

Title: Register of Overseas Entities IA No: BEIS020(F)-18-BF RPC Reference No: RPC-4242(1)-BEIS Lead department or agency: Department for Business, Energy and Industry Strategy Other departments or agencies: Land Registry, Companies House, HMT	Impact Assessment (IA)		
	Date: 11/07/2018		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Primary legislation		
Contact for enquiries: Kimon Doulis: kimon.doulis@beis.gov.uk			
Summary: Intervention and Options		RPC Opinion: Green	

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
-£30.79m	-£30.79m	£2.7m	tbc	Non-qualifying ('de minimis')

What is the problem under consideration? Why is government intervention necessary?
 Beneficial owners of overseas companies owning UK property are currently often hidden, which differs to the situation for UK companies. This, for example, makes the UK property vulnerable to being misused as a means of hiding or laundering the proceeds of crime. The case for government intervention rests on two arguments:

- a) Upholding the well-established role of the state to address criminal behaviour.
- b) Reducing information asymmetries between buyers, sellers and intermediaries in the property market.

What are the policy objectives and the intended effects?
 The overarching objective is to create a publicly available register of ultimate ownership to enhance the transparency around the ultimate owners and controllers of relevant entities which own or buy UK property. In doing so to: i) deter and disrupt crime, by making it more difficult to use corporate vehicles in the pursuit of crime; ii) deter criminals from money laundering in the UK; iii) preserve the integrity of the financial system; iv) increase the efficiency of law enforcement investigations, particularly in relation to identifying and tracing the proceeds of crime; and v) require the same transparency of the relevant overseas entities as UK companies.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
 Option 0 – do nothing
 Option 1 (preferred) – Introduce a comprehensive register of beneficial owners of overseas companies and other legal entities
 Option 2 – Same as option 1 but limited to overseas companies limited by shares only
 Option 3 – Same as option 1 but applied to future property transactions only
 Option 4 (non-regulatory approach) – Government campaign to promote the importance of transparency around beneficial ownership of overseas legal entities.
 Option 1 is seen as the only option comprehensive enough to achieve the policy objectives.

Will the policy be reviewed? If applicable, set review date:						
Does implementation go beyond minimum EU requirements?				No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ 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: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year: 2020	PV Base Year: 2021	Time Period Years: 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -£30.79m

COSTS (£m)	Total (Constant Price)	Transition Years	Average (excl. Transition) Price)	Annual (Constant Price)	Total (Present Value)	Cost
Low						
High						
Best Estimate	19.4		1.5		30.8	

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

Increased regulatory burden on business due to:

- Familiarisation (£9.23 in year one; £0.46m annually thereafter)
- Identifying and collecting beneficial ownership information (£2.25 in year one; £0.11m annually thereafter)
- Providing beneficial ownership information to Companies House (£1.62 in year one; £0.08m annually thereafter)
- Updating beneficial ownership information annually (£1.6m annually from year two onwards)
- Additional Land Registry and Companies House fees (£0.4m in year one, negligible annual costs thereafter)

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

- Land Registry and Companies House are assumed to work on a cost-recovery basis, meaning that the enforcement costs on them are estimated to be identical to the additional fees (see above).
- Costs on individual beneficial owners who apply for the protection regime, estimated to be negligible and offset by benefits to the individual.
- Impacts on overseas investment into the UK property market, discussed in detail and estimated to be negligible.

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

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

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

- Reducing crime (specifically money laundering) by making it more difficult for the illicit proceeds of crime to be hidden away in obscure ownership chains of UK property
- Improving the functioning of the UK property market by ensuring that its reputation remains in tact and is not undermined by cases of criminal activity, and by reducing information asymmetries between buyers, sellers and intermediaries.

Key assumptions/sensitivities/risks

Discount rate (3.5%)

Potential policy risks: protection regime provides insufficient protection or is misused, legal arrangements being outside the scope of the register leads to disparate registration regimes, reduction in overseas investment. We discuss these risks in detail in the main body of the impact assessment.

Uncertainties in the economic assessment: existence of non-monetised costs and benefits, implementation is several years in the future and we thus had to rely on forecasts for some parameters and, for example, make assumptions about yet

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m: 2.7			Score for Business Impact Target (qualifying provisions only) £m: n/a
Costs 2.7	Benefits: 0	Net: 2.7	

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A. Background

1. In June 2016 the UK became one of the first countries to introduce a central, publicly accessible, register of beneficial ownership called the people with significant control register (the PSC register). This was a fulfilment of a commitment made at a 2013 G8 summit.
2. Since the establishment of the PSC register, all companies incorporated in the UK must give information about their people with significant control to Companies House with their annual confirmation statement. Most of the information on the register is publicly available, with some necessary exceptions to protect information about individuals at risk.
3. This regime was further strengthened by the transposition of the EU's Fourth Anti Money Laundering Directive into UK law in June 2017, which expanded the scope of the register and the frequency with which it is updated. The Directive also means that all EU member states will have some form of company beneficial ownership register.
4. At the International Anti-Corruption summit held in London in May 2016 the UK committed to building on the PSC register approach by additionally collecting and making accessible the beneficial ownership information of overseas entities owning or buying property in the UK. This impact assessment refers to the changes needed to implement this commitment.
5. The then Department for Business, Innovation and Skills consulted before the May 2016 Anti-Corruption summit on the principle of whether there was a case to legislate to create a beneficial ownership register of overseas entities that owned UK property.¹ The responses to this consultation confirmed the need to create a register and allowed the proposals to be developed further.
6. The call for evidence published in April 2017 set out these more developed proposals and sought views on the design of the policy and its possible effects. The Government issued its response to the call for evidence² in March 2018 which outlined how the policy proposals had developed in light of the responses to the call for evidence. This final stage impact assessment covers the refined policy options which have emerged from that process.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512333/bis-16-161-beneficial-ownership-transparency.pdf

² <https://www.gov.uk/government/consultations/property-ownership-and-public-contracting-by-overseas-companies-and-legal-entities-beneficial-ownership-register>

B. Problem under consideration

7. The main problem which the set of policies described in this document attempt to address is the potential for criminals to use off-shore corporate vehicles to invest in UK property as a means of hiding or laundering the proceeds of crime.

I. UK property, off-shore companies and criminal proceeds

8. The UK is an open economy and one of the major destinations for foreign direct investment. The overwhelming majority of companies that invest in the UK do so productively and within the law.
9. However, there is some concern around the potential for illegal activity to take place through overseas companies investing in UK property. The concerns focus in particular on the potential for criminals to use off-shore corporate vehicles to obscure their identity when hiding illicit funds or laundering criminal proceeds through investments in UK property.
10. These concerns are well founded. According to analysis by Transparency International of data from the Land Registry and the Metropolitan Police Proceeds of Corruption Unit³, between 2004 and 2014 over £180m worth of property in the UK has been brought under criminal investigation as the suspected proceeds of corruption, and three in four of these properties involved the use of off-shore corporate vehicles. In January 2016, the National Crime Agency reported the conviction of a money launderer who had used off-shore companies to launder £12m through council properties in London. The secrecy that off-shore companies provided made it difficult for investigators to identify who owned the properties and therefore hindered the investigation.
11. More generally, we know that there is a clear link between illicit financial flows and company structure. The Organisation for Economic Co-operation and Development (OECD; 2011) has observed that: “*almost every economic crime involves the misuse of corporate vehicles.*”⁴ A World Bank review⁵ reported that 150 of the 213 grand corruption cases investigated involved the use of at least one corporate vehicle to hide beneficial ownership and the true source of funds. In these 150 cases, the total proceeds of corruption were approximately \$56.4bn. Meanwhile, the World Economic Forum (WEF; 2013) highlighted the increasing number of problematic cases confronting law enforcement agencies involving illegitimate business activity co-mingling with legal business activity, and illicit funds with licit funds. Overall, estimates⁶ of the amount of money laundered globally are equivalent to 2.7% of global GDP, or US\$1.6 trillion in 2009, while the National Crime Agency assesses that

³ <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/#.WuBo5uj482w>

⁴ OECD (2011): Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes

⁵ World Bank Publications (2011): *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to do About It.*

⁶ *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes*, UNODC 2011

billions of pounds of proceeds of international corruption are laundered into or through the UK. This can, for example, undermine the integrity and reputation of our financial markets.

12. Beyond this direct problem of criminal activities, there is a related issue of corporate opacity generating asymmetries in the information held by buyers and sellers within the property market which could discourage productive transactions from taking place, especially when costs associated with carrying out due diligence are high. Greater transparency can help reduce costs associated with due diligence and thus help alleviate such potential issues.

C. Rationale for intervention

13. The rationales for the policies described in this document are shared with the rationales behind the introduction of the PSC register for domestic companies. In both instances the case for intervention primarily rests on two issues.
 - i. Upholding the well-established role for the State in addressing criminal behaviour.
 - ii. Reducing information asymmetries. In this case between buyers and sellers in the property market and their intermediaries (lenders, solicitors, etc.).

I. Addressing criminal behaviour

14. 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 enables individuals or entities to commit crimes, then there is a clear rationale for government intervention where the net benefits outweigh the cost of inaction.
15. As previously described, the anonymity of corporate structures can facilitate criminal activities. This anonymity has been reduced by the UK's domestic PSC register, but overseas companies still offer a route for the proceeds of criminal activities (generated either in the UK or abroad) to be hidden and legitimised within the UK economy, notably via the property market.
16. While law enforcement agencies do 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.
17. The policy changes described in this document seek to make it harder to use the UK property market as a means to hide or launder illicit gains and also seek to provide greater information for enforcement agencies to use when such activities are taking place. The change will also make it easier for intermediaries and professionals (mainly banks, estate agents and solicitors) to carry out anti-money laundering checks they are required to carry out by law.

18. The wider case for trying to prevent property being bought and sold using money gained through illegitimate means rests on the wish to reduce the costs associated with crime. Crime imposes significant costs including the damage to the victim's welfare; inefficient resource allocations and a forced redistribution of income; lost economic activity/output; and costs to the criminal justice system, including the police⁷. For example, in 2016/17, the NCA led and coordinated operational activity targeting money-laundering and other crime resulting in £82.8 million being denied to criminals impacting on the UK, and recovering assets of £28.3 million. Any such costs are not exclusive to crimes committed within the UK. Crimes committed in other countries can also harm the UK's economy either directly or indirectly (see paragraph 11 for overall estimates – not restricted to the property market – of the scale of global money laundering).
19. By reducing the avenues available for criminals to make use of their financial gains, the incentives to commit crime in the first place and consequently the harms generated by criminal activity are reduced.

