

Economic Crime and Corporate Transparency Bill: corporate transparency and Companies House register reform

Lead department	Department for Business, Energy and Industrial Strategy
Summary of proposal	The Government propose to introduce a package of reforms to improve the services provided by Companies House. In particular, to reduce the misuse of UK-registered companies and entities, as well as to meet increasingly-high levels of demand for services and to improve the quality of information held.
Submission type	Impact assessment (IA) – 8 April 2022
Legislation type	Primary legislation
Implementation date	2023
Policy stage	Final
RPC reference	RPC-BEIS-5037(3)
Opinion type	Formal
Date of issue	25 May 2022

RPC opinion

Rating¹	RPC opinion
Fit for purpose	The IA provides a clear rationale for intervention. However, while it discusses - in some cases - why a non-regulatory option would not be sufficient to deliver the objectives, it needs to discuss in more detail what options were considered. The IA uses a number of unsupported assumptions, providing sufficient explanation for their use, as well as committing to test these (as well as some estimates) retrospectively with stakeholders. It acknowledges that the majority of companies are small and micro businesses (SMBs) and, as a result, that the proposals would have a greater impact on them. The Department has included an assessment of the impact across protected characteristics (such as age and ethnicity), as well as an initial identification of the potential innovation, competition and trade impacts; however, these latter areas should be discussed in more detail. The IA includes a high-level outline of

¹ The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

the monitoring and evaluation (M&E) plan, describing how the Department will work with Companies House and other stakeholders to monitor the effects of the reforms.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying regulatory provision	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£18.3 million	£18.3 million <i>(2019 prices, 2020 pv)</i>
Business impact target (BIT) score	£91.5 million	£91.5 million
Business net present value	-£157.1 million	
Overall net present value	-£279.7 million	

RPC summary

Category	Quality²	RPC comments
EANDCB	Green	The IA identifies a range of impacts across all of the reforms. The direct impacts are clearly presented, and quantified where possible. The IA would benefit from greater consideration of the range of indirect impacts, beyond the benefits that have been identified.
Small and micro business assessment (SaMBA)	Green	The IA acknowledges that SMBs account for the majority of registered companies, highlighting the number on the Companies House register and that the proposals would have a greater impact on them overall. The IA states clearly that exemption of SMBs would not be possible, due to their high prevalence, and includes a brief consideration of mitigating action.
Rationale and options	Weak	The IA provides a clear rationale for intervention. It highlights both market failures and broader inefficiencies plaguing the current system. While the IA discusses why, for some of the reforms, a non-regulatory option is not feasible, the merits of such options are not discussed in detail.
Cost-benefit analysis	Satisfactory	The IA uses Companies House data as well as previous consultations and post-implementation reviews (PIRs) to inform analysis. It describes the process through which the Department has developed its assumptions, although this could be expanded upon.
Wider impacts	Satisfactory	The IA discusses an equalities impact assessment that the Department has undertaken, looking at the impact across different protected characteristics. It also mentions briefly, innovation, competition and trade impacts, although it should clarify discussion of the impacts on trade and investment. In addition, it mentions that there is no direct impact on human rights. This should be strengthened by discussing the potential indirect impacts.
Monitoring and evaluation plan	Satisfactory	The Department commits to working with Companies House to develop the M&E plan. The IA mentions that the Department will look to revisit research into the value of company data, and work with stakeholders to understand the impact of the reforms on economic crime. The IA would benefit from considering what success would look like.

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings [here](#).

Summary of proposal

Companies House performs two key functions. First, it facilitates the creation of limited companies and other legal entities and, secondly, it makes the information held on these companies available publicly. In recent years, the demand on both functions has increased, placing increasing strain on Companies House. In addition, there are concerns over the ability of the current system of corporate transparency, coupled with how Companies House operates, to help in combating economic crime. The Government intend that these proposals should be part of the Economic Crime and Corporate Transparency Bill, along with Home Office and other BEIS proposals.

