

Economic Crime and Corporate Transparency Bill

BEIS Impact Assessments

September 2022

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Overview

1. This document presents the Impact Assessments for BEIS measures within the Economic Crime and Corporate Transparency Bill. Impact Assessments from other departments, including the Home Office, the Ministry of Justice, and Her Majesty's Treasury will be published alongside this at the Bill's introduction.¹ The two final stage Impact Assessments for the BEIS measures within the Bill are:
 - Corporate Transparency and Companies House Register Reform
 - Limited Partnerships: Reform of Limited Partnership Law
2. The Economic Crime and Corporate Transparency Bill will: prevent misuse of UK registered entities, including limited partnerships, improve the accuracy of information held at Companies House, give additional powers to seize cryptoassets more quickly and easily, and give businesses more confidence to share information in order to tackle money laundering and other economic crime.

Background

3. Recent years have seen growing instances of misuse of companies, concerns over the accuracy of the companies register and challenges safeguarding personal data on the register. In parallel, several stakeholders have drawn attention to the opportunity for Companies House to play a greater role tackling economic crime, working in partnership with other agencies and the private sector.
4. The Corporate Transparency and Register Reform White Paper, published in February 2022, builds on the consultation responses received in both 2019 and 2020.² This set out the Government's position ahead of introducing these reforms into Parliament. An Impact Assessment was published alongside the White Paper providing stakeholders with an initial assessment of the costs and benefits of this policy.

Summary of measures

5. **Corporate Transparency and Companies House Register Reform:** The Bill will reform the role of Companies House and improve transparency over UK companies and property, in order to strengthen our business environment, support our national security and combat economic crime, whilst delivering a more reliable companies register to underpin business activity.
6. **Limited Partnerships: Reform of Limited Partnership Law:** This will seek to tackle the misuse of limited partnerships, while modernising the law governing them. The Bill will tighten registration requirements, require limited partnerships to demonstrate a firmer connection to the UK, increase transparency requirements and enable the Registrar to strike from the register limited partnerships which are dissolved or which are no longer carrying on business.

¹ Overarching Home Office Impact Assessment reference is HO0413

² See: <https://www.gov.uk/government/publications/corporate-transparency-and-register-reform>

Title: Corporate Transparency and Companies House Register Reform IA No: BEIS016(F)-22-BF RPC Reference No: RPC-BEIS-5037(3) Lead department or agency: Department for Business, Energy and Industrial Strategy Other departments or agencies: Companies House	Impact Assessment (IA)			
	Date: 7 April 2022			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Primary legislation			
Contact for enquiries: transparencyandtrust@beis.gov.uk				
RPC Opinion: Fit for purpose (green)				

Summary: Intervention and Options

Cost of Preferred (or more likely) Option (in 2019 prices) ³			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Qualifying provision
-£289.0m	-162.3m	£18.9m	

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

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

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

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

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

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

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

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

Option 0: 'No change' counterfactual.

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

Will the policy be reviewed? If applicable, set review date: Yes				
Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO 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: Lord Callanan,
 Parliamentary Under-Secretary of State, BEIS



Date: 07/04/2022

³ The costs presented on the cover sheets will vary slightly from that in the main text of the Impact Assessment for BIT accounting purposes.

Summary: Analysis & Evidence

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2023	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -389.3	High: -246.2	Best Estimate: -289.0

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	71.0		19.5	246.2
High	129.7		29.5	389.3
Best Estimate	90.7		22.2	289.0

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

Business

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

Professional bodies

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

Public sector

- Implementation cost to Companies House

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

Where possible, all costs have been monetised.

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

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

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

Key non-monetised benefits are:

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

Key assumptions/sensitivities/risks	Discount rate	3.5%
Assumptions and risks have been outlined throughout the Impact Assessment.		

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 18.9	Benefits: 0.0	Net: 18.9	
			94.3

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I. Background

Background information

Overview

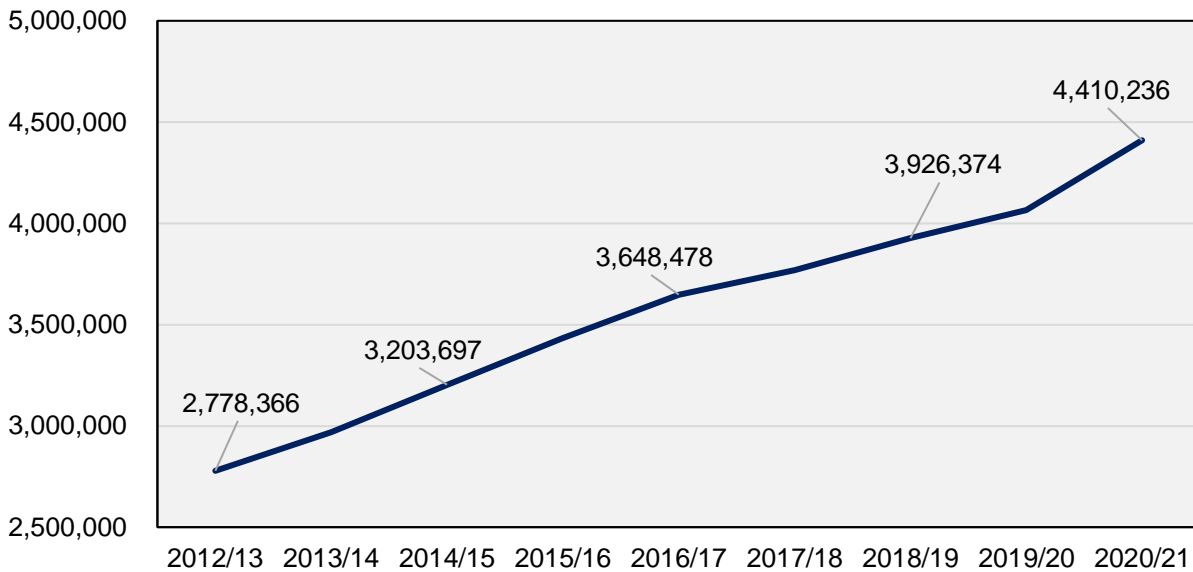
1. Companies House performs two key economic functions. Firstly, it facilitates the creation of limited companies and a range of other legal entities. It currently costs £12 to incorporate a limited company and most incorporation applications are processed within 24 hours.⁴ Incorporation provides shareholders with limited liability for the debts of the company and establishes a company as a legal person separate from its owners.
2. The combination of limited liability and legal personality provides those running companies freedom to take risks in the knowledge that they will not be personally liable for company debts. Recent research shows that forming a company has a high value:
 - The total value of company incorporation to owners of limited liability companies with 0 to 9 employees in the UK is estimated to be approximately £9.6 billion per year.
 - Of this, the greatest proportion of the value is associated with limited liability, accounting for around 80% of the benefit to business owners (approx. £7.7 billion per year).⁵
3. The three Registrars of Companies (for England and Wales, for Scotland, and for Northern Ireland), supported by the staff of Companies House UK, require a range of information to be submitted to them at the incorporation of a company or other entity, and updated on regular basis. That information is then made accessible by Companies House through the companies register for anyone wishing to do business with that company, including the general public, regulators and law enforcement agencies.
4. In recent years, there has been increasing demand for Companies House's services. Companies House incorporates hundreds of thousands of companies each year - the number of active companies on the effective register across the UK has increased from around 2.8 million in March 2013 to 4.4 million in March 2021 (see figure 1 below).⁶

⁴ See: <https://www.gov.uk/limited-company-formation/register-your-company>

⁵ See: <https://www.gov.uk/government/publications/understanding-the-reasons-for-forming-a-company>

⁶ See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021>

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



Source: Companies House statistical release 2020/21

5. However, this framework is currently open to abuse. There is evidence to suggest the UK's company incorporation system has been used to enable a range of crimes, from small scale 'phoenix' companies to large international money laundering operations.⁷ UK limited companies, limited liability partnerships and limited partnerships have all been used in recent years to help launder the proceeds of crime. This has helped facilitate corruption, fraud, terrorist financing and tax evasion. Some of these cases have been linked to state threats, corrupt regimes and terrorism, thereby undermining global as well as UK national security.

Reforming the companies register

6. In June 2019, the Government published a consultation on Corporate Transparency and Register Reform (referenced throughout as "register reform").⁸ It explored a range of options to increase the transparency of companies and other legal entities and proposed several ways to strengthen the integrity of the companies register. The proposed reforms addressed:
- Misuse of UK registered entities by international criminals and corrupt elites
 - Concerns about the accuracy of information held at Companies House
 - The abuse of personal information on the register

⁷ Phoenixing, or phoenixism, are terms used to describe the practice of carrying on the same business or trade successively through a series of companies where each becomes insolvent (can't pay their debts) in turn. See: <https://www.gov.uk/government/publications/phoenix-companies-and-the-role-of-the-insolvency-service/phoenix-companies-and-the-role-of-the-insolvency-service>

⁸ See: <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform>

- The limited nature of cross checks between Companies House and other public and private sector bodies
7. The consultation received 1,320 formal responses. Following this initial consultation, the government invited further views on more specific aspects of reforming the Companies House register in December 2020.⁹
 8. The Corporate Transparency White Paper, published in February 2022, builds on the consultation responses received in both 2019 and 2020.¹⁰ This White Paper set out the government's position ahead of introducing these reforms into Parliament. An Impact Assessment providing stakeholders with an initial assessment of the costs and benefits of this policy was published alongside the White Paper, which this assessment builds upon.

Focus of this Impact Assessment

9. We assess costs over a ten-year appraisal period and present our estimates in terms of present value costs for this period for business (NPV) and equivalent annualised net direct costs to business (EANDCB). All costs are given in 2019 prices and this Impact Assessment uses 2023 as the base year for the present value calculation.¹¹

Costs

10. Not all companies will be impacted by all the measures within the policy package. For this reason, we explore the costs of each individual proposal separately under the relevant section within the Impact Assessment.
11. Additionally, many of the costs of this reform package will fall on Companies House. Companies House is undertaking a transformation programme to deliver register reform, which will require investment in digital transformation, new processes and new skills.
12. The main elements of Companies House transformation are:¹²
 - Simplifying the customer journey through Companies House webpages, reducing the time taken to complete the process
 - Automating the processes behind Companies House core functions, speeding up the checks and validation for opening and closing a company, submission of filings, annual confirmation statements and payment of fees
 - Providing the infrastructure to efficiently deliver new data verification functions. It will do so by implementing identity-based access systems

⁹ See: <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-improving-the-quality-and-value-of-financial-information-on-the-uk-companies-register> and <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-powers-of-the-registrar>

¹⁰ See: <https://www.gov.uk/government/publications/corporate-transparency-and-register-reform>

¹¹ See: <https://www.gov.uk/government/collections/impact-assessments-guidance-for-government-departments>.

¹² See: <https://www.gov.uk/government/news/new-vision-for-companies-house-set-out-in-2020-25-strategy>

- Simplify the process for customers to report errors in their information
 - Allowing closer integration of Companies House with partner bodies tasked with tackling economic crime. This will enable Companies House to identify suspicious activities more readily within its systems and allow more efficient and secure exchange of data
13. Given the requirement for Companies House transformation to deliver register reform, and linkages between different elements of register reform, it is not possible to allocate transformation costs to individual reform measures. Hence, we treat transformation costs as indivisible.
 14. Because of this, the costs to Companies House are excluded from the EANDCB as they sit outside of the Better Regulation Framework.¹³ However, they are included in the calculation of the ten-year Net Present Social Value (NPSV). Costs to Companies House are outlined under part IV.
 15. Wider legislative changes are also being introduced which will impact Companies House – reforms to limited partnerships and the introduction of the Register of Overseas Entities. An Impact Assessment on limited partnership reform is published alongside this one. An earlier Impact Assessment was published on the Register of Overseas Entities in March 2022 as part of the Economic Crime (Transparency and Enforcement) Bill.¹⁴ The costs of introducing these changes will be funded through Companies House transformation, although we envisage these specific elements will be a small portion of the overall costs.
 16. These reforms are part of the joint Economic Crime and Corporate Transparency Bill, with the purpose of safeguarding and support the UK’s open economy, whilst tackling people abusing that openness. As part of this Bill, the Home Office is also introducing measures relating to strengthening Anti-Money Laundering (AML) powers and cryptoasset seizure:
 - **Exemptions for handling mixed property (ring fencing) and Defence Against Money Laundering exemptions:** Reducing the regulatory burden on businesses associated with the Suspicious Activity Reporting regime in Part 7 of the Proceeds of Crime Act 2002 by amending statutory reporting requirements
 - **Information sharing:** Enabling certain businesses to more easily share information with one another for the purposes of preventing and detecting economic crime
 - **Further Information Orders:** Strengthening the National Crime Agency powers to request information from businesses in the AML regulated sector in relation to money laundering, ensuring it’s in line with international peers
 - **Cryptoasset seizure:** Creating new powers and improving existing powers to facilitate faster and more efficient processes for the seizure of cryptoassets, and to

¹³ In theory the costs could be funded through a) public expenditure or b) through a levy imposed by Companies House. Both fall outside the Better Regulation Framework. See:

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

¹⁴ See: <https://bills.parliament.uk/bills/3120/publications>

support the UK's efforts against the growing threat from ransomware criminals who utilise cryptoassets. These changes will also be mirrored in counter-terrorism legislation

17. Parallel Impact Assessments for these measures have been published alongside the Bill. The Home Office Impact Assessments will include further details on the costs and benefits of the proposals outlined above.

Benefits

18. Where there are individual benefits to proposals, we consider these in the appropriate section. However, many of the benefits of reforming the companies register occur to society as a whole and depend on the interaction of the proposals. For example, many of the measures are being introduced with the goal of supporting law enforcement in tackling economic crime and supporting national security. For this reason, we consider the benefits of the entire policy package separately in part V of the Impact Assessment.

Problem under consideration

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

Increasing the timeliness, usefulness and accuracy of Companies House data

20. Information on companies needs to be accurate and as up to date as possible to be most valuable to users. Publicly available information provided by Companies House can help overcome information asymmetries between different parties (for example, companies, lenders, customers) and provide economic value. Examples include:
- **When businesses are seeking finance** as Companies House data is a key source when credit scores and lending decisions are made. In their evidence to the non-bank lending taskforce, the Business Information Providers Association suggested that typically credit scores for unincorporated business, due to a lack of data on them, were around 40% lower than for those registered at Companies House.¹⁵ Such lower credit scores can act as a barrier to accessing finance.
 - **Reducing transaction costs**, particularly by helping contracting parties (supplier businesses, customers or others) assess better the risk associated with a transaction and reduce 'search costs' associated with due diligence checks.

¹⁵ See: <https://bipa.uk.com/bipas-evidence-to-the-non-bank-lending-task-force-call-for-evidence/>

- **Creating a market for secondary data providers** who use Companies House data as a key input to their own commercially available data products, for example by linking further financial information with ownership and legal information provided by Companies House.
21. The companies register is a core element of the information infrastructure underpinning the UK's business environment. The benefits that can be attributed directly to Companies House data were highlighted by novel research, commissioned by BEIS and Companies House and published in September 2019. It estimated the economic value of the data to users, provided by Companies House publicly and free of charge, to be up to £3 billion annually.¹⁶ These figures include benefits to 'direct UK based business users' only. They do not, for example, include a monetised estimate for the benefits associated with helping to tackle economic crime.¹⁷
 22. This research, customer feedback, and a recent Post-Implementation Review of the People with Significant Control regulations show that the value of the information could be even greater if: a) reliability and accuracy could be improved, and, b) the data was presented in a more user-friendly searchable format.¹⁸

Misuse of UK registered companies and other entities

23. The 2019 consultation set out several concerns about the fraudulent filing of information and misuse of UK registered companies and other entities, which have featured prominently in international money laundering schemes. These included:
 - Misuse of UK registered entities by international criminals and corrupt elites
 - Concerns about the accuracy of information held at Companies House
 - The abuse of personal information on the register
 - The limited nature of cross-referencing between Companies House and other public and private sector bodies
24. In particular, the Registrar currently has no power to query information upon registration, and they have limited powers to remove information post registration, including fraudulent information. Whilst the number of reports of inaccurate data remains extremely low relative to the size of the Register, the Post-Implementation Review of the Registrar of Companies and Applications for Striking Off (Amendment) Regulations 2016 and the Companies (Address of Registered Office) Regulations 2016 identified several instances where greater registrar powers would benefit users.¹⁹ For example:

¹⁶ See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

¹⁷ For more detail on the research findings, please refer to the published research reports referenced above. We can provide additional information upon request.

¹⁸ See: <https://www.gov.uk/government/publications/people-of-significant-control-psc-register-review-of-implementation>

¹⁹ See: https://www.legislation.gov.uk/ukxi/2016/423/pdfs/uksiod_20160423_en.pdf

- There have been instances where directors have been fraudulently appointed to companies and affected individuals have applied to the Registrar to have their details removed, only to find that the offending company subsequently re-appoints them
- There have been instances where a company subsequently files a change of registered office address and reverts to a previously disputed address

25. Restrictions within the current framework mean the Registrar is unable to tackle such abuses. Whilst such abuse is not widespread, it is unfair to ask those negatively affected individuals, e.g., those resident at the incorrect office address, to keep re-applying to the Registrar. Case studies of misuse of UK companies are given below.

Case studies²⁰

Case study one: Phoenix trading

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

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

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

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

In measures announced by the Chancellor in the March Budget 2021, £100 million was allocated for a new Taxpayer Protection Taskforce to crack-down on Covid fraudsters who have exploited UK Government support schemes.