II. Reducing information asymmetries

20. 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.
21. In the context of property, buyers seeking to reduce any information asymmetry will make use of banks, solicitors, estate agents and other sources of due diligence to assure themselves of the quality of the property they are buying as well as the fact that the other party is the legal owner and so has the right to sell the property. Sellers will rely on similar due diligence carried out by intermediaries on the ability of the buyer to meet their contractual obligations and to ensure that the funds used by the buyer are untainted.
22. In cases where one or more of the parties are UK companies, buyers, sellers and intermediaries (and, as a matter of fact, anyone) can make use of the UK's PSC register to check who ultimately owns or controls the company with which they are transacting. In so doing they will be able to make a more informed judgement about whether the transaction is associated with an individual linked to corruption or criminality. This information will indicate the possibility or probability with which a property, or proceeds from the sale of a property, may subsequently become part of a criminal investigation.

⁷ Brand and Price (2000): The economic and social costs of crime, Home Office Research Study 217

23. However, similar levels of transparency are not available when the seller is a foreign company. This increases the level of due diligence necessary for a buyer to satisfy themselves that the transaction they are engaging in is legitimate. In the extreme case this type of information asymmetry could result in a situation where participants cannot distinguish between legitimate and illegitimate transactions. Under these circumstances the transacting party lacking information may rationally only offer 'average' terms in an attempt to shield themselves from some of the perceived higher risk. This could result in mutually beneficial business not going ahead. Legitimate transactions might be priced unnecessarily high or not go ahead at all.

D. Policy objective

24. The objectives of the policies evaluated in this impact assessment are to enhance the transparency around the ultimate owners and controllers of relevant entities which own or buy UK property.

25. In doing so, we wish to create a register of beneficial owners that:

- i. contains useful information;
- ii. is publicly and easily accessible;
- iii. protects the information of those at risk; and
- iv. avoids creating disproportionate burdens or putting off legitimate investors.

26. The intended effects are to:

- i. deter and disrupt crime, by making it more difficult to use corporate vehicles in the pursuit of crime;
- ii. deter criminals from money laundering in the UK;
- iii. preserve the integrity of the financial system;
- iv. increase the efficiency of law enforcement investigations, particularly in relation to identifying and tracing the proceeds of crime; and
- v. require the same transparency of the relevant overseas entities as UK companies.

E. Description of options considered (including status-quo)

I. Option 0 – Do Nothing

27. Under the 'do nothing' option the status quo would prevail, and there is no reason to believe that the issues discussed earlier will resolve themselves.

28. The non-criminal contracting parties already face the incentive to ensure they are not financing crime as there are substantial financial, legal and reputational risks

associated with doing so. As such, the continued use of UK property by criminals points to other incentives being greater (e.g. the financial incentive of selling a property) and/or that individuals do not have the tools necessary to robustly check the background of the other party. Only by providing those tools to allow participants to act, and therefore also reducing the plausibility of ignorance on their behalf, can the objectives of the policy be achieved.

II. Option 1 (preferred) – Introduce a comprehensive register of beneficial owners of overseas companies and other legal entities

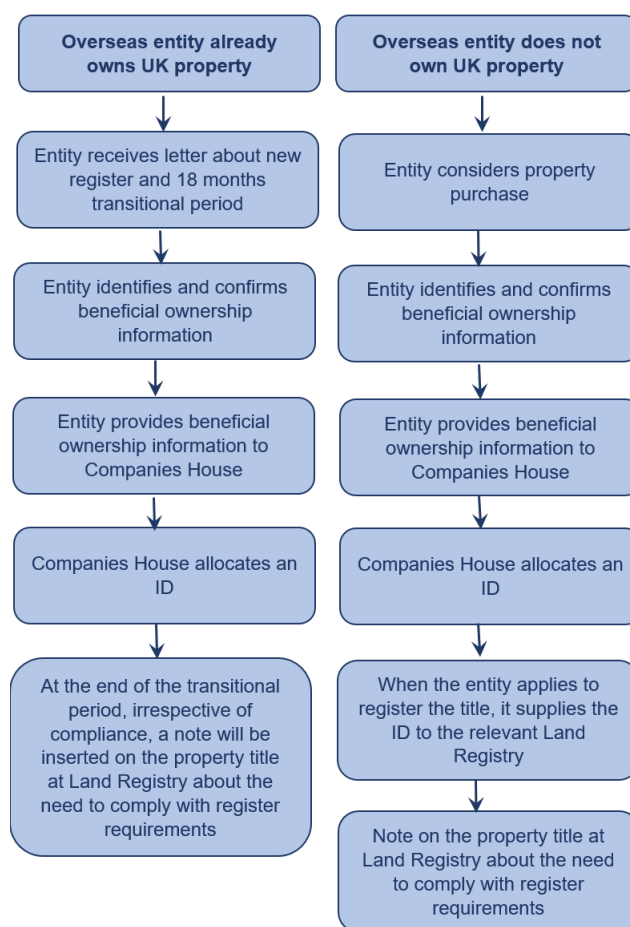
29. The preferred option is to create a register showing the owners and controllers of overseas companies that own property in the UK.
30. In this section we outline how this register will work and the new requirements placed on all the relevant actors.

i. Property ownership

31. It is intended that overseas entities will not be able to transfer the legal title of a UK property they own, register a long lease or a charge against that property, or buy a UK property unless they have provided their beneficial ownership information to the new register.
32. Overseas entities wishing to buy UK property will have to register their beneficial ownership information with Companies House who, subject to verification, will then provide the entity with a unique identification number (“an overseas entity ID”). This registration number will be required in order to register the legal title to the property at the appropriate Land Registry. Without a registration number the entity will not be able to become the registered owner of the property.
33. Once the property has transferred to the new overseas owner a note will be placed on the title register that reflects the restrictions over the property (on transferring the title of the property or registering a long lease or a charge). If the overseas entity makes one of these dispositions without a valid “overseas entity ID”, that disposition itself will not be capable of registration. The restriction won’t affect the validity of the disposition itself.
34. Overseas entities already owning UK property will be given 18 months to provide their beneficial ownership information to the register (or dispose of the property) after which, if they have not done so, the restrictions on sale, lease and charges will come into force and the overseas entity will have committed an offence. Again, these restrictions will be made clear in a note on the title register. The transitional regime aimed to capture overseas entities that already own land/property will apply in England, Wales and Scotland, but not in Northern Ireland, because the Northern Irish Land Registry has up to now not collected information on whether the registered owner is an overseas entity.

35. As evidenced in this impact assessment and the accompanying research carried out by IFF on behalf of BEIS⁸, overseas investment in property is highly concentrated in specific areas, mainly London and the South-East. For example, matching Land Registry data with Ordnance Survey data, the research showed that six out of ten properties in England and Wales owned by overseas companies are located in London or the South-East. The concentration of properties in specific regions and property sectors (high-end residential property) was also confirmed by most stakeholders who were interviewed as part of the research. The transitional regime is thus estimated to still cover the vast majority of properties already owned by overseas entities.

Figure 1 - How the register will work



ii. Scope of the register

36. In order to be effective, the register must cover all those entities capable of engaging in the activities we are concerned with. As was set out in our response of March 2018 to the call for evidence on the register, and consistent with the commitment made at the 2016 Anti-Corruption Summit, we do not consider that trusts should be included on the register. Trusts do not have legal personality in their own right and so are not

⁸ BEIS Research Paper: *A register of beneficial owners of overseas companies and other legal entities - Understanding the potential impacts of the proposed register through qualitative interviews with industry stakeholders*

capable of entering into contracts. They are also commonly used for reasons including protecting assets for children and vulnerable adults, meaning that legitimate grounds exist for ensuring that information on the beneficial owners of trusts is not made publicly available.

37. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 already require all express trusts (including those administered from outside the UK) which generate a UK tax consequence – such as when property held within the trust is purchased or sold - to register details of their beneficial ownership with HMRC. Information on this register is accessible to UK law enforcement. All such trusts, and all UK express trusts, are also required to maintain written, accurate and up-to-date records of their beneficial ownership and make these available to UK law enforcement upon request. The Fifth EU Anti-Money Laundering Directive (5AMLD) will expand the scope of the existing registration requirement to include all express trusts, and non-EU trusts which acquire real estate within the EU, with persons with a legitimate interest in information on the register having a right of access to it. The transposition deadline for this Directive will be in January 2020. As this falls within the Implementation Period on which the UK and EU reached agreement earlier this year, the UK will transpose this Directive. This will further strengthen the ability of UK law enforcement to access information on the beneficial ownership of trusts with a connection to the UK.
38. In order to avoid double reporting and unnecessary burden, it is intended that entities incorporated in countries with beneficial ownership disclosure regimes equivalent to that in the UK will be subject to a lighter-touch process. The precise detail of that procedure is still being developed and will be set out at the secondary legislation stage. At this stage we envisage that such entities would still need to apply for an ID with Companies House, but they might not be required to provide further beneficial ownership information. Following the European Fourth Money Anti-Laundering Directive (4AMLD) and 5AMLD, which will require all EU Member States to make their registers of company beneficial ownership (required under the Fourth Anti-Money Laundering Directive (4AMLD)) publicly accessible by January 2020, where this is not already the case, this light-touch procedure would primarily refer to entities in EU Member States.
39. In addition to covering the right entities the register must also capture all the relevant transactions. To this end, beyond transactions involving the exchange of freehold it is intended that entities that hold properties through certain types of lease arrangements will also be captured. In particular, any overseas entity that is a leaseholder of property where the lease is required to be registered and the original term is above a certain number of years will also need to have their beneficial ownership information recorded on the register. The precise number of years differs by region, with the requirement applying to leases above 7 years in England and Wales, 21 years in Northern Ireland and 20 years in Scotland.

