with the way company ownership data is recorded:
- Users report there is insufficient information on shareholders and that they have difficulties accessing ownership and control information in some situations. An issue which has been raised is the difficulty experienced by third parties using the register to try to identify all shareholders of a company. Under the current requirements in the Companies Act, you may only be able to see a shareholder is 'J Bloggs' rather than their full name. The government has also received complaints that the change from companies submitting an annual return, with a full list of shareholders every three years, to an annual confirmation statement which provides a list of new shareholders has made it more difficult for third parties to find out who all the members of a company are.
  - Additionally, evidence from transparency groups, and from Companies House, suggests certain exemptions from the PSC requirements have been exploited.
  - Some companies have falsely claimed to be traded or claimed to be owned and controlled by a so-called Relevant Legal Entity (RLE), which undermines the integrity of the register.

### Description of options considered

#### **Option 0: Do nothing**

162. This option acts as the 'no change' counterfactual against which changes are assessed. The current provisions are not sufficient for achieving reform aims since they prevent the opportunity to improve the transparency of company ownership, an important condition of offering limited liability, and therefore this is not the preferred option.

#### **Option 1: Increased transparency of ownership through a package of reforms (preferred)**

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<sup>62</sup> See: <https://www.gov.uk/government/publications/guidance-to-the-people-with-significant-control-requirements-for-companies-and-limited-liability-partnerships>

163. The preferred option is a package of reforms to increase transparency:

- Introducing a requirement on companies to provide full names for shareholders and for companies to provide a full, one-off shareholder list containing the full names of their shareholders.
- To collect and display more information from companies claiming an exemption from the requirement to provide details of its PSC.
- Where a PSC is a so-called Relevant Legal Entity (RLE), subject to its own disclosure requirements, Companies House will collect and display the RLE condition it meets and, if traded, the name of the market it is traded on.

164. We explore each of these in turn below. The aim of these measures is to improve the transparency of who owns and has an interest in companies by collecting more information. We envisage companies of all sizes will benefit from being able to take greater assurance from the information on the register when they are consulting it to research potential suppliers and partners.

Introducing a requirement on companies to provide full names for shareholders and for companies to provide a full, one-off shareholder list containing the full names of their shareholders<sup>63</sup>

165. We will:

- Define what constitutes a full name for shareholders to ensure there is consistency of information and to improve the transparency of company ownership. This requirement will apply wherever collecting a name is mentioned in the Companies Act 2006, and other relevant legislation, and will apply to all shareholders of companies – those limited by shares and by guarantee. This will therefore apply to traded and private companies.
- Introduce a requirement for companies to collect full names for shareholders, and record this in their register of members. We will introduce a one-off requirement for private companies to provide a full shareholder list, and traded companies must provide details where shareholders hold at least 5% of the issued shares of any class of the company. Any changes will be updated annually, at a company's confirmation statement date. Companies House will make it easier for users to view a full list of company shareholders to enhance the transparency of current shareholder information.

166. The aim is to improve the transparency of who owns and has an interest in companies by having more information e.g., currently you may only be able to see a shareholder is 'J Bloggs'. After the reforms are implemented, you would see a shareholder is 'Jane Bloggs'.

To collect and display more information from companies claiming an exemption from the requirement to provide details of its PSC

167. Companies with voting shares admitted to trading on a regulated market in the UK or EU or on specified markets in Switzerland, the USA, Japan and Israel are exempt from the

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<sup>63</sup> We have used the term shareholders throughout, and we mean by this both subscribers and members. Members and shareholders are often used interchangeably in the Companies Act 2006 e.g. shareholder names are recorded in the register of members (Section 113 of the Companies Act 2006), but members can also refer to those who are the named guarantors of companies limited by guarantee.

requirement in Part 21A of the Companies Act 2006 to maintain a register of their PSC and to file this information with Companies House.

168. These traded companies are exempt from PSC requirements because through the listing rules for these markets, they are subject to other transparency rules. It can, however, be difficult for interested parties to find ownership and control information on these companies from other sources because Companies House does not collect or publish information on the specific listing, and it may not be clear where to go to seek the information. There is also evidence from Companies House to suggest some companies who claimed the PSC exemption were not eligible to do so.

169. This measure will allow Companies House to collect some basic information to allow searchers to more easily find out who owns and controls companies that are exempt from PSC requirements. This information would be shown on the public register. The policy also intends to reduce incorrect claims by collecting more information, as it should prompt the company to realise if it has made a mistake and will allow members of the public to highlight incorrect claims to Companies House more easily.

170. The information we propose to collect and display on the public register is:

- The reason that the company is claiming an exemption. This could be in the form of the kind of statement which is currently displayed if companies notify Companies House that they are traded on overseas markets.
- The name of the market the company is traded on. This should prevent incorrect claims and allow Companies House users and operational teams to check and, if necessary, query the claim.
- The location of where shareholder information is published, via a drop-down list, e.g., the Financial Conduct Authority's (FCA) or regulated market's website. This should help direct searchers to where they can find more information.

171. We also intend to display links to relevant sections of the FCA guidance within Companies House guidance which will help searchers access and interpret information.

Where a PSC is a so-called Relevant Legal Entity (RLE), subject to its own disclosure requirements, Companies House will collect and display the RLE condition it meets and, if traded, the name of the market it is traded on

172. Relevant Legal Entities ('RLEs') are legal entities which are capable of being registered (i.e. entered onto a PSC register) because they meet the conditions for being a PSC and also meet one of the following conditions (as they are subject to other transparency regimes):

- It keeps its own PSC register (so is a UK incorporated company or LLP subject to the PSC regime).
- It has voting shares admitted to trading on a regulated market in the UK or another member of the European Economic Area, or on specified markets in Switzerland, the USA, Japan and Israel.<sup>64</sup>

173. There is evidence to suggest that where a company has provided RLE details, it is difficult for searchers to check whether that entity is traded on a regulated market. Internal

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<sup>64</sup> See: <https://www.legislation.gov.uk/ukdsi/2016/9780111143018/schedule/1>

Companies House evidence also shows some companies who entered a RLE in their PSC register were not eligible to do so. Companies House have received queries as to what overseas legal entities can be a RLE and there is a concern as to whether the legislation/guidance is sufficiently clear on this.

174. To improve the quality of information on the public register and to increase corporate transparency, the government proposes that Companies House should collect some basic information about the regulated market on which a RLE is traded, where applicable.

175. Similarly, as with PSC exemptions, we will ask companies to provide a) a statement as to which condition the RLE satisfies and, b) if applicable, the name of the market it is traded on. We want the company to collect this information from the RLE, record it in its PSC register and disclose this information to Companies House.

176. We will collect and display on the public register:

- Confirmation (a statement) as to which condition the RLE satisfies, and:
- If traded, the name of the market the RLE is traded on, which should prevent incorrect claims and allow Companies House users to check and, if appropriate, query the claim. It should also help direct searchers to where they can find more information on a company.

## **Option 2: Additional proposals on transparency of ownership**

177. While there was some support in the 2019 Government consultation (52%) for the proposition that companies be required to collect and file more detailed information about shareholders (person's name, usual residential address and date of birth), much of that support was predicated on an assumption that additional information would be made publicly available. The consultation document explains that the intention was rather to restrict access to such information to Companies House and to other public authorities.

178. Given the restricted access the consultation envisaged, we agreed on balance with those who felt that an insufficiently strong case had been made for the collection of the additional data proposed.

## **Summary and preferred option with description of implementation plan**

179. Option one is our preferred option. We have set out in the section above the core elements of the proposal and explained in the background section how these fit into the wider reform agenda.

180. Once the new arrangements are in place, Companies House will be responsible for the ongoing implementation, operation and enforcement of the arrangements which will fall within their wider transformation programme.

## **Monetised and non-monetised costs of each option**

### **Option 0: Do nothing**

181. This option acts as the 'no change' counterfactual against which changes are assessed.

### **Option 1: Increased transparency through a package of reforms**

Introduce a requirement on companies to provide full names for shareholders and for non-traded companies to provide a full, one-off shareholder list containing the full names of their shareholders

182. To estimate the costs of this policy, we need to understand the number of companies who will be affected by this change and the unit time costs of the change. We explore these below.

*Numbers in scope*

183. This section outlines the different company types which will be impacted by this policy change, and what costs we envisage they will incur. The company types that will need to comply with this policy change are active:<sup>65</sup>

- Traded companies
- Non-traded companies limited by shares (private limited, public, and unlimited)
- Companies limited by guarantee

184. We envisage the main costs to business will be to:

- Familiarisation costs - familiarising with the changes required of them
- One-off compliance costs - submitting list of shareholders to Companies House
- One-off compliance costs - collecting shareholder's full name

185. It is likely these costs will vary depending on entity type/size, which is explored below.

*Traded companies*

186. As of September 2021, the FAME database indicates there were around 1,600 active traded companies.<sup>66</sup> For traded companies, the details of a shareholder's full name will only be provided to Companies House if there is a shareholder with 5% or more of total share capital. Traded companies must already provide this information to the Financial Conduct Authority (FCA), who they must notify when they disclose a major shareholding of 3% or more.<sup>67</sup>

187. We expect traded companies to incur the cost of familiarisation with the proposed requirement and will incur a one-off cost of having to provide the full names of their shareholders. Due to the reasons outlined in the previous paragraph it is reasonable to assume that traded companies will already hold the full names of their shareholders, and therefore will not have to collect this information. Additionally, as we're only looking for shareholders with more than 5% or more of total share capital, there will be a maximum of twenty shareholder names which will need to be shared with Companies House.

*Non-traded companies limited by shares*

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<sup>65</sup> The outlined list makes up the vast majority of company types on the register.

<sup>66</sup> Figures from the FAME database may differ slightly from Companies House annual publications, as FAME extracts and captures data from the company register more frequently and also provides filters that Companies House does not e.g., filtering for listed or unlisted companies.

<sup>67</sup> See: <https://www.handbook.fca.org.uk/handbook/DTR/5/1.html>

188. Figure 12 shows the number of active, non-traded companies limited by shares that would need to comply with the requirement to provide full names of their shareholders from the FAME database.
189. Additionally, around 4.6 million non-traded companies will be required to comply with the proposed requirements - most are private limited companies, as well as 3,700 public companies and 4,200 unlimited companies.
190. Existing non-traded companies limited by shares, will need to provide a one-off list of their shareholders' full names. We therefore anticipate that there will be both familiarisation and compliance costs to non-traded companies, as they will need to contact shareholders to ask for their full names (if not already held) and provide a one-off update of their register of members.

**Figure 12: Number of active non-traded companies limited by shares**

Type of company (non-traded limited by shares)	
Private limited	4,600,000
Public, non-traded	3,700
Unlimited	4,200
<b>Total</b>	<b>4,600,000</b>

Source: FAME database, September 2021. Totals may not sum due to rounding.

*Companies limited by guarantee*

191. Companies limited by guarantee will also be required to comply with these proposals. However, we will only collect full names for subscribers of companies limited by guarantee which are incorporated *after* the commencement of the reforms. We will not apply this to existing companies limited by guarantee, of which the FAME database indicates there around 132,000, as there is no mechanism or obligation for them to update Companies House if there are changes to its guarantors, i.e. if a guarantor pulls out. We predict that it would be disproportionate to create a mechanism to provide updates. These companies are usually charities, and guarantors usually pay a nominal amount of £1. Companies House have not received complaints about the lack of information on companies limited by guarantee or about accessing that information which is available.
192. Figure 13 below outlines the expected costs incurred by the impacted companies.

**Figure 13: Summary of expected costs incurred by impacted companies due to new shareholder name disclosure requirements**

Company type	Familiarisation costs	One-off compliance costs: submitting list of shareholders to Companies House	One-off compliance costs: collecting shareholder full names	Number of companies
Traded	X	X		1,600
Non-traded limited by shares (private limited, public un-traded, unlimited)	X	X	X	4,600,000

<b>Limited by guarantee</b>				132,000
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Source: FAME database, September 2021

193. We have focused our analysis on the familiarisation and one-off compliance costs to the stock of existing companies. Compliance costs for the flow will be negligible, as Companies House will now only accept full names of shareholders and therefore a) existing companies will already know they need to collect this information in this format and b) new companies will know that this is the correct way to collect this information. Additionally, new companies already must provide their full list of shareholders to Companies House at incorporation, the only change is they will need to do this in a slightly different format under current requirements.

#### Familiarisation costs

194. The operational details of how companies will become aware of this policy is still being determined. However, we envisage that the process itself will not be particularly burdensome.