Meeting high levels of demand for Companies House services

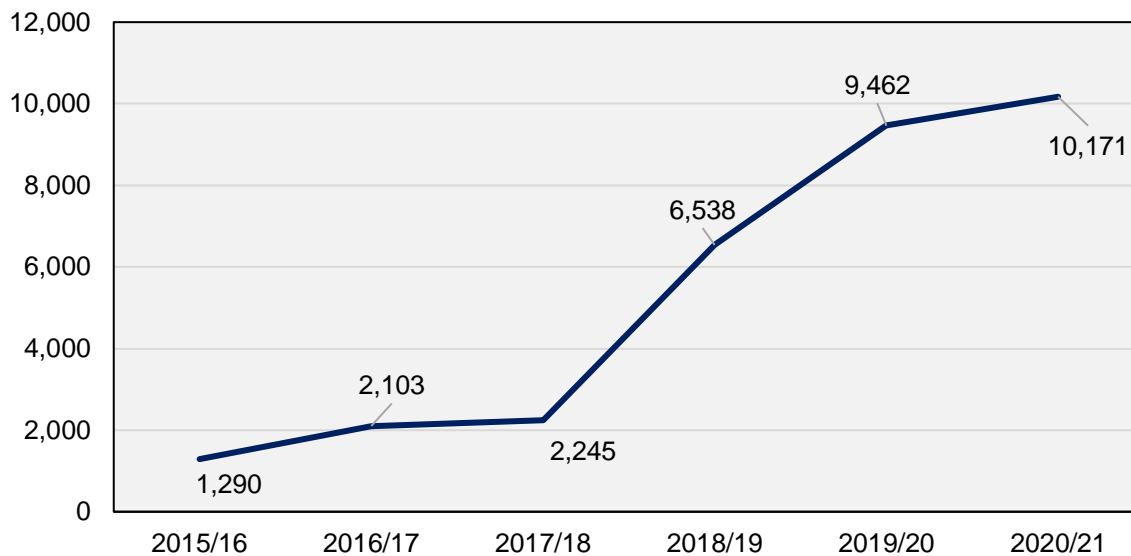
26. Over 99.9% of incorporations in the 2020/21 financial year were filed electronically, with 91.4% of all documents filed with Companies House being filed electronically.²¹

²⁰ For case study one, see: [Insolvency Service vs Wallace](#). For case study two, see: [Financial Times – UK taxman seizes £26.5m furlough funds from 'entrepreneur' and Budget 2021](#)

²¹ See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>, Table 9

27. Additionally, in 2015, Companies House introduced Companies House Service (CHS), where all public digital data was made free. Companies House saw 10 billion free data requests in 2020/21, up from 1.3 billion in 2015/16 (see figure 2).²²

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



Source: Companies House management information 2020/21

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

²² See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>

II. Rationale for intervention

29. We now consider the rationale for intervention, based on the issues identified in the problem under consideration section. Figure 3 below summarises the rationales for intervention against each problem identified, which we then discuss in full. Figure 3 also maps the problem under consideration and rationales to the specific measures set out later in this Impact Assessment.

Figure 3: Rationales for intervention to problems identified

	Provision of public goods	Addressing criminal behaviour	Reducing negative externalities	Reducing information asymmetries	Specific measures
Increasing the timeliness, usefulness and accuracy of Companies House data	✓	✓		✓	Registrar's powers Identity verification Authorised corporate service providers Transparency of ownership Data sharing Improving financial information
Misuse of UK registered companies and other entities	✓	✓	✓	✓	Registrar's powers Identity verification Authorised corporate service providers Data sharing Privacy Improving financial information
Meeting high levels of demand for Companies House services	✓				Companies House transformation

Provision of public goods

30. The register of companies and the data contained within it create direct economic value to the UK as well as tangible wider socio-economic impacts, for example in the fight against criminal activity.
31. The data has the characteristics of a public good - it is non rivalrous in consumption. For example, one business' use of it does not stop another business from using it. Whilst in principle persons could be excluded from using the data, there has been a consensus for nearly two hundred years that the data should be publicly available:²³

²³ For example, through a fee mechanism. In this sense as users can be excluded from its use, Companies House data is not a pure public good. That said, we note there are good public policy reasons for its widespread availability: 1) The marginal cost of providing Companies House data to users is zero. 2) Costs are fixed and must be incurred for the collection of data. In this case the imposition of a fee would transfer some of the consumer

- The legislation which created limited liability did not pass Parliament uncontested, particularly because of the opportunity it offers to avoid debts to creditors when a company is wound up. The 19th-century legislators who gave persons the power to create such entities anticipated the risk of misuse, by requiring certain particulars of companies and their directors to be disclosed with the Registrar of Companies, a position created in 1844.²⁴ Thus early on it was recognised that access to information on limited liability companies was in the public interest.
- Recently there are growing concerns around a further risk. By giving the company 'legal personality' - such that it can hold property and contract in its own name - real people can hide behind it to avoid having their own names linked to their activities. Legislation has always required company directors and shareholders to be registered, but in the context of the globalisation of finance and the rise of the offshore investment, it became possible to create complex corporate structures to obscure ownership of assets to a far greater degree. Some of this was done by law-abiding people seeking privacy, but also by those looking to evade tax or launder the proceeds of crime or corruption.

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

Addressing criminal behaviour

33. Establishing and enforcing a common set of rules is a key and well-established role of the state. Where there are deficiencies in the legal framework which enable individuals or entities to commit crimes, then there is a clear rationale for government intervention.
34. As previously described, the anonymity of corporate structures can facilitate criminal activities. This anonymity has been reduced by the UK's domestic People with Significant Control (PSC) register, but corporate entities are still vulnerable to abuse. Recent years have seen growing instances of misuse of companies through money laundering and fraud, challenges safeguarding personal data held and concerns over the accuracy of the companies register.²⁵
35. While law enforcement agencies have powers to investigate and recover the proceeds of crime, corporate structures can make it difficult to identify the individuals responsible for criminal activity - resulting in less efficient and effective investigations. Investigations and recovery are often even more complex where the relevant parties are based abroad.

surplus from users to the government and reduce the demand for Companies House data. The reduction in demand thus constitutes a welfare loss.

²⁴ Introducing the Joint Stock Companies Bill in 1856, Robert Lowe said "It is right the experiment should be tried; and, in my judgment, the principle we should adopt is this - not to throw the slightest obstacle in the way of limited companies being formed - because the effect of that would be to arrest ninety-nine good schemes in order that the bad hundredth might be prevented; but to allow them all to come into existence, and when difficulties arise, to arm the courts of justice with sufficient powers to check extravagance or roguery in the management of companies, and to save them from the wreck in which they may be involved."

²⁵ A person with significant control (PSC) is someone who owns or controls your company. They're sometimes called 'beneficial owners'. See: <https://www.gov.uk/guidance/people-with-significant-control-pscs>

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

Reducing negative externalities

37. Illicit activity can impose negative externalities on licit UK corporate entities and the UK's reputation. Media articles and negative public opinion regarding illicit behaviour can lead to an erosion of trust in UK businesses generally. We also note that a significant amount of abuse occurs from foreign organised criminal organisations, and this damages international prosperity and undermines the UK's reputation as a responsible jurisdiction.²⁶

Reducing information asymmetries

38. 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.
39. There are several information asymmetries in the current company system. For example, with Companies House unable to proactively share its data with law enforcement agencies, there are information gaps between the two parties which could identify those undertaking economic crime.

Policy objectives

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

²⁶ For example, see: http://www.transparency.org.uk/publications/offshore-in-the-uk/#.WungAOj4_yQ

III. Package of reforms

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

Figure 4: Summary of the register reform proposals

Section 1	Registrar's powers	Powers for the Registrar to allow them to query information submitted to Companies House and broaden the Registrar's powers to allow them to remove information from the register to better ensure its accuracy.
Section 2	Identity verification	Measures to know who is setting up, managing, and controlling corporate entities, including compulsory identity verification for all directors and PSCs and those who file on behalf of an entity.
Section 3	Authorised corporate service providers	Increased checks on intermediaries who incorporate a company on behalf of others. Only properly supervised agents will be able to file on behalf of entities.
Section 4	Transparency of ownership	Specific proposals to increase transparency of information presented on the companies register.
Section 5	Data sharing	Measures to deter the abuse of corporate entities, e.g., data sharing, 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.

42. Within each section the following aspects will be covered:

- **Policy overview** providing a background to this proposal
- **Descriptions of options considered**, including against the 'do nothing' counterfactual and, where appropriate, a non-regulatory option
- **Summary and preferred option with description of implementation plan**
- **Monetised and non-monetised cost of each option**
- **Direct costs and benefits to business calculations**
- **Wider costs and benefits**, including those raised at consultation

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

Assumptions and risks

44. The assumptions and risks within this analysis are outlined throughout the Impact Assessment.

Assumptions

45. We have assessed the impact of the policy using the best data available at this time. Estimates may be refined at secondary legislation stage and will be validated in a subsequent Post-Implementation Review. Specifically, Post-Implementation Reviews will assess:

- The number of individuals who will need to identity verify
- The number of authorised corporate service providers
- The number of obliged entities in scope of the changing discrepancy reporting requirements
- The number of filleted accounts

Risks

46. We have assessed familiarisation costs for different elements within the policy package. It is likely that some companies will have to familiarise with more than one policy change. This therefore poses a risk of overestimating the costs for business having to familiarise with this policy, if for example, Companies House communicates the changes as a package.

47. At this stage, the operational details of how Companies House will communicate with business is still being determined. It is possible that the policy package will be introduced at different times and therefore there would be no synergies in familiarisation costs for businesses. For this reason, we keep the familiarisation costs separate at this stage. We will revisit this assumption at a secondary legislation stage where/when appropriate.

48. This Impact Assessment concerns the primary legislation. This Impact Assessment has attempted to provide a best estimate for the likely impacts given the current stage of policy development. These could change, and if necessary, secondary legislation Impact Assessments will provide updated estimates.

Section 1: Registrar's powers

Policy overview

49. Currently, the Registrar's primary responsibilities are incorporating companies and displaying information about those companies on the public register. Information about companies is provided to the Registrar on incorporation and throughout the lifetime of the company through submission of various statutory filings, such as accounts and confirmation statements.
50. Companies House is currently required by law to accept information if it is 'properly delivered' and has very limited powers to correct or query information, if it suspects that something submitted to it is erroneous or fraudulent. This means that filings receive only limited checks before acceptance e.g. that the right data fields have been completed. If a filing passes these checks, Companies House is legally obliged to accept it, regardless of whether the filing is suspicious or not. The number of reports of inaccurate data remains low relative to the size of the register. Between 1 January 2017 and 31 December 2020 there were 3,259 requests to remove directors which were contested by the company and Companies House had to seek evidence that the person had consented to the director appointment.
51. The Registrar also has limited powers to rectify the register, the limited scope of which leads to stakeholder complaints. For example, the Registrar can rectify information where an individual is fraudulently appointed as a Director but is unable to rectify the register where the same individual is fraudulently appointed as a PSC. From January to December 2020 Companies House data shows there were 9,000 applications to rectify director/secretary details or a registered office address.
52. The Post-Implementation Review of the Registrar of Companies and Applications for Striking Off (Amendment) Regulations 2016 and The Companies (Address of Registered Office) Regulations 2016 identified several instances where greater Registrar powers would benefit users. For example:²⁷
 - There have been instances where directors have been fraudulently appointed to companies and affected individuals have applied to the Registrar to have their details removed, only to find that the offending company subsequently re-appoints them.
 - There have been instances where a company that has used a registered office address without being authorised to do so is moved to the 'default' address, provides an alternative registered office address, then subsequently files another change of registered office address and reverts to the previously disputed address.

Description of options considered

Option 0: Do nothing

²⁷ See: https://www.legislation.gov.uk/ukxi/2016/423/pdfs/ukxi0d_20160423_en.pdf

53. This option acts as the ‘do nothing’ counterfactual against which changes are assessed. Stakeholders during our first-stage consultations strongly supported the proposals in principle. For example, 79% of respondents agreed that Companies House should have more discretion to query information before it is placed on the register, and to ask for evidence where appropriate.
54. Under Option 0 the existing limitations to Companies House ability to engage more proactively on these issues, such as lack of power to tackle fraud and other abuses, would therefore continue.

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

55. This option will mean that the Registrar would no longer be obliged to accept documents that are delivered to her where there is reason to query the information provided, as well as to query information already on the register when it comes to the Registrar’s attention that it might be inaccurate, fraudulent, or suspicious.
56. The main elements to this option are:
- Introducing a querying power that can be exercised pre and post registration
 - Broadening powers to remove and rectify information on the register
 - Ensure that the Registrar can apply the querying power to company names
57. There are also other, technical changes including a new set of Registrar objectives aimed at improving the accuracy and integrity of register information and safeguarding against misleading or unlawful activity; extension of the ‘proper delivery’ requirements and closing loopholes that allow companies to continue to operate without providing a valid registered office address. We focus on the three core policy areas outlined above and describe each of the policy elements in turn below.
58. Additionally, the legislative change to the Registrar’s powers will enable other aspects of the policy package to take place, such as increased data sharing and identity verification, which are discussed further below.

Introducing a querying power pre and post registration

59. The Registrar currently has no power to proactively query the accuracy of information she receives. As mentioned, we propose to introduce such a querying power where the Registrar identifies an inaccuracy, error or anomaly which appears suspicious, fraudulent or may impact the integrity of the register.
60. Under this option, the Registrar will be able to query information contained in any filing delivered to her, both pre and post registration. This will include filings that have legal consequence, which means filings which take legal effect upon registration at Companies House. These include incorporation and change of registered office address.

61. The intention is to exercise the querying power using a risk-based approach, ensuring that information is prioritised for querying based on the risk it presents to the integrity of the register and its users, where it represents a risk to the UK's reputation as a good place to do business, such as where a corporate structure may be being used to facilitate crime.

Broadening powers to remove from and rectify information on the register

62. The Registrar currently has very limited powers to remove material from the register or rectify information that is inaccurate. In the December 2020 Powers of the Registrar consultation, we proposed giving the Registrar greater powers to administratively remove information to increase its accuracy. Respondents to the consultation were generally in favour of the proposals. We therefore will expand the circumstances for where the Registrar can remove material to follow a query and remove duplicate filings, as well as giving the Registrar the power to remove material outside of these circumstances.
63. Secondly, we propose that new removal powers will be able to be exercised following use of the new querying power. In other words, if the response to a query indicates that information is incorrect or inaccurate, the Registrar will have the discretion to remove the information in question. In addition, where no response is received to a query, the Registrar will be able to remove the information if it is judged to be inaccurate, misleading, or otherwise affects the integrity of the register.
64. Finally, we propose to broaden the scope of these powers so that they can apply to information that currently cannot be removed or rectified regarding shareholders and PSCs. For example, while existing powers allow the removal of information related to directors, company secretaries or LLP members, they do not, for example, apply to filings such as People with Significant Control (PSC) filings. We thus propose to broaden the power to apply to any filing.

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

65. We intend also to apply the new querying power in the context of company names to enable the Registrar to act on evidence or suspicion that a company name is to be used for malicious or fraudulent purposes or in that, in a small number of cases, the ability to register a company name is currently being abused.
66. For example, there are a few cases where companies are proposed, or registered, that are part of a campaign to target a company, organisation, or individual with whom the applicant has no connection, where the name of an international organisation or institution is being used (e.g. a bank) or where there is intelligence of fraud or other criminal activity. The ability to query the legitimacy of the company name before it is registered will help stop these instances.
67. There are two scenarios where this power would be used:
 - A company would be asked to change their name at incorporation - if they do not comply then no incorporation would occur

- The company name is missed at incorporation but receives a complaint from a third-party. If the Registrar is satisfied that the complaint is fair, then the company will be asked to change their name; if no change is made then the Registrar will replace the company's name with their Company Registration Number (CRN)

68. The aim of this additional power is to target the cases below in an act of preventing public harm and protecting the integrity of the register. The evidence that would be typically required is listed under each target:

- **Body or individual that has no connection to the company in question**
 - Evidence of connection to the individual, company, body or organisation; and
 - Confirmation from third-party if applicable that the connection is genuine
- **Current affairs to give a false veneer of legitimacy to criminal activity**
 - Evidence of company's association with the name and what they intend to do; or
 - Raise separate query with regulators to get other views, such as the FCA
- **Mimicking international bodies**
 - Similar evidence to above

Option 2: Non-regulatory option

69. A non-regulatory option would fail to address the issue of the Registrar currently being unable to query information provided to her. This option requires those who do harm to others to voluntarily desist. The government could seek to educate those who would cause harm, but with millions of companies and directors it would make targeting educational efforts near impossible. Further, education might advertise the current lack of Companies House powers. For these reasons, we do not consider that there is a viable non-regulatory option which would achieve the aims of the policy.

Summary and preferred option with description of implementation plan

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

Monetised and non-monetised costs of each option

Option 0: Do nothing

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

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

Introducing a querying power pre and post registration

74. The Registrar currently has no power to proactively query the accuracy of information she receives. We propose to introduce such a querying power which we intend to apply also to all filings, and which can be used where the information may pose a risk to the integrity of the register.
75. We expect that other measures planned under register reform will incentivise or force compliance through the design of electronic forms. For example, an individual completing a form online could be presented with drop-down box options, for which they must provide answers based on the available options. This is likely to reduce the number of errors on the register.
76. The power will be exercised using a risk-based approach, which will enable the Registrar to prioritise those filings that pose the most risk to the integrity of the register, including potentially suspicious or fraudulent activity. We initially expect the querying power to be exercised more frequently but also expect, as the Registrar’s knowledge base develops, that queries will be less frequent, especially since much information with malicious intent would be removed from the register or simply not make it on to the register any more considering the proposed changes.
77. We cannot say with certainty the number of queries that would take place following the introduction of these new powers. However, a helpful indication of how often the querying power could be exercised is the number of instances in which there may be companies or individuals operating within companies acting unlawfully. Figure 5 below provides an overview from recent years of the number of instances when Companies House has received a Government Agency Intelligence Network (GAIN) request or Data Protection Act (DPA) request from law enforcement bodies e.g., the National Crime Agency (NCA).²⁸

²⁹

Figure 5: Law enforcement referrals to Companies House (2015-2021)

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

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

²⁸ Law enforcement partners are able to request specific personal information on a individual(s) if they provide satisfactory justification for doing so e.g. they have evidence that the individual(s) are laundering money via a company.