iv. Definition of a beneficial owner

40. To achieve the aims of the policy it is important that the register identifies who benefits from the legal entity owning or purchasing the property.
41. A definition of a beneficial owner already exists and underpins the PSC register for UK companies. This definition was based on international best practice developed by the Financial Action Task Force and subsequently adopted in the EU anti-money laundering legislation.
42. This current definition states that a person is a PSC if they meet one or more of the following conditions:
 - i. Directly or indirectly holds more than 25% of the shares in a company.
 - ii. Directly or indirectly holds more than 25% of the voting rights in a company.
 - iii. Directly or indirectly holds the power to appoint or remove a majority of the board.
 - iv. Otherwise has the right to exercise or actually exercises significant influence or control over the company.
 - v. Has the right to exercise or actually exercises significant influence or control over a trust or firm that is not a legal entity, which meets one or more of conditions (i) to (iv).
43. It is proposed that this new register adopts the same definition to avoid mismatches with information on UK companies and prevent manipulation of holding structures.
44. Furthermore, the existing UK PSC legislation sets out some adaptations to the above definition to allow for different types of entities, such as where entities don't have share capital, or voting rights or boards of directors. It is proposed that these adaptations will also apply to the new register.

v. Information to be recorded

45. The information to be recorded in the new register will mimic that which is required by the UK's existing PSC register for UK companies. The existing register requires the following information about a PSC to be recorded:
 - The individual's name
 - Their date of birth (although the day of their date of birth is not publicly accessible)
 - Their nationality
 - The country or state (or part of the United Kingdom) where they usually reside
 - A service address for them
 - Their usual residential address (again, this is not publicly accessible)

- The nature of his or her control over the company
 - The date on which that person became a person with significant control over the company
 - If there are any restrictions in place on using or disclosing any of the individual's PSC particulars (this is in cases where the individual's details are not made publicly accessible due to that person having made a successful application for protection under the protection regime)
46. In some cases, another legal entity rather than a person might satisfy one or more of the conditions for significant control (conditions (i) to (v) above). Where this is the case and the identified legal entity keeps its own publicly accessible PSC register (for instance if it is a UK company that is required to comply with the domestic PSC regime) then it is enough for the controlling entities details to be provided without the need to continue further up the ownership chain. This is again in keeping with the requirements for the UK's existing domestic PSC register.
47. Overseas entities will be required to take 'reasonable steps' to find out if they have a PSC and if so to identify them and the above information. Such 'reasonable steps' could include looking at any registers of members or shareholders, articles of association, any covenants or agreements or any other relevant or equivalent constitutional documents relating to the entity. Guidance explaining reasonable steps in more detail will be produced.
48. Some overseas entities may be unable to provide information about their beneficial owners for the following reasons:
- i. They are unable to get full confirmed information from their beneficial owners despite taking reasonable steps to contact them.
 - ii. They are unable to establish if they have beneficial owners.
 - iii. They have carried out investigations and concluded that they do not have any beneficial owners as no person meets a condition for control.
49. Those that fall into one of the three categories will be allowed to make similar statements in their PSC register and still comply with the requirements of the PSC regime. This mimics the current arrangements of the existing domestic PSC register. To prevent such caveats from being abused, the already existing offence for anyone knowingly or recklessly providing false or misleading information to the domestic PSC register will be extended to cover the new overseas register as well.
50. For those entities providing statements as outlined above, they will be asked instead to provide information about their managing officers. Again, the information required will be in line with the managing officer information required of UK companies.
51. In addition to information about their beneficial owner, overseas entities will also be required to provide some information about themselves, including:

- the entity's name and legal form;
- the name and contact details of the person completing the application form;
- the address of the entity's registered office or if none is available, another contact address;
- a contact email address; and
- the entity's country of incorporation and any other national registration number allocated to that entity.

vi. How the information will be recorded and accessed

52. The register will be administered by Companies House, the registrar of companies in the UK and the body that runs the UK's domestic PSC register. Companies House has built up considerable expertise in holding information about companies and other types of legal entities, and in making this information publicly accessible.
53. The register will be made available for anyone to view without charge on the Companies House website.

vii. Keeping the register up to date

54. Following the introduction of the EU's Fourth Anti Money Laundering Directive, UK companies have to amend their PSC information held within Companies House within 28 days of a change. A similar requirement has been deemed to be too onerous for overseas entities to comply with. In addition, it would be very difficult for government to know when there has been a change in PSC information without active investigation, rendering the enforcement of a more timely updating requirement prohibitively difficult.
55. As such, the new overseas register will require overseas entities to update their beneficial ownership information at least once every year. Entities might want to update their information before the annual update is due and will be welcome to do so. Updating early will reset the date the update is due. In addition, there will be a mechanism for entities to close their membership of the register (for instance, because they have sold all their UK property) so that the on-going obligations no longer apply.

viii. Protecting the information of those at risk

56. The new overseas register will in general be publicly accessible. However, there are some situations where making information about an individual public could put them at risk of harm or would create a wider public safety risk.
57. In acknowledgement of this, and in line with the current arrangements for the UK PSC register, it is proposed that beneficial owners identified for the new overseas register will have the ability to apply to a protection regime. This regime will have the power to

suppress information on the register, such as name and address, if it can be shown that the application falls into one of the four scenarios outlined below.

- i. The individual is at risk of violence or intimidation due to the activities of the entity, or the way the property is being used.
- ii. Certain characteristics or attributes of that individual when associated with that entity or property could put them or someone who lives with them at risk of violence or intimidation.
- iii. Publicly linking the property or entity to the individual will lead to an elevated public safety risk.
- iv. Protection for minors or people with diminished capacity. Someone with diminished capacity might be unable to make an informed decision about the purchase of the property, and therefore the inclusion of their name in the new register.

58. Applications to the protection regime will be assessed by an appropriate enforcement agency to ensure that information is only suppressed where the risk is credible and verifiable.

III. Option 2 – Same as option 1 but limited to overseas companies limited by shares only

59. It was considered whether to apply the measures described in option 1 to companies limited by shares only. However further work and consultation has shown that this approach would have significant drawbacks for the policy.

60. It is not always clear from Land Registry records what type of entity holds a title, making it difficult to ensure compliance. Moreover, restricting the register purely to companies limited by shares may encourage the use of other less transparent entities as a means of carrying out illicit activities. The policy can only be effective if it included all legal entities that can hold properties unless there are substantive reasons for the exemption of a particular vehicle. There are no reasons why the inclusion of legal entities other than companies limited by shares would be disproportionate.

IV. Option 3 – Same as option 1 but applied to future property transactions only

61. It was also considered that the measures described in option 1 might apply to future UK-wide property transactions only.⁹ However, this was ruled out as it would not be sufficient to achieve the policy objectives.

62. Only applying the measures to future property transactions would enable past illicit activity in the property market to be subject to less scrutiny. In addition, if previously

⁹ Paragraph 34 explains that the proposal would 'only' apply to future transaction in Northern Ireland even under option 1 due to the fact that the Northern Irish Land Registry does not hold the required data for historic transactions.

acquired property is never subject to an action which requires interaction with a Land Registry, the legal entity which owns the property will never have to list its beneficial owners. The beneficial owners of the legal entity could therefore change without having to be revealed. This could also lead to property acquired prior to the implementation of the new register increasing in value, as beneficial owners who value anonymity could be willing to pay more for such properties. Finally, only applying the measures to future property transactions would create a two-tiered organisation of registered property and non-registered property.

V. Option 4 (non-regulatory approach) – Government campaign to promote the importance of transparency around beneficial ownership of overseas legal entities

63. The non-regulatory option that was considered took the form of a government-led campaign focusing on conveyancing solicitors, professional advisers and service providers for overseas legal entities, to promote the importance of transparency around beneficial ownership of overseas legal entities.
64. We concluded this would not deliver significant benefits in terms of tackling money-laundering and illicit activity through the UK property market. As previously described, the incentives that actors in the property market currently face to make sure they do not facilitate transactions involving criminal gains are not very strong. Therefore, any campaign will be relying on the altruistic instincts of these actors which is unlikely to achieve the same level of impact as a change to the incentives faced by these service firms and by criminals themselves.

F. Monetised and non-monetised costs and benefits of each option

I. Option 0: Do Nothing

65. The 'do nothing' option provides the counterfactual scenario for the assessment of the other options. We have explained in the previous section why 'do nothing' is not considered a feasible option. While doing nothing would mean no increase in the regulatory burden and administrative costs, it would fundamentally fail to address the concerns raised throughout this impact assessment.

II. Option 1: Introduce a comprehensive register of beneficial owners of overseas companies and other legal entities

i. Costs

66. The key categories of costs potential created by the policy changes outlined under option 1 are:
 - i. Increased compliance costs faced by overseas legal entities which own or wish to buy UK property.

- ii. The compliance costs that fall on individual PSCs of the overseas companies who will have to provide information about themselves for a public register.
- iii. Any potential adverse impacts on the attractiveness of the UK as a place to do business and or to the UK property market as a result of any behavioural change from overseas investors.
- iv. Enforcement and setup costs to Companies House and the Land Registers of England & Wales, Scotland and Northern Ireland along with any potential implication for the Exchequer.

67. We tackle each of these costs one by one.

1. Compliance costs faced by overseas companies (monetised)

68. Our strategy for the monetisation of compliance costs in this section follows these steps:

- i. We identify and estimate the number the overseas entities in scope of the proposal that are relevant to this impact assessment, namely overseas entities with a UK establishment that currently own, or will own, UK property in the future.
- ii. We set out and explain the types of compliance costs faced by businesses (see table 2).
- iii. We explain, update and apply estimates used in the assessment of the domestic regime¹⁰ to the costs identified in ii. for the entities identified in i. Where our approach differs from that taken in the assessment of the domestic regime, we make this clear.

69. Following Green Book standards, we focus on where economic activity is taking place rather than on where a company is legally incorporated in order to identify the cost of these changes to the UK economy.

70. To do this, we need to distinguish between those overseas companies that are just owning or purchasing a UK asset (property in this case) and those that are using that asset to conduct business in the UK.

71. Overseas incorporated entities can set up establishments¹¹ in the UK. These establishments represent some degree of physical presence in the UK by the overseas entity, such as a place of business or branch. Overseas companies have to register themselves with Companies House within one month of opening a UK establishment. However, they are not subject to the UK's domestic PSC register and so their beneficial ownership is not currently recorded. Following the introduction of the proposed changes, if an overseas company with a UK establishment owns

¹⁰ Available at: <https://www.gov.uk/government/publications/company-ownership-transparency-and-trust-impact-assessments>

¹¹ Overseas Companies Regulations 2009

property, they will need to provide their beneficial ownership information to the new register.