195. Therefore, at this stage, we assume that this will take an average of fifteen minutes per company to understand what is expected of them. These costs will apply to traded companies and non-traded companies limited by shares.

196. The primary source of information we can use to inform our cost assumptions comes from the Annual Survey of Hourly Earnings (ASHE). Given most companies are small, we cost this at the opportunity cost of the time valued using the median hourly pay rate (excluding overtime) for managers, directors, and senior officials from the Annual Survey of Hourly Earnings. We uplift this by 20% to account for non-wage labour costs, which is £23.69 in 2019 prices.<sup>68</sup>

197. Figure 14 below summarises the familiarisation costs.

**Figure 14: Summary of familiarisation costs due to new shareholder name disclosure requirements**

<b>Company type</b>	<b>Number of companies</b>	<b>Familiarisation costs (time)</b>
Traded	1,600	15 minutes of a company directors time
Non-traded limited by shares	4,600,000	

#### One-off compliance costs

198. The section below outlines the one-off costs for non-traded companies having to provide a list of shareholder names to Companies House.

199. Where non-traded companies limited by shares successfully provide a one-off full list of their shareholder's full names, they (an employee) will incur the time cost of having to do so. They will provide this through the confirmation statement.<sup>69</sup>

#### *Estimated number of impacted companies*

<sup>68</sup> See:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates> Table 10

<sup>69</sup> See: <https://www.gov.uk/file-your-confirmation-statement-with-companies-house>

200. There are 4.6 million companies in scope. On average, there are just over two shareholders per company.<sup>70</sup> At this stage, we assume that for companies with less than ten shareholders, there will be minimal costs to comply with this change. This is because they are likely to have this information easily available and will be able to contact shareholders easily. As such, we assume that companies with ten shareholders or less would only need to familiarise with the policy change.
201. Subsequently, we anticipate that there will only be a one-off compliance cost for companies with more than ten shareholders, as they will need to gather and submit the full names of their shareholders with their annual confirmation statement.
202. Figure 15 below provides a range of the number of shareholders across these 4.6 million non-traded companies limited by shares. FAME analysis indicates that of the affected 4.6 million non-traded companies limited by shares, 99% have ten shareholders or less. This means that around 1% of companies, or around 42,000, have more than ten shareholders.

**Figure 15: Breakdown of the number of non-traded companies limited by shared and their respective number of shareholders**

Number of shareholders						
	0-4	5-10	11-50	51-99	100-999	1000+
<b>Number of non-traded companies</b>	4,400,000 (97%)	100,000 (2%)	36,000 (1%)	3,800 (>1%)	1,800 (>1%)	60 (>1%)

Source: Analysis using FAME database, September 2021. Totals may not appear to sum due to rounding.

#### *Submitting list of shareholders to Companies House*

203. We assume that these 42,000 companies will experience a cost for having to provide the list of shareholders to Companies House.<sup>71</sup> Given costs are likely to vary significantly depending on entity size, we assume that it will take companies with 10-50 shareholders thirty minutes to type and share this information, one hour for companies with 51-100 shareholders and six hours for companies with over 100 shareholders.<sup>72</sup> We include the 1,600 traded companies in this estimate, and as outlined in paragraph 187 assume the maximum scenario where they would need to submit 20 shareholders (and therefore will take them thirty minutes).

#### *Collecting shareholders full names*

204. Additionally, some companies will have to collect the information on shareholders full names, as they may not already hold this. We know from internal analysis of some companies' shareholder data that some already do report their shareholders' name in full. For example, we analysed one company's shareholder list, which had around 4,000 shareholders, and all shareholders' full names were traded (a first name and last name).
205. Companies will hold correspondence details for these shareholders, as they are required to invite their shareholders to Annual General Meetings and Extraordinary General

<sup>70</sup> See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021>

<sup>71</sup> Currently when declaring shareholders to Companies House, the names of shareholders are typed out individually, which is what we consider within our estimations. See: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/946155/IN01-V8.0.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/946155/IN01-V8.0.pdf)

<sup>72</sup> It is possible to provide Companies House with a list of shareholders on differing media (such as CD-Rom or Data File) as well as on paper, when there are a significant number of shareholders for them to upload, which may reduce the time cost for larger companies. We will continue to explore this for the Final Stage Impact Assessment.

Meetings. Therefore, we assume that all companies will be able to contact their shareholders (via telephone, email or letter), should they need to ask for or confirm a shareholder's full name.

206. Inevitably costs will differ from entity to entity and are influenced by factors including size and complexity of the entity, specific obligations and degree of digital capability.
207. We therefore use a scenario that around 50% of companies (with more than ten shareholders) will need to contact shareholders to confirm this information. We will work to build our evidence base and refine this estimate going forward. Similarly, as above, we assume an **additional** thirty minutes for companies with 10-50 shareholders, one hour for companies with 51-100 shareholders and six hours for companies with over 100 shareholders.
208. As these are larger companies, and more likely to have someone who is not a director undertaking this task, we cost this using ASHE data for a company secretary.

To collect and display more information from companies claiming an exemption from the requirement to provide details of its PSC

209. Companies should already be collecting this information. The only change for these companies' post-regulation is that when completing their next confirmation statement, they will have to set out the reason for their exemption and the market the company is traded on. To provide this information the company would likely be required to do something straightforward to show this, like complete three tick boxes or drop-down lists.
210. We therefore estimate that there will be no compliance cost to business because of this particular measure, as it will take a negligible amount of time to comply.

Where a PSC is a so-called Relevant Legal Entity (RLE), subject to its own disclosure requirements, Companies House will collect and display the RLE condition it meets and, if traded, the name of the market it is traded on

211. Under option one, Companies House would ask for one or two additional pieces of information to be provided within the usual form to update PSC information.
212. This is information that is already known by RLEs and simply not currently provided to Companies House. The RLE would thus need to provide the additional information, and we therefore estimate that there will be no significant compliance costs to business as a result of this particular measure.

**Direct costs and benefits to business calculations**

213. As outlined, we identify the main costs to business of this policy package arise from changes to shareholder name requirements. The costs to business of this are summarised in Figure 16 below.

**Figure 16: Estimated costs to business for changes in requirements to shareholders names**

Number of companies to familiarise with policy	Estimated number of companies who will face one-off compliance costs		NPV (£m)	EANDCB (£m)
	Uploading list of shareholders to Companies House	Collecting shareholders full names		
4,600,000	42,000	21,000	-27.72	3.22

## Section 5: Data sharing

### Policy overview

214. Due to specific sharing limitations in the Companies Act, Companies House currently has very limited powers to analyse and share the non-public information it holds (e.g. directors residential addresses and dates of birth).
215. Because of these limited powers, there is a risk that information is not shared that could help law enforcement, other government departments and regulatory bodies with the prevention and detection of crime. Information held on the register, both public and private, is a rich source of data. As well as identifying individual items that appear suspicious, its analysis can reveal patterns and trends that will be of interest to partners.

### Description of options considered

#### **Option 0: Do nothing**

216. This option acts as the 'no change' counterfactual against which changes are assessed.
217. The current provisions are not sufficient for achieving reform aims since they restrict the Registrar from being able to share proactively and prevent her from using information held for analytical purposes that may assist with enhancing the integrity of the register, including the detection of possible criminal wrongdoing/abuse of the register. Therefore, this option is not preferred.

#### **Option 1: Increased data sharing (preferred)**

218. The 2019 consultation considered several areas of increased data sharing to assist with improving the integrity of the Register and to enable the Registrar to play a greater role in tackling economic crime. All measures proposed received broad support from respondents.
219. Therefore, the preferred option is a package of reforms of increased sharing of data, including:
- Cross-checking Companies House data with external data
  - Sharing data with specific bodies on request
  - Proactive data sharing with public bodies
  - Increased discrepancy reporting
220. The aim of this package of measures is to increase transparency to help law enforcement and regulatory bodies to tackle the misuse of corporate entities and combat economic crime, whilst also providing businesses with increased confidence in the information held on the register.

### Cross-matching Companies House data with external data

221. In the 2020 consultation response, the Government agreed to take forward proposals to cross-match Companies House data with external data sets. Most respondents to the

consultation (69%) agreed that there was value in Companies House comparing its data against other data sets held by public and private sector bodies.

222. Cross-matching Companies House data would help improve the accuracy of the register, by identifying anomalies, and detecting suspicious behaviour. To undertake cross-matching, Companies House requires a statutory ability to use and analyse its data in a way that is currently not possible.
223. To better enable cross-matching we propose amending the role of the Registrar to include a new function to promote and maintain the integrity of the register and the UK business environment. This change in role will provide both a stronger legal basis for analysis, but also a strong case when we request data from other bodies as such data will be helping Companies House undertake its public function. This is covered within the powers section of the Impact Assessment.
224. Additionally, for some public bodies, e.g. HMRC, their data is deemed so sensitive that their legislation does not allow them to share it with Companies House. For example, if they request Companies House data, they are unable to provide any feedback where their analysis identifies suspicious activity.
225. Currently there is a gateway under the Digital Economy Act 2017 which allows HMRC to provide such feedback to Companies House but this is only permitted where debt or fraud against a public body is identified. We are proposing establishing a data sharing gateway which is wider than the gateway in the Digital Economy Act to provide a mechanism to receive this feedback.

#### Sharing data with specific bodies on request

226. Currently Companies House can share non-public data such as full dates of birth and usual residential addresses, with a specific list of organisations that are set out in secondary legislation. The list is not exhaustive and excludes some government bodies that would fit the general definition of acceptable recipients set out in the Companies Act.
227. We are proposing that Companies House shares data based on specified types of bodies, instead of using a defined list of named bodies. We propose that these bodies comprise law enforcement agencies, public authorities and regulatory bodies. This change will allow a more flexible approach to be taken in deciding whether a body is a suitable recipient. Government bodies will not be refused access purely on the basis that they are not named in the current list outlined in secondary legislation.

#### Proactive data sharing with public bodies

228. The consultation asked whether respondents agreed with the proposal to allow information collected by Companies House to 'be proactively made available to law enforcement agencies, when certain conditions are met'. Most respondents (75%) were strongly in favour of this measure.
229. We are intending to provide the Registrar with a power to proactively disclose any information held by the Registrar with relevant bodies on a case-by-case basis. This will take place when certain conditions are met - to enable the Registrar to carry out her statutory role and functions, to assist other bodies in the prevention and detection of crime and enable regulatory bodies and supervisors to fulfil their statutory obligations or functions.
230. In line with the conditions outlined above, this will cover the following bodies:

- Public authorities - this includes any government body, local authorities (including trading standards), any person or body discharging functions of a public nature, including regulatory functions.
- Law enforcement bodies - this covers agencies such as police forces, the Insolvency Service, the Serious Fraud Office, and the Security Services.
- Supervisory bodies - as listed within the Money Laundering Regulations.<sup>73</sup>
- Insolvency practitioners - as defined within the meaning of section 4 of the Insolvency Act (2000) (meaning of “act as an insolvency practitioner”) or Article 3 of the Insolvency (Northern Ireland) Order 1989 (“act as an insolvency practitioner”).

### Increased discrepancy reporting

231. The Anti-Money Laundering (AML) Regulations require regulated professionals such as financial institutions to report discrepancies between information they hold on beneficial owners of companies and that held by Companies House about PSCs. In the 2019 consultation, we proposed that such reporting should be expanded to other information held by Companies House. 70% were supportive that AML regulated entities should be required to report anomalies to Companies House.
232. In the Government response we committed to expanding the requirement. We propose that in the first instance, we should limit expansion to discrepancies in director information and in registered office addresses. Discrepancy might indicate an error or fraudulent filing on the register.
233. Since the original regulations came into force in January 2020, 50,000 beneficial ownership discrepancies had been reported to Companies House by October 2021.<sup>74</sup> Whilst around half of these prove not to be valid (in effect no discrepancy), the number of reports suggest that relevant persons can play an even more valuable part in ensuring that the UK’s companies register is accurate and up-to-date.
234. We also propose that the Registrar be given the power to amend the scope of the obligation in the future. This will enable Companies House to assess the value of such reporting and whether there would be merit in removing items from the obligation or expanding the requirement further.

### Summary and preferred option with description of implementation plan

235. Option one is our preferred option. We have set out in the section above the core elements of the proposal and explained in the background section how these fit into the wider reform agenda.
236. Once the new arrangements are in place, Companies House will be responsible for the ongoing implementation, operation and enforcement of the arrangements which will fall within their wider transformation programme.