²⁹ GAIN is a multi-agency network mainly made up of public sector agencies, set up to exchange information about organised criminals.

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

Broadening powers to remove and rectify information from the Register

80. For the same reasons set out in the assessment of the querying power, we expect that the above proposals to result in a negligible burden to currently compliant entities.
81. Where the power introduces burden on the small fraction of entities that file information incorrectly on purpose or even with criminal intent, we do not regard the exercise of the power as a regulatory burden, rather it is a measure to ensure compliance.
82. To support this, a Post-Implementation Review published in 2016 covered legislation granting the Registrar powers to change or remove specific company information from the register. Specifically, the powers applied to a director's appointment details or a company's registered office address.³⁰ The review shows that there were very few cases for either measure where those subject to the powers provided satisfactory evidence to challenge the removal of the director or change of office address.

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

83. The Registrar will have the power to ask companies to change their name, both pre- and post-registration, although we anticipate more pre-registration queries.³¹
84. We anticipate that there would be very few cases. For example, the Company Names Tribunal service, which deals with complaints between companies over the registering of names, deals with below two hundred cases a year (figure 6).³² Most cases are undefended.³³

³⁰ See: <https://www.legislation.gov.uk/ukxi/2016/599/resources>

³¹ At the pre-registration stage, the registration would be rejected.

³² See: <https://www.gov.uk/government/organisations/company-names-tribunal/about>

³³ See: <https://www.gov.uk/government/publications/company-names-tribunal-defended-decisions> and [Company Names Tribunal undefended decisions and orders - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/company-names-tribunal-undefended-decisions)

Figure 6: Company Names Tribunals Decisions, 2017-2020

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

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

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

Direct costs and benefits to business calculations

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

Wider costs and benefits

87. While the Registrar is not wholly responsible for the UK business environment, we envisage maintenance of a more reliable register, expanded powers to tackle abuse and greater data sharing powers will contribute to helping prevent economic and organised crime, as well as make the data on the register more accurate and reliable. We discuss the benefits of the policy package under section V below.

Section 2: Identity verification

Policy overview

88. The current legal framework requires Companies House to accept information from corporate entities and individuals, such as directors, in good faith. There are no checks to confirm that someone registered as a director or PSC has given their consent or is even a real person.
89. There are some cases of UK corporate entities showing false claims that individuals are company directors, as well as providing false information. In a particularly notable case, in Autumn 2020, thousands of Suspicious Activity Reports from the US Financial Crimes Enforcement Network were leaked. The reports alleged that 3,267 UK limited liability partnerships (LLPs) and limited partnerships (LPs) were set up for suspicious purposes by registration agents between 1999 and 2017. In general, ownership of these LLPs and LPs was hidden by registering them with owners that were companies based in so called 'secrecy jurisdictions' - where companies can be registered without publicly revealing who owns them. This allowed the UK partnerships to be owned and controlled anonymously and potentially used to launder money.³⁴

Description of options considered

Option 0: Do nothing

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

Option 1: Introduction of identity verification (preferred option)

91. Responses to the September 2019 consultation showed overall support for introducing identity verification to help ensure that the identities behind companies were real.³⁵ Representatives from business, professional bodies, law enforcement and civil society strongly supported the proposals, demonstrating a consensus that tighter requirements on verification are the way forward:
- 91% of respondents agreed with the general premise that Companies House should have the ability to check the identity of individuals on the register. Respondents highlighted benefits of identity verification such as increased accuracy of Companies House data and the prevention of economic crime
 - 81% of respondents agreed with the proposal for mandatory identity verification of directors, recognising it to be essential for effective implementation of the verification policy

³⁴ See: <https://www.icij.org/investigations/fincen-files/how-signatures-in-public-data-helped-expose-the-uks-dirty-money-cottage-industry/>

³⁵ See: <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform>

- 88% of respondents also agreed that identity checks should be extended to existing directors and PSC
- 84% agreed that that government should require presenters to undergo identity verification and not accept proposed incorporations or filing updates from non-verified persons

92. Responding to its 2019 consultation, the government outlined that it will:

- Introduce compulsory identity verification for all directors (and equivalent) and PSCs of UK registered entities³⁶
- Introduce compulsory identity verification for all individuals who file information on behalf of a UK registered entities (non-Anti Money Laundering registered presenters)³⁷
- Continue to allow company incorporations and filings to be made either directly at Companies House or via an agent. In future, only properly supervised agents would be able to file information (referred to as an authorised corporate service provider, or 'ACSP').³⁸ They will be required to provide evidence of the verification they have undertaken, and we will avoid duplicating identity checks
- Additionally, overseas relevant legal entities (RLEs), will also be subject to identity verification requirements.³⁹ Overseas RLEs may have management structures that are different to those in the UK and may not have recognisable directors. In this case, we will require an RLE to nominate a related individual, ideally in a management capacity, to identity verify (i.e. a relevant officer).

93. The aim of identity verification is to help improve the reliability of the information on the register by requiring individuals associated with UK registered entities to prove they are who they say they are.

94. Companies House will ensure the identity verification is inclusive and accessible and will provide digitally assisted methods for those who need support to verify their identity electronically. However, the operational process is still being developed, which has implications for our cost estimates, making them tentative at this stage.

³⁶ Registered entities include companies, corporate bodies subject to Companies Act 2006 disclosure requirements and certain non-corporate forms with similar disclosure requirements.

³⁷ A non-Anti Money Laundering (AML) presenter is anyone submitting filings to Companies House (including incorporations) through a direct account (i.e., not through an ACSP). To file, presenters will need to create an account and verify their identity with Companies House. If an individual already has a verified account with Companies House (i.e., if they are a director or PSC) then they will not need to verify again to be a presenter. A common example of a non-AML presenter would be a company secretary.

³⁸ An ACSP will in all cases be a Trust or Company Service Provider ('TCSP', as defined in the Money Laundering and Terrorist Financing (Information on the Payer) Regulations 2017 (the 'MLR'), or offer or intend to offer services which fall within that definition.

³⁹ An RLE is an entity that meets the PSC threshold of control and also meets conditions on relevance (holding its own PSC register or trading on certain regulated markets) and registrability (it must be the first entity in a chain of ownerships). If an RLE fulfil these conditions, it must be registered on a company's PSC register.

95. Additionally, the government will introduce measures to void the appointment, and prevent the registration, of individuals acting as directors (and equivalents in other entities) who are disqualified (without the permission of the court), undischarged bankrupts (without the permission of the court) or a designated person under section 9 of the Sanctions and Anti-Money Laundering Act 2018.⁴⁰

Option 2: Option 1 with the addition of shareholder verification

96. Option two is option one with the addition of shareholder verification. Management information from Companies House suggests that approximately 50% of shareholders of (non-traded) private limited companies are also PSCs.⁴¹ This means the additional task of verification would fall to those shareholders who are not deemed to exercise significant influence of control, which could generate a disproportionate burden on investors. The government is wary of extending burdens to investors and views the requirement to verify all shareholders as a disproportionate burden. Further measures on changing requirements of shareholders are covered under the transparency of ownership section of the Impact Assessment.

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

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

Option 4: Non-regulatory option

98. A non-regulatory option would fail to address the issue that it is currently possible for individuals to provide erroneous/fraudulent information on the register. We do not believe that a voluntary approach to identity verification would be sufficient to achieve our policy aims. It would allow criminals and those seeking to abuse UK registered entities to continue to do so. We therefore consider it necessary to create a mandatory identification regime, something which was strongly favoured by respondents to the 2019 consultation.

⁴⁰ Within our analysis, we are only interested in the cost on legitimate business. Given these individuals are 'unwanted directors', any costs they may face due to this proposal is not considered. By preventing these individuals from being able to register as controllers of companies, who may be more likely to undertake illegitimate activities, we envisage there to be a benefit to business.

⁴¹ Internal Companies House analysis, 2019

In order to introduce a mandatory regime, we need to make amendments to primary legislation. Legislative changes allows us to create legal obligations on those required to verify their identity with corresponding sanctions in place for non-compliance.

Summary and preferred option with description of implementation plan

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

Monetised and non-monetised costs of each option

Option 0: Do nothing

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

Option 1: Introduction of identity verification (preferred option)

Numbers in scope

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

103. We take each of these groups in turn.

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

104. Under the policy proposal, the following officers fall into the categories of directors, PSCs and equivalents who will be required to verify their identity:⁴²

- Directors of companies
- Corporate directors
- Presenters
- General partners of limited Partnerships (LPs) including Scottish limited partnerships. This includes corporate general partners.
- Limited liability partnership (LLP) Members
- Individual PSCs and relevant officers of Relevant Legal Entities⁴³
- Natural person directors of corporate directors
- LLP corporate members
- Natural persons of LP Corporate general partners
- Overseas directors
- Corporate director of an overseas company
- Community Interest Company (CIC) directors
- Individual PSCs of Scottish General Partnerships and Scottish Limited Partnerships
- Individual PSCs of unregistered companies

105. We need to understand the current number of these officer types.

106. There is a considerable overlap between directors and PSCs as most companies are small, with one or two directors at most. In these cases, the directors meet one or more of the conditions for significant control and therefore are PSCs.⁴⁴ For example, Companies House statistics shows that in 2020/21 there were 1.60 directorships per company and 1.28 PSCs per company.^{45 46}

107. Currently, there is no way to identify 'unique officers' on the registers - the count of unique individuals on the register who are a director or a PSC. As an individual only needs to identity verify once, adding the numbers of PSCs and directors separately would lead to double counting, which would overestimate the costs of this proposal.

108. Companies House used two approaches to matching individual records to identify unique officers at the end of the financial year 2020/21. The approaches were to match on first and second names and date of birth, using:

⁴² List of required officer types provided by Companies House

⁴³ We focus our analysis on officers and non-AML presenters, as they make up the vast majority of individuals who would need to identity verify

⁴⁴ Most PSCs are those who hold: more than 25% of shares in the company, more than 25% of voting rights in the company and/or the right to appoint or remove the majority of the board of directors

⁴⁵ See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021>

⁴⁶ Directorships is not the same as a count of directors as an individual may hold multiple directorships

- **A search within each entity record:** For example, Officer A is an individual PSC and a director of Company A, and a director of Company B. Officer A is counted twice: once as a unique officer for Company A and once as a unique officer of Company B. This approach will lead to double counting and is therefore our high scenario.
- **A search across the register:** For example, Officer A is an individual PSC and a director of Company A, and a director of Company B. Officer A is counted once only. However, currently there is no process in place to ensure the consistency of officers' details across the register, and therefore this is our low scenario.⁴⁷

109. Additionally, Companies House does not currently collect data on the officers of limited partnerships, and therefore we need to estimate the number of general partners that would need to be identity verified.⁴⁸ To do this, we took the average number of officers per active company and multiplied by the number of estimated active limited partnerships, suggesting 11,517 general partners.⁴⁹

110. Based on the analysis outlined above, we estimate that there are currently between 5.9 million (low) and 8.9 million (high) unique individuals that would need to identity verify. For our central estimate, we add 25% of the difference between these values to the low scenario rather than take an average of the two scenarios. We know that the higher scenario leads to double counting and thus will lead to an overestimate if we were to use an average. This approach also leads to around 1.5 unique officers per company, which given there were 1.6 directorships and 1.28 PSC per companies as referenced in paragraph 105 above, appears to be a reasonable estimate.

111. We get 6.6 million officers for our central estimate which is summarised in figure 7 below.

Figure 7: Estimated current stock of officers who must identity verify

	Low	Central	High
Total	5,900,000	6,600,000	8,900,000

Source: Internal Companies House data and analysis, 2022. Includes estimates on the number of general partners of limited partnerships

112. We need to estimate the split between those who will identity verify digitally and identity verify through digitally-assisted methods. Companies House analysis found that 0.5% of officers had not submitted any digital transactions but had submitted at least one paper transaction from 1 April 2019 to 31 March 2021. We assume that officers of entities submitting a paper transaction are most likely to use an assisted-digital verification process, but we recognise that the continuing shift to digitisation at Companies House may reduce the size of this group as they switch to digital filing.

⁴⁷ For example, an individual could put 'Jon Smith' for Company A and 'Jonathan Smith' for Company B and would thus not be captured.

⁴⁸ Officer details of LLPs are currently collected, however.

⁴⁹ Assuming a best estimate of 6.6 million officers and 4 million active companies produces an average of 0.67 officers per company. As of 31 March 2021, Companies House internal analysis estimates there were 17,244 active Limited Partnerships, thus we estimate there are 11,517 general partners.

113. Based on the above, we apply 0.5% to our population of unique officers identified in figure 7 above. This provides an estimate that between 30,000 and 44,000 would be assisted-digital verifiers (figure 8), with a central estimate of 33,000.

Figure 8: Estimates current stock of officers who must identity verify, digital and assisted-digital verifiers

	Low	Central	High
Assisted-digital verifiers	30,000	33,000	44,000
Digital verifiers	5,800,000	6,600,000	8,800,000
Total	5,900,000	6,600,000	8,900,000

Source: Internal Companies House data and analysis 2022. Totals may not add up due to rounding. Includes estimates on the number of general partners of limited partnerships

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

114. We now need to estimate the flow of individuals who identity verified over the ten-year appraisal period. This will be determined by the number of new directors and PSCs each year through either a new incorporation or appointed through an event driven filing (e.g. change in director).^{50 51}

115. It is important to note that the length of time for which the identity verification is valid ('the retention period') is yet to be determined. For this reason, our analysis assumes that once an individual is verified, they will remain so. Therefore, as the flow progresses, the stock of identity verified individuals will be bigger than the current number of directors or PSCs at a point in time. If a retention period is introduced, then this would lead to an outflow of individuals losing their verified status and this would reduce the stock of identity verifications. Once the retention period has been determined, we will incorporate this into our analysis.⁵²

Number of unique officers appointed each year on the register

116. Similar to above, Companies House provided estimates of the number of new unique officers on the companies register each year in the past five years. These estimates take into account historic growth in the number of corporate entities.⁵³ This was done by looking at the earliest appointment date of an officer each year - if Officer A was appointed in 2016, resigned in 2017 and was reappointed in 2019 - Officer A would not be counted as a new officer in 2019/20. The estimate of new appointments between 2016 and 2021 is shown in figure 9.

⁵⁰ Given the small number of general partners of Limited Partnerships estimated, we will not consider these within our estimates of the flow.

⁵¹ For example, an event driven filing occurs where an existing company replaces a director.

⁵² We also tried to quantify the number of directors with an overseas address as burdens on these do not count as a direct cost to business under Green Book guidance. Companies House have only recently standardised the nationality field to a drop-down list. Previously this was free text and returned more than 5,000 unique nationalities and therefore challenging to filter this data. For this reason, we did not explore this any further.

⁵³ Between 2016/17 and 2020/21 the number of corporate entities increased from 4.03 million to 4.88 million.

<https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021> Table C1.

Figure 9: Estimated number of new unique officers appointed each year, 2016-2021

	2016/17	2017/18	2018/19	2019/20	2020/21
Low	1,140,000	652,000	645,000	635,000	690,000
High	2,190,000	1,425,000	1,435,000	1,436,000	1,561,000

Source: Internal Companies House data and analysis 2022

117. Volumes were higher in 2016/17 due to the implementation of the Fourth-Anti Money Laundering Directive 2016. Following implementation there was a twelve-month transition period for all existing companies to inform Companies House of their PSC with new incorporations informing us upon incorporation, which caused the spike in new appointments during that period. We therefore exclude 2016/17 data from our estimates.

118. As above, we again add 25% to our low estimate for our central scenario. Figure 10 below summarises our estimates for the number of new individuals who will need to identity verify each year.

Figure 10: Estimated flow of new unique officers on the register each year

Flow of officers per year	
Low	656,000
Central	858,000
High	1,464,000

Source: Internal Companies House data and analysis 2022

119. The size of the register has increased over time, which raises the question whether our historic estimates of officers should be increased to account for more register activity in the future. This assumes that identity verification and other measures in this Impact Assessment have no impact on the number of incorporations. It is possible that the number of individuals (and more widely, companies) on the register post-reform may go down due to individuals not wanting to provide further information in line with the new requirements. In contrast, more accurate and reliable company data may encourage individuals to incorporate. In the absence of any robust evidence, we will use previous trends within our analysis and monitor this data following implementation ahead of a Post-Implementation Review.

120. Additionally, there was a notable increase in the number of incorporations over the Covid-19 pandemic, which may have led to the increase in seen in 2020/21.⁵⁴ The numbers in 2017-2020 were broadly steady. We opt to include 2020/21 in our flow estimates as, despite it being a significantly high increase, it may reflect an increase in incorporations (and thus an increase in unique officers on the register).

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

121. In many companies, especially small and micro-businesses, it is the director who submits filings. Larger companies may have dedicated resource, such as company secretaries, who

⁵⁴ See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021>. Between 2016-2020, the average number of incorporations was 640,000 per year in the United Kingdom. In 2020/21 this was 810,000

file on a director's behalf. In this scenario, to submit a filing, company secretaries will need to have verified their identities as presenters.

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

123. Therefore, we make two assumptions:

- That it would only be medium and large UK companies who would have a non-AML presenter file on their behalf e.g., the company secretary. We assume that for each of these companies, this will be one individual.
- That non-AML presenters in medium and large companies will verify digitally because they will already be familiar with digital filing processes with government. For example, it has been mandatory for large companies to file their accounts digitally with HMRC since 2011.⁵⁵

124. The FAME database suggests that in September 2021, there were around 163,000 medium and large UK companies.^{56 57} From this, we estimate that there are 163,000 non-AML presenters who will also be required to verify their identity under the proposed requirements.