72. The cost of collecting and providing this information strictly speaking falls on the “parent” overseas entity. However, facing these costs is inextricably linked to the fact that the parent is physically conducting business in the UK via its establishment. As such, these costs represent a change in the cost of doing business in the UK for a subset of companies. Therefore, for overseas companies with UK establishments which also own or buy UK property, we treat the administrative costs of complying with the register as direct costs to business; despite these costs strictly falling on firms not incorporated in the UK.
73. The other set of overseas entities are those that own, or will buy at some point, UK property but are not conducting ongoing business in the UK via an establishment. This group can be thought of as overseas investors and it falls into much the same category as investors in UK equities or debt instruments. For this group we do not consider the administrative costs of complying with the register to represent a direct cost to business. This is because the overseas entities that face them are not engaged in ongoing economic activity within the UK.
74. There are no official statistics on sales of property to overseas investors, including classifications of overseas buyers who are likely to fall into several categories. For example, where overseas buyers are defined by nationality, they could be non-UK nationals who reside in the UK and thus buy property as their residence.
75. The limited existing evidence suggests though that the group of overseas investors is likely significant in size when compared to the group of overseas entities with UK establishments. For example, stakeholders that were surveyed or interviewed as part of the accompanying research carried out by IFF reported that purchases by overseas entities/investors are frequently carried out purely for investment purposes and that the investment often happens via corporate vehicles based in Guernsey, Jersey, Luxembourg or the British Virgin Islands. This is highlighted by table 1 below, which is the result of linking Land Registry data on approximately 99,300 property titles held by overseas entities with Ordnance Survey information. We cover the issue of foreign investment into the UK property market in more detail in section F.II.i.3.

Table 1: The share of the overall commercial and residential property market (England and Wales) by companies based in BVI, Jersey, Guernsey and Isle of Man

Location	% of all commercial property	% of all residential property
British Virgin Islands	18%	26%
Guernsey	11%	12%
Jersey	25%	20%
Isle of Man	12%	11%
TOTAL	66%	69%

76. When appraising the costs generated by option 1 and faced by overseas entities we do restrict our attention to those overseas entities with UK establishments for the reasons set out previously.

Administrative costs to overseas entities with UK establishments owning or buying UK property

77. The latest annual statistics produced by Companies House show that there were about 11,300 overseas companies registered in the UK as of the 31st March 2017¹². Of these, approximately 3,400 have a parent entity that is incorporated in an European Union Member State. As explained in paragraph 38, these entities already provide similar information elsewhere, and we thus currently envisage that they will be subject to a light-touch procedure. While these entities will likely face some burden in the form of limited familiarisation and costs associated with registering with Companies House to receive a unique ID, we do currently envisage such cost to be small per entity, because these entities: a) will likely not have to provide and update beneficial ownership information with Companies House; and b) are already familiar with the concepts of beneficial ownership requirements and thus require less familiarisation. While we thus expect the impact on these EU entities to be minimal, the detail of the light-touch procedure has not yet been developed. At this stage, this impact assessment does thus not attempt to monetise this impact but focuses instead on the much larger number of 7,900 non-EU entities, which will be subject to the full set of requirements of the new register. A final assessment of impacts at the secondary stage of legislation will revisit the estimated impacts and include an assessment of impacts on overseas entities that are already subject to equivalent transparency requirements elsewhere if they turn out to be non-negligible.

78. We also know from data made public by the Land Registry that as of the 31st of October 2015 there were about 99,300 properties held by overseas owners in

¹² <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-20162017>, table B1.

England and Wales¹³. This equates to 36,118 overseas companies¹⁴ owning an average of 2.75 properties each¹⁵. This number of companies does though include overseas companies with no UK presence, which as explained in paragraphs 69 to 73 are not the subject of this impact assessment.

79. To derive a precise estimate for the number of non-EU entities that have a UK establishment and own property in the UK, we have attempted to crudely match the Companies House register of overseas entities with the Land Registry of properties owned by overseas entities using the name of the entity. However, this approach led to only a small number of matches. The low number was though likely more a reflection of record keeping differences between the two datasets than an indication that few overseas entities with UK branches own UK property.
80. Given the difficulty in matching these two groups, we thus do not proceed using the very small number of matches as our best estimate. Instead we make the very conservative assumption that all UK establishments of non-EU overseas companies will need to provide beneficial ownership information (i.e. all of them currently own or will own UK property in the future). Again, this assumption will likely overstate the true number of companies affected but given the lack of an alternative basis on which to make a more accurate assumption we err on the side of caution.
81. Overall, we therefore identify around 7,900 overseas entities as being affected by the policy and engaged in on-going economic activity in the UK. We now apply our estimates of the cost of complying with the requirements of the register to these firms alone.

Cost of compliance

82. We can break down the cost of compliance into the distinct components faced by entities which already own UK property and those that will buy UK property going forward. As we make the conservative assumption that the entire stock of 7,900 overseas entities in scope already own UK property, the overall costs will largely be driven by that component. The third column in table 2 will thus only apply to the annual flow of new overseas entities, which is relatively small compared to the existing stock for which we use the full set of costs for our calculations.

¹³ <https://www.gov.uk/guidance/hm-land-registry-overseas-companies-data>

¹⁴ Calculated by counting the number of unique company names. This number is significantly larger than the 11,300 overseas companies registered at Companies House because the majority are likely companies without a UK establishment and do not carry out economic activity in the UK.

¹⁵ 99,300 titles held by overseas companies / 36,118 unique company names = 2.75 properties held each on average.

Table 2: Types of compliance costs

Compliance Cost	Already own UK property	Buying property	Type of cost	Description
Familiarisation	✓	✓	One-off	Entities need to spend time making themselves aware of the new requirements placed on them.
Identifying and confirming beneficial ownership details	✓	✓	One-off	Entities will need to identify who their PSC is / PSCs are and collect and confirm their information. If they do not have a PSC they will need to confirm the reasons why and so which category they fall in (see paragraph 48) and then collect the details of their managing officer.
Providing details to Companies House	✓	✓	One-off	Entities/branches will then have to submit the beneficial ownership information they have collected to Companies House in order to receive a unique ID. In registering with Companies House, they will face an upfront fee.
Adding Company House ID to the Land Registry title	✓	✗	One-off	Entities which already own a UK property will have to apply to the relevant Land Registry to have their new ID added to their title. This will incur a fee. Those buying property will also have to do this, but under the 'do nothing' option they already face a step and fee when placing their name and details on the title after the purchase. Adding the ID to the Land Registry title will thus have a negligible impact, and we currently do not think it will incur an additional fee for those entities that currently do not already own UK property.
Annual confirmation beneficial ownership details	✓	✓ (in the years after the purchase)	On-going	Once an entity owns a UK property and has provided their beneficial ownership details they will be required to update or confirm the

				information held on the register annually. In so doing they will incur a fee equivalent to the one they faced when initially applying to Companies House.
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83. The exact mechanics of how a branch and its overseas parent manage their efforts to comply with the policy will vary. It could be that the branch itself does the work using UK employees; alternatively, the overseas parent may take on this responsibility or may outsource it to a third party. For those overseas entities buying a property, some of the compliance actions are likely to be carried out by the professional service firms conducting the sale, notably solicitors. It would not be possible to accurately reflect and attempt to model all possible methods of pursuing compliance. We thus revert to standard methodology and represent the cost of compliance in terms of UK employee time with additional costs for procuring external advice. This will reflect reality for a number of the firms affected, and we assume that it sufficiently approximates reality for other firms.
84. Modelling costs in this way allows us to make use of existing estimates of the costs of complying with the PSC register.

Existing estimates of beneficial ownership register compliance costs

85. The primary source of information we can use to inform our cost assumptions comes from the Trust & Transparency (T&T) impact assessment (IA).¹⁶ This IA covered the introduction of the UK’s own PSC regime. The Regulatory Policy Committee rated it fit for purpose in 2014. The costs identified and estimated by the T&T IA have strong similarities with the costs identified in table 3 below.
86. The T&T IA utilised a telephone survey of 575 companies, carried out by IFF Research (2014)¹⁷, to gather estimates of the costs of complying with the then to be introduced, now active PSC regime.
87. Due to concerns about the reasonableness of some responses which resulted in some extreme cost estimates, the original survey was supplemented with further direct stakeholder engagement and a follow-up survey.
88. This work led to a statistical treatment of the original survey results to lessen the influence of some extreme values. The result of the original survey and follow-up work was a robust set of costs estimates which were displayed in table 3 of that IA and which is re-produced in table 3 below.

¹⁶ Available at: <https://www.gov.uk/government/publications/company-ownership-transparency-and-trust-impact-assessments>

¹⁷ IFF Research (2014): Transparency and Trust Company Survey – <https://www.gov.uk/government/publications/company-ownership-transparency-and-trust-survey-and-follow-up-research>

Table 3: Cost estimates used to appraise the introduction of the UKs current PSC regime

	Best estimate - Adjusted mean wage costs per company £	Best estimate - Adjusted mean additional costs per company £*
One-off costs		
Familiarisation costs	55.9	35.6
Identification and collection**	4.3	9.1
Collation, processing and storage	13.2	11.7
Sub – total average one-off cost	73.4	56.3
Responding to request (only for companies which hold more than 25% shares/voting rights or some other form of control over other companies)	10.7	19.4
Ongoing costs		
Annually update own records***	11	
Report to Companies House annually****	13.4	

89. These estimates, updated for inflation, were also more recently used in the appraisal of the transposition of the EU's Fourth Money Laundering Directive into UK law.¹⁸ The associated impact assessment using these estimates was rated fit for purpose by the Regulatory Policy Committee in February 2017.
90. It is our view that the similarities in the actions required of UK incorporated entities as a result of the domestic PSC register and the actions laid out in table 2 are significant, supporting the contention that the T&T estimates are largely applicable to this new situation. In particular, the costs identified by the T&T IA of familiarisation, identifying and collecting PSC information, reporting that information to Companies House and confirming or updating that information annually are all analogous to the actions now faced by overseas companies owning or buying property.
91. The main limitations of using these estimates in this new context are as follows:
- i. The estimates are based on a survey of UK incorporated entities. The group we are now concerned with are overseas entities with branches in the UK. If these two groups are different in ways meaningful for the costs we are seeking to estimate, then the strength of the approximation offered by the T&T IA estimates may be weakened.
 - ii. There is no analogous cost to that faced by overseas entities that already own a UK property having to supply their overseas entity ID from Companies House to the relevant Land Registry.
 - iii. They do not offer information about the level of the fees Companies House and the relevant Land Registries will charge overseas companies for registering their

¹⁸ http://www.legislation.gov.uk/ukia/2017/112/pdfs/ukia_20170112_en.pdf

information. We will therefore have to supplement these cost estimates with the expected level of fees.