### Monetised and non-monetised costs of each option

#### **Option 0: Do nothing**

<sup>73</sup> See: <https://www.gov.uk/guidance/money-laundering-regulations-who-needs-to-register>

<sup>74</sup> Companies House internal analysis, October 2021

237. This no-change/status quo option acts as the counterfactual against which other proposals will be assessed.

### **Option 1: Increased data sharing (preferred)**

238. We explore the costs of each element of the data sharing package in turn.

#### Cross-matching Companies House data with external data

239. The one off and ongoing costs of this policy will be incurred by Companies House as they cross-check their data with other sources. These costs are covered in the costs to Companies House section of the Impact Assessment (part **IV**).

#### Sharing data on request

240. Again, the main one off and ongoing costs of this policy will be incurred by Companies House as they share data with organisations.

241. This policy change will also impact specific bodies who will now have increased access to Companies House data. This will not, however, be a direct *increased cost* to these bodies – rather this change will *increase the data available* to them. If they choose to access Companies House data, which may potentially come with a cost, (e.g. increased resource to analyse data, the fees for access to information pertaining to specific individuals), this is because they have chosen to make use of this policy change – and consider this increased sharing as a benefit to their investigations - rather than a direct cost to them.

#### Proactive data sharing

242. The one off and ongoing costs of this policy will be incurred by Companies House as they share data with organisations. Where this data is shared with relevant bodies, this will be either to a) assist other bodies in the prevention and detection of crime or b) enabling regulatory bodies and supervisors to fulfil their statutory obligations or functions. Therefore, we consider that sharing this data will benefit these relevant bodies with their roles rather than increase the cost to them.

#### Discrepancy reporting

243. Under the Fifth Money Laundering Directive, regulated professionals are obliged to report to Companies House the discrepancies between the information it holds and the information that is on the publicly accessible PSC register.<sup>75</sup> An Impact Assessment was published alongside this.<sup>76</sup>

#### *Number of obliged entities*

244. The Fifth Money Laundering Directive Impact Assessment states that data from 2017/18 shows there were 91,696 obliged entities supervised under the Fourth Money Laundering Directive. As this is the current best estimate we have, we will use this for our analysis. For the final stage Impact Assessment, we will look to update this figure, as well as the flow of new obliged entities over time.

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<sup>75</sup> See:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/860279/Money\\_Laundering\\_and\\_Terrorist\\_Financing\\_Amendment\\_Regulations\\_2019.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/860279/Money_Laundering_and_Terrorist_Financing_Amendment_Regulations_2019.pdf)

<sup>76</sup> See: <https://www.legislation.gov.uk/ukia/2019/172>

## *Familiarisation costs*

245. Although regulated professionals are already required to do this for PSCs, they are likely to have to understand that the information they are required to report has been expanded. As there is already a process in place for this, and it is building on current requirements, we do not envisage familiarisation to be a large additional burden on these entities.
246. Depending on the type of obliged entity, the party of the entity who will need to familiarise with this policy change will vary. For example, we envisage that for some obliged entities, such as banks, it would be a compliance team who would report these discrepancies to Companies House. For smaller institutions, they may not have this central team and it may be a director who would need to familiarise with this policy change. For now, we make the simple assumption that it will take thirty minutes to familiarise with this policy. We assume this will be a director and use the median hourly wages (excluding overtime) for managers, directors and senior officials using Annual Survey of Hourly Earnings (ASHE) data.<sup>77</sup> Using 2019 prices and including non-wage labour costs, this leads to an hourly cost of £23.69.

## *Annual costs*

247. Within the Fifth Money Laundering Directive Impact Assessment, it was anticipated that the measure would only lead to a minimal increase in time spent on customer due diligence and it would not be proportionate to identify them, stating that many firms already undertake checks on beneficial ownership as part of existing practices.
248. Costs burdens on discrepancy reporting were raised by some regulated professionals as an area of concern within the consultation responses. As mentioned above, there were 50,000 discrepancy reports under the current requirements between January 2020 and October 2021. Looking at this from an annual basis, this amounts to approximately 27,000 reports per year. We therefore assume that, due to the additional requirements on regulated professionals, there would be an additional 27,000 requests under this option. We will continue to explore this and look further into the type of reports under the current requirements and how these compare with what will now be expected of obliged entities.
249. To report a discrepancy, regulated professionals would have to complete a form, outlining:<sup>78</sup>
- Name and type of business of the obliged entity making the report
  - Date when the discrepancy was first noticed
  - Full name, email address and contact telephone number of the person making the report
  - Business address of the obliged entity making the report
  - Company name and number of the entity being reported as having a discrepancy
  - The type of discrepancy - for example if it relates to a person, an RLE, a statement or a missing PSC

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<sup>77</sup> See:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation4digitsoct2010ashtable14> wages uprated by 20% to include non-wage labour costs.

<sup>78</sup> See: <https://www.gov.uk/guidance/report-a-discrepancy-about-a-beneficial-owner-on-the-psc-register-by-an-obliged-entity#make-a-report>

- Details of the discrepancy - such as an incorrect address or an invalid PSC statement

250. Companies House holds data on average length of time to complete one of these forms of around ten minutes, which we use within our calculations. Again, for simplicity, we use the time cost for managers, directors and senior officials.

**Direct costs and benefits to business calculations**

251. As outlined in the previous section, we currently see the only cost to business the increased requirements on discrepancy reporting. These costs can be summarised in Figure 17 below.

**Figure 17: Estimated costs of increased discrepancy reporting requirements over 10-year appraisal period**

<b>Number of regulated professionals (2017/18)</b>	<b>NPV (£m)</b>	<b>EANDCB (£m)</b>
92,000	-2	0.23

## Section 6: Privacy

### Policy overview

252. There are instances where an individual may be at risk of fraud or others harms because of information on the register, and therefore it may be appropriate to suppress the information from what can be viewed by the public. There are others who may be at serious risk of violence or intimidation as a result of their personal information being displayed publicly, for example, in the case of a domestic abuse survivor.
253. Current legislation does not permit personal information to be suppressed in all cases.

### Description of options considered

#### **Option 0: Do nothing**

254. This option acts as the 'no change' counterfactual against which changes are assessed. We are in the view that the current provisions are not sufficient to prevent individuals at risk of fraud or other harms because of information on the register.

#### **Option 1: Introduce a mechanism to protect personal information (preferred)**

255. Within the September 2020 Government response, we announced that we will legislate to remove the requirement to provide a business occupation and to allow applications to suppress business occupations, the day of dates of birth and signatures from historic filings.
256. We also decided to proceed with the proposals to allow applications to suppress a residential or 'sensitive' address if used as a historic registered office address, or if otherwise used where it is not currently possible to suppress this. Having these addresses on the public register can put individuals at risk of fraud and other harms. We will introduce a 'legitimate interest test' to allow applications to a suppressed registered office address to certain third parties who won't be able to access this via data protection exemptions e.g. a creditor or personal injury claimant.
257. We have also decided to introduce a new protection regime to allow applications to protect names and, in the most serious of cases, to protect all information from appearing publicly e.g. the required particulars in the case of a director or a PSC. Evidence will be required as part of a protection application to show that the individual in question is personally at serious risk of violence or intimidation.
258. In developing these protection proposals, we have been guided by the existing suppression regime e.g., for director usual residential addresses as well as the PSC protection regime introduced in 2016.<sup>79</sup>

### Summary and preferred option with description of implementation plan

259. Option one is our preferred option. We have set out in the section above the core elements of the proposal and explained in the background section how these fit into the wider reform agenda.

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<sup>79</sup> See: <https://www.gov.uk/guidance/applying-to-protect-your-personal-information-on-the-companies-house-register>

260. Once the new arrangements are in place, Companies House will be responsible for the ongoing implementation, operation and enforcement of the arrangements which will fall within their wider transformation programme.

### **Monetised and non-monetised costs of each option**

#### **Option 0: Do nothing**

261. This option acts as the 'no change' counterfactual against which changes are assessed. In this instance the current risks to individuals of fraud or other harms remain unaddressed and is therefore not our preferred option.

#### **Option 1: Introduce a mechanism to protect personal information (preferred)**

262. We expect that these proposals would result in zero cost to business because individuals would only ask for their details to be changed or suppressed if the benefits of the action were greater than the cost. For example, an individual who suppresses their name would face the cost of having to gather satisfactory evidence and then apply to do so, but they would experience the benefit of their name no longer being visible to on the public part of the register, for whatever their own reason may be; they would be acting in their own best interest.

### **Direct costs and benefits to business calculations**

263. As outlined above, we expect this proposal would result in zero costs to business.

## Section 7: Improving the financial information on the register

### Policy overview

264. Research shows that over half the benefit to users from Companies House data arises from the annual report and financial statements.<sup>80</sup> However, many companies use filing options which require them to file little or no financial information.
265. The first register reform consultation in 2019 asked an open question about how financial information on the companies register could be improved. Respondents highlighted areas for improvement and challenged us to be ambitious.
266. In December 2020, the Government published a second consultation, on ‘improving the quality and value of financial information on the UK companies register’. Most proposals elicited strong support from a wide range of respondents including company directors, business groups, the accountancy and audit profession, credit lenders, civil society, and law enforcement.
267. We have since engaged widely with key stakeholders, including business groups, accountancy firms, representative bodies and other government departments. This engagement has corroborated the support we received in the responses to the consultation and helped us to further refine our proposals.

### Description of options considered

#### **Option 0: Do nothing**

268. This option acts as the ‘no change’ counterfactual against which changes are assessed. We are in the view that this will not improve the financial information on the register and is therefore not preferred.

#### **Option 1: A package of reforms to improve the financial information (preferred)**

269. The preferred option is a package of reforms which aims to improve the financial information on the company register. This package includes:
- Mandatory digital filing
  - Simplifying the small accounts regime
  - Closing loopholes for amendments to a company’s Accounting Reference Period (ARP)
  - Introducing a requirement for dormant companies to file a statement of eligibility with their accounts

270. We explore each of these in turn.

### Mandating digital filing

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<sup>80</sup> See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

271. Currently around 88% of accounts are filed digitally with Companies House.<sup>81</sup> Most small companies file accounts digitally. However, some of the largest companies in the UK continue to file on paper, even though they file accounts digitally with HMRC.
272. Alongside this, we will introduce digital tagging. When financial information is tagged digitally, it is done so using a taxonomy. In this instance, a taxonomy is a grouping of financial concepts in which each concept is clearly defined (similar to a dictionary) in a computer readable label, or 'tag'. Fully tagged financial reporting has been mandatory with HMRC since 2016 and is widely used across the world such as in USA, Japan, China and India.<sup>82</sup>
273. Consultation respondents overwhelmingly supported the idea of fully tagged digital accounts for all companies, which would yield significant benefits:
- More consistent and accurate information delivered in accounts.
  - Improving the standard of financial reporting in the UK.
  - A more efficient and secure process for businesses.
  - Brings the UK into line with international best practice.
274. In line with requests from stakeholders, our approach will be to align our tagging standards with HMRC, to improve consistency and reduce burdens. We would allow a transition period before making full tagging mandatory and are considering how we can support small companies and charities to meet the full tagging requirements.

### Simplifying the small accounts regime

275. In recent years a great deal of flexibility for how small and micro companies prepare and file their annual accounts has been introduced to minimise burdens and support growth. However, the evidence we have from stakeholders suggests the wide range of options causes confusion and results in filing errors which subsequently need correcting. There are at least eight main options for companies which meet the small company thresholds and eleven for micro-entities (see Figure 18 below).

**Figure 18: Small company filing options – current position**

<b>Small company</b>	<b>Micro entity</b>
Small full accounts - audited	Any of the small options
Small full accounts - unaudited	Micro entity accounts - audited
Small full accounts - partially filleted - directors report only filleted out	Micro entity accounts - unaudited
Small full accounts - fully filleted - directors report, Profit and Loss and Notes filleted out	Micro entity accounts - filleted - profit and loss and notes filleted out
Abridged accounts -audited	
Abridged accounts- unaudited	
Abridged accounts - partially filleted - directors report only filleted out	
Abridged accounts fully filleted - directors report, profit and loss and notes filleted out	

<sup>81</sup> See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2019-20>, Table 7

<sup>82</sup> See: <https://www.gov.uk/government/publications/xbrl-tagging-when-what-and-how-to-tag>

276. Some of these current options allow limited financial information to be disclosed. For example, companies that don't opt to file their director's report and profit and loss are said to be filing "filleted" accounts (in every case the company must file at least the balance sheet & any related notes). Also, abridged accounts contain a balance sheet that contains a sub-set of the information that would be included in a full balance sheet. The minimal requirements make these options open to abuse by those who wish to present a false picture of a company's financial position.