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

- New large or medium sized companies join the register - a snapshot of data from FAME between September 2020 to September 2021 found less than 50 new large and medium sized companies incorporated in the UK out of an approximate 700,000 incorporations. We therefore assume the number of new companies using non-AML presenters each year will be negligible.
- The turnover of staff who act as non-AML presenters (e.g. if they change job) - in 2020, the average job tenure was 8.6 years.⁵⁸ Therefore, we assume that after 8.6 years the entire population of presenters would change. We spread this change proportionately out over the 8.6 years to assume around 19,000 new presenters each year. This is summarised in figure 11 below.

⁵⁵ See:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/942160/Consultation_on_improving_the_quality_and_value_of_financial_information_on_the_register.pdf

⁵⁶ The FAME database contains information on companies registered at Companies House in the UK. It covers company financials, in detailed format, with up to 10 years of history, detailed corporate structures and the corporate family, shareholders and subsidiaries. Figures from the FAME database may differ slightly from Companies House annual publications, as FAME extracts and captures data from the companies register more frequently.

⁵⁷ For any company larger than a small company defined by, see: <https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts>

⁵⁸ See: https://stats.oecd.org/Index.aspx?DataSetCode=TENURE_AVE#

Figure 11: Estimated number of non-AML presenters who would need to identity verify

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

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

Familiarisation costs

Individuals who verify their identity

126. Individuals will need to familiarise themselves with this policy change:

- An individual verifying themselves will need to understand how to complete the process
- Individuals verifying through an ACSP will need to understand what they need to do with the ACSP to complete the process

127. The operational details of how individuals will become aware of this policy is still being determined. However:

- Companies House will aim to use digital methods to make it easy and intuitive to understand what is now required of them
- The familiarisation process is likely to involve an individual reading a letter, web page or email inviting them to identity verify and a short time to digest a few instructions
- Individuals also need to identity verify in numerous other circumstances (e.g. setting up a bank account)
- The familiarisation process should not require training of staff, changes to business processes or briefing sessions for entire teams.

128. We do not envisage the familiarisation process will be burdensome. Thus, we estimate that this will take around fifteen minutes per individual to understand what is expected of them. These costs will apply to any individual that needs to verify their identity. We will revisit this estimate in a future Post-Implementation Review.

129. Given it will be directors/PSCs who need to identity verify, we cost this at the opportunity cost of their time valued using the median hourly pay rate (excluding overtime) for managers, directors and senior officials from the Annual Survey of Hourly Earnings

(ASHE) in 2020, uplifted by 20% to account for non-wage labour costs.^{59 60} Using the GDP deflator to bring this into 2019 prices, this is £23.69 per hour.⁶¹

Authorised Corporate Service Providers (ACSP)

130. ACSPs will also need to familiarise themselves with the identity verification process. This falls into a wider set of proposals on ACSPs, which we explore in the section below.

One-off costs (the costs of verifying the stock)

131. The section below outlines the one-off costs for business of having to comply with the identity verification requirements for the current stock of unique officers.

Identity verification for individuals verifying on their own account

132. Where individuals successfully verify an identity digitally, they will incur the time cost of doing so. We expect the process of identity verification, when done digitally, to take a few minutes. This is the case for digital systems, already deployed by some banks and other organisations. For example:

- The Government Digital Service estimates that it takes up to fifteen minutes to verify an individual's identity when done for the first time. Further verifications after that could take a couple of minutes.⁶²
- Trust ID states that it can take a few minutes to verify an individual's ID document.⁶³
- Some companies state that their identity verification checks can be completed within five minutes.^{64 65 66}

133. However, to account for the possibility of mistakes caused by a lack of familiarity with the process we use a range of five (low) to fifteen (high) minutes for completing the digital identity verification process, with a central estimate of ten minutes. We will explore the available data on time cost of this task once implemented and revisit this estimate in a subsequent Post-Implementation Review. Again, we use the ASHE earnings data for directors in our calculations.⁶⁷

⁵⁹ See:

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

⁶⁰ Non-wage costs include sickness, maternity and paternity pay, National Insurance contributions and pension contributions.

⁶¹ GDP deflator data, source: <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp>

⁶² See: <https://www.gov.uk/government/publications/introducing-govuk-verify/introducing-govuk-verify>

⁶³ See: <https://www.trustid.co.uk/our-services/online-id-document-checks/>

⁶⁴ See: <https://support.taskrabbit.com/hc/en-gb/articles/360035690652-How-Long-Will-It-Take-to-Verify-My-Identity->

⁶⁵ See: <https://help.kriptomat.io/en/articles/1986005-how-much-time-does-the-identity-verification-process-take>

⁶⁶ See: <https://help.venmo.com/hc/en-us/articles/360027356113-Identity-Verification>

⁶⁷ Given that we do not know who will be verifying their identity in the instance of a non-AML presenter, we also use the wage rate of a director. This might be an overestimate if the verification process is carried out by a company secretary on the director's behalf. As the hourly wage for a company secretary is £13.73 (in 2019 prices, including non-wage labour costs), however given the small number

134. There may be a fee charged at the point of verification, though at present, the Government Digital Service ‘Verify’ platform does not charge the end user for the service. As a charge for a service, the fee would not be included within the EANDCB.⁶⁸ Given the uncertainty over the fee we do not include it in our cost estimates though we do include the costs to Companies House of delivering identity verification in the Net Present Social Value (NPSV).⁶⁹ These costs are set out in a separate section of the Impact Assessment (part IV).

Those who verify their identity digitally via an ACSP

135. Individuals who verify their identity digitally or with an ACSP will undergo a similar process to that above, and therefore it will also take them between five (low) to fifteen (high) minutes to complete this process, with a best estimate of ten minutes. We use the same methodology of using time costs as outlined above.

136. Additionally, it is unclear whether ACSPs would charge for this service as they commonly charge for incorporation services as a package. The cost of the package must be competitive with incorporation and other services provided by Companies House. We therefore do not include an additional cost for this service.

Identity verification for assisted-digital verifiers

137. Currently, the details of the process for assisted digital verification are still being explored. There are several possible assisted digital models under consideration, including possible use of the counter services of other government departments to support individuals to complete the digital verification process.

138. At this stage, there is minimal evidence of how much this will cost individuals in terms of time spent, although it is likely that it will be more than the direct digital route, particularly if an individual is required to visit a third-party office to undertake this process. Although a different process, if an individual is to get a passport urgently (another way of confirming your identity) and requires an appointment, it can last up to thirty minutes.⁷⁰ This would only include the time for the appointment and not wider costs, e.g. collecting this information. Therefore, to account for this uncertainty, we assume this will take between thirty (low) and sixty minutes (high) to complete (and therefore a central estimate of forty-five minutes). We will continue to explore the costs of this as this policy develops, although as explained above, this will impact a small proportion of those who will be verifying their identification.

Annual costs (the costs of verifying the flow)

⁶⁸ Taxes, duties, levies or charges fall under the statutory exclusion of the SBEE Act (section 22). See: <https://www.gov.uk/government/publications/better-regulation-framework>

⁶⁹ Assuming full cost recovery, the appropriate NPSV treatment is either to include either the fee for identity verification or the costs incurred by Companies House to deliver identity verification. To include both would lead to double counting.

⁷⁰ See: <https://www.gov.uk/get-a-passport-urgently>

139. For any new identify verifiers, they will need to understand this policy and get their identity verified, thus will incur familiarisation and one-off costs of this policy. We envisage these costs are similar to these incurred by the current stock of officers.
140. Additionally, we envisage that once digital processes become embedded at Companies House all identity verification takes place using digital methods, and it will be a minority who use the assisted digital route. This means that the flow does not use the assisted digital verification route.

Direct costs and benefits to business calculations

141. Figure 12 below provides an overview of the cost estimates in the low, central and best scenarios outlined above. For our central estimate, we get a NPV of -£133m and an Equivalent Annual Net Direct Cost to Business of £15m.

Figure 12: Summary of cost estimates for identity verification over 10-year appraisal period

	Estimated stock of digital identity verifiers	Estimated stock of assisted-digital identity verifiers	Estimated stock of non-AML presenter verifiers	Estimated flow of new unique officers	NPV (£m)	EANDCB (£m)
High scenario	8,800,000	44,000	163,000	1,500,000	-241	28
Central scenario	6,600,000	33,000		900,000	-133	15
Low scenario	5,800,000	30,000		700,000	-88	10

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

Wider costs and benefits

143. We envisage that all businesses will benefit from greater assurance from the register when they are consulting it to research potential suppliers and partners, as well as enabling law enforcement to easier identify fraudulent and incorrect information on the register. We discuss benefits in further detail in **section V** below.

Section 3: Authorised Corporate Service Providers (ACSPs)

Policy overview

144. Setting up and operating a company used to be a complex, largely paper-based process. Many people used third parties – i.e., Trust or Company Service Providers (TCSPs), including (for example) company formation agents, solicitors and accountants - to assist them. As Companies House processes have moved online and become more efficient, fewer are doing so. We estimate that around fifty percent of new incorporations currently use an agent.⁷¹
145. These agents are required by the Money Laundering Regulations to carry out customer due diligence checks, which includes verifying their identity.⁷² These requirements are slightly different to those proposed under identity verification, as they are currently required to verify a ‘customer’, rather than the specific requirements on directors (or equivalents) and PSCs.
146. Intelligence from law enforcement suggests that those using companies to carry out criminal or corrupt activity and/or launder the proceeds overwhelmingly use agents. The agent’s involvement may be witting or unwitting.

Description of options considered

Option 0: Do nothing

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

Option 1: Registration of ACSPs (preferred option)

148. In its 2020 consultation response, the government set out its intention that, to file information on a client’s behalf, an ACSP would first need to open an account with Companies House. This would include details of the agent and its supervision for Anti-Money Laundering purposes (‘AML supervisor’).⁷³
149. The government proposes that Companies House will require an ACSP to submit the following information:

- The name, physical address, and email address of the ACSP

⁷¹ Based upon the percentage of software filings (more likely to be used by agents) measured against the total digital filings for specific transaction types in 2020/21.

⁷² See: <https://www.gov.uk/guidance/money-laundering-regulations-your-responsibilities>

⁷³ This includes Professional Body Supervisors such as the major accountancy bodies (listed in Schedule 1 of the Money Laundering Regulations), HMRC and FCA. This list can be found here:

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

- The registration number or a copy of the certification details given to the ACSP by their supervisor, where this exists
- The name of the natural person who is submitting the application for registration
- The account credentials supplied to the ACSP by Companies House
- The legal form of the agent and where it is registered

150. Companies House will then check that the agent is supervised for AML purposes prior to the ACSP's account application being accepted and created.

151. In addition to this:

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

Option 2: Non-regulatory option

152. A non-regulatory option has not been considered as, to deliver our policy intent, we require confirmation that ACSPs are supervised for AML purposes and are required to complete customer due diligence procedures, including identity verification checks, on applicable persons.

Summary and preferred option with description of implementation plan

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

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

Monetised and non-monetised costs of each option

Option 0: Do nothing

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

Option 1: Registration of ACSPs (preferred option)

Numbers in scope

156. We currently do not know how many agents there are currently filing on behalf of companies. By introducing these reforms Companies House will have a greater understanding of who these agents are. It is likely that ACSPs, whose role includes setting up and file on behalf companies, will be using software to do so rather than directly through the Companies House Webfiling service. Companies House have therefore undertaken analysis estimating the number of agents by looking at the number of unique email addresses belonging to filers who use software.⁷⁴

157. Between 1 April 2020 and 31 March 2021, Companies House internal analysis found a total of 25,614 unique email addresses by those who filed using software. Therefore, we estimate that there are currently approximately 26,000 ACSPs.⁷⁵

158. To support this, HMRC data shows there were around 27,000 TCSPs either supervised by professional bodies or by HMRC in December 2021, with these numbers remaining fairly stable over time.⁷⁶ Engagement with HMRC shows that the population of TCSPs includes a wide variety of businesses, who often act as ACSPs, for example, large accountancy firms or single owned law and accountancy practise. Therefore, we estimate there are 26,000 ACSPs.

159. Engagement with HMRC shows that the population of TCSPs is a wide variety of businesses, from large accountancy firms to single owned law and accountancy practises.

Familiarisation costs

160. ACSPs will need to familiarise themselves with two policy changes:

⁷⁴ This may potentially be an overestimate, as individuals themselves can also buy software to undertake their filing but are significantly less likely to do this than go through the free Companies House service and by looking at unique email addresses, we run the risk of double counting as agents may have more than one email address for their company.

⁷⁵ This does not include ACSPs who do not currently file digitally, although as outlined in the financial information section, we know most companies do so.

⁷⁶ All ACSPs would need to be a TCSPs, but not all TCSPs would be ACSPs (i.e TCSPs can offer wider services, such as providing a registered office address). Therefore, 26,000 is likely to be an upper bound.

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

161. The process for how Companies House will engage with business on this policy change is still being determined. Engagement with HMRC tells us that all supervisors currently provide regular guidance to their supervised population. A wide range of tools are used, including webinars, podcasts, e-mails. It is likely that a similar method will be used in this scenario and a process they will be aware of.

162. Given what is currently required of ACSPs when they act as a TCSP, we believe they will find any changes in requirements straightforward. We envisage this will cost between thirty minutes (low) and one hour (high) of a company director of a ACSPs time to familiarise with this policy change. We assume a central estimate of forty-five minutes. This estimate will be revisited in a future Post-Implementation Review.

163. The familiarisation process, for larger agents, may require training of staff, changes to business processes or briefing sessions for entire teams. However, we currently envisage that, within an ACSPs, it must be a director (or equivalent) who will need to familiarise with the policy changes. We use the hourly wages (excluding overtime) for managers, directors and senior officials using Annual Survey of Hourly Earnings (ASHE) data.⁷⁷ Using 2019 prices and uprating to include non-wage labour costs, this leads to an hourly cost of £23.69.

One-off costs

164. ACSPs will need to register with Companies House and provide the information outlined in paragraph 149.

165. These will depend on the organisation as to who will register the third-party with Companies House. For example, we imagine that for smaller companies it is likely to be the director but could potentially be a business manager for a larger company. Due to the rationale outlined in paragraph 163, we will use the hourly wages for directors as before.

166. Companies House will aim to use digital methods to make it easy and intuitive to apply the new requirements on these companies. We assume that it takes between forty-five minutes (low) and seventy-five minutes (high) to complete this process, with a best estimate of an hour.

Annual costs

167. As it stands, the ongoing costs to ACSPs are likely to be negligible. There may be instances where re-verification is required, for example if someone changes their name, to

⁷⁷ See:

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

meet the requisite level of assurance or enable the ACSPs to obtain supplementary documentation.

Costs to supervisory bodies

168. There will be some costs for the supervisors of ACSPs. They will need to familiarise themselves with these policy changes and understand the relationship they will build with Companies House. As a supervisory body we envisage understanding this process will be similar to other requirements of them under their wider role within the Money Laundering Regulations. For this reason, we do not include any costs to supervisory bodies.

Direct costs and benefits to business calculations

169. Our cost calculations have focused on year one costs and therefore can be seen as our lower bound estimates. Figure 13 below summarises the costs of this policy.

Figure 13: Estimated year one costs for policy changes to ACSPs

	Estimated number of ACSPs	NPV (£m)	EANDCB (£m)
High scenario	26,000	-1.39	0.16
Central scenario		-1.08	0.13
Low scenario		-0.77	0.09

Wider costs and benefits

170. The wider benefits of this policy package and how they fit together are outlined in **section V** below. Supervision gives a level of assurance that the ACSPs can conduct identity verification checks to a sufficient standard and that the ACSPs will be monitored for any irregularities.

Section 4: Transparency of ownership

Policy overview

171. The purpose of the companies register is to provide details of company ownership. This was a necessary condition for passing legislation in the nineteenth century offering limited liability to a company's members.
172. This was strengthened by the introduction of the PSC rules in 2016, which introduced the requirement to look through legal share ownership and disclose those who hold the right to exercise, or who exercise, significant influence or control over the company (i.e., the beneficial owners).⁷⁸
173. Currently, all companies, whether traded or not, are required to provide details of shareholders to Companies House on incorporation and indicate on a subsequent confirmation statement whether there have been any changes. Private companies are required to provide names for all shareholders and traded companies are required to provide the same (and addresses) for all shareholders holding more than 5% of the company's share capital.
174. However, users of the register have told us that there are some problems with the way company ownership data is recorded:
- Users report there is insufficient information on shareholders and that they have difficulties accessing ownership and control information in some situations. An issue which has been raised is the difficulty experienced by third parties to try to identify all shareholders of a company. Under the current requirements, you may only be able to see a shareholder is 'J Bloggs' rather than their full name. The government has also received complaints that the change from companies submitting an annual return, with a full list of shareholders every three years, to an annual confirmation statement which provides a list of new shareholders has made it more difficult for third parties to find out who all the members of a company are
 - Additionally, evidence from transparency groups, and from Companies House, suggests certain exemptions from the PSC requirements have been exploited
 - Some companies have falsely claimed to be traded or claimed to be owned and controlled by a so-called Relevant Legal Entity (RLE), which undermines the integrity of the register

Description of options considered

Option 0: Do nothing

⁷⁸ See: <https://www.gov.uk/government/publications/guidance-to-the-people-with-significant-control-requirements-for-companies-and-limited-liability-partnerships>

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

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

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

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

177. We explore each of these in turn below. The aim of these measures is to improve the transparency of who owns and has an interest in companies by collecting more information.

Introducing a requirement on companies to provide full names for shareholders and for companies to provide a full, one-off shareholder list containing the full names of their shareholders⁷⁹

178. We will:

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

⁷⁹ We have used the term shareholders throughout, and we mean by this both subscribers and members. Members and shareholders are often used interchangeably in the Companies Act 2006 e.g. shareholder names are recorded in the register of members (Section 113 of the Companies Act 2006), but members can also refer to those who are the named guarantors of companies limited by guarantee.

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

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

180. Companies with voting shares admitted to trading on a regulated market in the UK or EU or on specified markets in Switzerland, the USA, Japan and Israel are exempt from the requirement in Part 21A of the Companies Act 2006 to maintain a register of their PSC and to file this information with Companies House.