(i) UK and overseas companies may be different

92. One way in which UK incorporated entities and overseas entities with branches may be meaningfully different is in their size and the complexity of their ownership structures. On average we might expect that overseas entities will be larger and more complex than the average UK incorporated entity (although we do not have sources of evidence to check this presumption). If this is the case then one of the key costs, that of identifying and collecting beneficial ownership information, may be on average harder for an overseas entity compared to the UK ones on which the T&T IA estimates are based.
93. The survey carried out by IFF provides a disaggregation of its results by size and complexity of the firms interviewed (see table 4 below). Here “large” refers to fulfilling at least two of the following three criteria: (i) turnover >£6.5m; (ii) balance sheet >£3.26m; (iii) employees > 50. While “complex” refers to having over 4 layers of ownership between the entity and its beneficial owner and/or having foreign ownership.
94. Following the treatment of the survey results in the T&T IA, we can generate the “best” cost estimates from the untrimmed, first trimmed and second trimmed estimates given in table 4 below by calculating the following.¹⁹

$$\text{Best estimate} = (0.93 \times \text{Second trimmed mean}) + (0.07 \times \text{First trimmed mean})$$

Table 4: Best estimates for ‘small simple’ and ‘large complex’ entities

Cost	Untrimmed		First Trim		Second Trim	
	Mean		Mean		Mean	
	'Small simple'	'Large complex'	'Small simple'	'Large complex'	'Small simple'	'Large complex'
Familiarisation with the proposed beneficial ownership reforms	£1,098	£1,858	£133	£1,102	£46	£946
Identifying and collecting information about the beneficial owner	£70	£296	£41	£296	£5	£228
Responding to a request about your beneficial ownership	£181	£204	£39	£204	£7	£156
Collation, process and storage of beneficial owners' data	£88	£350	£55	£350	£11	£230
Updating beneficial ownership information annually	£144	£205	£45	£205	£10	£171
Providing beneficial ownership information to a central registry annually	£214	£205	£43	£205	£10	£172

¹⁹ “Trimming” is the statistical treatment applied to reduce the influence of extreme data values we referred to in paragraph 88. The T&T IA provides more detail on this. In essence, the data was trimmed at points that minimise the potential for sampling errors. The first trim in effect resulted in trimming off 1% of observations while the second trim removed 8%.

95. Combining the best estimate costs for “large complex” firms from the above table with the estimates for the additional costs (associated with obtaining external advice) from table 3 and uprating them both to reflect nominal wage inflation since 2013²⁰, we generate estimates of the four core compliance costs which are summarised in table 5 below.

Table 5: Estimated compliance costs per entity

Cost	Large and complex "best" estimate	Additional costs	Uprating for wage inflation 2014-2020	Final estimate
Familiarisation	£957	£35.60	17.6%	£1,167
Identifying and collecting beneficial ownership information	£233	£9.10		£285
Providing beneficial ownership information to a central registry	£174	N/a		£205
Updating beneficial ownership information annually	£173	N/a		£203
Total				£1,860

96. The reason why we do not calculate equivalents of the T&T estimates for “Collation, process and storage of beneficial owners’ data” and “Responding to a request about your beneficial ownership” is because these refer to requirements of the domestic PSC regime to maintain a locally held PSC register and respond to respond to public requests to access the information on that locally held register which are requirements that will not as such exist for overseas entities.

(ii) Cost of supplying overseas entity ID number to the Land Registry

97. To overcome the second identified limitation of the T&T estimates, the lack of an analogous cost to supplying an overseas entity ID to the Land Registry, we approximate this by using the estimate of the cost of “providing beneficial ownership information to a central registry”. The action this cost estimate describes is providing some readily available information to a government agency. This is clearly very similar to providing the already obtained overseas entity ID to the Land Registry, and we therefore argue that it is a valid approximation.

(iii) Companies House and Land Registry fees

98. Finally, we factor in the fees that entities will face. As explained, there are two fees, one paid to Companies House and one paid to the relevant Land Registry. The first is the fee paid to Companies House when providing beneficial ownership information in

²⁰ We use ONS data from the Annual Survey of Hours and Earnings (ASHE) for historic wage inflation of median employees from 2014-2017 and assume annual nominal wage growth of 3% for the period 2018-2020.

order to receive an ID number. This fee is also faced once a year when confirming or updating beneficial ownership details. The level of this fee is yet to be confirmed. However, for our estimate of the direct cost to business we are only interested in those overseas companies already registered with Companies House, as these are the ones with UK establishments. As such we use the current fee structure for overseas companies as a guide.

99. Overseas companies face a fee of £20 for the registration of a UK establishment (£100 for same day registration), an annual document processing fee also of £20, and the cost of processing a change of corporate name is £10 (£50 for same day service).²¹ Using these existing fees, we make the assumption that the cost of providing beneficial ownership information to Companies House and the cost of the annual confirmation/update of those details will be £20 in each case.
100. The fee payable to the Land Registry occurs in order to place the ID number provided by Companies House onto the title held by the overseas company. When buying a new property overseas companies already face a Land Registry fee to add their name to the title. We do not currently expect this fee to be increased specifically in order to add the ID number as well.
101. However, those already holding UK property will now also be required to have their ID number placed on the title deeds of their property. This is a new cost that will see the initial stock of affected entities in England and Wales incurring a Land Registry fee of £40 each for a paper application and £20 for an online application. The fees charged by the Land Registries of Scotland and Northern Ireland are different. The Scottish registry charges £60 for a paper application and £50 online, while the Northern Irish register charges based on the value of the property with a £535 paper fee and £445 online fee for properties over £250k.
102. We are though not able to break down the numbers of overseas companies with UK branches by their location within the UK. We thus take a crude business population share approach.
103. The latest annual statistics produced by Companies House (for the period ending March 2017) show that 93.4% of UK incorporated entities were registered with addresses in England & Wales, with Scotland accounting for 5.2% and Northern Ireland 1.4%. Using these estimates, we generate an “average” fee and in so doing assume that entities make online rather than paper applications and that all the value of the properties involved in Northern Ireland are greater than £250k.

$$\text{Average fee} = (0.934 \times £20) + (0.052 \times £50) + (0.014 \times £445) = \underline{\underline{£27.51}}$$

²¹ <https://www.gov.uk/government/organisations/companies-house/about/about-our-services#companies-house-fees>

Summary of compliance costs

104. We have now identified the initially affected group and the costs they face. However, it is also important to consider how the number of overseas companies with UK establishments might change over the course of the appraisal period. The current and historical Companies House “Companies Register Activities” releases provide us with the number of new registrations of overseas companies and the total number on the register in each year between 2010/11 to 2016/17. It also breaks this down by country of origin, and we can thus produce the table below.²²

Table 6: Non-EU companies with UK establishments (Companies House data)

	Non-EU Overseas Companies with UK Establishments		
	New Registrations	Number on the register	<i>Inferred number of closures</i>
2016/17	473	7,907	311
2015/16	459	7,745	305
2014/15	358	7,591	232
2013/14	330	7,465	473
2012/13	364	7,608	487
2011/12	387	7,731	467
2010/11	380	7,811	-
Average	393	7,694	379

105. Using these multi-year averages, we assume that in every year of the policy appraisal period there are 393 new non-EU registered overseas companies that will buy UK property and will face the year one compliance costs and each subsequent year the cost of maintaining the register. We also assume that 379 non-EU registered overseas companies will close and will dispose of their property in each year. They will no longer face the annual cost of updating on confirming their details on the new register.

106. Using these averages, we assume that in our starting year of 2021 the initial stock on non-EU registered overseas companies will be $7,907 + 4 \times (393 - 379) = 7,963$. These companies will face the one-off costs in the first year. These one-off costs are then also applied to the 393 new registrations each year from the 2nd year of the appraisal period onwards. Finally, the stock of firms will be adjusted for the assumed net gain of $(393-379) = 14$ companies each year, and the annual confirmation/update cost will be applied to this number in each year from year two onwards.

107. Overall, given the types of costs outlined in table 2, per company compliance costs set out in table 5, the fees detailed in paragraphs 98-103 and the initial stock and subsequent flows of affected overseas companies outlined above, we construct a full set of costs which is summarised in table 7 below.

²² Using table B1. Totals for “non-EU overseas companies” are derived by adding up numbers for “Channel Islands”, “Isle of Man”, “Rest of EC”, “Commonwealth” and “Rest of the World”.

Table 7: Summary of monetised regulatory impacts on overseas entities with UK establishments

Year of appraisal period		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Stock of Non-EU overseas companies with UK establishments		7,907	7,921	7,935	7,949	7,963	7,977	7,991	8,005	8,019	8,033
Number of new establishments		N/a	393	393	393	393	393	393	393	393	393
Number of dissolutions		N/a	379	379	379	379	379	379	379	379	379
Cost	per entity value	total in £m									
Familiarisation	£1,167	£9.23	£0.46	£0.46	£0.46	£0.46	£0.46	£0.46	£0.46	£0.46	£0.46
Identifying and collecting beneficial ownership information	£285	£2.25	£0.11	£0.11	£0.11	£0.11	£0.11	£0.11	£0.11	£0.11	£0.11
Providing beneficial ownership information to a central registry	£205	£1.62	£0.08	£0.08	£0.08	£0.08	£0.08	£0.08	£0.08	£0.08	£0.08
Updating beneficial ownership information annually	£203	N/a	£1.61	£1.61	£1.61	£1.61	£1.62	£1.62	£1.62	£1.63	£1.63
Companies House fee	£20	£0.16	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01
Average Land Registry fee	£28	£0.22					N/a				
Total costs (£ millions)		£13.48	£2.26	£2.27	£2.27	£2.27	£2.28	£2.28	£2.28	£2.28	£2.29
Total costs (£ millions) 2021 PV		£13.48	£2.19	£2.12	£2.05	£1.98	£1.92	£1.85	£1.79	£1.73	£1.68
Net Present Value 2021		£30.79									
Equivalent Annualised Net Direct Cost to Business (EANDCB, 2014 prices)		£2.7									

2. Compliance costs faced by individual PSCs (not monetised)

108. The beneficial owners of the companies that are covered by the new register may face a cost of having to provide their details to the entity for which they are a PSC. In most cases this will be trivial, or potentially non-existent, in terms of additional burden.
109. The key cost that beneficial owners will face is the removal of their anonymity. However, the existence of a protection regime should help those individuals genuinely at risk remain anonymous to the public if not to the relevant public authorities. Applying to the protection regime will be costly but is an option and not a requirement of the new regime and so will only be incurred where it is assessed that the benefit of doing so outweighs the upfront cost.
110. The potential costs to individuals from the loss of their anonymity are not monetised in this impact assessment.