The proposals include a range of reforms to alter how Companies House operates, and the requirements placed upon those that wish to register with it. The IA describes seven areas of proposed reforms:

- **Section 1: Registrar's powers** – powers to allow the Registrar to question information submitted to Companies House, and to broaden the Registrar's powers to allow removal of information from the register to ensure greater accuracy.
- **Section 2: Identity verification** – measures, including compulsory identity verification for all directors and people with significant control, and those who file on behalf of an entity, designed to help understand who is setting up, managing, and controlling corporate entities.
- **Section 3: Third party agents** – increased checks on intermediaries who incorporate a company on behalf of others. Only properly-supervised agents would be able to file on behalf of entities.
- **Section 4: Transparency of ownership** – specific proposals to increase transparency of information presented on the company register.
- **Section 5: Data sharing** – measures to deter the abuse of corporate entities (e.g. data and intelligence sharing).
- **Section 6: Privacy** – removal of restrictions to enable personal information to be removed from the register.
- **Section 7: Improving financial information on the register** – changes to the way accounts are filed with Companies House.

A breakdown of the options considered within each section, and a summary of the key expected costs and benefits attributable to these, has been included in Annex A of this opinion. The Department states that it is difficult to attribute specific benefits to one reform in particular, so the benefits are expected to be realised through a combination of the benefits from supporting enterprise (through the provision of better data) and tackling economic crime better.

The Department has provided an estimate of the EANDCB, for the expected impact of both primary, and related secondary, legislation, of £20.9 million.

EANDCB

Unmonetised impacts

A small number of impacts are unmonetised, or listed as negligible (such as the three of the four annual costs listed under Section 7). The Department should quantify and monetise these impacts where possible, to provide as full a picture of the costs of the reforms as a whole.

Identification and discussion of indirect impacts

While the IA sets out clearly, and quantifies where possible, the direct costs of the proposed reforms, consideration of the indirect impacts is not always clear. The IA includes a detailed discussion of the benefits of the reforms, which are indirect, but this is the IA's primary discussion of the indirect impacts. The IA would benefit from providing a fuller consideration of the indirect impacts of the reforms.

SaMBA

Scope

The IA states that the proposals will have an impact on SMBs, as the majority of registered companies are SMBs. It highlights how, according to FAME data, there are presently around 3.3 million SMBs on the Companies House register. Furthermore, it discusses how a sizeable portion of the potential benefits may be reaped by SMBs, as they are more likely to rely upon Companies House data than larger businesses.

The IA notes that, on a per business basis, the burden on SMBs is likely to be lower, as a result of having fewer directors and persons of significant control (PSCs) who will need to be verified. In addition, the IA claims that there is likely to be no disproportionate impact on SMBs when considering reforming accounts, however the justification for this centres on whether SMBs are more likely than larger businesses to file on paper with Companies House. The IA would be improved by considering whether the impact on those SMBs that would do this (as well as the other activities covered by these reforms) is disproportionate, compared to larger businesses.

Exemption and mitigation

The IA explains clearly that an exemption for SMBs would not be possible without undermining the policy objectives. The IA states that Companies House will work with SMBs to ensure that they are aware of new requirements, with guidance likely to be produced also.

Rationale and options

Rationale

The IA includes a clear set of policy objectives, citing the aim to prevent the misuse of UK registered companies (and other entities), as well as meeting the high level of demand for Companies House services, improving the timeliness and overall quality of the data held. It also identifies key rationales to support the need for government intervention, such as the negative externalities arising from the misuse of the current system, the classification of the information held by Companies House as a public good, and the resulting asymmetric information problem arising from when this information is not up to date.

The IA would be improved by describing how each individual aspect of the reforms relates to the overall rationale and objectives of the policy, explaining how specific actions will deliver the desired improvements. Currently, it is not clear which measures deliver the most towards fulfilling the policy's objectives, and whether a given measure is needed.

Options

The RPC welcomes the Department's efforts, in using ongoing engagement to shape the reforms proposed.

Under each area of reform, the IA includes statements discussing why non-regulatory options are considered to be unsuitable for meeting the specific issues being addressed. This has been included for most, but not all, of the sections of the reforms. For the pillars relating to data sharing and privacy (reforms 5 and 6 respectively), the IA does not explain why a non-regulatory option would not be feasible. The IA would benefit from including some discussion, similar to that provided for the other areas of the reforms, why a non-regulatory option is not feasible.