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

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

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

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

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

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

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

- It keeps its own PSC register (so is a UK incorporated company or LLP subject to the PSC regime).
- It has voting shares admitted to trading on a regulated market in the UK or another member of the European Economic Area, or on specified markets in Switzerland, the USA, Japan and Israel.⁸⁰

186. There is evidence to suggest that where a company has provided RLE details, it is difficult for searchers to check whether that entity is traded on a regulated market. Internal Companies House evidence also shows some companies who entered a RLE in their PSC register were not eligible to do so. Companies House have received queries as to what overseas legal entities can be a RLE and there is a concern as to whether the legislation/guidance is sufficiently clear on this.

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

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

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

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

Option 2: Additional proposals on transparency of ownership

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

⁸⁰ See: <https://www.legislation.gov.uk/ukdsi/2016/9780111143018/schedule/1>

restrict access to such information to Companies House and to other public authorities.

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

Option 3: Non-regulatory option

192. On providing more shareholder information, a non-regulatory option would require companies to provide this information based on guidance alone. We do not envisage guidance providing a strong enough incentive for disclosure. As there is currently no legislative requirement to provide full names, whilst some companies do this voluntarily, many companies simply provide an initial and surname. Leaving this to guidance could mean only a marginal amount of additional information is provided, which would not meet the policy intent. With no mechanism to enforce compliance we may need to later make a legislative change to achieve this.

Summary and preferred option with description of implementation plan

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

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

Monetised and non-monetised costs of each option

Option 0: Do nothing

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

Option 1: Increased transparency through a package of reforms

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

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

Numbers in scope

197. This section outlines the different company types which will be impacted by this policy change, and what costs we envisage they will incur. The company types that will need to comply with this policy change are active:⁸¹

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

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

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

199. These costs will vary depending on entity type/size, which is explored below.

Traded companies

200. As of September 2021, the FAME database indicates there were around 1,600 active traded companies.⁸² For traded companies, the details of a shareholder's full name will only be provided to Companies House if there is a shareholder with 5% or more of total share capital. Traded companies must already provide this information to the Financial Conduct Authority (FCA), who they must notify when they disclose a major shareholding of 3% or more.⁸³

201. We expect traded companies to incur the cost of familiarisation with the proposed requirement and will incur a one-off cost of having to provide the full names of their shareholders. Due to the reasons outlined in the previous paragraph it is reasonable to believe that traded companies will already hold the full names of their shareholders, and therefore will not have to collect this information. For example, company directors have an obligation to seek shareholder approval for certain actions and so they need to already collect basic shareholder information (e.g. name, address) so that approval can be sought. Additionally, as we're only looking for shareholders with more than 5% or more of total share capital, there will be a maximum of twenty shareholder names which will need to be shared with Companies House.

Non-traded companies limited by shares

⁸¹ The outlined list makes up the vast majority of company types on the register.

⁸² Figures from the FAME database may differ slightly from Companies House annual publications, as FAME extracts and captures data from the companies register more frequently and also provides filters that Companies House does not e.g., filtering for listed or unlisted companies.

⁸³ See: <https://www.handbook.fca.org.uk/handbook/DTR/5/1.html>

202. Figure 14 shows the number of active, non-traded companies limited by shares that would need to comply with the requirement to provide full names of their shareholders from the FAME database.
203. Around 4.6 million non-traded companies will be required to comply with the proposed requirements - most are private limited companies, as well as 3,700 public companies and 4,200 unlimited companies.
204. Existing non-traded companies limited by shares, will need to provide a one-off list of their shareholders' full names. We therefore anticipate that there will be both familiarisation and compliance costs to non-traded companies, as they will need to contact shareholders to ask for their full names (if not already held) and provide a one-off update of their register of members.

Figure 14: Number of active non-traded companies limited by shares

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

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

Companies limited by guarantee

205. Companies limited by guarantee will also be required to comply with these proposals. However, we will only collect full names for subscribers of companies limited by guarantee which are incorporated *after* the commencement of the reforms. We will not apply this to existing companies limited by guarantee, of which the FAME database indicates there around 132,000, as there is no mechanism or obligation for them to update Companies House if there are changes to its guarantors, i.e., if a guarantor pulls out. We predict that it would be disproportionate to create a mechanism to provide updates. These companies are usually charities, and guarantors usually pay a nominal amount of £1. Companies House have not received complaints about the lack of information on companies limited by guarantee or about accessing that information which is available.
206. Figure 15 below outlines the expected costs incurred by the impacted companies.

Figure 15: Summary of expected costs incurred by impacted companies due to new shareholder name disclosure requirements

Company type	Familiarisation costs	One-off compliance costs: submitting list of shareholders to Companies House	One-off compliance costs: collecting shareholder's full names	Number of companies
Traded	✓	✓		1,600
Non-traded limited by shares (private limited, public un-traded, unlimited)	✓	✓	✓	4,600,000
Limited by guarantee				132,000

Source: FAME database, September 2021

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

Familiarisation costs

208. The operational details of how individuals will become aware of this policy are still being determined. However:

- Companies House will aim to use digital methods to make it easy and intuitive to understand what is now required of them
- The familiarisation process is likely to involve an individual reading a letter, web page or email inviting the individual to provide full names for their company's shareholders and a short time to digest a few instructions
- The familiarisation process should not require training of staff, changes to business processes or briefing sessions for entire teams

209. We envisage that the process itself will not be particularly burdensome and assume it will take on average fifteen minutes to understand what is required of them. These costs will

apply to traded companies and non-traded companies limited by shares. We will revisit this assumption at a later stage.

210. The primary source of information we can use to inform our cost assumptions comes from the Annual Survey of Hourly Earnings (ASHE). Given the vast majority of companies are small, we cost this at the opportunity cost of the time valued using the median hourly pay rate (excluding overtime) for managers, directors, and senior officials. We uplift this by 20% to account for non-wage labour costs, which is £23.69 per hour in 2019 prices.⁸⁴

211. Figure 16 below summarises the familiarisation costs.

Figure 16: Summary of familiarisation costs due to new shareholder name disclosure requirements

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

One-off compliance costs

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

213. Where non-traded companies limited by shares successfully provide a one-off full list of their shareholder’s full names, they (an employee) will incur the time cost of having to do so. They will provide this through the confirmation statement.⁸⁵

Estimated number of impacted companies

214. There are 4.6 million companies in scope. On average, there are just over two shareholders per company.⁸⁶ Given they are likely to be aware of who their shareholders are and have this information easily available, we envisage that for companies with less than ten shareholders, there will be minimal costs to comply with this change. As such, companies with ten shareholders or less would only need to familiarise with the policy change.

215. Subsequently, we anticipate that there will only be a one-off compliance cost for companies with more than ten shareholders, as they will need to gather and submit the full names of their shareholders with their annual confirmation statement.

216. Figure 17 below provides a range of the number of shareholders across these 4.6 million non-traded companies limited by shares. FAME analysis indicates that of the affected 4.6

⁸⁴ See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates> Table 10

⁸⁵ See: <https://www.gov.uk/file-your-confirmation-statement-with-companies-house>

⁸⁶ See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021>

million non-traded companies limited by shares, 99% have ten shareholders or less. This means that around 1% of companies, or around 42,000, have more than ten shareholders.

Figure 17: Breakdown of the number of non-traded companies limited by shared and their respective number of shareholders

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

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

Submitting list of shareholders to Companies House

217. Currently, the vast majority of companies submit their confirmation statements with Companies House through software filing or directly with Companies House Webfiling service:

- For those submitting via software, software providers are able to take a ‘read’ of the current shareholder data held by Companies House. This potentially allows software filers to manipulate the previously filed data. Companies House is also aware that the majority of software filers opt to provide a full list of shareholders on an annual basis at the moment, despite not being a requirement. We therefore consider this will not provide a considerable burden for most software providers or their clients
- For those who use Companies House Webfiling service, Companies House will present the last full list filed onscreen as part of the filing journey. The filer will be able to add, update or remove shareholders. If no changes have taken place the company will be asked to confirm the list is accurate

218. Based on this information, we envisage that it will only be companies with a large number of shareholders who will face a significant time cost of checking these names are correct and submitting shareholders to Companies House. Given costs will vary significantly depending on entity size, and to account for uncertainty, we make the assumption that it will take companies with 10-50 shareholders thirty minutes (fifteen and forty-five in a low/high scenario) to type and share this information, one hour (thirty minutes and two hours in a low/high scenario) for companies with 51-100 shareholders and three hours (two hours and four hours in a low/high scenario) for companies with over 100 shareholders. We include the 1,600 traded companies in this estimate, and as outlined in paragraph 201 assume the maximum scenario where they would need to submit the information of maximum 20 shareholders. We will revisit this estimate at a later stage, including in a future Post-Implementation Review.

Collecting shareholders full names

219. Additionally, some companies will have to collect the information on shareholders full names, as they may not already hold this. We undertook internal analysis on a small sample of 160 companies to see how many of these companies already display the full name of their shareholders. From this sample, the list often either contained all

shareholder full names or very few/no full names. Around 70 companies presented all full names, whereas less than 10 companies presented no full names. It is also worth noting that even if the company doesn't display this information on the register, they may already have it available.

220. Companies will hold correspondence details for these shareholders, as they are required to invite their shareholders to Annual General Meetings and Extraordinary General Meetings. We assume that all companies will be able to contact their shareholders (via telephone, email or letter), should they need to ask for or confirm a shareholder's full name.
221. Based on our analysis in the paragraphs above, we assume that in a central scenario that around 25% of companies (with more than ten shareholders) will need to contact shareholders to confirm this information. We assume in a high scenario 35% of companies will contact their shareholders, and in the low scenario 15%. We envisage, based on what would be required of companies to contact shareholders outlined in paragraph 217, it will take thirty minutes for companies with 10-50 shareholders (fifteen and forty-five in a low/high scenario), one hour for companies with 51-100 shareholders (thirty minutes and two hours in a low/high scenario) and six hours (four and ten hours in a low/high scenario) for companies with over 100 shareholders. Again, we will revisit this assumption at a later stage.
222. As these are larger companies and are likely to have someone who is not a director undertaking this task, we cost this using ASHE data for a company secretary.

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

223. Companies should already be collecting this information. The only change for these companies' post-regulation is that when completing their next confirmation statement, they will have to set out the reason for their exemption and the market the company is traded on. To provide this information the company would likely be required to do something straightforward to show this, like complete three tick boxes or drop-down lists. As of June 2021, Companies House data shows there were approximately 800 companies claiming an exemption from the requirement to provide details of its PSC.
224. We estimate that there will be no cost to business because of this particular measure, as it will take a negligible amount of time to comply.

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

225. Under option one, Companies House would ask for one or two additional pieces of information within the usual form to update PSC information.
226. This is information that is already known by RLEs and not currently provided to Companies House. The RLE would thus need to provide the additional information, and we estimate

that there will be no significant compliance costs to business as a result of this particular measure.

Direct costs and benefits to business calculations

227. As outlined, we identify the main costs to business of this policy package arise from changes to shareholder name requirements. The costs to business of this are summarised in Figure 18 below.

Figure 18: Estimated costs to business for changes in requirements to shareholders names

	Familiarising with policy	Uploading shareholder list	Collecting shareholder list	NPV (£m)	EANDCB (£m)
High scenario	4,600,000	42,000	15,000	27.88	3.24
Central scenario			10,000	27.53	3.20
Low scenario			6,000	27.28	3.17

Wider costs and benefits

228. We discuss further benefits under **section V** below.

Section 5: Data sharing

Policy overview

229. Due to specific sharing limitations in the Companies Act, Companies House currently has very limited powers to analyse and share the non-public information it holds (e.g. directors residential addresses and dates of birth).

230. Because of these limited powers, there is a risk that information is not shared that could help law enforcement, other government departments and regulatory bodies with the prevention and detection of crime. Information held on the register, both public and private, is a rich source of data. As well as identifying individual items that appear suspicious, its analysis can reveal patterns and trends that will be of interest to partners.

Description of options considered

Option 0: Do nothing

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

232. The current provisions are not sufficient for achieving reform aims since they restrict the Registrar from being able to share proactively and prevent her from using information held for analytical purposes that may assist with enhancing the integrity of the register, including the detection of possible criminal wrongdoing/abuse of the register. Therefore, this option is not preferred.

Option 1: Increased data sharing (preferred)

233. The 2019 consultation considered several areas of increased data sharing to assist with improving the integrity of the Register and to enable the Registrar to play a greater role in tackling economic crime. All measures proposed received broad support from respondents.

234. Therefore, the preferred option is a package of reforms of increased sharing of data, including:

- Cross-matching Companies House data with external data
- Sharing data with specific bodies on request
- Proactive data sharing with public bodies
- Increased discrepancy reporting

235. The aim of this package of measures is to increase transparency to help law enforcement and regulatory bodies to tackle the misuse of corporate entities and combat economic

crime, whilst also providing businesses with increased confidence in the information held on the register.

Cross-matching Companies House data with external data

236. In the 2020 consultation response, the government agreed to take forward proposals to cross-match Companies House data with external data sets. Most respondents to the consultation (69%) agreed that there was value in Companies House comparing its data against other data sets held by public and private sector bodies.
237. Cross-matching Companies House data would help improve the accuracy of the register, by identifying anomalies, and detecting suspicious behaviour. To undertake cross-matching, Companies House requires a statutory ability to use and analyse its data in a way that is currently not possible.
238. To better enable cross-matching we propose amending the role of the Registrar to include a new function to promote and maintain the integrity of the register and the UK business environment. This change in role will provide both a stronger legal basis for analysis, but also a strong case when we request data from other bodies as such data will be helping Companies House undertake its public function. This is covered within the powers section of the Impact Assessment (section 1).
239. Additionally, for some public bodies, e.g. HMRC, their data is deemed so sensitive that their legislation does not allow them to share it with Companies House. For example, if they request Companies House data, they are unable to provide any feedback where their analysis identifies suspicious activity.
240. Currently there is a gateway under the Digital Economy Act 2017 which allows HMRC to provide such feedback to Companies House but this is only permitted where debt or fraud against a public body is identified. We are proposing establishing a data sharing gateway which is wider than the gateway in the Digital Economy Act to provide a mechanism to receive this feedback.

Sharing data with specific bodies on request

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

Proactive data sharing with public bodies

243. The consultation asked whether respondents agreed with the proposal to allow information collected by Companies House to 'be proactively made available to law enforcement agencies, when certain conditions are met'. Most respondents (75%) were strongly in favour of this measure.

244. We are intending to provide the Registrar with a power to proactively disclose any information held by the Registrar with relevant bodies on a case-by-case basis. This will take place when certain conditions are met - to enable the Registrar to carry out her statutory role and functions, to assist other bodies in the prevention and detection of crime and enable regulatory bodies and supervisors to fulfil their statutory obligations or functions.

245. In line with the conditions outlined above, this will cover the following bodies:

- Public authorities - any government body, local authorities (including trading standards), any person or body discharging functions of a public nature, including regulatory functions
- Law enforcement bodies - such as police forces, the Insolvency Service, the Serious Fraud Office, and the Security Services
- Supervisory bodies - as listed within the Money Laundering Regulations⁸⁷
- Insolvency practitioners

Increased discrepancy reporting

246. The Anti-Money Laundering (AML) Regulations require regulated professionals, such as financial institutions, to report discrepancies between information they hold on beneficial owners of companies and that held by Companies House about PSCs. In the 2019 consultation, we proposed that such reporting should be expanded to other information held by Companies House. In the consultation, 70% were supportive that AML regulated entities should be required to report anomalies to Companies House.

247. In the government response we committed to expanding the requirement. We propose that in the first instance, we should limit expansion to discrepancies in director information and in registered office addresses. A discrepancy might indicate an error or fraudulent filing on the register.

248. Since the original regulations came into force in January 2020, 70,000 beneficial ownership discrepancies have been reported to Companies House by December 2021.⁸⁸ Whilst around half of these prove not to be valid (in effect no discrepancy), the number of reports suggest that relevant persons can play an even more valuable part in ensuring that the UK's companies register is accurate and up-to-date.

⁸⁷ See: <https://www.gov.uk/guidance/money-laundering-regulations-who-needs-to-register>

⁸⁸ Companies House internal analysis, October 2021

249. We also propose introduction of a power to amend the scope of the obligation in the future. This will enable Companies House to assess the value of such reporting and whether there would be merit in removing items from the obligation or expanding the requirement further.

Summary and preferred option with description of implementation plan

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

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

Monetised and non-monetised costs of each option

Option 0: Do nothing

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

Option 1: Increased data sharing (preferred)

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

Cross-matching Companies House data with external data

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

Sharing data on request

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

256. This policy change will also impact specific bodies who will now have increased access to Companies House data. This change will *increase the data available* to them. If they choose to access Companies House data, which may potentially come with a cost, (e.g. increased resource to analyse data, the fees for access to information pertaining to specific individuals), then this is because they perceive a benefit to doing so. As it is reasonable to suppose that people will generally do things that have a net benefit for them or their organisation, we do not include any time costs related to increased data access.

Proactive data sharing

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

Discrepancy reporting

258. Under the Fifth Money Laundering Directive, regulated professionals are obliged to report to Companies House the discrepancies between the information it holds and the information that is on the publicly accessible PSC register.⁸⁹ An Impact Assessment was published alongside this.⁹⁰

Number of obliged entities

259. The 2019 Fifth Money Laundering Directive Impact Assessment shows there were 91,696 obliged entities supervised under the Fourth Money Laundering Directive in 2017/18. Some of these are unlikely in practice to be undertaking due diligence on a companies registered with Companies House – e.g. casinos supervised by the Gambling Commission.

260. Unpublished Companies House data shows that between January 2020 and December 2021, around 1,000 entities had reported discrepancies. However, just focusing on those entities which have reported to Companies House may be an underestimate of those which are in scope of the proposal.