3. Impact on foreign investment into the UK and the UK property market (not monetised)

111. In this section we consider the likely impacts of option 1 on property investment and inward investment more widely from overseas entities. We also discuss the possible effects on housing supply, demand and prices. As with large parts of our assessment, the existing empirical data and research is often limited precisely because of the relative opacity of foreign ownership of UK properties.²³ While we refer to available data and research where available our assessment in this section does thus largely rely on the application of economic principles and logic.
112. Overall, we conclude that overseas companies with a UK establishment are unlikely to change behaviour significantly in response to the proposed policy. The regulatory change is too small to alter the incentives these companies face significantly. We think the same applies to large foreign institutional real estate investors. The change is also unlikely to decrease overseas demand where this is ultimately driven by private individuals who might reside in the UK and are buying property as their place of residence. If the policy is likely to deter any overseas investment, this is likely to mainly be the case for individual foreign investors who value their privacy significantly.
113. However, we do not think that this particular group is large enough to cause any significant changes in overseas property investment overall. The level and composition of overseas property differs a lot regionally and by property-sector though. It is thus possible that a reduction in overseas demand could be

²³ In order to help address the evidence gap, BEIS commissioned the accompanying piece of research carried out by IFF and referred to in this impact assessment.

observed in specific hotspots such as high-end residential property in central London.

114. Whether any such isolated potential impacts on overseas investment will then have knock-on effects, for example on housing supply, structure of ownership or house prices is not entirely clear. Once again, any effects are likely minor given the limited impact we expect in investment in the first place.
115. The following paragraphs discuss the potential impacts on overseas investment and the UK property market in more detail.

Will overseas companies be deterred from investing in UK property?

116. To answer this, we need to have some idea as to why overseas entities decide to purchase UK property. To this end we make a distinction between those overseas entities that are purchasing property in order to conduct business in the UK via a branch, those entities that value UK property as a place to live and finally those that invest in UK property primarily in the expectation of a financial return. This leads us to identifying the following four distinct groups:

- i. Overseas companies with UK establishments/branches
- ii. Foreign institutional real estate investors
- iii. Foreign private real estate investors
- iv. Foreign individuals buying primarily residential property

117. The evidence and data on foreign ownership and investment into UK property is currently very limited.²⁴ Using the limited contextual evidence and the accompanying research carried out by IFF on behalf of BEIS we assess the implied motivations of each group to suggest which of these groups are most likely to be sensitive to the removal of their anonymity. We conclude that group (iii) and a sub-group within group (iv) are likely to be the most sensitive and therefore represent the greatest risk for a potential loss of foreign investment into the UK property market.

(i) Overseas companies with UK establishments/branches

118. For this group the demand for property is derived from the wish to be able to conduct business in the UK and have access to what the UK market can provide in terms of skills, expertise and access to potential customers. It is therefore driven by many of the same factors that influence flows of Foreign Direct Investment (FDI) more generally.

²⁴ For a useful summary of the existing research on overseas investment in the UK residential property sector, see the following House of Commons Briefing Paper:
<http://researchbriefings.files.parliament.uk/documents/CBP-7723/CBP-7723.pdf>

119. However, it is important to note we are talking about a subset of firms that invest in the UK. Many substantive and ongoing investments in the UK by foreign companies will involve the establishment of a UK incorporated entity. We are restricting our analysis to those firms behind the around 11,300 foreign entities with UK branches that have not set up a UK incorporated body (see paragraph 77).
120. We know from the academic literature that there are numerous characteristics that make an economy an attractive place for foreign investment. These include but are not limited to wage rates, availability of skilled labour, the size of the market and potential for growth, a predictable system of law and property rights, a competitive tax regime, efficient infrastructure, political and economic stability. These were also most commonly named by stakeholders as the reasons for the attractiveness of the UK property market for foreign investment in the accompanying research carried out by IFF on behalf of BEIS. All of these are not affected by option 1. However, it is also true that the regulatory environment and the cost of doing business are important factors that can influence decisions over where to invest. To some minor extent the proposals under option 1 do add to that cost for some.
121. If we think of the decision to invest in one particular country over another as the result of a cost-benefit analysis, then, given the relatively low compliance costs we estimated earlier, any decision not to invest in the UK directly as a result of the new register will have already been an extremely marginal decision. Alternatively, it may be the case that the firm places a very high value on the anonymity of its beneficial owners.
122. The first scenario does not seem particularly plausible. In practice, firms investing in the UK by setting up a branch and buying property will be looking to make a particular minimum return, known as a hurdle rate. For a hurdle rate of say 10% it would require an initial investment value of around £30,000 for the new average annual compliance costs of around £340²⁵ to turn a 10% investment opportunity into a 9% opportunity. Given that we are only interested in investments by overseas entities that include buying property, such a minimal investment value is not plausible.
123. We believe the second scenario, where a firm values the anonymity of its beneficial owners very highly, would probably only occur in the circumstances that the policy is explicitly trying to prevent i.e. where the investment is financed by individuals with criminal or other nefarious backgrounds and/or intents.

²⁵ EANDCB equivalent for a new entity buying a UK property. £2.7m divided by the around 7,900 entities in scope.

124. Even where there are legitimate reasons for a firm to value the anonymity of its beneficial owners enough to consider not setting up a UK branch, access to the protection regime provides a potential solution.
125. Overall, we conclude that overseas entities with UK branches are unlikely to be discouraged from remaining in the UK, likewise for those considering setting up a UK branch for the first time. The compliance costs are too small to plausibly make an investment opportunity that involves the purchase of property unattractive. The loss of anonymity should be of little concern to legitimate businesses and where there are genuine concerns access to the protection regime should offer a solution.

(ii) Foreign institutional real estate investors

126. Many large investment firms have real estate businesses that either buy existing real estate or finance new developments, while some firms specialise in such activities exclusively. A well-known UK example would be British Land.
127. Comprehensive data on the activities of these types of firms in the UK are not readily available. However, we know from Bank of England data that they play a significant role in the UK's commercial real estate (CRE) sector. The Bank of England highlighted in their July 2016 Financial Stability Report that "foreign investors accounted for around 45% of the value of total transactions since 2009" in reference to CRE.
128. A well-publicised example of the type of transaction by such entities that would now be captured was the sale of 122 Leadenhall Street, also known as the "Cheesegrater", to CC Land Holdings Limited from the previous owners British Land and Oxford Properties²⁶. CC Land Holdings is a Chinese property development and investment company headquartered in Hong Kong, with its registered office in Bermuda. The freehold title for the Leadenhall building showed the registered owner as being Leadenhall Property Co, which is a company registered in Jersey. The sale to CC Land Holdings therefore likely happened through the sale of shares in Leadenhall Property Co.
129. CC Land Holdings is listed on the Hong Kong Stock Exchange and publishes information about its major shareholders. As such, under the new arrangements the register will show that Leadenhall Property Co as having CC Land Holdings Limited as its beneficial owner. There would not be a requirement to outline the beneficial owners of CC Land Holdings itself as they are already publicly disclosed.

²⁶ http://www.morningstar.co.uk/uk/news/AN_1488367668837084800/top-news-british-land-agrees-usd115-billion-cheesegrater-sale.aspx

130. So, in this example no new information is made public and the compliance costs would be extremely low relative to the reported sale value of over £1bn. There is no credible reason to expect that the new register would have discouraged the investment by CC Land.
131. Another example of investment in real estate by a large foreign institutional investor would be the redevelopment of Battersea Power Station by Malaysian companies Sime Darby and SP Setia. These are also both publicly traded companies and so their ownership details are also already available. Furthermore, they were at the time (cased since) registered as the beneficial owners of Battersea Power Station Development Company Limited, a UK incorporated entity. The title of Battersea Power Station was registered to a Jersey incorporated entity called Battersea Project Land Company Limited. The new requirements would have seen Sime Darby and SP Setia registered as the beneficial owners of Battersea Project Land Company Limited just as they were already registered as the beneficial owners of Battersea Power Station Development Company Limited.
132. Once again, the new requirements would not have resulted in new information being made public or any substantive compliance costs relative to the value of the investment.
133. There is no systematic way of establishing the extent to which these examples are representative. However, the high likelihood of large investment firms being listed companies combined with the possible use of UK incorporated entities already subject to a PSC register suggests that in many cases the introduction of the new register will have little impact for these types of investors.
134. Furthermore, it is our contention that given the often very large sums of money involved, the overriding motivation of investment companies is seeking a profit. Anonymity of beneficial owners is most likely not a significant part of the attraction of investing in UK property for this group.
135. Overall, we therefore conclude that the new register is unlikely to impact on the levels of investment into the UK coming from foreign institutional real estate investors and developers and so do not expect this policy to cause any significant change in the level of overseas investment into the UK property market via this channel.

(iii) Foreign private real estate investors

136. Here we focus on foreign high net worth individuals who invest in real estate on a commercial basis. These individuals are very similar in their outlook to those institutional investors just discussed, the primary difference being that the

capital they invest comes from their own personal wealth rather than that of an institution.