277. The main measures to improve the public disclosure of information are to:

- Require micro-entities to file a profit and loss account, to ensure that key information such as turnover and profit or loss will be available on the public register.
- Remove the option for small companies to prepare and file abridged accounts.
- Remove the option for small companies to "fillet" out the director's report and/or the profit and loss account before filing.

278. Further we will ensure all companies report turnover, balance sheet total and average number of employees – which are the criteria that determines the size classification of a company.

#### Closing loopholes for amendments to a company's Accounting Reference Period

279. Every company must prepare accounts that report on the performance and activities of the company during the financial year. If a company is struggling to meet its filing deadline, the correct process to get extra filing time is to apply to the Secretary of State under Section 442(5) of the Companies Act 2006 before the expiry of the period otherwise allowed. Any extension granted, must not have the effect of making the filing period longer than twelve months after the end of the Account Reference Period (ARP).<sup>83</sup>

280. However, companies can gain more than twelve months to file accounts in the UK by using an alternative method of extending the filing time. A company can alter its ARP without giving a reason, by giving notice to the Registrar under Section 392 (S.392) of the Act. This can have the effect of extending or shortening the ARP. Whilst S.392 limits the number of times a company can extend its ARP to once in five years unless certain conditions are met, the same limitations do not apply to shortening – a company can shorten its ARP multiple times. The only limit derives from only being able to alter the ARD for the current or previous period.

281. When an ARP is shortened, it alters the deadline for filing the accounts. This can have the effect of extending the filing period beyond 12 months and can be done year after year. When the ARP is shortened, Section 442(4) states that the new deadline for filing accounts is whichever expires last out of a) the usual period of nine months from the end of the accounting period for a private company and six months for a public company, or b) three months from the date of the notice to shorten.

282. Companies House has found it has become common practise for some companies to use this provision year on year, just to obtain more time to deliver accounts, rather than for the intended purpose. As it results in no financial information being available on the register for an extended period of time, it is a regular cause for complaint by users of the register.

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<sup>83</sup> For further information, see: <https://companieshouse.blog.gov.uk/2015/12/23/a-guide-to-accounting-reference-dates-and-periods/>

283. The Government published its response to the consultation in September 2020 and committed to reform the rules on shortening accounting reference periods to reduce the potential for abuse. As such, the proposed measures are to:

- Limit the number of times a company can shorten its Accounting Reference Period (ARP) by altering its Accounting Reference Date (ARD).
- Require a company to provide a reason for altering its ARD.
- Prevent a company from altering its ARD by less than seven days.
- Prevent a company from being able to gain more than the maximum filing time (currently twelve months) that would be allowed if they followed the correct process for requesting additional filing time.

#### Introducing a requirement for dormant companies to file a statement of eligibility with their accounts

284. Many responses to the government consultation published in 2019 highlighted that companies can and do incorrectly use filing options that require minimal disclosure. This means that the register information used to inform business decisions often gives an incomplete view of the financial position of a company.

285. Concerns were also raised that companies were deliberately filing under the wrong regime to disclose less information than they should if they were filing under the correct regime. This was backed by evidence from law enforcement bodies, referencing money laundering investigations, which showed that companies often filed dormant accounts with the Registrar when their bank accounts showed that the company was clearly trading.

286. In the consultation published in December 2020, we asked five questions about the introduction of the statement. 66% of the respondents to this question were in favour of the proposal, 18% were not in favour and 16% were neutral about the proposal.

287. Feedback was broadly positive, stating that if companies were filing honestly, there should be no problem with providing a statement to confirm filing eligibility.

#### **Option 2: Additional changes to amend financial information**

288. Our original policy intention was that the statement of eligibility would be a requirement for all accounts delivered to the Registrar. It would be a means to tackle fraudulent under-reporting and hold directors to account, by providing the Registrar with additional evidence to take stronger enforcement action, and we also wanted to obtain additional information (turnover) to enable Companies House to accurately categorize the size of a company.

289. However, as part of our wider accounts reform proposals, we have undertaken a review of the small company filing options, as outlined in previous sections. We have concluded that we will not require a statement of eligibility to be completed for companies other than for those which are filing as dormant. Additionally, now Companies House will be collecting all three threshold criteria through the accounts, it will allow the agency to categorise the size of a company and validate that the accounts have been filed under a regime the company is eligible to use.

## **Summary and preferred option with description of implementation plan**

290. Option one is our preferred option. We have set out in the section above the core elements of the proposal and explained in the background section how these fit into the wider reform agenda.

291. Once the new arrangements are in place, Companies House will be responsible for the ongoing implementation, operation and enforcement of the arrangements which will fall within their wider transformation programme.

## **Monetised and non-monetised costs and benefits of each option**

### **Option 0: Do nothing**

292. The 'do nothing' option represents no regulatory change for account filings with Companies House. No additional costs or benefits would be delivered under this option.

### **Option 1: Increased transparency through a package of reforms**

#### **Mandatory digital filing and digitally tagging accounts**

##### *Numbers in scope*

293. Most companies currently file digitally. Therefore, we think it is reasonable to assume that these companies will not need to familiarise with this policy change. We focus our analysis on the stock of companies currently filing on paper which will be impacted by this policy change.

294. We therefore need to look at the number of companies which currently file using paper rather than digitally. Using Companies House internal accounts filing data, we assume that one submitted account filing is the equivalent of one company.<sup>84</sup>

295. There are around 451,000 accounts which were paper filed in 2019/20 (as of 31 March 2020) which would need to move to digital filing.<sup>85 86 87</sup> Using the rationale that one account is equal to one company, we estimate that 451,000 companies will need to switch from paper filing to digital filing. Figure 19 below provides a breakdown of this.

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<sup>84</sup> For the purpose of our analysis, we assume that all companies are still active – active meaning that they are still trading normally today. By assuming one account = one company, we may potentially be overestimating the number of companies, as companies may file their accounts more than once with Companies House. Indeed, in the analysis undertaken by HMRC below, duplicate companies were identified.

<sup>85</sup> We use data from 2019/20 due to the legislative easements around account filing due to the Covid-19 in 2020/21 due to the Covid-19 pandemic. See: <https://www.gov.uk/government/publications/the-companies-etc-filing-requirements-temporary-modifications-regulations-2020/temporary-changes-to-companies-house-filing-requirements>

<sup>86</sup> Under new FCA requirements, listed companies will need to file electronically ahead of these changes. See: <https://www.fca.org.uk/markets/company-annual-financial-reporting-electronic-format>. We will look to omit listed companies from our calculations going forward, although envisage this will be a small proportion of the current companies, given they make up less than 1% of companies on the register.

<sup>87</sup> It is worth noting that a proportion of companies (approximately 20%) will not file accounts each year for several reasons, including being a new company (a company has up to 21 months from the date of incorporation to file their accounts) or being non-compliant and thus being struck off.

**Figure 19: List of account types that will need to be filed digitally under the proposed requirements**

<b>Account Type</b>	<b>Number of accounts submitted by paper (2019/20)</b>
<b>Audited Abridged</b>	900
<b>Dormant</b>	71,000
<b>Full</b>	79,000
<b>Group</b>	20,000
<b>Micro Entity</b>	52,000
<b>Small</b>	52,000
<b>Total Exemption Full</b>	169,000
<b>Unaudited Abridged</b>	8,000
<b>Total</b>	<b>451,000</b>

Source: Companies House internal data 2019/20. Totals may not sum due to rounding.

## **Familiarisation costs**

296. At this stage in our analysis, we assume that it will take individuals who currently paper file fifteen minutes to understand that they are no longer able to do so.
297. Companies House research found that around 80-85% of companies file with an accountant.<sup>88</sup> Therefore, we assume that 20% of the 451,000 directors will need to be familiar with this policy change, costing this at a medium hourly wage of a director as before.
298. For the other 80%, ONS Inter-Departmental Business Register (IDBR) data states that in 2019 there were around 264,000 individuals involved in accounting activities and 105,000 involved in bookkeeping activities.<sup>89</sup> As we know that 80% of company accounts were filed with an accountant, we divide 80% of the total companies on the register by the number of accountants/bookkeepers, which equates to around 13 companies per accountant and 31 companies per bookkeeper. Of the 360,000 accounts which were filed with an accountant, we therefore assume 28,000 accountants will need to familiarise with this policy change and 11,000 bookkeepers, which we cost using ASHE median hourly pay excluding overtime (including non-wage labour costs at 20%).

## **Ongoing costs**

### Software costs

299. One potential cost identified is having to purchase software to file digitally. HMRC undertook analysis looking at the list of the 451,000 companies and other entities who do not currently file digitally with Companies House, to identify which ones are already filing tax returns digitally with them, as we can assume if they are filing digitally with HMRC they already have the required software. Over 99% of entities that are required to file digitally with HMRC, do so. Generally, those that don't are unable to because they are using out of date software which is no longer accepted by the filing portal.
300. Of this list, around 168,000 entities did not file digitally with HMRC. In the vast majority of cases, they were not required to for various reasons e.g. being a dormant company, LLP or LP, and not needing to file corporate tax returns with HMRC. Therefore, we consider

<sup>88</sup> See: <https://www.bi.team/publications/increasing-uptake-of-digital-services-at-companies-house/>

<sup>89</sup> See: <https://www.gov.uk/company-filing-software/filing-annual-accounts-returns-and-tax-accounts>  
<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhocs/12144bookkeepingandaccountancybysize>

this 168,000 to be an upper bound of those required to invest in software to file with Companies House. When a company files non-digitally with Companies House, in some cases it is usually clear from the formatting of the accounts document, that they have used standard accountancy software which would automatically tag the contents of the accounts and allow digital filing.

301. Therefore, we make the simplistic assumption that these 168,000 entities will need to purchase software to file digitally. Using the same assumption that 80% of companies file with an accountant, we estimate around 34,000 will file directly with Companies House and 134,000 of these will fill through an accountant. We undertook internal analysis on costs of different accounting software based on government guidance:<sup>90</sup>

- Of the 34,000 direct filers - we use the cheapest software cost identified at £26 per year.
- Of the 134,000 companies who file through an accountant - we know that 80% of companies file with an accountant. We also know from the Annual Business Survey there are around 43,000 firms in the accounting, bookkeeping and auditing activities.<sup>91</sup> We therefore divide the number of companies who file with an accountant (80% of 4.1 million) by the number of accounting firms to get average number of companies per accounting firm, which is around 80. Therefore, we assume around 1,800 accountancy firms will need to purchase software. For filing multiple accounts, we use the cheapest software cost identified at £385 per year.

302. The costs of purchasing software can be summarised in Figure 20 below.

**Figure 20: Estimated companies impacted by having to file with software**

	Direct filers	Filing through an accountant
<b>Number of companies to switch from paper filing</b>	34,000	134,000
<b>Number of accountancy firms impacted</b>	N/A	1,800
<b>Cost of cheapest software identified</b>	£26	£385

New companies

303. We assume that additional ongoing costs for new companies over the appraisal period will be negligible. New companies are more likely to digitally file. This is supported by the Companies House report with the Behavioural Insights team found that Companies older than 10 years old are more likely to file by paper.<sup>92</sup> Therefore, the number of new companies who paper file each year is likely to be very low.

304. Therefore, the key costs to business identified is having to familiar with this policy change. A summary of these cost estimates can be found in Figure 21 below.

<sup>90</sup> See: <https://www.gov.uk/government/publications/record-keeping-and-simpler-income-tax-applicationssoftware/simple-record-keeping-applications-commercial-software-suppliers>

<sup>91</sup> See: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinessesconomyannualbusinesssurveysectionsas/current>

<sup>92</sup> <https://www.bi.team/publications/increasing-uptake-of-digital-services-at-companies-house/>

**Figure 21: Summary of estimated costs to business of mandatory digitally filing over 10-year appraisal period**

	Costs to business in year one - familiarisation (£m)	Annual cost - software (£m)
<b>Mandatory digital filing</b>	£0.74	£1.55

## Benefits

305. There are individual benefits of this policy proposal which we explore below. It is however important to note that, although we have identified several benefits to business, companies can currently choose to file on paper or digitally, and therefore it can be argued they see a benefit in doing this. However, engagement with stakeholders suggests that paper filing is often due to conservatism, i.e. carrying on with familiar practises, rather than the result of an appraisal of the costs and benefits of continuing to do so.<sup>93</sup>

### Reduction in errors

306. Paper filed accounts are also more likely to be rejected. Companies House generally note that accounts are most commonly rejected for being made up to the wrong date or not being signed, both of which have simple solutions to resolve the issue i.e., changing the date or getting the accounts signed. Digital submission will instantly prompt the individual who is filing if their account filing has been rejected, meaning that they are able to instantly address the issue. Whereas paper accounts are submitted via post, which takes time and money in terms of postage costs for both the company and Companies House. Therefore, digital filing should result in fewer rejections (summarised in Figure 22).