261. We therefore use:

- As outlined in paragraph 259, some of these obliged entities will be out of scope of these requirements. We therefore use 92,000 as our high scenario.
- The Annual Business Survey shows that in 2019 there were 76,000 companies in the legal and accountancy service sector, who are likely to be the main entities in scope to report. We thus assume this to be our low scenario.⁹¹
- Averaging these two values gives us 84,000 entities, which we use as our central scenario.

Familiarisation costs

⁸⁹ See:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/860279/Money_Laundering_and_Terrorist_Financing_Amendment_Regulations_2019.pdf

⁹⁰ See: <https://www.legislation.gov.uk/ukia/2019/172>

⁹¹ See:

<https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinessesconomyannualbusinesssurveysectionsas>

262. Although regulated professionals are already required to report discrepancies on PSCs, they are likely to have to understand that the information they are required to report has been increased in scope. As there is already a process in place for this, and it is building on current requirements, we do not envisage familiarisation to be a large additional burden on these entities.
263. The Fifth Money Laundering Directive Impact Assessment states, 'earlier reviews and Impact Assessments of the Money Laundering Regulations have highlighted the difficulty for regulated industries to identify the costs of AML customer due diligence checks. This is partly because customer due diligence checks are integrated into businesses' commercial activities rather than carried out separately.'
264. Depending on the type of obliged entity, the party of the entity who will need to familiarise with this policy change will vary. For example, we envisage that for some obliged entities, such as banks, it would be a compliance team who would report these discrepancies to Companies House. Smaller institutions may not have a central team and so it may be a director who would need to familiarise themselves with this policy change.
265. From the obliged entities who have previously reported discrepancies to Companies House, there is a mixture of large businesses and smaller institutions. Indeed, data from the 2017-18 annual returns suggests that at least 30,211 of the approx. 91,696 obliged entities (33%) supervised were sole practitioners, the majority of which were legal and accountancy professionals.
266. Therefore, given that a) this is only one change to what is required of obliged entities, b) obliged entities are required to continue to understand what is required of them in their role and c) there is a lack of robust evidence on what these costs may be across these entities, it does not for proportionate to cost this.

Annual costs

267. Within the Fifth Money Laundering Directive Impact Assessment, it was anticipated that the measure would only lead to a minimal increase in time spent on customer due diligence and it would not be proportionate to identify them, stating that many firms already undertake checks on beneficial ownership as part of existing practices.
268. Cost burdens related to discrepancy reporting were raised by some regulated professionals as an area of concern within the consultation. As mentioned above, there were 70,000 discrepancy reports under the current requirements between January 2020 and December 2021. Annually, this amounts to approximately 35,000 reports per year. We know many of these reports, such as typographical errors, are unlikely to be directly comparable to the new requirements under this proposal. There were just over 30,000 reports of where PSC information was missing between January 2020 and December 2021, equating to around 15,000 per year. Given this is likely to be similar to the new requirements, we use this as our best estimate of the number of reports per year.

269. To report a discrepancy, regulated professionals would have to complete a digital form, outlining:⁹²

- Name and type of business of the obliged entity making the report
- Date when the discrepancy was first noticed
- Full name, email address and contact telephone number of the person making the report
- Business address of the obliged entity making the report
- Company name and number of the entity being reported as having a discrepancy
- The type of discrepancy - for example if it relates to a person, an RLE, a statement or a missing PSC
- Details of the discrepancy - such as an incorrect address or an invalid PSC statement

270. Companies House hold data on average length of time to complete one of these forms of around ten minutes, which we use within our calculations. This cost can be seen as a lower bound of costs as it is the time it takes to complete the form and does not take into account wider time costs, such as identifying/checking the discrepancy, accessing Companies house website, etc. We thus use ten minutes for our low scenario, with twenty minutes for a high scenario and fifteen minutes for central. This is to take in additional time off actually identifying the discrepancy and visiting the Companies House website to report this. This is also broadly in line with engagement we have had with stakeholder on submitting a manual discrepancy. Using the estimates from the Fifth Money Laundering Directive Impact Assessment, we cost this for 33% of the entities (who are sole traders) as the time cost for managers, directors and senior officials in each scenario and 66% for larger obliged entities where we envisage it would be a compliance officer undertaking this activity.

Direct costs and benefits to business calculations

271. The only cost to business relates to increased requirements for discrepancy reporting. These costs can be summarised in figure 19 below.

Figure 19: Estimated costs of increased discrepancy reporting requirements over 10-year appraisal period

Scenario	NPV (£m)	EANDCB (£m)
High scenario	-0.98	0.11
Central scenario	-0.74	0.09
Low scenario	-0.49	0.06

⁹² See: <https://www.gov.uk/guidance/report-a-discrepancy-about-a-beneficial-owner-on-the-psc-register-by-an-obliged-entity#make-a-report>

Wider benefits and costs

272. The wider benefits of this policy package and how they fit together are outlined in **section V** below.

Section 6: Privacy

Policy overview

273. There are instances where an individual may be at risk of fraud or others harms because of information on the register, and therefore it may be appropriate to suppress the information from what can be viewed by the public. There are others who may be at serious risk of violence or intimidation as a result of their personal information being displayed publicly, for example, in the case of a domestic abuse survivor.

274. Current legislation does not permit personal information to be suppressed in all cases.

Description of options considered

Option 0: Do nothing

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

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

276. Within the September 2020 government response, we announced that we will legislate to remove the requirement to provide a business occupation and to allow applications to suppress business occupations, the day of dates of birth and signatures from historic filings.

277. We also decided to proceed with the proposals to allow applications to suppress a residential or ‘sensitive’ address if used as a historic registered office address, or if otherwise used where it is not currently possible to suppress this. Having these addresses on the public register can put individuals at risk of fraud and other harms. We will introduce a ‘legitimate interest test’ to allow applications to a suppressed registered office address to certain third parties who won’t be able to access this via data protection exemptions e.g., a creditor or personal injury claimant.

278. We have also decided to introduce a new protection regime to allow applications to protect names and, in the most serious of cases, to protect all information from appearing publicly e.g. the required particulars in the case of a director or a PSC. Evidence will be required as part of a protection application to show that the individual in question is personally at serious risk of violence or intimidation.

279. In developing these protection proposals, we have been guided by the existing suppression regime e.g., for director usual residential addresses as well as the PSC protection regime introduced in 2016.⁹³

⁹³ See: <https://www.gov.uk/guidance/applying-to-protect-your-personal-information-on-the-companies-house-register>

Summary and preferred option with description of implementation plan

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

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

Monetised and non-monetised costs of each option

Option 0: Do nothing

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

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

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

Direct costs and benefits to business calculations

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

Wider benefits and costs

285. This measure aims to encourage enterprise and entrepreneurship, as prospective directors will have greater confidence that their personal information will be safeguarded should they decide to start a company or take an appointment as a director. It may also encourage individuals to invest in UK corporate entities, given shareholders and PSCs will be able to apply for protection if they can provide evidence that they are at risk of harm for personal reasons.

Section 7: Improving the financial information on the register

Policy overview

286. Research shows that over half the benefit to users from Companies House data arises from the annual report and financial statements.⁹⁴ However, many companies use filing options which require them to file little financial information.
287. The first register reform consultation in 2019 asked an open question about how financial information on the companies register could be improved. Respondents highlighted areas for improvement and challenged us to be ambitious.
288. In December 2020, the government published a second consultation, on ‘improving the quality and value of financial information on the UK companies register’. Most proposals elicited strong support from a wide range of respondents including company directors, business groups, the accountancy and audit profession, credit lenders, civil society, and law enforcement.
289. We have since engaged widely with key stakeholders, including business groups, accountancy firms, representative bodies and other government departments. This engagement has corroborated the support we received in the responses to the consultation and helped us to further refine our proposals.

Description of options considered

Option 0: Do nothing

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

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

291. The preferred option is a package of reforms which aims to improve the financial information on the companies register. This package includes:

- Mandatory digital filing
- Simplifying the small company accounts regime
- Closing loopholes for amendments to a company’s Accounting Reference Period (ARP)
- Introducing a requirement for dormant companies to file a statement of eligibility

292. We explore each of these in turn.

⁹⁴ See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

Mandating digital filing

293. Currently around 85% of accounts are filed digitally with Companies House.⁹⁵ Most small companies file accounts digitally. However, some of the largest companies in the UK continue to file on paper, even though they file accounts digitally with HMRC.
294. Alongside mandating digital filing, we will introduce full digital tagging. When financial information is tagged digitally, it is done so using a taxonomy. In this instance, a taxonomy is a grouping of financial concepts in which each concept is clearly defined a computer readable label, or 'tag'. Fully tagged financial reporting has been mandatory with HMRC since 2016 and is widely used across the world such as in USA, Japan, China and India.⁹⁶
295. Consultation respondents overwhelmingly supported fully tagged digital accounts for all companies, which would yield significant benefits:
- More consistent and accurate information delivered in accounts
 - It will enable the Registrar to easily check information in accounts thereby helping to improve the standard of financial reporting in the UK
 - A more efficient and secure process for businesses
 - Brings the UK into line with international best practice
 - Full tagging will mean data is more usable and comparable, delivering significant benefits for those searching the register

Simplifying the small company accounts regime

296. In recent years a great deal of flexibility for how small and micro companies prepare and file their annual accounts has been introduced to minimise burdens and support growth. However, the evidence we have from stakeholders suggests the wide range of options causes confusion and results in filing errors which subsequently need correcting. There are at least eight main options for companies which file small company accounts and eleven for those which file micro entity accounts (see figure 20 below).

Figure 20: Small company filing options - current position

Small company	Micro entity
Small full accounts - audited	Any of the small options
Small full accounts - unaudited	Micro entity accounts - audited
Small full accounts - partially filleted - directors report only filleted out	Micro entity accounts - unaudited

⁹⁵ See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2019-20>, Table 7

⁹⁶ See: <https://www.gov.uk/government/publications/xbrl-tagging-when-what-and-how-to-tag>

Small full accounts - fully filleted - directors report, profit and loss and notes filleted out	Micro entity accounts - filleted - profit and loss and notes filleted out
Abridged accounts - audited	
Abridged accounts - unaudited	
Abridged accounts - partially filleted - directors report only filleted out	
Abridged accounts fully filleted - directors report, profit and loss and notes filleted out	

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

298. The main measures to improve the transparency and value of information on the register are to:

- Require micro entities to file their profit and loss account, to ensure that key information will be publicly available
- Remove the option for small companies to prepare and file abridged accounts
- Remove the option for small companies to 'fillet' out the director's report and/or the profit and loss account before filing

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

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

300. Every company must prepare accounts that report on the performance and activities of the company during the financial year. If a company is struggling to meet its filing deadline, the correct process to get extra filing time is to apply to the Secretary of State under Section 442(5) of the Companies Act 2006 before the expiry of the period otherwise allowed. Any extension granted, must not have the effect of making the filing period longer than twelve months after the end of the Account Reference Period (ARP).⁹⁷

301. However, companies can gain more than twelve months to file accounts by using an alternative method of extending the filing time. A company can alter its ARP without giving a reason, by giving notice to the Registrar under Section 392 (S.392) of the Act. This can have the effect of extending or shortening the ARP. Whilst S.392 limits the number of times a company can extend its ARP to once in five years unless certain conditions are

⁹⁷ For further information, see: <https://companieshouse.blog.gov.uk/2015/12/23/a-guide-to-accounting-reference-dates-and-periods/>

met, the same limitations do not apply to shortening – a company can shorten its ARP multiple times. The only limit derives from only being able to alter the Accounting Reference Date (ARD) for the current or previous period.

302. When an ARP is shortened, it alters the deadline for filing the accounts. This can have the effect of extending the filing period beyond 12 months and can be done year after year. When the ARP is shortened, Section 442(4) states that the new deadline for filing accounts is whichever expires last out of a) the usual period of nine months from the end of the accounting period for a private company and six months for a public company, or b) three months from the date of the notice to shorten.
303. Companies House has found it has become common practise for some companies to use this provision year on year to obtain more time to deliver accounts, rather than for the intended purpose. As it results in no financial information being available on the register for an extended period of time, it is a regular cause for complaint by users of the register.
304. The government published its response to the consultation in September 2020 and committed to reform the rules on shortening accounting reference periods to reduce the potential for abuse. As such, the proposed measures are to:
- Limit the number of times a company can shorten its Accounting Reference Period (ARP) by altering its Accounting Reference Date (ARD)
 - Require a company to provide a reason for altering its ARD
 - Prevent a company from being able to gain more than the maximum filing time (currently twelve months) that would be allowed if they followed the correct process for requesting additional filing time

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

305. Many responses to the government consultation published in 2019 highlighted that companies can and do incorrectly use filing options that require minimal disclosure. This means that the register information used to inform business decisions often gives an incomplete view of the financial position of a company.
306. Concerns were also raised that companies were deliberately filing under the wrong regime to disclose less information than they should if they were filing under the correct regime. This was backed by evidence from law enforcement bodies, referencing money laundering investigations, which showed that companies often filed dormant accounts with the Registrar when their bank accounts showed that the company was clearly trading.
307. Our original policy intention was that the statement of eligibility would be a requirement for all accounts delivered to the Registrar. However, as part of our wider accounts reform proposals, we have undertaken a review of the small company filing options, as outlined in previous sections. We have concluded that we will not require a statement of eligibility to be completed for companies other than those filing as dormant. The statement

will confirm that the company meets the criteria for filing dormant accounts, as set out in the Companies Act 2006. This will ensure that users of the information on the register have reassurance about the quality and integrity of dormant accounts. It is also intended to act as a deterrent against criminal activity by providing additional evidence to support further enforcement action.

Option 3: Non-regulatory option

308. Companies House has previously tried to encourage voluntary take up of digital filing. Using behavioural insights, they trialled three different reminder letters which included text that increased the salience of digital filing. They found that the new reminder letters did not significantly increase the uptake of digital filing in comparison to the control letter. This indicated that a voluntary approach is unlikely to be successful as there are significant cultural and structural barriers to digital filing for companies that continue to file by paper.⁹⁸ For this reason we have not considered this option further.

Summary and preferred option with description of implementation plan

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

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

Monetised and non-monetised costs and benefits of each option

Option 0: Do nothing

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

Option 1: Increased transparency through a package of reforms

Mandatory digital filing and digitally tagging accounts

Numbers in scope

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

⁹⁸ See: <https://www.bi.team/publications/increasing-uptake-of-digital-services-at-companies-house/>

313. We need to look at the number of companies currently filing using paper. Using Companies House internal accounts filing data, we assume that one submitted account filing is the equivalent of one company.⁹⁹

314. There were around 451,000 accounts which paper filed in 2019/20 (as of 31 March 2020) which would need to move to digital filing.^{100 101 102} Using the rationale that one account is equal to one company, we estimate that 451,000 companies will need to switch from paper filing to digital filing. Figure 21 below provides a breakdown of this.

Figure 21: List of account types that will need to be filed digitally under the proposed requirements

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

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

Familiarisation costs

315. The operational details of how individuals will become aware of this policy is still being determined. However:

- Companies House will aim to use digital methods to make it easy and intuitive to understand what is now required of them
- The familiarisation process is likely to involve an individual reading a letter, web page or email

⁹⁹ For the purpose of our analysis, we assume that all companies are still active - active meaning that they are still trading normally today. By assuming one account = one company, we may potentially be overestimating the number of companies, as companies may file their accounts more than once with Companies House. Indeed, in the analysis undertaken by HMRC below, duplicate companies were identified. Therefore, this should be taken as an overestimate.

¹⁰⁰ We use data from 2019/20 due to the legislative easements around account filing due to the Covid-19 in 2020/21 due to the Covid-19 pandemic. See: <https://www.gov.uk/government/publications/the-companies-etc-filing-requirements-temporary-modifications-regulations-2020/temporary-changes-to-companies-house-filing-requirements>

¹⁰¹ Under new FCA requirements, listed companies will need to file electronically ahead of these changes. See: <https://www.fca.org.uk/markets/company-annual-financial-reporting-electronic-format>. We will look to omit listed companies from our calculations going forward, although envisage this will be a small proportion of the current companies, given they make up less than 1% of companies on the register.

¹⁰² It is worth noting that a proportion of companies (approximately 20%) will not file accounts each year for several reasons, including being a new company (a company has up to 21 months from the date of incorporation to file their accounts) or being non-compliant and thus being struck off.

- Companies House already has guidance on how to file digitally¹⁰³
- Most companies should already be filing digitally with HMRC and thus aware of this process
- The familiarisation process should not require training of staff, changes to business processes or briefing sessions for entire teams

316. Based on the above, we assume it will not be burdensome to understand this change in requirements. Therefore, we estimate it will take fifteen minutes for companies to familiarise with this policy. We will review this assumption at a later stage, such as the Post-Implementation Review.

317. Companies House research found that around 80-85% of companies file with an accountant.¹⁰⁴ Based on this, we assume that 20% of the 451,000 directors will need to be familiar with this policy change, costing this at a medium hourly wage of a director as before.

318. For the other 80%, ONS Inter-Departmental Business Register (IDBR) data states that in 2019 there were around 264,000 individuals involved in accounting activities and 105,000 involved in bookkeeping activities.¹⁰⁵ As we know that 80% of company accounts were filed with an accountant, we divide 80% of the total companies on the register by the number of accountants/bookkeepers, which equates to around 13 companies per accountant and 34 companies per bookkeeper. Of the 360,000 accounts which were filed with an accountant, we deduce 27,000 accountants need to familiarise with this policy change and 11,000 bookkeepers, which we cost using ASHE median hourly pay excluding overtime (including non-wage labour costs at 20%).

Ongoing costs

Software costs

319. One potential cost is having to purchase software to file digitally. HMRC undertook analysis of the 451,000 companies and other entities who do not currently file digitally with Companies House, to identify which ones are already filing tax returns digitally with them. We can assume if they are filing digitally with HMRC they already have the required software. Over 99% of entities required to file digitally with HMRC, do so. Generally, those that don't are unable to because they are using out of date software which is no longer accepted by the filing portal.