137. These individuals may use “family offices” as the organisational means to invest their wealth. Family offices act as private investment and wealth management firms servicing a single ultra-wealthy client. We know from consultation that these very wealthy individuals are more likely to be sensitive to a loss of anonymity than their institutional equivalents.
138. Identifying the number of such family offices globally and in the UK is difficult because they are often not required to register with supervising authorities. For example, those that manage the wealth of a single family are usually not required to register with the FCA in the UK. A 2014 study carried out by Credit Suisse, EY and the University of St. Gallen²⁷ noted the growth of the sector and said that there were “*believed to be at least 3,000 single family offices in the world*”. Other sources place the likely number at around 10,000 to 11,000 globally, with around 1,000-1,800 being in the UK²⁸. While there is significant uncertainty around the true number of family offices, what appears clear is that the number of family offices has grown substantially over the last ten years and that the wealth managed by them is very substantial.
139. While we have presented the existing evidence around the likely degree of foreign investment into the UK property market and its strong concentration in London and the South East, we have shown that there are significant gaps in the data. Furthermore, there is also no reliable data to break this down further into the different channel of overseas investment. Both institutional and private investors are likely to use single purpose overseas entities to make major real estate investments. It is thus not as a matter of course possible to distinguish the ultimate origins of the capital used for an investment via an offshore entity.
140. Given the large number of unknowns we do not try to estimate the potential for this group to reduce, stop or reverse their UK investments as a result of the new register. However, we do believe this group to be more likely to react in a negative manner than many of the other types of foreign UK property owners we have identified, because foreign high net worth individuals using family offices are probably placing a relatively high value on maintaining their anonymity.

(iv) Foreign individuals buying primarily residential property

141. The final group we focus on are individuals that use corporate entities to purchase largely UK residential properties on a much smaller scale than those

²⁷ <https://www.credit-suisse.com/media/assets/apac/docs/cs-white-paper-the-family-office-dynamic-part-1-eng.pdf>

²⁸ <https://www.theguardian.com/business/2016/mar/12/family-office-private-wealth-funds>

discussed in (iii). Some sources, such as the accompanying research carried out by IFF, suggest that investors in high-end residential property are often very affluent individual overseas investors, and that this group could thus make up a significant proportion in these markets (often in London and the South-East).

142. The two main attractions of using a single purpose overseas company to purchase property are confidentiality and access to tax advantages. By purchasing a property via an overseas company your personal details will not be recorded by HM Land Registry. In addition, you can transfer ownership of the property by the way of selling shares in the company, further increasing the levels of confidentiality as the property will not be shown as having changed owners on the land registry.
143. While tax considerations might well be part of the rationale for why investors may use an overseas company, we are not proposing any change in this area. We thus focus on the loss of confidentiality that would arise from the implementation of the new register.
144. The types of individuals that fall into this group have been categorised by the Institute for Public Policy Research (IPPR) in their 2012 “Affordable Capital?” report²⁹. They highlight three main groups:
- i. European or North American buying for residency or investment purposes.
 - ii. Wealthy buyers from non-OECD countries seeking a form of economic security, buying in the London market from existing stock. The investment is based both on anticipated capital gains and preserving attained levels of wealth from expropriation by corrupt regimes.
 - iii. Yield based investors from East Asian countries buying lower value new-build properties with the aim of renting them out.
145. It is our contention that those investors using London property as a form of economic security from the potential for expropriation are the group most sensitive to any reduction in confidentiality. As such, we judge that the majority of the potential for a reduction in demand from individuals using overseas entities comes from this group. The other groups will be far more motivated by the potential for financial returns and/or the quality of life offered by owning a home in the UK.
146. For those that fall into this group, some may be eligible for the protection regime on the basis that making their address public may place them at risk of harm from the regimes they have left.

²⁹ http://www.ippr.org/files/images/media/files/publication/2012/05/affordable-capital-housing-london_May2012_9064.pdf?noredirect=1

The potential impact on the UK property market from a reduction in overseas demand/investment

147. Analysing the four main potential channels of overseas investment into the UK property market, we have argued that the proposed policy is unlikely to change decisions / investment behaviour for most of these groups in any significant manner. We do not expect this policy to cause a significant change in overseas investment into the UK property market overall. It could though have some isolated effects in specific regions and types of markets where the evidence suggests current levels of foreign investment are highest, namely high-end residential property in London and the South-East, and investment by wealthy foreign individuals into commercial real estate.
148. Identifying the proportion of overseas entities with registered UK property titles which fall into either of these two groups is not possible given the data limitations. As previously stated, we know though that there were some 99,300 titles registered to 36,118 (32,924 non-EU) overseas entities at the end of October 2015.
149. However, as mentioned already, while overseas entities may have a small footprint overall, they have a more significant presence in particular geographic areas. Table 8, the result of a data linking exercise carried out by IFF, shows that shows that 44% of the titles registered to overseas entities in England and Wales are located in Greater London, with a further 16% found in the South East. The potentially significant role of overseas investment in the London property market has been subject to some research³⁰ which shows that even within London the investment is very concentrated in some prime-property areas in central London.

Table 8: Location of property (England and Wales) owned by overseas entities

Location	% of all property
Greater London	44%
South East	16%
North West	11%
Yorkshire and Humberside	6%
South West	6%

³⁰ LSE: Overseas investors and London's housing market, available at:

<http://lse.londonhousing.org/2017/06/overseas-investors-and-londons-housing-market/>

GLA Economics: House prices in London – an economic analysis of London's housing market.

Research report commissioned by the Mayor of London available at:

<https://www.london.gov.uk/sites/default/files/house-prices-in-london.pdf>

Location	% of all property
West Midlands	5%
East Midlands	4%
North	3%
Wales	3%
East Anglia	2%

150. While we note this intense geographical concentration, it is still the case that overseas companies only represent a minority of property owners even in these high property price areas of London. Transparency International, citing the same Land Registry data used above, highlight that just 9.3% of all titles in Westminster are registered to overseas entities, with 7.3% Kensington and Chelsea and 4.5% in the City of London. According to these figures, even where such properties are intensely concentrated, they make up no more than 1/10th of the property stock. Taking into account estimates provided by Knight Frank and Savills, which show the significant size and scale of foreign purchases in London hot-spots, the Bank of England, in its November 2014 Financial Stability Report, estimated that foreign inflows accounted for only 3% of total property transactions in London, driven by low levels outside of 'prime London'.

151. While this is a relatively small fraction, it still leaves open the potential for an extreme reaction to result in some impact on the prices and transaction levels of a limited number of property types in a limited number of areas. However, again, given the arguments made in the preceding sections we do not believe a wide spread extreme sensitivity to the new requirements is likely.

152. If there are some consequences in terms of a noticeable reduction of overseas investment into some specific market sectors (commercial property and high-end residential property) in specific regions (London and the South-East), it is also often not fully clear what these impacts would be.

153. One potential benefit of overseas investment mentioned by stakeholders in the accompanying research carried out by IFF is that overseas sales can accelerate development of new-builds, thus contributing positively to the housing supply. A study carried out by the LSE³¹ also identified this benefit and noted that international investment can help "bring stalled sites into use and speed up development".

³¹ <http://selondonhousing.org/2017/06/overseas-investors-and-londons-housing-market/>

154. The LSE research also mentions that a substantial majority of units bought by overseas investors are then let out to Londoners. Sa (2016)³² finds that this can lead to changes in the market structure, with high levels of overseas investment potentially resulting in lower levels of home ownership. Sa (2016), in line with the LSE research, also does not find an increase in the number of vacant homes associated with higher levels of foreign investment – a concern often brought up. While a small reduction in overall foreign investment could thus have some impact on the available housing stock, this effect would likely be very limited.
155. Sa (2016) identifies an impact on housing prices and evidence for a potential “trickle down” effect. In essence, the research finds that high levels of foreign investment can increase housing prices for expensive property, but that this increase can also trickle down somewhat into less expensive property. This positive impact on prices is though only found in areas in which housing supply is particularly constrained.
156. While we have summarised the findings of individual pieces of research into the subject in the previous paragraphs, the overall evidence base on the level of foreign investment into the UK property market and its wider impacts is limited. In general, the negative economic consequences of a fall in house prices are associated with a negative wealth effect impacting consumer demand. Falling prices also can put people off purchasing property until prices stabilise, and this can have a knock-on impact on the construction industry as property developers delay or cancel projects. When house price falls are widespread this can have a significant impact on the economy as a whole. However, in this case the potential for house price falls are isolated to a relatively small number of disproportionately ‘prime’ London properties.
157. If the owners of these types of properties experience a negative wealth shock the impact on UK consumer demand is likely to be extremely minimal. This is obviously true due to the small number of people involved but this assertion is further strengthened by two further possibilities
- i. UK property may only make up a relatively small percentage of the overall wealth of the types of individuals we are interested in. As such, a fall in property values may only result in a small negative wealth shock.
 - ii. Investors of this type may not spend much or any time in the UK and so any reduction in their willingness to consume will likely have a limited impact on UK consumer demand.
158. Overall, while we have no robust basis on which to forecast the impact of this policy on transaction volumes or values we argue that the limited nature of the

³² <http://www.centreformacroeconomics.ac.uk/Discussion-Papers/2016/CFMDP2016-39-Paper.pdf>

markets effected mean that it is reasonable to expect the total costs to be small. As such the lack of monetisation is unlikely to render our final estimate substantially unreliable or unrepresentative of the “true” costs.

4. Costs to public bodies

159. There will be some costs to Companies House and the relevant Land Registries to maintain the public register. These public bodies operate on a cost-recovery basis and costs are recovered from regulated companies via fees. These costs are ultimately thus not realised by the public sector, but they are passed on to registered entities. In line with Better Regulation practice, increases in costs that is associated with an expansion in regulation are thus treated as direct costs to business. At this primary stage of legislation, we cannot yet provide a clear estimate of this value and, as explained, the fee structure has not yet been decided. We have thus used comparable existing fees to provide a reasonable estimate at this stage (around £0.4m in year one and then a small annual cost £0.01m annually thereafter).

160. The Land Registries will incur some upfront costs to put into place required processes and to place a notice on titles of existing properties owned by overseas entities. The precise level of these upfront costs is not yet fully clear, but it will constitute a transfer payment between public bodies and will not be passed on to businesses (the overseas entities).

ii. Benefits (not monetised)

161. The expected benefits of the reforms outlined in option 1 (the preferred option) would emerge out of the previously discussed intended effects, namely:

- i. Reducing illicit activities.
- ii. Improving the functioning of the property market by increasing transparency.

i. Reducing crime

162. The policy aims to reduce the ability of criminals to use UK property as a store for illicit gains or as a means by which to launder illicit gains. Transparency of the beneficial owners of overseas companies helps achieve this by making it harder for criminals to remain anonymous and therefore easier for law enforcement to identify criminal behaviour and target their resources more effectively.