**Figure 22: Companies House account rejections by submission type (2020/21)**

Account type	Accepted	Rejected	Total	Percentage of filings rejected
<b>Paper</b>	365,000	36,000	401,000	8.92%
<b>Digital</b>	2,783,000	33,000	2,821,000	1.18%

Source: Companies House management information 2020/21. Totals may not sum due to rounding.

### Reduction in postage costs

307. There will be savings for all paper filers, as they will no longer need to post their accounts, so they will save money on postage as well as time spent on completing the postage process.

308. We assume accounts are sent to Companies House via First Class recorded delivery using the Royal Mail's postal service.<sup>94 95</sup> Using estimates on the weight of the parcel given the size of the accounts filed, we can estimate there is a cost saving of £1.4 million through no longer paper filing.<sup>96</sup>

<sup>93</sup> See: <https://www.bi.team/publications/increasing-uptake-of-digital-services-at-companies-house/>

<sup>94</sup> Based on internal Companies House evidence.

<sup>95</sup> For prices, see: <https://www.royalmail.com/sites/royalmail.com/files/2021-03/royal-mail-our-prices-april-2021.pdf>

<sup>96</sup> We assume that group accounts are sent via small parcel (up to 2kg); full accounts via large letter (up to 0.25kg); small, micro, abridged and dormant via large letter (up to 0.1kg). Figures in 2021 prices.

**Figure 23: Estimated annual savings to companies that currently paper file switching to digital**

Accounts type	Unit cost	Number of paper accounts previously submitted	Annual benefit from avoided postage costs (millions)
<b>Group</b>	£6.57	20,000	£0.1
<b>Full, including audit exemption Full</b>	£3.23	248,000	£0.8
<b>Small, micro, abridged and dormant</b>	£2.69	184,000	£0.5
<b>Total</b>			<b>£1.4</b>

Source: Companies House internally analysis 2019/20 and Royal Mail

309. There is already positive evidence to draw upon too, as HMRC’s research and findings from their evaluation of the Making Tax Digital (MTD) for VAT service in March 2020.<sup>97</sup> Businesses reported productivity gains, found operating digitally easier than expected, and digital record keeping allowed management of finances in real time, with automated processes allowing them to do so. The experience from many businesses in MTD for VAT is that over the full cycle of a business year, by integrating ‘doing tax’ into day-to-day record keeping, businesses spend less time overall dealing with their tax affairs.

#### Simplifying the small accounts regime

310. As outlined above, the key policy changes which come under this proposal are:

- Requiring micro-entities to file a profit and loss account, to ensure that key information such as turnover and profit or loss will be available on the public register.
- Removing the option for small companies to prepare and file abridged accounts.
- Removing the option for small companies to “fillet” out the director’s report and/or the profit and loss account before filing.
- Ensuring all companies report turnover, balance sheet total and average number of employees – which are the criteria that determines the size classification of a company.

311. We explore each of these separately.

*Requiring micro-entities to file a profit and loss account, to ensure that key information such as turnover and profit or loss will be available on the public register*

312. There are currently around 1.3 million micro entity accounts, and thus assume, as we have previously, that this equates to 1.3 million micro entities who will need to file a profit and loss account.<sup>98</sup>

313. We currently envisage that micro-entities, and those that file on their behalf, will have to familiarise with the proposed change in requirements. The Impact Assessment implementing the EU’s ‘Micros Directive’, estimated that it would take between fifteen and thirty minutes to understand the full exemptions for micro-entities.<sup>99</sup> In reversing this policy,

<sup>97</sup> See: <https://www.gov.uk/government/publications/making-tax-digital-review>

<sup>98</sup> See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>, Table 10. As public data is available, we use this within our analysis. For consistency with the rest of this section, we use 2019/20 data.

<sup>99</sup> See: [https://www.legislation.gov.uk/ukia/2013/243/pdfs/ukia\\_20130243\\_en.pdf](https://www.legislation.gov.uk/ukia/2013/243/pdfs/ukia_20130243_en.pdf)

and given it is a subset of this policy, we assume that it will take fifteen minutes of time to familiarise with the ending of this exemption:

- A director as a micro entity owner, of which we assume 20% of the 1.3 million micro entities file directly with Companies House.
- An accountant and bookkeeper, of which we assume 80% of the 1.3 million micro entities file director with. Similarly, to that outlined in paragraph 301 above, we use the average number of companies per accountant and bookkeeper of 13 and 31 respectively and divide this by the number of micro entities which file through an accountant.<sup>100</sup>

314. We assume that there will be no further costs as companies already collect this information and must submit more detailed accounts to HMRC. Therefore, submitting this additional information to Companies House is not likely to be an additional cost.

315. Additionally, we see benefits to micro entities for doing this. Some evidence suggests that micro entities have lower credit scores and that companies willing to disclose their account information will have higher credit scores.<sup>101</sup>

#### *Removing the option for small companies to prepare and file abridged accounts*

316. There are an estimated 141,000 abridged accounts filed by companies which would need to prepare and file full accounts.<sup>102</sup>

317. We recognise that there will likely be a cost to companies who file abridged accounts to understand what is required of them. As above we adopt a similar approach to the Micro Entities Impact Assessment, where it was assumed this would take between five to fifteen minutes to familiarise with simplified filing requirements, for either an accountant, bookkeeper or a director. We assume it will take fifteen minutes to familiarise with the new requirements.

318. We assume negligible time costs for the additional information that will be required for the small account regimes, as it is information that is already collected by companies. Indeed, abridged accounts contain a sub-set of the information that is required in a full balance sheet and profit and loss account. Evidence from a data pilot with HMRC shows that this is not how abridged accounts are used in practice. It was found that companies that file abridged accounts often prepare more than one version - providing fuller accounts for its members and filing the abridged version with Companies House (which is more burdensome rather than less as was intended when the option was introduced).

#### *Removing the option for small companies to “fillet” out the director’s report and/or the profit and loss account before filing*

319. We again assume those that file filleted accounts will have to familiarise with this policy change. We understand that most companies which fall within the threshold of being able to fillet their accounts choose to do so. For simplicity, we assume that 95% of small and micro accounts opt to do so. We assume this takes the same amount of time as familiarising with the changes to abridged accounts, at fifteen minutes of an accountant,

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<sup>100</sup> We divide the number of micro accounts by the number of companies per accountant and bookkeeper and use this methodology for the other account types below. We cost this using Annual Survey of Hours and Earnings median hourly wage excluding overtime, uplifted by 20% to include non-wage labour costs.

<sup>101</sup> See: <https://orca.cardiff.ac.uk/111660/> which shows evidence than micro entities have lower credit scores

<sup>102</sup> Companies House unpublished data, 2019/20.

bookkeepers or director's time.

320. By removing the option for filleting accounts, we envisage it will be less burdensome for a company. Companies currently need to prepare their accounts before they can be filleted, and no longer providing them with the option to remove the profit and loss and/or the director's report, it is likely to be a time saving on them. Therefore, we do not consider there to be any ongoing costs to business due to this change.

321. Figure 24 below summarises the estimated costs to business of simplifying the small account regime.

**Figure 24: Estimated costs to business of simplifying the small accounts regime**

	<b>Costs to business in year one (£m)</b>
Simplifying the small accounts regime – familiarisation costs for micro entities, abridged and filleted accounts	£4.85

Closing loopholes for amendments to a company's Accounting Reference Period (ARP)

322. During the period April 2019 to April 2020, Companies House internal analysis found that around 19,000 notices were given to shorten ARP's by approximately 9,000 different entities. This shows that companies are changing their ARP more than once to gain the maximum filing time possible. In most cases, companies shorten the ARP by just one day but then file their accounts to the original accounting reference date, which indicates that changing the ARP was not the purpose of giving notice under S.392.

323. Under the proposed policy change, 9,000 entities would need to provide the reason that they are changing their ARP if they were to give notice again. However, this will be an event-driven impact – i.e. individuals will only need to make themselves aware of this change if they wish to amend their ARP. We do not consider it proportionate to cost this for the entire population of companies as most of them have not given notice for this. We envisage this will simply be an additional piece of information that needs to be provided as part of the application to change an ARP. Therefore, we expect that for this policy change, there will be no familiarisations costs or compliance costs.

Introducing a requirement for dormant companies to file a statement of eligibility with their accounts

324. During the period April 2019 to April 2020, there were around 540,000 sets of dormant accounts filed.<sup>103</sup> Under the proposed policy change, for their next set of accounts (if still filing as dormant), 540,000 dormant companies will be required to file a statement of eligibility with their accounts.

325. A company's annual accounts already must be approved by the board and signed on behalf of the board by a director of the company. The balance sheet of a dormant company already includes statements which confirm under which provisions in the Companies Act it is claiming exemption from audit. Adding this statement to the balance sheet, to confirm that the company meets the criteria to file dormant accounts will therefore incur negligible additional familiarisation costs or compliance costs.

<sup>103</sup> See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021> Table 10

## Direct costs and benefits to business calculations

326. Figure 25 below provides a summary of the costs for the different elements of this policy proposal.

**Figure 25: Summary of estimated costs to reforming accounts**

	<b>Costs to business in year one (£m)</b>	<b>Annual costs (£m)</b>
<b>Mandatory digital filing</b>	£0.74	£1.55
<b>Simplifying the small accounts regime</b>	£4.85	Negligible
<b>Closing loopholes for amendments to a company's Accounting Reference Period (ARP)</b>	Negligible	Negligible
<b>Introducing a requirement for dormant companies to file a statement of eligibility with their accounts (1d)</b>	Negligible	Negligible
<b>NPV (£m)</b>		<b>-18.95</b>
<b>EANDCB (£m)</b>		<b>2.2</b>

## IV. Costs of Companies House transformation

### Overview

327. This section of the Impact Assessment estimates the costs and benefits to Companies House for the delivery of the register reform package.
328. Companies House is undertaking an ambitious transformation programme, which will include delivering the register reform legislation. This transformation will support digital components, processes and skills that will underpin the ongoing delivery of the elements of the reform.
329. Given the close linkages between Companies House transformation and register reform, and linkages between different elements of register reform, it is impossible to allocate transformation costs to individual reform measures. Hence, we treat transformation costs as indivisible.

### Transformation

330. Modernisation is needed to meet the requirements of a UK economy where increasing volumes of business are transacted online, and expectations are for online access to near real time information available as machine-readable data.
331. At the same time, the reform policies discussed in this Impact Assessment reflect government ambition to maximise the value of Companies House data to the economy and increase the reputation of the UK as a great place to do business. This will be achieved through efficient digital incorporation and filing processes delivering more reliable and accurate data on the ownership and control of UK companies, swifter identification of suspicious activity, quicker investigation and resolution of discrepancies and closer integration of Companies House with partner bodies tasked with combatting economic crime.
332. A Companies House transformed in this way will significantly contribute to the BEIS departmental objectives of ensuring that we “back long-term growth: boost enterprise by making the UK the best place in the world to start and grow a business.”<sup>104</sup>
333. The costs of transformation can be broken down into two distinct components:
- Transformation programme
  - Running transformed services
334. Additionally, we look at the internal benefits of transformation.
335. Taking each in turn, we present the respective costs of each component and provide a brief description of what they entail. All costs are recorded in 2019 prices and have used existing staffing rates and third-party contract costs to cost a likely scenario of costs to develop and run transformed services.

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<sup>104</sup> See: <https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy/about>

## Transformation programme

336. Companies House must be ready to embrace the most fundamental change to its purpose and role in its history. Proposals for register reform will see it playing a significant role in supporting the fight against economic crime which we discuss further below under the benefits section. To deliver the government's ambition, we must transform every aspect of Companies House: skills, culture, operating model and digital services.

337. The total requirement for the transformation programme is set out by year in Figure 26 below. The costs are derived from the costs of development, as outlined in the outline business case approved by HM Treasury.