320. Of this list, around 168,000 entities did not file digitally with HMRC. In the vast majority of cases, they were not required to for various reasons e.g. being a dormant company, LLP or LP, and not needing to file corporate tax returns with HMRC. Therefore, we consider

¹⁰³ See: <https://www.gov.uk/guidance/filing-your-companies-house-information-online>

¹⁰⁴ See: <https://www.bi.team/publications/increasing-uptake-of-digital-services-at-companies-house/>

¹⁰⁵ See: See: <https://www.gov.uk/company-filing-software/filing-annual-accounts-returns-and-tax-accounts>
<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhocs/12144bookkeepingandaccountancybysize>

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

321. Therefore, we assume that these 168,000 entities will need to purchase software to file digitally. Using the same assumption that 80% of companies file with an accountant, we estimate around 34,000 will file directly with Companies House and 134,000 of these will file through an accountant. We undertook internal analysis on costs of different accounting software based on government guidance:¹⁰⁶

- Of the 34,000 direct filers - we use the cheapest software cost identified at £26 per year.
- Of the 134,000 companies who file through an accountant - we know that 80% of companies file with one. We also know from the Annual Business Survey there are around 43,000 firms in the accounting, bookkeeping and auditing activities.¹⁰⁷ We therefore divide the number of companies who file with an accountant (80% of 4.1 million) by the number of accounting firms to get average number of companies per accounting firm, which is around 80. Therefore, we assume around 1,800 accountancy firms will need to purchase software. For filing multiple accounts, we use the cheapest software cost identified at £385 per year.

322. The costs of purchasing software can be summarised in figure 22 below.

Figure 22: Estimated companies impacted by having to file with software

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

New companies

323. We assume that additional ongoing costs for new companies over the appraisal period will be negligible. New companies are more likely to digitally file. This is supported by the Companies House report which found that companies older than 10 years are more likely to file by paper.¹⁰⁸ Also, the research identified that the strongest predictor of a company

¹⁰⁶ See: <https://www.gov.uk/government/publications/record-keeping-and-simpler-income-tax-applicationssoftware/simple-record-keeping-applications-commercial-software-suppliers>

¹⁰⁷ See: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinessesconomyannualbusinesssurveysections/current>

¹⁰⁸ <https://www.bi.team/publications/increasing-uptake-of-digital-services-at-companies-house/>

paper filing is whether it paper filed the previous year. This indicates that paper filing is a repeat behaviour.

324. A summary of these cost estimates can be found in figure 23 below.

Figure 23: Summary of estimated costs to business of mandatory digitally filing over 10-year appraisal period

	Costs to business in year one: familiarisation (£m)	Annual cost: software (£m)
High scenario	0.98	1.5
Central scenario	0.73	
Low scenario	0.49	

Benefits

325. There are individual benefits of this policy proposal which we explore below. It is important to note that, although we have identified several benefits to business, companies can currently choose to file on paper or digitally, and therefore it can be argued they see a benefit in doing this. However, engagement with stakeholders suggests that paper filing is often due to conservatism, i.e., carrying on with familiar practises, rather than the result of an appraisal of the costs and benefits of continuing to do so.¹⁰⁹

Reduction in errors

326. Paper filed accounts are also more likely to be rejected. Companies House generally note that accounts are most commonly rejected for being made up to the wrong date or not being signed, both of which have simple solutions to resolve the issue i.e., changing the date or getting the accounts signed. Digital submission will instantly prompt the individual who is filing if their account filing has been rejected, meaning that they are able to instantly address the issue. Whereas paper accounts are submitted via post, which takes time and money in terms of postage costs for both the company and Companies House. Therefore, digital filing should result in fewer rejections (summarised in figure 24).

Figure 24: Companies House account rejections by submission type (2019/20)

Account type	Accepted	Rejected	Total	Percentage of filings rejected
Paper	494,000	40,000	535,000	7.47%
Digital	2,783,000	33,000	2,821,000	1.19%

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

Reduction in postage costs

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

¹⁰⁹ See: <https://www.bi.team/publications/increasing-uptake-of-digital-services-at-companies-house/>

328. We assume accounts are sent to Companies House via First Class recorded delivery using the Royal Mail's postal service.^{110 111} Using estimates on the weight of the parcel given the size of the accounts filed, we can estimate there is a cost saving of £1.4 million through no longer paper filing.¹¹²

Figure 25: Estimated annual savings to companies that currently paper file switching to digital

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

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

329. There is already positive evidence to draw upon too, as HMRC's research and findings from their evaluation of the Making Tax Digital (MTD) for VAT service in March 2020.¹¹³ Businesses reported productivity gains, found operating digitally easier than expected, and digital record keeping allowed management of finances in real time, with automated processes allowing them to do so. The experience from many businesses in MTD for VAT is that over the full cycle of a business year, by integrating 'doing tax' into day-to-day record keeping, businesses spend less time overall dealing with their tax affairs.

Simplifying the small accounts regime

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

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

331. We explore each of these separately.

¹¹⁰ Based on internal Companies House evidence.

¹¹¹ For prices, see: <https://www.royalmail.com/sites/royalmail.com/files/2021-03/royal-mail-our-prices-april-2021.pdf>

¹¹² We assume that group accounts are sent via small parcel (up to 2kg); full accounts via large letter (up to 0.25kg); small, micro, abridged and dormant via large letter (up to 0.1kg). Figures in 2021 prices.

¹¹³ <https://www.gov.uk/government/publications/making-tax-digital-review>

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

332. There are currently around 1.3 million micro entity accounts, and thus assume, as we have previously, that this equates to 1.3 million micro entities who will need to file a profit and loss account.^{114 115}

333. We currently envisage that micro entities, and those that file on their behalf, will have to familiarise with the proposed change in requirements. The Impact Assessment implementing the EU's 'Micros Directive', estimated that it would take between five and fifteen minutes to understand that micro entities can draw up abridged profit and loss accounts.¹¹⁶ We thus assume five (low), ten (central) and fifteen (high) minutes of time to familiarise with the ending of this exemption:

- A director as a micro entity owner, of which we assume 20% of the 1.3 million micro entities file directly with Companies House
- An accountant and bookkeeper, of which we assume 80% of the 1.3 million micro entities file director with. Similarly, to that outlined in paragraph 321 above, we use the average number of companies per accountant and bookkeeper of 13 and 34 respectively and divide this by the number of micro entities which file through an accountant.¹¹⁷

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

335. Additionally, there are benefits to micro entities. Some evidence suggests that micro entities have lower credit scores and that companies willing to disclose their account information will have higher credit scores.¹¹⁸

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

336. There are an estimated 141,000 abridged accounts filed by companies which would need to prepare and file accounts with additional information.¹¹⁹

337. We recognise that there will likely be a cost to companies who file abridged accounts to understand what is required of them. As above we adopt a similar approach to the Micro Entities Impact Assessment. We assume it will take between five and fifteen minutes to

¹¹⁴ See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>, Table 10. As public data is available, we use this within our analysis. For consistency with the rest of this section, we use 2019/20 data.

¹¹⁵ To note, some micro entities already voluntarily file profit and loss accounts.

¹¹⁶ See: https://www.legislation.gov.uk/ukia/2013/243/pdfs/ukia_20130243_en.pdf

¹¹⁷ We divide the number of micro accounts by the number of companies per accountant and bookkeeper and use this methodology for the other account types below. We cost this using Annual Survey of Hours and Earnings median hourly wage excluding overtime, uplifted by 20% to include non-wage labour costs.

¹¹⁸ See: <https://orca.cardiff.ac.uk/111660/>

¹¹⁹ Companies House unpublished data, 2019/20.

familiarise with the new requirements.

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

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

339. We again assume those that file filleted accounts will have to familiarise with this policy change. Data from HMRC shows that between October 2020 and October 2021 there were around 1.3 million sets of filleted accounts made by 1.2 million unique entities. This data will include all filleted accounts - and included LLPs and LPs as well, who are out of scope for this policy change. However, for simplicity, we apply the costs of this to 1.2 million unique entities. Given it is a similar change in filing requirements, we again use the Micro Entities Impact Assessment assumption of between five to fifteen minutes to familiarise with this.

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

341. Figure 26 below summarises the estimated costs to business of simplifying the small account regime.

Figure 26: Estimated costs to business of simplifying the small accounts regime

	Costs to business in year one (£m)
High scenario	4.81
Central scenario	3.20
Low scenario	1.60

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

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

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

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

344. During the period April 2019 to April 2020, there were around 500,000 sets of dormant accounts filed.¹²⁰ Under the proposed policy change, for their next set of accounts (if still filing as dormant), 500,000 dormant companies will be required to file a statement of eligibility with their accounts.

345. Given it is a similar change in filing requirements, we again use the assumption of between five to fifteen minutes to familiarise with this for both directors and accountants.

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

Direct costs and benefits to business calculations

347. Figure 27 below provides a summary of the costs for the different elements of this policy proposal.

¹²⁰ See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021> Table 10.

Figure 27: Summary of estimated costs to reforming accounts

	Familiarisation (£m)			Annual costs (£m)		
	Low	Central	High	Low	Central	High
Mandatory digital filing	£0.49	£0.73	£0.98	£1.50		
Simplifying the small accounts regime	£1.60	£3.20	£4.81	Negligible		
Closing loopholes for amendments to a company's Accounting Reference Period (ARP)	Negligible			Negligible		
Introducing a requirement for dormant companies to file a statement of eligibility with their accounts	£0.29	£0.58	£0.87	Negligible		
	Low	Central	High			
NPV (£m)	-15.29	-17.4	-19.6			
EANDCB (£m)	1.8	2.02	2.3			

Wider benefits and costs

348. We discuss the benefits of the policy package under **section V** below.

IV. Costs of Companies House transformation

Overview

350. This section of the Impact Assessment estimates the costs and benefits to Companies House for the delivery of the register reform package.

351. Given the close linkages between Companies House transformation and register reform, and linkages between different elements of register reform, it is impossible to allocate transformation costs to individual reform measures. Hence, we treat transformation costs as indivisible.

352. Costs to Companies House are likely to change as this project continues to take shape.

Transformation

353. Modernisation is needed to meet the requirements of a UK economy where increasing volumes of business are transacted online, and expectations are for online access to near real time information available as machine-readable data.

354. At the same time, the reform policies discussed in this Impact Assessment reflect government ambition to maximise the value of Companies House data to the economy and increase the reputation of the UK as a great place to do business. This will be achieved through efficient digital incorporation and filing processes delivering more reliable and accurate data on the ownership and control of UK companies, swifter identification of suspicious activity, quicker investigation and resolution of discrepancies and closer integration of Companies House with partner bodies tasked with combatting economic crime.

355. A Companies House transformed in this way will significantly contribute to the BEIS departmental objectives of ensuring that we “back long-term growth: boost enterprise by making the UK the best place in the world to start and grow a business.”¹²¹

356. The costs of transformation can be broken down into two distinct components:

- Transformation programme
- Running transformed services

357. Additionally, we look at the internal benefits of transformation.

358. Taking each in turn, we present the respective costs of each component and provide a brief description of what they entail. All costs are recorded in 2019 prices and have used existing staffing rates and third-party contract costs to cost a likely scenario of costs to develop and run transformed services.

¹²¹ See: <https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy/about>

Transformation programme

359. The total requirement for the transformation programme is set out by year in figure 28 below. The costs are derived from the costs of development, as outlined in the outline business case approved by HM Treasury.

Figure 28: Companies House transformation programme cost (2021-2032)

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

Running transformed services

360. Once the transformation programme is complete, Companies House will have the ability to deliver its new powers as set in legislation. As such, there will be a requirement for new roles for staff with skillsets and experience of an investigatory nature (figure 29 below).

Figure 29: Costs to Companies House of running transformed services (2021-32)

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

Internal benefits of transformation

361. Through the automation of processes and mandating of the digital filing of accounts, Companies House will realise efficiency savings (see figure 30 below).

Figure 30: Internal benefits of transformation to Companies House (2021-32)

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

Net cost of transformation

362. Once the three elements of transformation costs are combined, the net profiling of costs of transformation are provided below, in 2019 prices (figure 31 below):

Figure 31: Net cost of transformation to Companies House (2021-32)

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

363. Given that Companies House will need to invest in its transformation programme ahead of register reform, the costs of transformation are over a slightly different period than where we see the key costs to business of this policy, which would be after Royal Assent. For use in the NPSV, we incorporate the costs for the first two years of transformation into the first year of our cost estimates to ensure these are included. This method leads to an NPSV of **-£140.4 million**.

V. Benefits

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

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

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

366. We explore each of these benefits in turn.

Supporting enterprise

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

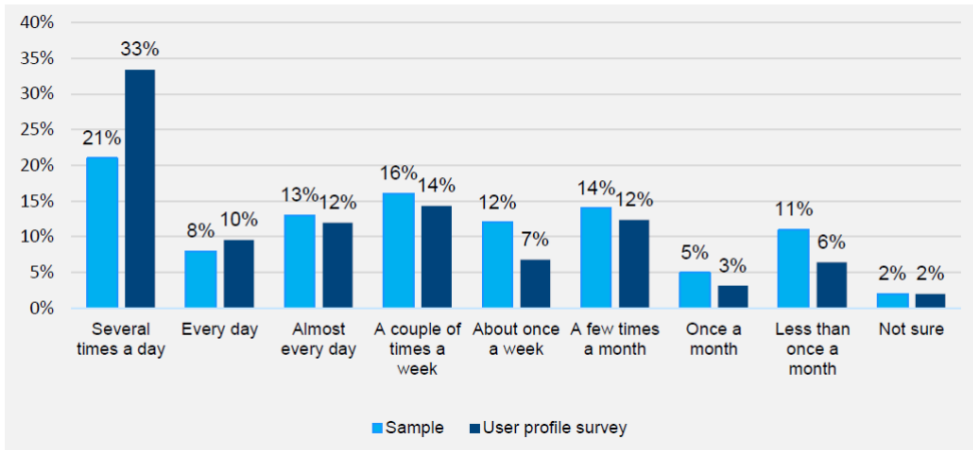
368. Data on companies and other entities is accessed over ten billion times a year and has increased substantially since the creation of Companies House Service - a free search engine for the register - in 2015. Prior to this, paid companies register data requests amounted to around 6 million per annum.¹²²

369. In 2019, BEIS and Companies House jointly funded research into the use of the companies register by businesses.¹²³ The objectives of this work included estimating the value of user benefits for the open-access company information and data. This showed that usage of the data varied from business (direct users of the data), but the vast majority reported using it at least once a month, with a majority reporting more frequent use (figure 32).

¹²² See: <https://www.gov.uk/government/statistical-data-sets/companies-house-management-information-tables-2020-to-2021>

¹²³ See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

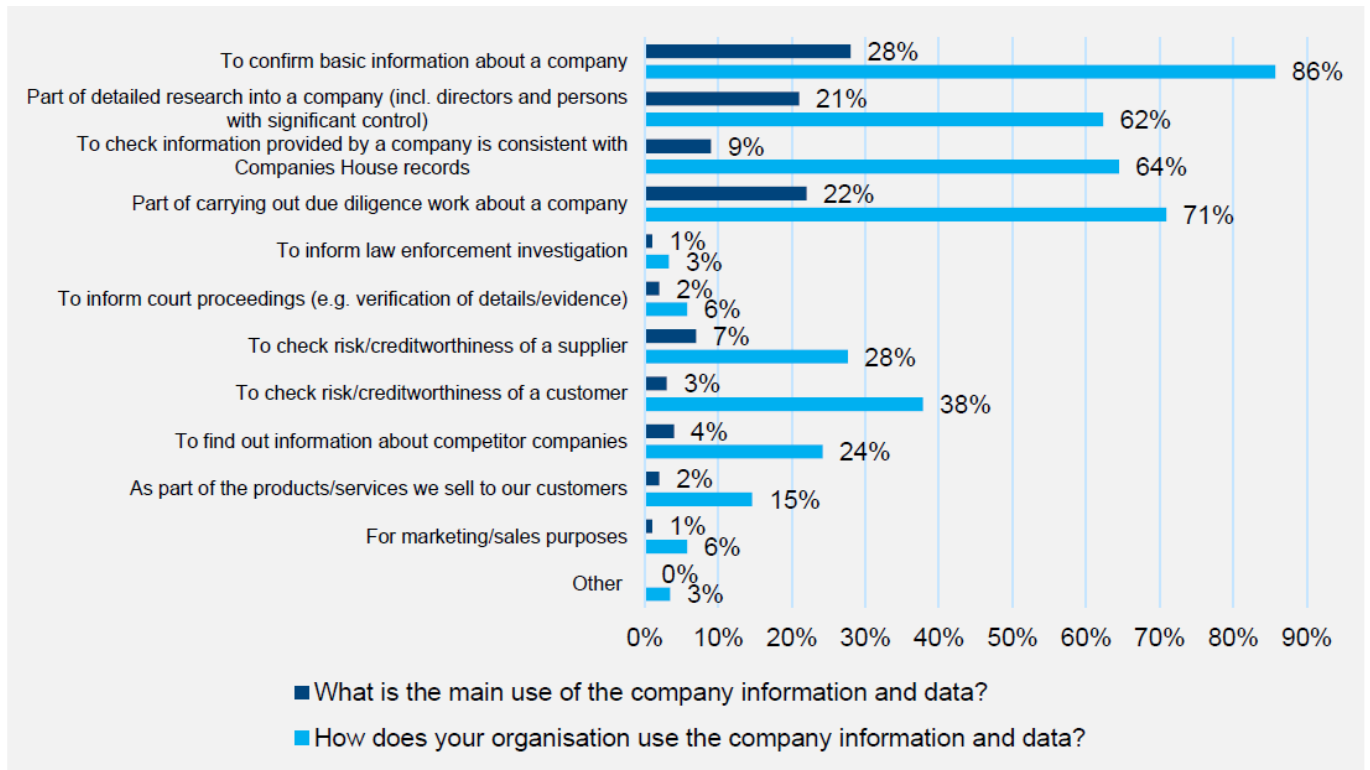
Figure 32: Frequency of use of Companies House data



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

370. The research found the data is put to a variety of uses including due diligence, credit checking, marketing, and verification of company details (figure 33).