163. The changes make it logistically harder for criminals to evade law enforcement and will also act as a deterrent by increasing the chances of being caught. It follows that increasing transparency could therefore lead to a reduction in the total amount of criminal activity committed.

164. Where a crime is deterred, uncovered, prevented or redressed there are a number of direct benefits that can be thought of as the avoidance of costs. Criminal activity has a number of significant negative impacts including the damage to the victim's welfare; inefficient resource allocations and a forced redistribution of income; lost economic activity/output; and costs to the criminal justice system, including the police.
165. Even when the crime originates from outside the UK, we can still expect some benefit from its uncovering or deterrence. This is because the UK benefits from being perceived by legitimate investors as a safe place to do business. Being associated with criminal finance undermines this perception and may put off legitimate investment.
166. We have provided some contextual evidence that highlighted the contextual scale of money laundering activities around the globe³³ and that suggests that the use of UK property to hide or launder illicit funds is a problem of not insignificant scale. For example, according to Transparency International analysis of data from the Land Registry and the Metropolitan Police Proceeds of Corruption Unit³⁴, between 2004 and 2014 over £180m worth of property in the UK was investigated as suspected proceeds of corruption, and three in four of the properties involved the use of off-shore corporate vehicles. In January 2016, the National Crime Agency reported the conviction of a money launderer who had used off-shore companies to launder £12m through council properties in London.
167. However, given the opacity of company ownership under the status quo it is not possible to estimate in a meaningful way the extent to which UK property currently facilitates both crime in the UK and internationally. While we have set out why the proposed change will help increase transparency and reduce the level of illicit activities, we also do not consider it feasible to provide a robust estimate for any reduction in illicit activity caused by the proposed change.

ii. Improving the functioning of the property market

168. The potential for beneficial ownership anonymity to generate asymmetries of information was discussed when considering the rationale for this policy change. The argument is largely theoretical as we do not have concrete evidence that buyers are concerned about knowing the ultimate owners of the property they wish to buy.
169. However, we do expect that buyers will take some comfort in knowing whom to approach and seek redress from if a transaction does not go to plan. Dealing with an effectively unnamed party is likely, on a psychological level, to make

³³ See paragraph 11.

³⁴ <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/#.WuBo5uj482w>

buyers more cautious and, on an economically rational level, does increase the risk that the property was originally bought using illicit monies which then become part of a criminal investigation. Reducing this psychological sense of unease and reducing the latent risk that you might be financing criminal activity should help improve the functioning of the property market to some extent.

II. Costs and benefits of alternative options

170. This is a final stage impact assessment and the alternatives to option 1 have already been ruled out on the grounds that they will not achieve the objective of the policy. We therefore do not provide a detailed breakdown of the costs and benefits of these alternatives.

G. Monetised impacts on business

171. We have monetised the familiarisation and ongoing administrative costs to those overseas entities with establishments/branches in the UK. These costs are considered as direct costs to UK business for the reasons set out in the earlier section.

172. Table 7 summarises these costs and shows that together they have a net present value of around £30.8m and an **equivalent annualised direct net cost to business (EANDCB) of £2.7m per year**. As such, and especially given the conservative assumption made in paragraph 80, we judge this measure to fall under the 'de minimis' threshold of a £5m EANDCB with a significant level of certainty.

173. This impact assessment concerns the primary stage of legislation. The overall policy will be implemented via secondary legislation, which will set out the policy in more detail. While any impacts only materialise at that stage, and the primary legislation does not cause the impacts per se, this impact assessment has attempted to provide a best estimate for the likely impacts. These are somewhat likely to change, and assessments at the stage of secondary legislation will update the provided estimates as necessary, for example if the fee structure takes a different shape than assumed at this stage or if the actual number of non-EU entities with a UK presence does not develop in line with what is assumed in this assessment. For reasons set out in paragraph 77, this assessment does at this stage not include potential impacts on entities that are already subject to equivalent transparency requirements elsewhere (mainly those incorporated in an EU member state). An updated assessment at the secondary stage of legislation will include impacts on these entities if they are deemed to be non-negligible.

H. Risks and assumptions

Potential policy risks

Effectiveness of the protection regime

174. As explained, those individuals that would be put at risk by providing the required information publicly can apply to a protection regime. In theory this comes with two risks. Firstly, there could be a risk that the regime does not provide sufficient protection to individuals, for example if the scenarios described in paragraph 57 are applied too narrowly. Secondly, if the scenarios are too wide, the protection regime could be misused to hide information from the public. It is important to note that any information provided by individuals under the protection regime might not be on the public register but will still be available to enforcement agencies. The protection regime will also mimic the regime already in place for the domestic PSC register, which will be reviewed in 2019 for its effectiveness. The overall risk should thus be minimal.

Treatment of trusts

175. The research accompanying this impact assessment identified that some stakeholders were concerned that excluding trusts and other arrangements without legal personality from the scope of the register may create a loophole. Most stakeholders were, however, unable to comment on this as they had no experience dealing with trusts in a property investment context.

176. As is set out more fully in paragraph 37, the Government already requires non-UK trusts which generate a UK tax consequence to register their beneficial ownership information with HMRC, and to make this information available to UK law enforcement on request. The scope of this registration requirement will be extended through the transposition of 5AMLD. This will continue to strengthen the abilities of law enforcement to readily access information on the beneficial ownership of property held within trusts.

Adverse impacts on overseas investment and subsequently on the property market

177. We discuss potential impacts on overseas investment into the UK property market and potential subsequent negative impacts on the market itself in detail in section F.II.i.2. of this impact assessment. Overall, we assess the likely impact to be minimal.

Uncertainties in the economic assessment

Non-monetised costs and benefits

178. For reasons set out in paragraph 77, this assessment does at this stage not include potential impacts on entities that are already subject to equivalent

transparency requirements elsewhere (mainly those incorporated in an EU member state). An updated assessment at the secondary stage of legislation will include impacts on these entities if they are deemed to be non-negligible.

179. A risk to the realism of our estimates comes from the fact that we have been unable to monetise any potential negative impact of the new requirements on foreign investment into the UK and particularly the UK property sector. Furthermore, we have been unable to estimate a monetary value for the potential reduction in crime that may occur due to the reforms. We have attempted to discuss these in detail, and we have analysed any potential adverse impact on overseas investment into the UK property market in section F.II.i.2. As explained, we expect any impacts on the property market to be limited overall and to be concentrated in areas with currently high-levels of overseas investment in the property market.
180. The commercial real estate market could be more greatly affected than we have so far argued. As previously noted, the Bank of England estimate that foreign investors accounted for around 45% of the value of total commercial real transactions since 2009. Our presumption was that much of this came from institutional overseas entities who are unlikely to value the anonymity of their beneficial owners so highly as to forego profitable investments. However, it may be the case that private foreign investors actually play a larger role than we have so far expected.
181. We noted that this group of ultra-wealthy individuals and families may well respond to their loss of anonymity by exiting their investment positions in UK property. This is because they are more likely to value their anonymity very highly. If it is the case that these private investors represent a significant proportion of the overall 45% of commercial real estate investment coming from overseas, then their retreat from the market could have a significant impact.
182. Overall secrecy and opaqueness is inherent to the problem we are trying to address, which in turn makes it very hard to robustly anticipate the effects or the intensity of the expected effects from a change in policy. We thus acknowledge the real uncertainties that lie behind the analysis we have presented.

Long time-horizon until likely implementation

183. This impact assessment accompanies draft primary legislation. As explained, the overall policy would come into effect via secondary legislation, currently estimated to be the case in 2021. The appraisal period of ten years thus only starts at that time. Giving the long lead-in time it is likely that some of the policy detail might shift. It is also possible that we experience a trend-break in the number of overseas companies with UK establishments and that fee levels will be set at a different level than assumed in this impact assessment. Where this

is the case, these changes will have to be reflected in an assessment at a later stage.

184. The appraisal model applied is multiplicative in nature³⁵, meaning that if, for example, the number of affected overseas entities in 2021 was twice the number forecast in this assessment, the overall costs would double. The costs attributable to fees are very small (see table 7), so any significant deviation from the fees assumed in this assessment will not have a substantial impact on the overall cost estimates provided.

I. Small and micro businesses assessment (SaMBA)

185. There is scope for this measure to impact small and micro businesses. For example, some of the UK establishments that face new familiarisation and compliance costs could well fall under the definition of small or micro. However, we do not have particular information about them. Furthermore, some 'family offices' that could relocate following the loss of their beneficial owner's anonymity may also employ only a handful of full-time staff and so count as small businesses.

186. The other types of entities that will be subject to the new register, such as single purpose entities being used by private investors, could plausibly also be small businesses in a technical sense. However, they are not engaged in on-going economic activity in the UK and are thus not considered within this SaMBA.

187. Overall, introducing exemptions based on company size would undermine the objectives of the policy. It would open loopholes that criminals could exploit to carry on using UK property as a store, or means to launder, their criminally acquired wealth. It would also not be logistically feasible given the lack of information the UK holds about entities registered in overseas jurisdictions. For these reasons we do not consider an exemption for small and micro businesses to be desirable.

J. Equalities assessment

188. The Equality Act 2010 protects against unlawful discrimination on the basis of the following protected characteristics:

- age
- disability
- gender reassignment
- marriage and civil partnership

³⁵ It largely takes the form of: *number of entities in scope * cost per entity = total cost.*

- pregnancy and maternity
- race
- religion or belief
- sex and sexual orientation

189. The Department for Business, Enterprise 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.

190. The policy considered in this impact assessment applies directly to legal entities introducing additional an additional requirement on overseas companies that own UK property to publicly display their ultimate owners, with very limited burdens placed on individuals directly.

191. UK companies are already required to disclose publicly their ultimate owners on the domestic PSC register, and, addressing a wider point of equal treatment, this change will thus level the playing-field on corporate transparency.

K. Families assessment

192. The policy aims to ensure that the ultimate owners of overseas companies that own UK property are transparent. There is no evidence for any direct impacts on family formation, on families going through key transitions such as becoming parents, or on the ability of family members to play a full role in family life. There is also no evidence that it will specifically affect those families most at risk of deterioration of relationship quality and breakdown.