In addition, the IA does not discuss any potential non-regulatory option in detail. While the RPC accepts that, in most cases, non-regulatory options may not be fully effective, the IA needs to consider the impacts of any non-regulatory intervention and if it could support the delivery of the policy objectives.

Cost-benefit analysis

Evidence

The IA makes good use of historic Companies House data, as well as recent post-implementation reviews (PIRs) and consultations, to inform the policy development and to support its analysis. The IA would benefit from clarification of what figures and estimates have been refined and updated as a result of new information or data acquired since the consultation stage IA. In addition, the IA should explain clearly why the Companies House account rejections data (included in Figure 25), now references data from 2019/20, as the prior IA produced, utilised 2020/21 data.

Methodology

The IA's description of the attribution of familiarisation costs associated with the final reform (i.e., Section 7: Improving the financial information on the register), between businesses that file on their own behalf and accountants who file on behalf of businesses, would benefit from clearer explanation. The IA would be improved by including the total costs associated for each group for this impact.

In the section covering the impacts of the specific reform to Companies House operations, the IA includes various breakdowns of the annual costs, as well as the expected benefits of these changes. In Figure 29, the IA presents an updated cost profile for the Companies House transformation programme, which differs from what was presented at the consultation stage. In general, the cost profile is now deferred by approximately one year, however the other annual breakdowns (including the expected internal benefits) remain unchanged from those seen previously. The IA should explain how, if the costs of the programme itself are delayed, the associated benefits still remain to be realised at this earlier time.

Assumptions, risk and sensitivity

The IA includes a clear statement addressing the likely over-estimation of (familiarisation) costs, arising from overlap in the impact on parties and practices that the reforms will target. In addition, the IA includes some discussion of the risks, such as the reforms, in addition to deterring criminal activity from legitimate business practice and, more generally, the potential of the reforms failing to achieve their objectives.

While the IA includes some discussion of the process through which key assumptions are used to determine familiarisation costs, the IA would be strengthened through a clearer explanation of the evidence used to support these assumptions. The IA makes several commitments to use M&E activities to test retrospectively, key assumptions made and associated cost estimates.

Wider impacts

Innovation

The IA claims that, as the reforms would affect all companies, no impacts on innovation have been identified. However, as the IA notes in its discussion of the risks of the reforms, legitimate business activity may be deterred. The Department should consider what impacts this may have on innovation if this were to occur in nascent and emerging industries.

Competition

The IA includes a brief section considering the potential impacts arising from improved data held by Companies House and the aim for it to be timelier. It would benefit from considering whether any specific industries may benefit more (or, conversely, have a greater impact) by these and be more competitive as a result.

International trade and investment

The IA states that no implications for trade have been identified due to these proposals. However, it also discusses how “...*improving company regulation should signal that the UK is a good place to invest.*” The IA should clarify whether or not these reforms are expected to lead to an impact on trade and investment. If they are expected to, the IA would benefit from an illustration of the potential value that said new investment may be.

Monitoring and evaluation plan

As previously noted, the Department intends to use M&E activities to test key assumptions and cost estimates. The IA would benefit from discussing how this will be approached (e.g. on what timeframe this will be assessed).

The Department states that it will work with Companies House to monitor the impacts of the reforms, as well as discussing how it will likely repeat the research, which had previously been commissioned, on the value of company data. The IA also discusses that the Department aims to work directly with stakeholders, particularly law enforcement, on whether the reforms have been successful in deterring economic crime. The IA should include some indication of what metrics would be considered to assess the success of the reforms, and what would need to be seen in these to indicate success. Furthermore, the Department should ensure that, whatever M&E plan is in place, it assesses not only the collective impact of all of these reforms but also the individual impacts where possible. This will enable the Department to assess better whether individual elements of the reforms require amending or removal.

The IA would be improved further by addressing how the impact of this set of reforms, in combating economic crime, will be isolated from the impacts of the other proposals that the IA discusses as being introduced within the proposed Bill.

Other comments

The IA notes that the reforms are one part of a wider set of policies being developed to tackle economic crime. The IA would be improved by considering where potential overlaps with these policies exist, as well as the success of these proposals, specifically the achievement of the objective relating to the misuse of data, is contingent on any of these other policies being introduced successfully (and vice versa).