**Figure 26: Companies House transformation programme cost (2021-2032)**

£m	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
<b>Total fixed costs</b>	13.2	17.7	23.1	21	11.6	0.0	0.0	0.0	0.0	0.0	0.0

## Running transformed services

338. Once the transformation programme is complete, Companies House will have the ability to deliver its new powers as set in legislation. As such, there will be a requirement for new roles for staff with skillsets and experience of an investigatory nature (Figure 27 below).

**Figure 27: Costs to Companies House of running transformed services (2021-32)**

£m	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
<b>Total running costs</b>	2.5	1.5	10.5	9.1	9.2	9.0	8.8	8.7	8.5	8.3	8.2

## Internal benefits of transformation

339. Through the automation of processes and mandating of the digital filing of accounts, Companies House will realise efficiency savings (see Figure 28 below).

**Figure 28: Internal benefits of transformation to Companies House (2021-32)**

£m	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
Benefits			0.7	2.0	2.1	2.1	2.2	2.2	2.2	2.3	2.3

## Net cost of transformation

340. Once the three elements of transformation costs are combined, the net profiling of costs of transformation are provided below, in 2019 prices (Figure 29 below):

**Figure 29: Net cost of transformation to Companies House (2021-32)**

£m	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
<b>Net cost</b>	15.7	19.2	32.9	28.1	18.7	6.9	6.6	6.5	6.3	6	5.9

341. Given that Companies House will need to invest in its transformation programme ahead of register reform, the costs of transformation are over a slightly different period than where

we see the key costs to business of this policy. For use in the NPSV, we incorporate the costs for the first two years of transformation into the first year of our cost estimates to ensure these are included. This method leads to a net present social value of **-£140.4 million**.

## V. Benefits

342. This section sets out the benefits of the register reform package and quantifies them where possible. Many of the benefits of reforming the company register, such as greater transparency and more effective action against crime, will be felt broadly across business and society. Where individual benefits of aspects of the reforms which have been identified, these are outlined within each specific section of the Impact Assessment.

343. The overall benefits can be broadly categorised into two groups:

- Supporting enterprise - improving the trustworthiness and accuracy of the register of companies, which businesses use for due diligence and credit reference decisions.
- Tackling economic crime - through improving the ability of Companies House to support law enforcement in the fight against economic and serious and organised crime, particularly money laundering, and thus promoting national security.

344. We explore each of these benefits in turn.

### **Supporting enterprise**

345. Almost ever since companies were first formed the government has required companies and other legal entities to lodge information on the public record at Companies House. This was seen as a defence against possible fraud and became particularly important after the introduction of limited liability, which limited shareholders losses to the value of their shares and not the value of their debts. This made company registration even more important as it warned potential creditors about the risks they were possibly taking when doing business with a limited liability company.

346. Data on companies and other entities is accessed over ten billion times a year and has increased substantially since the creation of Companies House Service – a free search engine for the register - in 2015. Prior to this, paid company register data requests amounted to around 6 million per annum.<sup>105</sup>

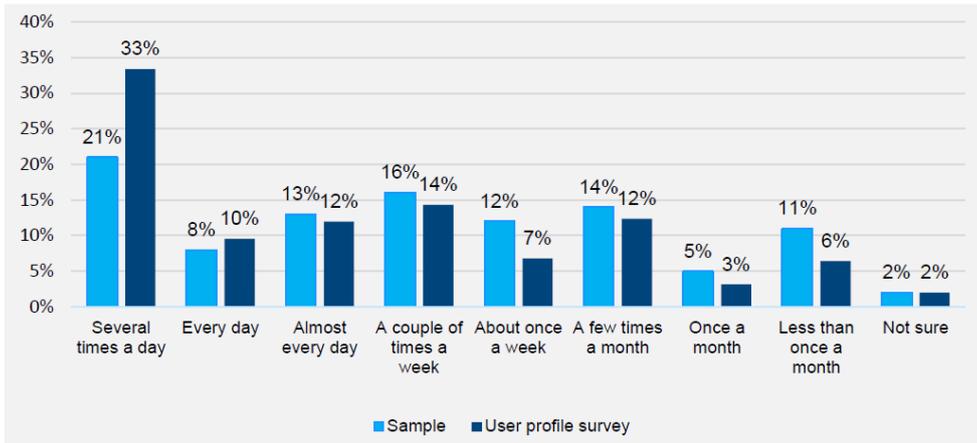
347. In 2019, BEIS and Companies House jointly funded research into the use of the company register by businesses.<sup>106</sup> The objectives of this work included estimating the value of user benefits for the open-access company information and data. This showed that usage of the data varied from business (direct users of the data), but the vast majority reported using it at least once a month, with a majority reporting more frequent use (Figure 30).

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<sup>105</sup> See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>

<sup>106</sup> See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

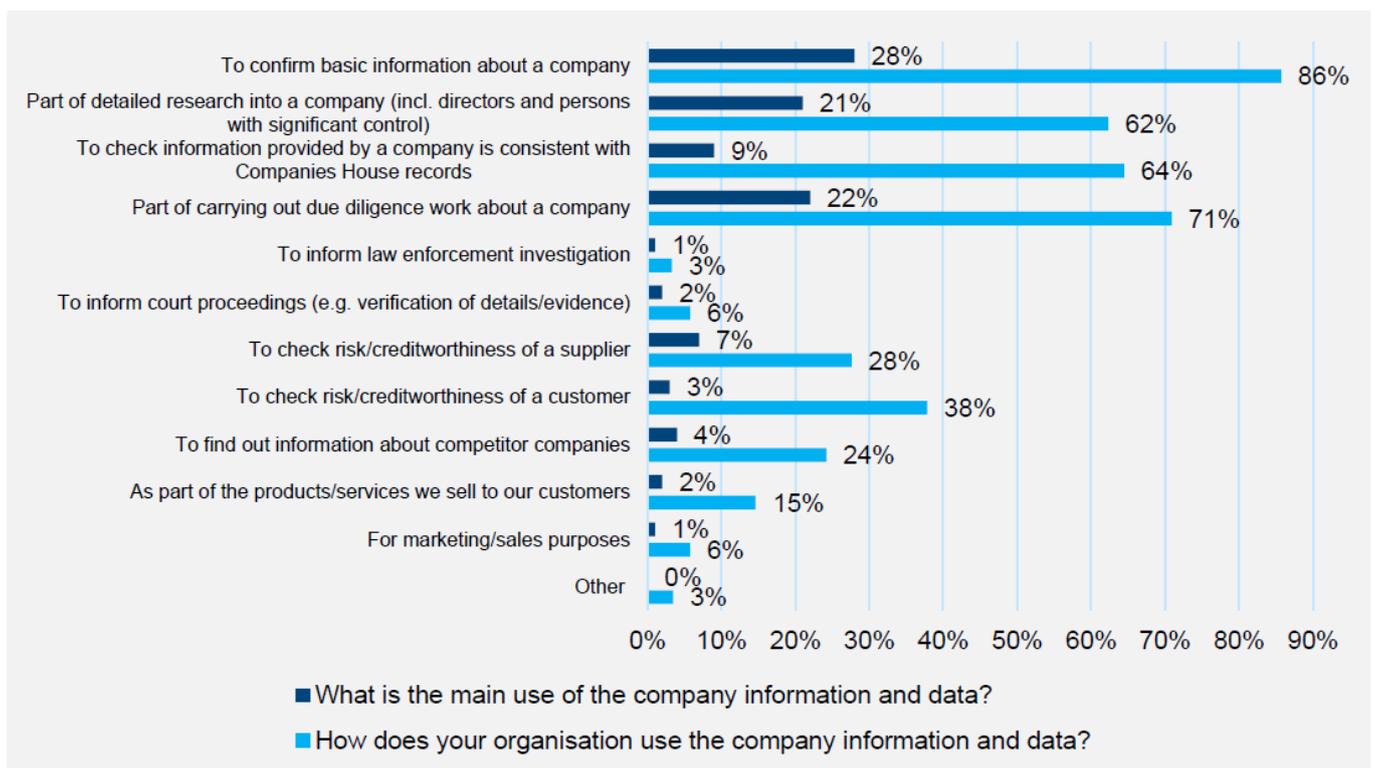
**Figure 30: Frequency of use of Companies House data**



Source: Companies House data: valuing the user benefits research, 2019. N = 608 (sample), 5,491 (user profile)

348. The research found the data is put to a variety of uses including due diligence, credit checking, marketing, and verification of company details (Figure 31).

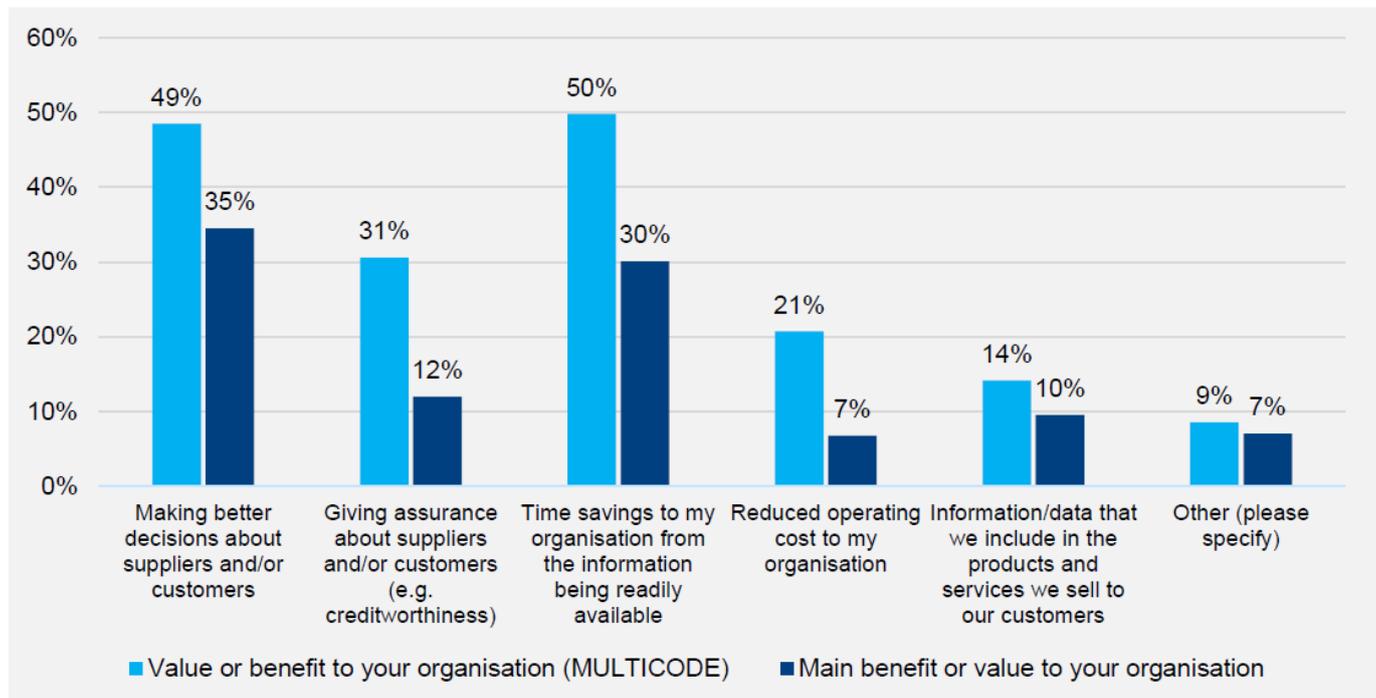
**Figure 31: Use of Companies House data**



Source: Companies House data: valuing the user benefits research, 2019. N = 608

349. The survey also highlighted that the data yields direct benefits to companies in the form of time saved and reduced operating costs, fewer risks and better decisions (Figure 32).

**Figure 32: Beneficial outcomes of Companies House information and data**



Source: Companies House data: valuing the user benefits research, 2019. N = 608

350. Respondents were asked about whether there were any alternatives to Companies House data. Figure 33 sets out the multiple responses they gave. Their responses suggest that in the absence of Companies House data they would rely more on paid services or invest more time in due diligence research or google searches.

