

Companies House: Transparency Shake-Up Announced to Combat Financial Crime

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The government has unveiled an ambitious series of reforms to Companies House in what it describes as *“the largest change to our system of setting up and operating companies since the register was created in 1844.”*¹ These reforms will be accompanied by a major programme *“to upgrade digital services at Companies House alongside a complete review of its staffing and skills requirements.”*²

These reforms follow recent criticism of Companies House as a weak link in the UK’s economic crime prevention strategy. Currently, Companies House has no powers to perform systematic checks on its 4 million-strong companies register, leading to concerns regarding the potential for criminals to launder funds through UK shell companies. These concerns relate in particular to the integrity of the “Persons of Significant Control” register (“**PSC Register**”), set up in 2016 to increase transparency as to the beneficial ownership of companies.³ It was recently revealed, for example, that Companies House listed 2000 “persons with significant control” who were disqualified directors, 76 who shared names and birthdays with individuals on the US sanctions list and 5 individuals controlling more than 6,000 companies.⁴ The Treasury Select Committee on Economic Crime raised these issues in a report published in March, as did the Financial Action Task Force in its report on the UK in December last year.⁵

These criticisms appear to have prompted government action. The proposals for reform are far-reaching, and many will require legislation to implement. Most ambitiously, the government proposes a fundamental overhaul of the statutory duties of Companies House. When Companies House was first set up 175 years ago, it was intended merely as a searchable repository for company information. Its statutory duties have remained largely unchanged to the present day, with no powers to verify, audit or monitor the information submitted to its register. Now, the government proposes that Companies House take on a more active role, receiving new powers to query and check information placed on its register, while also developing a functionality to identify suspicious activities and fraudulent information in conjunction with law enforcement partners. The government stresses that this would require significant staffing increasing to implement.

A further reform proposed is the verification of the identity of individuals setting up, managing and

controlling companies. These checks would form part of the company registration and filing process and would cover directors, “persons with significant control” and presenters⁶. The government is also seeking feedback on whether such checks should be extended to shareholders above a minimum threshold. The intention is that an individual’s activities, over multiple companies if applicable, would ultimately be connected through a single verified identity record. To ensure compliance with the new regime, the government proposes that Companies House refuse to incorporate a company if any prospective directors fail to verify their identity. The government also suggests that failure of a “person of significant control” to verify their identity could amount to a criminal offence, or alternatively, that the register would flag whenever a company had such unverified beneficial owners.

In addition, following feedback from law enforcement agencies that it would be useful to have a comprehensive list of bank accounts operated by UK companies, the government proposes that companies are required to notify Companies House within 14 days of opening a non-UK bank account. The accuracy of this information would then be supported by feedback from banks. Combined with the Fifth Money Laundering Directive’s requirement that countries maintain a central register showing ownership/control of all bank accounts held in their jurisdiction, a comprehensive list of all bank accounts held by UK-incorporated companies would theoretically be achievable.

The government concludes its proposals by noting that the reforms put forward are wide-reaching and will require both legislative change and significant staffing increases at Companies House to deliver. It is hard to imagine that they will be implemented any time soon. Some of the tasks contemplated are on a mammoth scale; for example, there are currently 6.7 million directors and 4.6 million “people with significant control” on the Register, a tall order to perform verification checks on. It is also easy to see how the new rules could be circumvented: rogue companies may put forward fake directors for verification to front the company while their real directors work behind the scenes. The plan to keep comprehensive records of non-UK bank accounts held by UK companies may also run into difficulties in jurisdictions with high levels of banking secrecy. The reforms to Companies House proposed by the government will therefore need significant financial backing to stand a chance of being successfully put into practice.

¹ assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/799662/Corporate_and_register_reform.pdf

² Ibid.

³ The Persons of Significant Control register lists “persons of significant control” of companies, defined as someone holding more than 25% of shares or voting rights in a company with the right to appoint or remove the majority of board of directors or as someone who otherwise exercises significant influence or control.

⁴ Treasury Committee evidence session on Economic Crime, 30 October 2018 at data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/economic-crime/oral/92136.html; and Global Witness Report on UK beneficial ownership data at www.globalwitness.org/en/blog/what-does-uk-beneficial-ownership-data-show-

us/.

⁵ publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/2010/201002.htm; and www.fatf-gafi.org/publications/mutualevaluations/documents/mer-united-kingdom-2018.html.

⁶ Presenters are people connected with the company who file information on the register; for an explanation of “persons with significant control”, please see footnote 3 above.