Regulatory Policy Committee

For further information, please contact regulatoryenquiries@rpc.gov.uk. Follow us on Twitter [@RPC_Gov_UK](https://twitter.com/RPC_Gov_UK), [LinkedIn](#) or consult our website www.gov.uk/rpc. To keep informed and hear our views on live regulatory issues, subscribe to our [blog](#).

Annex A: summary of options considered

Section of reforms	Options considered	Expected impacts (for business)	Expected impacts (for Companies House)
1 - Registrar's powers	Option 0: Do nothing	n/a	n/a
	Option 1: Broadening existing powers and introduce new powers to Companies House (preferred option).	No costs are expected to compliant businesses.	n/a
	Option 2: Non-regulatory option	NQ	NQ
2 - Identity verification	Option 0: Do nothing	n/a	n/a
	Option 1: Introduction of identity verification (preferred option).	Costs: <ul style="list-style-type: none"> • Familiarisations costs • One-off stock identity verification costs • Ongoing flow identity verification costs 	n/a
	Option 2: Option 1 with the addition of shareholder verification		
	Option 3: Verifying the link between directors/PSCs and their companies		
Option 4: Non-regulatory option	NQ	NQ	
3 - Third-party agents	Option 0: Do nothing	n/a	n/a
	Option 1: Registration of third-party agents (preferred option)	Costs: <ul style="list-style-type: none"> • Familiarisation costs • One-off third-party registration costs • Costs to professional bodies 	n/a
	Option 2: Non-regulatory option	NQ	NQ
	Option 0: Do nothing	n/a	n/a

4 - Transparency of ownership	Option 1: Increased transparency of ownership through a package of reforms (preferred)	Costs: <ul style="list-style-type: none"> • Familiarisation costs • One-off cost of compliance: submission of shareholders list to Companies House. • One-off compliance cost: collation of shareholders names. 	n/a
	Option 2: Additional proposals on transparency of ownership		
	Option 3: Non-regulatory option	NQ	NQ
5 - Data sharing	Option 0: Do nothing	n/a	n/a
	Option 1: Increased data sharing (preferred)	Costs: <ul style="list-style-type: none"> • Familiarisation costs • Cost of reporting discrepancies in data • Annual costs of reporting discrepancies 	Costs: <ul style="list-style-type: none"> • Cost to cross-reference internal data with external sources • Sharing of data as requested, and proactively
6 – Privacy	Option 0: Do nothing	n/a	n/a
	Option 1: Introduce a mechanism to protect personal information (preferred)	No costs are expected to compliant businesses.	n/a
7 - Improving the financial information on the register	Option 0: Do nothing	n/a	n/a
	Option 1: Increased transparency through a package of reforms	Costs: <ul style="list-style-type: none"> • Familiarisation costs • Cost of mandatory digital filing and tagging • Ongoing software costs Benefits: <ul style="list-style-type: none"> • Reduced errors • Lower postage costs • Simplified accounts • Removal of filing options 	n/a
	Option 2: Additional changes to amend financial information		

		<ul style="list-style-type: none"> Dormant accounts to file statement of eligibility 	
	Option 3: Non-regulatory option	NQ	NQ

Delete before issuing

Area	Comment
Accuracy of EANDCB	
Missing impact(s)	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no <input type="checkbox"/> n/a
Direct and indirect impact(s)	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Unmonetised impact(s)	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Counterfactual/baseline	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
SaMBA	
Scope	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Exemption	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Mitigation	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Rationale and options	
Rationale	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Options	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Cost-benefit analysis	
Evidence and data	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Methodology	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Assumptions	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Wider impacts	
Innovation	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input checked="" type="checkbox"/> n/a
Competition	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
International trade	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Environment	<input type="checkbox"/> yes <input type="checkbox"/> no <input checked="" type="checkbox"/> n/a
Equity/distributional impacts	<input type="checkbox"/> yes <input type="checkbox"/> no <input checked="" type="checkbox"/> n/a
Public sector	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Other	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no <input type="checkbox"/> n/a
Monitoring and evaluation	
PIR plan	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a
Evidence/data collection	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no <input type="checkbox"/> n/a