**Figure 33: Use of alternative data and information sources: n=608**

	n	%
Purchase company information from a data services provider	107	9%
Use free of charge online resources to research companies	252	20%
General internet search (e.g. Google)	434	35%
Obtain references and background information from partner and associate organisations	130	10%
Conduct own due diligence research	245	20%
Nothing	47	4%
Other (please specify)	19	2%
Don't know	22	2%
<b>Total</b>	<b>1,256</b>	<b>100%</b>

Source: Companies House data: valuing the user benefits research, 2019

351. Our research used a stated preference framework to estimate the willingness to pay of users for Companies House data.<sup>107</sup> This showed that the average benefit to users of around £2,000 a year with higher values enjoyed by those that use it most (around £3,200 a year) in 2018. Based on these estimates the total value of the information on the company register to be between £1 billion and £3 billion a year. These estimates relate to the value of the register in its pre-reform state.

<sup>107</sup> There are broadly two approaches to assessing the willingness to pay. Revealed preference is used where there are available prices attached to market transactions; stated preference is used where there is no market price. We used a stated preference approach because the data is given away for free.

352. The model below (Figure 34) suggests how the reforms could increase the value of Companies House data:

**Figure 34: Benefits to business of reforming the Companies House register**



353. The model presumes that, due to the company register being more accurate/reliable, businesses are more likely to make better decisions.

354. Using the findings from this research, we attempt to monetise the benefits to business if the value of the data were to increase due to higher register quality. This approach needs to be caveated, particularly the aggregate benefits of the research was based on a given number of ‘direct users’ of Companies House data in 2018. This was estimated to 1.41 million users. This may have changed – it could have potentially increased given the number of new incorporations since then.

355. As discussed under the monitoring and evaluation section below, we plan to repeat this analysis to understand whether the value of the data has increased following the implementation of the reform package.

356. Within the research, several sensitivities were tested to provide a range of estimates for the value of Companies House data and information. We apply the lowest value as our ‘low’ aggregate value, highest value as our ‘high’ aggregate value and the average of this as our ‘central’ aggregate value of the data in 2018 and translate these into 2019 prices for the purpose of our assessment.

**Figure 35: Aggregate benefits of Companies House data (£m)**

	2018 prices	Value of data in 2019 prices
<b>Low</b>	0.81	0.83
<b>Central</b>	1.84	1.88
<b>High</b>	2.88	2.94

Source: Companies House data: valuing the user benefits research, 2019

357. At this stage of our analysis, we will focus on the central estimates.

358. We then assume that it will take up to four years for register reform to be fully implemented and the complete benefits of better data will be made available, and then will then remain constant at this higher value. Different elements of the package will begin to be implemented before this and therefore some benefits will be seen prior to this. We make this assumption for simplicity.

359. We assume that, in the fifth year, the value of the data will increase by 1%, 5%, 10% and remain constant following this.

360. Based on this methodology explained above, taking no other costs or benefits into account, and EANDBB outlined in Figure 36 below.

**Figure 36: Estimated NPV and EANDBB due to a percentage increase in the value of Companies House data**

	NPV (£m)	EANBB (£m)
1%	90	-10.50
5%	452	-52.51
10%	904	-105.02

361. This shows that, if we take the mid-value of the aggregated value of Companies House data, a 5% increase would more than offset the estimated costs for this entire policy package. This is excluding any wider benefits on reducing economic crime.
362. If we disaggregate this data, the data was valued to give an annual user benefit of around £2,000 per user in 2018. If the data increases in value to users by 5% due to these policy changes, users will on average receive around an extra £100 in benefit per year. This would be £20 and £200 for 1% and 10% respectively.
363. The question is whether these benefits count as direct benefits under the Better Regulation Framework, and therefore reduce the EANDCB, or whether they are indirect, in which case they do not reduce the EANDCB. Our judgement is that these benefits are direct based on applying the relevant Regulatory Policy Committee criteria:
- Criterion 1: The measure bans, restricts, liberalises, increases or decreases the cost of a business activity, and if the impact falls on those businesses subject to the regulation and accountable for compliance.
    - The benefit that arises from the regulatory change, improved data quality, falls on those that are subject to the regulatory change. This is because businesses are both suppliers of Companies House information as well as users.<sup>108</sup>
    - The earlier figures show that businesses receive benefits from Companies House data which reduce business costs and reduce risks, which can be another type of cost.
  - Criterion 2: The impacts are generally immediate and unavoidable ('first round') and there are relatively few 'steps in the logic chain' between the introduction of the measure and the impact taking place. Impacts that occur subsequent to this adjustment to a new equilibrium, for example as a result of a significant reallocation of resources or innovation, are likely to be indirect.
    - The regulatory measures will increase the quality of the data for users, for example by ensuring that those who submit the data are who they say they are, and through powers for Companies House to challenge and remove false information.
    - As noted above, businesses frequently use Companies House data for due diligence and other business reasons. For most businesses data use is a business-as-usual activity and does not require any additional business decisions or actions to benefit from the increase in quality.
    - As noted above, there are other private sector sources of data, but these are potentially incomplete, higher cost or would require more time to access. Some, if

<sup>108</sup> Most respondents to our supplemental user survey came from companies or partnerships regulated by Companies House (4458 out of 5477). Therefore, most users of the Companies House data will be those required to undertake measures under the regulation to increase data quality e.g. ID verification. See table 4.3, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/833767/valuing-benefits-companies-house-data-report-2-direct-users.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/833767/valuing-benefits-companies-house-data-report-2-direct-users.pdf)

not more, of this type of data would be available to HMRC (e.g. via company tax records) but this is not made publicly available for privacy reasons.

- Criterion 3: The impacts are in the market being regulated (a ‘partial equilibrium effect’).
  - The benefit of increased data quality is confined to the data itself and to the users of that data.

364. There is currently insufficient evidence to demonstrate whether a 5% increase in value is a reasonable estimate. We will continue to explore how to incorporate these benefits into our estimates of the EANDCB and NPV ahead of the Final Stage Impact Assessment.

### **Tackling economic crime**

365. Economic crime refers to a category of activity involving money, finance or assets, the purpose of which is to unlawfully obtain a profit or advantage for the perpetrator or cause loss to others.<sup>109</sup>

366. This section sets out in broad terms the benefits of register reform related to the economic crime, and the costs incurred by law enforcement in dealing with it. It does not look at the costs of all crime – as many crimes will not rely on, or benefit from, opaque company registers.

367. As current legislation stands, companies and other legal entities can be used to aid criminals in several ways, they:

- **Facilitate money laundering:** The Financial Action Task Force defines money laundering as the process of criminal proceeds to disguise their illegal origin.<sup>110</sup> The National Crime Agency states that ‘money laundering underpins and enables most forms of organised crime’ and that, ‘the ease with which a company can be established is frequently exploited by criminals who set apparently legitimate companies both within UK and offshore, but which are primarily a mechanism for laundering illicit funds’.<sup>111</sup>
- **Help hide the perpetrators of crime:** Companies and other corporate entities have separate legal personality, meaning they can enter contracts and business relationships in their own name. Law enforcement agencies cannot always readily identify individuals behind/controlling a company and in some cases criminal activity can be facilitated.
- **Hinder investigations:** The anonymity afforded by some corporate structures and the current restricted ability for Companies House to share data also results in less efficient and effective investigations, and potentially sub-optimal outcomes.

368. Law enforcement agencies have provided examples of the types of activity that can be facilitated using opaque corporate structures. These include tax crimes such as hiding stolen assets and the proceeds of crime; fraud; and drug and people trafficking. The Government’s recent Economic Crime plan recognised that as one of the world’s leading international financial centres with a strong and open economy, the UK is particularly vulnerable to economic crime.<sup>112</sup>

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<sup>109</sup> See: <https://www.gov.uk/government/publications/economic-crime-plan-2019-to-2022/economic-crime-plan-2019-to-2022-accessible-version>

<sup>110</sup> See: <https://www.fatf-gafi.org/faq/moneylaundering/>

<sup>111</sup> See: <https://www.nationalcrimeagency.gov.uk/what-we-do/crime-threats/money-laundering-and-illicit-finance>

<sup>112</sup> See: <https://www.gov.uk/government/publications/economic-crime-plan-2019-to-2022/economic-crime-plan-2019-to-2022-accessible-version#fn:2>

## The costs of crime

369. We know there are significant costs associated with crime. Given it is a non-market good it is challenging to quantify the tangible (e.g., costs of a stolen good), and intangible costs (e.g., trauma) of crime on society. This section outlines different estimates on the cost to organised crime.

370. The Home Office have published estimates of the social and economic costs of organised crime.<sup>113</sup> Social and economic costs were estimated to be £37 billion in 2015/16 (Figure 37). These are likely to be an under-estimate as they do not cover all forms of organised crime and do not capture all costs.

371. The costs include defensive investments to reduce the threat of crime (e.g., burglar alarms); the cost of property stolen or damaged or other consequences of crime (e.g., lives lost from illicit drugs) and law enforcement costs.

**Figure 37: Social and economic cost estimates of organised crime in 2015/16 prices**



Source: Understanding organised crime 2015/16, Home Office, 2019

372. Other studies provide an indication of the scale of crime and fraud (Figure 38):

**Figure 38: Estimates of the different costs and types crime**

Source	Year of Publication	Findings
PWC's Global Economic Crime Survey <sup>114</sup>	2020	56% of UK businesses surveyed experienced fraud in the previous 24 months, above the global survey average of 47%. The UK also had a higher proportion of fraud perpetrated externally at 57% against 39% globally. Not all fraud will be related to organised crime (e.g. customer fraud is a big

<sup>113</sup> See:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/782656/understanding-organised-crime-mar16-horr103-2nd.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782656/understanding-organised-crime-mar16-horr103-2nd.pdf)

<sup>114</sup> See: <https://www.pwc.com/gx/en/forensics/gecs-2020/pdf/global-economic-crime-and-fraud-survey-2020.pdf>

		issue in retail) and nearly half of all fraud is carried out by business insiders (alone or in concert with others).
UK Finance <sup>115</sup>	2019	The security systems and innovations in the financial industry stopped £1.6 billion of unauthorised fraud in 2018, but criminals still successfully stole £1.2 billion through fraud scams in the same time period.
National Crime Agency <sup>116</sup>	2017	The most robust figures currently available from the Crime Survey of England and Wales reveal there were 3.4 million incidents of fraud in 2016-17. However, they think that fewer than 20 per cent of incidents of fraud are actually reported so the true figure may be much higher.  The 2017 Annual Fraud Indicator estimates fraud losses to the UK at around £190 billion every year, with the private sector hit hardest losing around £140 billion. The public sector may be losing more than £40 billion and individuals around £7 billion.

373. There is also evidence highlighting how crime acts as a drag on investment, job creation and ultimately economic growth. For instance, Goulas and Zervoyianni (2013) find that in times of macroeconomic uncertainty, a 10% increase in the crime rate is associated with a reduction in annual GDP per capita growth of 0.49%-0.62%.<sup>117</sup> Although these studies do not directly identify the mechanism, they highlight that reducing crime is thought to support growth.

### Costs of money-laundering

374. Money laundering is a means of obscuring the source of money where it has been gained through criminal means. Money laundering is highly complex and is designed to be hard to trace as it aims to make money earned through crime look legitimate. There are broadly two types of money laundering:

375. Cash based, which can involve the movement of illicitly earned cash across national borders as well as the use of companies that generate large volumes of licit cash which the illicit cash is laundered through.

376. High end, which is specialist and usually involves large value transactions and involves the abuse of the financial sector and so-called “professional enablers”. The size, and international nature, of the UK’s financial sector makes the UK uniquely exposed to this type of money laundering.

377. Money laundering is often measured on a global rather than national scale. In 2011, the UN estimate money laundering to be close to 2.7% of global GDP or \$1.6 trillion.<sup>118</sup> Reducing opportunities for crime could also help support conditions for growth. Each \$1

<sup>115</sup> See:

<https://www.ukfinance.org.uk/system/files/Fraud%20The%20Facts%202019%20-%20FINAL%20ONLINE.pdf>

<sup>116</sup> See: <https://www.nationalcrimeagency.gov.uk/what-we-do/crime-threats/fraud-and-economic-crime>

<sup>117</sup> See:

[https://www.researchgate.net/publication/241766816\\_Economic\\_Growth\\_and\\_Crime\\_Does\\_Uncertainty\\_Matter](https://www.researchgate.net/publication/241766816_Economic_Growth_and_Crime_Does_Uncertainty_Matter)

<sup>118</sup> UNODC (October 2011) *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes: Research report.*

billion laundered reduced overall economic growth by 0.04-0.06 percentage points in seventeen OECD countries, prompting the UN to comment on the findings that “financial centres have developed a self-interest of not being associated with ‘tainted money’ and have signed relevant international instruments to avoid the inflow of such criminal finance.

378. Data for the UK is not available but National Crime Agency assess that “many hundreds of billions of pounds of international crime money is laundered through UK banks, including their subsidiaries, each year”<sup>119</sup>. As well as the financial cost of money laundering on banks, there is also the reputational risk.
379. Recognising the challenges posed by money laundering, governments have regulated the financial sector. For example, the EU Commission introduced the fourth and fifth Anti-Money Laundering Directives, which aim to prevent the use of the financial system for the purposes of money laundering and terrorist financing.<sup>120</sup>
380. As a result of these regulations there are significant compliance costs for banks when they try to determine who owns assets and the likely source of those assets. For example, in 2015 the British Bankers Association – now UK Finance – estimated that its members spent around £5 billion a year to ensure compliance with financial crime regulations. Another study suggested that UK compliance costs was of the order of \$50 billion.<sup>121</sup>

## **Benefits for tackling economic crime**

### Benefits to law enforcement

381. Companies House data is of great value to law enforcement in supporting them with their role in identifying and preventing crime:

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<sup>119</sup> NCA (2017)

<sup>120</sup> See: <https://www.gov.uk/government/consultations/transposition-of-the-fourth-money-laundering-directive> and <https://www.gov.uk/government/consultations/transposition-of-the-fifth-money-laundering-directive>

<sup>121</sup> See: <https://www.complianceweek.com/aml/study-europe-blows-us-away-in-financial-crime-spending/28718.article>

### **Value of Companies House Data: Public Sector Organisations**

BEIS and Companies House commissioned research on the value of Companies House data, published in 2019. Some of the key benefits of Companies House data identified by public sector organisations:

- Companies House data was reported to be a key source of data for law enforcement agencies and was referred to by one interviewee as being '*the starting point*' for all investigations of fraudulent activity
- A qualitative case study from a law enforcement agency confirmed that Companies House data is a 'go-to' resource and an essential source of information that supports investigations into fraudulent activities. Companies House data also helps to generate leads, and reduces the time and costs of cases.
- The report identified that Companies House data delivers significant social benefits including: providing protection to the public; reducing criminal activities; providing justice and helping victims of fraud to regain losses.
- The introduction of PSC data was found to be particularly valuable to law enforcement agencies and transparency agencies. They are now able to better identify individuals who own and control companies, which is invaluable for their investigations.

382. However, opaque corporate structures not only facilitate crime but also hamper the law enforcement response. Register reform and data sharing should help remove a layer of complexity currently facing law enforcement agencies during their investigations in seeking those that control a company. As a result, investigations could be expedited and more efficient for law enforcement agencies.

383. Register reform aims to further increase the transparency of the register enabling better and more efficient investigation of criminality. The reform package also includes other measures, without impacts on business, e.g. data sharing which should increase the effectiveness of law enforcement. Figure 39 outlines how some of the elements of the policy package will support tackling economic crime.

**Figure 39: Benefits of register reform tackling economic crime**

<b>Policy Proposal</b>	<b>Example of benefit to tackling economic crime</b>
<b>Powers of the Company Registrar</b>	Powers for Companies House to query the information received to identify and prevent the fraudulent filing.
<b>Identity Verification</b>	Increased certainty over who is running a company to dissuade misuse and inform criminal investigations.
<b>Third-party agents</b>	Increased certainty over the activities of agents who are setting up companies, who may wittingly or unwittingly be incorporating companies carrying out criminal activity, including to inform action by supervisory bodies.
<b>Transparency of ownership</b>	Greater certainty over company ownership, which should support identifying information on the register for criminal purposes.
<b>Data sharing</b>	Enhanced data sharing across Companies House, HMRC, law enforcement organisations to detect possible criminal activity.

## VI. Summary of costs and benefits

384. This section provides a summary of the estimates costs of this policy proposal at this stage in our analysis. As mentioned throughout the Impact Assessment, we will continue to build out evidence base going forward and welcome stakeholder input and feedback.

385. At this stage, we focus on the central estimates outlined in each section of the Impact Assessment (see Figure 40).

**Figure 40: Current estimated costs of register reform package**

	Summary of key costs/benefits	Direct cost/benefits to business	NPV (£m)	EANDCB (£m)
<b>Registrar's powers</b>	Negligible/no costs to business	Yes	N/A	N/A
<b>Identity verification</b>	Costs to officers on the register having to understand and undertake identity verification, and new verifications each year	Yes	-184.91	21.48
<b>Third-party agents</b>	Costs to third-party agents to understand the changing requirements on them to set up and form companies	Yes	-1.06	0.12
<b>Transparency of ownership</b>	Cost to identify and provide Companies House with the full name of shareholders	Yes	-27.72	3.22
<b>Data sharing</b>	Costs to regulated professionals for increased discrepancy reporting requirements	Yes	-2	0.23
<b>Privacy</b>	Negligible/no costs to business	Yes	N/A	N/A
<b>Improving financial information on the register</b>	Cost to specific entities to understand the changing requirements on them - such as companies who currently paper file (and needing to buy appropriate software to digitally file)	Yes	-18.95	2.2
<b>Benefits</b>	Key benefits identified include helping tackle economic crime and increasing the value of Companies House data	Continuing to explore	Continuing to explore	Continuing to explore
<b>Costs to Companies House</b>	Costs to Companies House to implement register reform through their transformation programme	No	N/A	N/A
<b>Total</b>			<b>-234.65</b>	<b>27.26</b>

## VII. Wider impacts

386. This section explores the wider impacts of these policy proposals.

### Public sector impact

387. The impact on the public sector has been considered throughout the Impact Assessment. Most notably, part IV looks at the cost of these proposals to Companies House.

### Statutory equality duties

388. The Equality Act 2010 protects against unlawful discrimination based on the following protected characteristics:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity
- Race
- Religion or belief
- Sex and sexual orientation

389. The Department for Business, Energy and Industrial Strategy is subject to the public sector equality duties set out in the Equality Act 2010. It requires public bodies to have due regard to the need to:

- Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not; and
- Foster good relations between people who share a protected characteristic and those who do not.

390. An equality analysis is an important mechanism for ensuring that we gather data to enable us to identify the likely positive and negative impacts that policy proposals may have on certain groups and to estimate whether such impacts disproportionately affect such groups. We will continue to have regard to the aims of the public sector equality duties and, at this stage, make the following assessment of the proposals against each of the three aims.

**Aim one: eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act**

391. The proposals in question largely relate to duties placed on corporate bodies and their interaction with Companies House. They thus largely apply to legal entities and limited burdens are placed on individuals directly. Individuals can be affected indirectly in a professional capacity and in their role, for example, as a company director or accountant. Such impacts are likely to be minimal at the individual level. We do not have any evidence to suggest that individuals in the most affected professional capacities (such as company directors) are disproportionately likely to fall under the protected characteristic. We thus do not foresee any clear negative impacts on the individual level, and especially no reason to expect any disproportionate negative impact on those protected by the Equality Act 2010.
392. We are aware that mandatory electronic filing, although no barrier for most entities, could create disproportionate barriers for those with limited access to the available digital filing solutions or products, or those whose beliefs prohibit them from using these solutions. We will support businesses to make the transition to digital filing, conducting user research to understand any obstacles and barriers, and provide guidance and solutions for all to file their accounts digitally with Companies House.
393. So, while our overarching aim is to move to a digital-only environment for the many benefits set out in this Impact Assessment, we will keep this in mind when we develop necessary exemptions, which could allow for alternative paper filing in such circumstances.

**Aim two: advance equality of opportunity between people who share a protected characteristic and those who do not**

394. Our assessment for aim one largely applies here as well. The company law framework, and the way corporate bodies interact with Companies House, applies equally to all corporate entities to build, and maintain the overall integrity of the framework. We have not identified any existing barriers to individuals within the framework, and the proposals assessed here do not impose any new barriers on the individual level that would affect individuals or groups with protected characteristics disproportionately.

**Aim three: foster good relations between people who share a protected characteristic and those who do not**

395. Again, our assessment for aim one also applies here.

**Competition and innovation impact test**

396. The proposed reforms affect all companies across sectors, and we thus have not identified any specific competition and innovation impacts. The proposals will help strengthen the position and protect consumers and businesses who 'do the right thing' from those who aim to abuse the current corporate framework.

**A summary of the potential trade implications of measure**

397. We will continue to explore this ahead of the Final Stage Impact Assessment.

**Environmental impacts**

398. There are no obvious direct concerns in this area.

**Human rights**

399. There are no obvious direct concerns in this area.

### **Justice system**

400. A Justice Impact Test (JIT) is the Ministry of Justice tool that helps policymakers across government find the best way of achieving their policy aims whilst minimising the impact on the justice system.

401. Once the policy has been finalised ahead of the Final Stage Impact Assessment, the Department will submit a JIT.

### **Impact on small and micro businesses**

402. The measures in this reform package will impact small and micro business. Most companies registered with Companies House are small or micro.

403. Overall, introducing exemptions based on company size would undermine the objectives of this policy. For example, if small and micro businesses did not have to verify the identities of its directors or PSCs, this could be a loophole that criminals could exploit.

404. From a per entity perspective, the burdens on small and micro businesses are likely to be lower. For example, they are more likely to have fewer directors and PSCs who will need to be identity verified than a large company with many directors, and likely to be easier to contact to do this.

405. Regarding reforming accounts, any evidence for disproportionate impacts is limited. On the contrary, we have investigated random samples of companies that currently file on paper with Companies House, and this did not indicate that these companies are more likely to be small. If anything, our current evidence, and experience suggests that these companies are larger on average, meaning that we do currently not expect a disproportionate impact on small companies from the proposals to mandate electronic filing of accounts.

406. It could also be argued that a more transparent and accurate company register will be particularly beneficial to small and micro businesses, as they are arguably more likely to rely on Companies House data as a key source of due diligence compared to larger companies who may have the resource to undertake more rigorous checks. The valuing the user benefits of Companies House data asked direct users of the data their annual expenditure on additional company information and data products, of which 18% of respondents answered yes.<sup>122</sup> The costs of these additional data products had a mean of £1,640. This reiterates the value in having free, high-quality data available for small and micro businesses.

407. We know that small and micro businesses place a high value on being able to incorporate. Recent published research from BEIS found that the total value of company incorporation to owners of Limited Liability Companies with 0 to 9 employees in the UK is estimated to be approximately £9.6 billion per year.<sup>123</sup> Overall, the study shows that the choice to incorporate is not solely based on financial or administrative burden factors that are within the direct control of business regulation and policy-making. Whilst these factors do matter and at the margin changes in incorporation fee, tax liability, and administrative

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<sup>122</sup> See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

<sup>123</sup> See: <https://www.gov.uk/government/publications/understanding-the-reasons-for-forming-a-company>

requirements will impact LLC business formation, a richer set of influences also matter and in some cases are more material to business owners than the direct policy levers.

408. We will continue to explore the impact on small and micro businesses ahead of the Final Stage Impact Assessment.

## **VIII. Monitoring and evaluation**

409. The Department, working with Companies House, will monitor the impacts following these reforms. In the Final Stage Impact Assessment, we will expand on this in further detail. Areas we will explore within our monitoring and evaluation are the costs and benefits to business of the proposals.
410. Overall, the transformation of Companies House and the ability to better explore its data will enable us to understand the impact of these policy proposals.

### **Costs to business of the proposals**

411. We will monitor and evaluate whether the costs to business estimated were reflective of the impact on business. We will continue to engage with key stakeholders to do this as well as analyse Companies House data e.g. on the number of identity verifications.

### **Benefits to business of the proposals**

412. As outlined in part V the key benefits are better quality data to support enterprise and supporting the prevention of economic crime.
413. On supporting enterprise, we are likely to repeat the externally commissioned research valuing the data on the company data, which was valued at between £1-3 billion a year. This would test whether the value of the data has increased and include whether identity verification had increased the value of the data. Something to note here is that, to look at willingness-to-pay over time, you want to change as little as possible within the surveys. This could be overcome if the study was re-run with a split sample tests. Some respondents would get the original study “package”, some respondents would get the new package including identity verification information. That would allow for (a) comparing values over time for any change and (b) understanding the added value of the higher quality data.
414. On the prevention of economic crime, we will work with stakeholders, particularly law enforcement on whether the proposals have supported the prevention of economic crime. Some of the proposals themselves, such as increased data sharing, will enable us to gather a greater understanding of this.