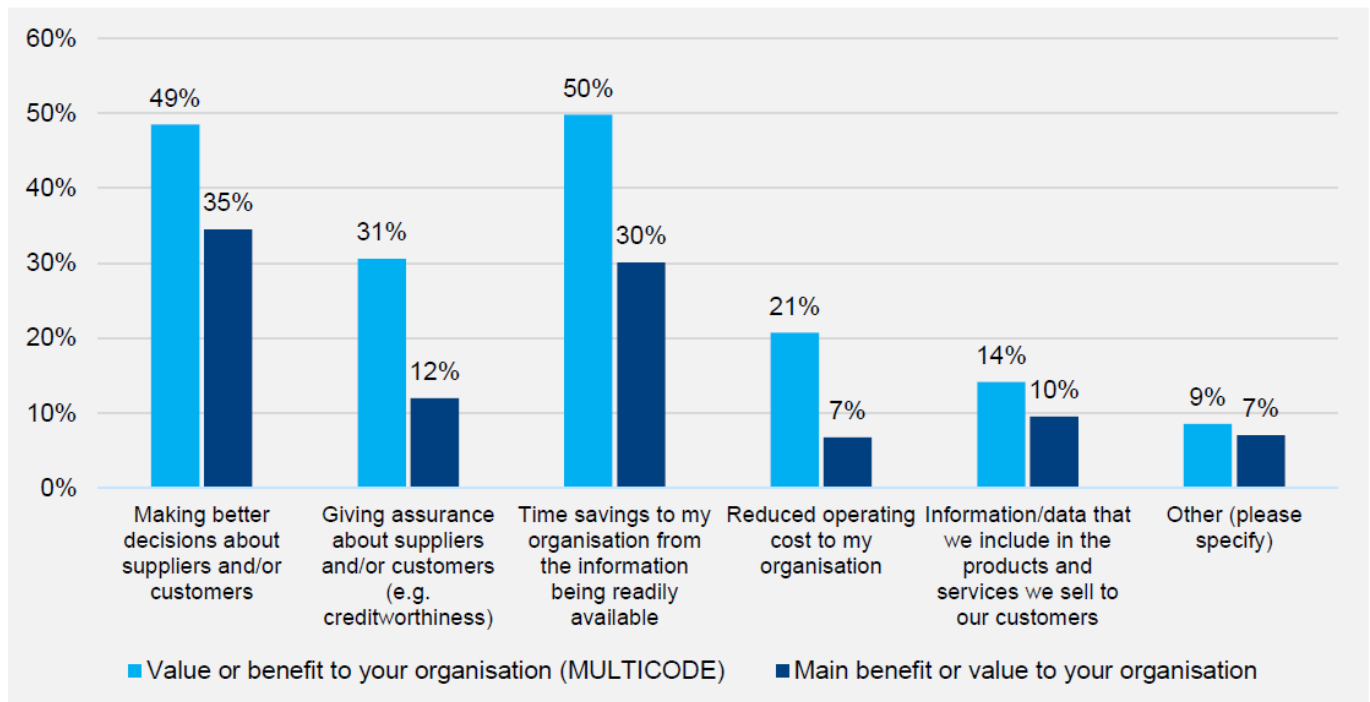
Figure 33: Use of Companies House data



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

371. The survey also highlighted that the data yields direct benefits to companies in the form of time saved and reduced operating costs, fewer risks and better decisions (figure 34).

Figure 34: Beneficial outcomes of Companies House information and data



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

372. Respondents were asked about whether there were any alternatives to Companies House data. Figure 35 sets out the multiple responses they gave. Their responses suggest that in the absence of Companies House data they would rely more on paid services or invest more time in due diligence research or google searches.

Figure 35: Use of alternative data and information sources: n=608

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

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

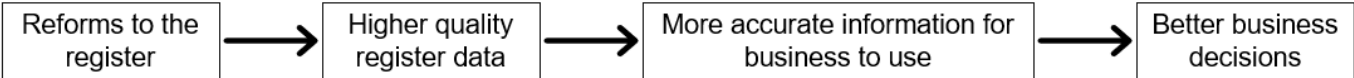
373. Our research used a stated preference framework to estimate the willingness to pay of users for Companies House data.¹²⁴ This showed that the average benefit to users of around £2,000 a year with higher values enjoyed by those that use it most (around £3,200 a year) in 2018. Based on these estimates the total value of the information on the

¹²⁴ There are broadly two approaches to assessing the willingness to pay. Revealed preference is used where there are available prices attached to market transactions; stated preference is used where there is no market price. We used a stated preference approach because the data is given away for free.

companies register to be between £1 billion and £3 billion a year. These estimates relate to the value of the register in its pre-reform state.

374. The logic model below (figure 36) for estimating the increase the value of Companies House data is given below:

Figure 36: Benefits to business of reforming the Companies House register



- 375. The logic model presumes that, due to the companies register being more accurate/reliable, businesses are more likely to make better decisions.
- 376. Using the findings from this research, we attempt to monetise the benefits to business if the value of the data were to increase due to higher register quality. This approach needs to be caveated, particularly as the aggregate benefits of the research was based on a given number of ‘direct users’ of Companies House data in 2018. This was estimated to 1.41 million users. This may have changed - it could have potentially increased given the number of new incorporations since then.
- 377. As discussed under the monitoring and evaluation section below, we plan to repeat this analysis to understand whether the value of the data has increased following the implementation of the reform package.
- 378. Within the research, several sensitivities were tested to provide a range of estimates for the value of Companies House data and information. We apply the lowest value as our ‘low’ aggregate value, highest value as our ‘high’ aggregate value and the average of this as our ‘central’ aggregate value of the data in 2018 and translate these into 2019 prices for the purpose of our assessment.

Figure 37: Aggregate benefits of Companies House data (£m)

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

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

- 379. At this stage of our analysis, we will focus on the central estimates.
- 380. We then assume that it will take up to four years for register reform to be fully implemented and the complete benefits of better data will be made available, and then will then remain constant at this higher value. Different elements of the package will begin to be implemented before this and therefore some benefits will be seen prior to this. We make this assumption for simplicity.

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

382. Based on this methodology explained above, taking no other costs or benefits into account, and EANDBB outlined in figure 38 below.

Figure 38: Estimated NPV and EANDBB due to a percentage increase in the value of Companies House data

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

383. This shows that, if we take the mid-value of the aggregated value of Companies House data, a 5% increase would more than offset the estimated costs for this entire policy package to business, even if we look at our estimates in the 'high' scenario. This is excluding any wider benefits on reducing economic crime.

384. Disaggregating this, the data was valued to give an annual user benefit of around £2,000 per user in 2018. If the data increases in value to users by 5% due to these policy changes, users will on average receive around an extra £100 in benefit per year. This would be £20 and £200 for 1% and 10% respectively.

385. Undertaking breakeven analysis, looking at the EANDCB range of the entire policy package £15-34m, the value of the data would need to increase between 1.5% to 3.5% to cover this.

Tackling economic and organised crime

386. Economic crime refers to a category of activity involving money, finance or assets, the purpose of which is to unlawfully obtain a profit or advantage for the perpetrator or cause loss to others.¹²⁵

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

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

- **Facilitate money laundering:** The Financial Action Task Force defines money laundering as the process of criminal proceeds to disguise their illegal origin.¹²⁶ The National Crime Agency states that 'money laundering underpins and enables most forms of organised crime' and that, 'the ease with which a company can be

¹²⁵ See: <https://www.gov.uk/government/publications/economic-crime-plan-2019-to-2022/economic-crime-plan-2019-to-2022-accessible-version>

¹²⁶ See: <https://www.fatf-gafi.org/faq/moneylaundering/>

established is frequently exploited by criminals who set apparently legitimate companies both within UK and offshore, but which are primarily a mechanism for laundering illicit funds'.¹²⁷

- **Help hide the perpetrators of crime:** Companies and other corporate entities have separate legal personality, meaning they can enter contracts and business relationships in their own name. Law enforcement agencies cannot always readily identify individuals behind/controlling a company and in some cases criminal activity can be facilitated.
- **Hinder investigations:** The anonymity afforded by some corporate structures and the current restricted ability for Companies House to share data also results in less efficient and effective investigations, and potentially sub-optimal outcomes.

389. Law enforcement agencies have provided examples of the types of activity that can be facilitated using opaque corporate structures. These include tax crimes such as hiding stolen assets and the proceeds of crime; fraud; and drug and people trafficking. The government's recent Economic Crime Plan recognised that as one of the world's leading international financial centres with a strong and open economy, the UK is particularly vulnerable to economic crime.¹²⁸

The costs of crime

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

391. The Home Office have published estimates of the social and economic costs of organised crime.¹²⁹ Social and economic costs were estimated to be £37 billion in 2015/16 (Figure 39). These are likely to be an under-estimate as they do not cover all forms of organised crime and do not capture all costs.

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

¹²⁷ See: <https://www.nationalcrimeagency.gov.uk/what-we-do/crime-threats/money-laundering-and-illicit-finance>

¹²⁸ See: <https://www.gov.uk/government/publications/economic-crime-plan-2019-to-2022/economic-crime-plan-2019-to-2022-accessible-version#fn:2>

¹²⁹ See:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782656/understanding-organised-crime-mar16-horr103-2nd.pdf

Figure 39: Social and economic cost estimates of organised crime in 2015/16 prices



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

393. Other studies provide an indication of the scale of crime and fraud (figure 40):

Figure 40: Estimates of the different costs and types crime

Source	Year of publication	Findings
PWC's Global Economic Crime Survey ¹³⁰	2020	56% of UK businesses surveyed experienced fraud in the previous 24 months, above the global survey average of 47%. The UK also had a higher proportion of fraud perpetrated externally at 57% against 39% globally. Not all fraud will be related to organised crime (e.g. customer fraud is a big issue in retail) and nearly half of all fraud is carried out by business insiders (alone or in concert with others).
UK Finance ¹³¹	2019	The security systems and innovations in the financial industry stopped £1.6 billion of unauthorised fraud in 2018, but criminals still successfully stole £1.2 billion through fraud scams in the same time period.
National Crime Agency ¹³²	2017	The most robust figures currently available from the Crime Survey of England and Wales reveal there were 3.4 million incidents of fraud in 2016-17. However, they think that fewer than 20 per cent of incidents of fraud are actually reported so the true figure may be much higher.

¹³⁰ See: <https://www.pwc.com/gx/en/forensics/gecs-2020/pdf/global-economic-crime-and-fraud-survey-2020.pdf>

¹³¹ See:

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

¹³² See: <https://www.nationalcrimeagency.gov.uk/what-we-do/crime-threats/fraud-and-economic-crime>

		The 2017 Annual Fraud Indicator estimates fraud losses to the UK at around £190 billion every year, with the private sector hit hardest losing around £140 billion. The public sector may be losing more than £40 billion and individuals around £7 billion.
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394. There is also evidence highlighting how crime acts as a drag on investment, job creation and ultimately economic growth. For instance, Goulas and Zervoyianni (2013) find that in times of macroeconomic uncertainty, a 10% increase in the crime rate is associated with a reduction in annual GDP per capita growth of 0.49%-0.62%.¹³³ Although these studies do not directly identify the mechanism, they highlight that reducing crime is thought to support growth.

Costs of money laundering

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

- Cash based, which can involve the movement of illicitly earned cash across national borders as well as the use of companies that generate large volumes of licit cash which the illicit cash is laundered through.
- High end, which is specialist and usually involves large value transactions and involves the abuse of the financial sector and so-called “professional enablers”. The size, and international nature, of the UK’s financial sector makes the UK uniquely exposed to this type of money laundering.

396. Money laundering is often measured on a global rather than national scale. In 2011, the UN estimate money laundering to be close to 2.7% of global GDP or \$1.6 trillion.¹³⁴ Reducing opportunities for crime could also help support conditions for growth. Each \$1 billion laundered reduced overall economic growth by 0.04-0.06 percentage points in seventeen OECD countries, prompting the UN to comment on the findings that “financial centres have developed a self-interest of not being associated with ‘tainted money’ and have signed relevant international instruments to avoid the inflow of such criminal finance.”¹³⁵

397. Data for the UK is not available but National Crime Agency assess that “many hundreds of billions of pounds of international crime money is laundered through UK banks, including their subsidiaries, each year”¹³⁶. As well as the financial cost of money laundering on banks, there is also the reputational risk.

¹³³ See:

<https://www.researchgate.net/publication/241766816> Economic Growth and Crime Does Uncertainty Matter

¹³⁴ UNODC (October 2011) Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes: Research report.

¹³⁵ UNODC (2011)

¹³⁶ NCA (2017)

398. Recognising the challenges posed by money laundering, governments have regulated the financial sector. For example, the EU Commission introduced the Fourth and Fifth Anti-Money Laundering Directives, which aim to prevent the use of the financial system for the purposes of money laundering and terrorist financing.¹³⁷

399. As a result of these regulations there are significant compliance costs for banks when they try to determine who owns assets and the likely source of those assets. For example, in 2015 the British Bankers Association – now UK Finance – estimated that its members spent around £5 billion a year to ensure compliance with financial crime regulations. Another study suggested that UK compliance costs was of the order of \$50 billion.¹³⁸

Benefits for tackling economic crime

Benefits to law enforcement

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

Value of Companies House Data: Public Sector Organisations

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

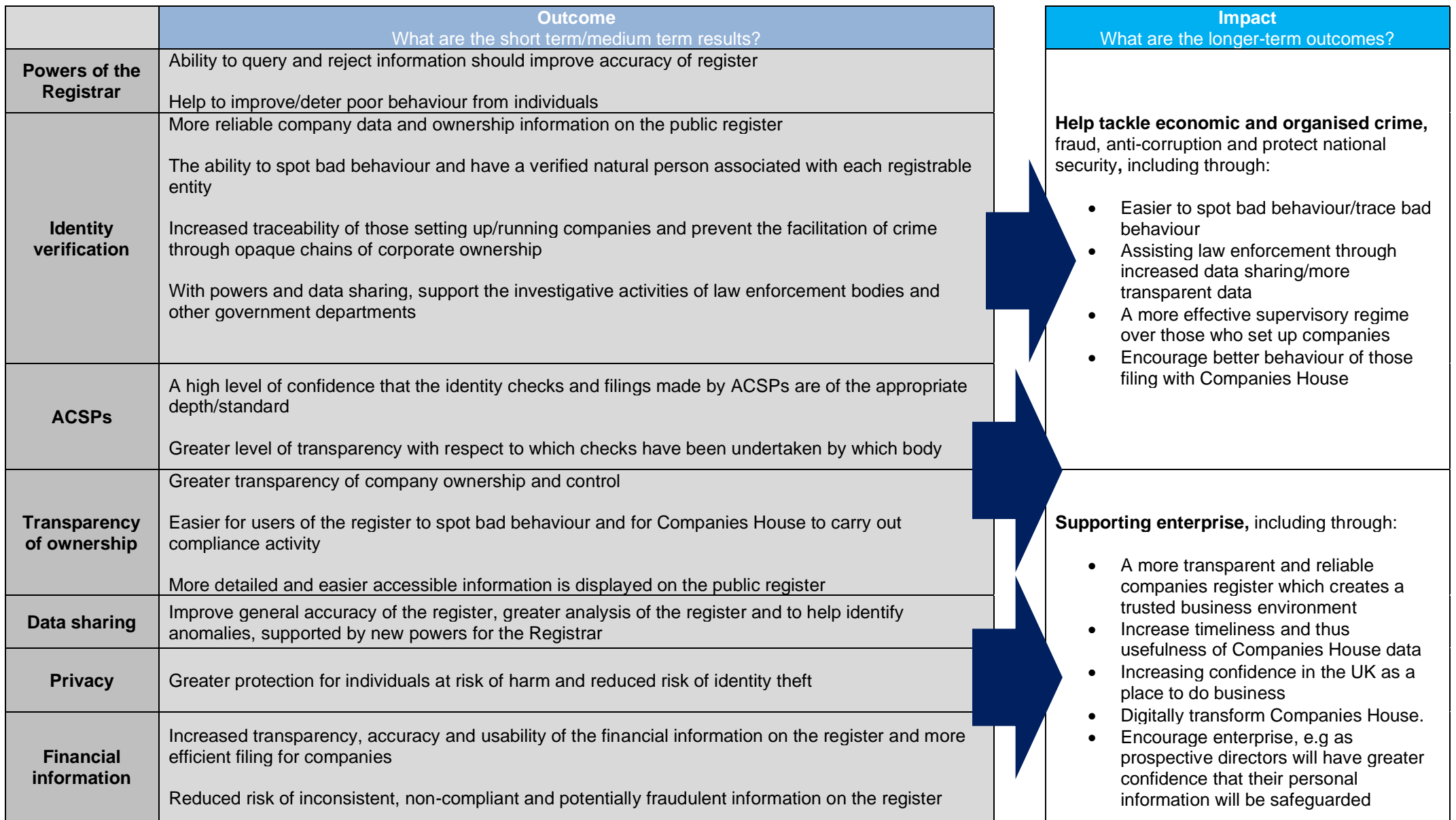
- Companies House data was reported to be a key source of data for law enforcement agencies and was referred to by one interviewee as being '*the starting point*' for all investigations of fraudulent activity
- A qualitative case study from a law enforcement agency confirmed that Companies House data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

¹³⁷ See: <https://www.gov.uk/government/consultations/transposition-of-the-fourth-money-laundering-directive> and <https://www.gov.uk/government/consultations/transposition-of-the-fifth-money-laundering-directive>

¹³⁸ See: <https://www.complianceweek.com/aml/study-europe-blows-us-away-in-financial-crime-spending/28718.article>

401. However, opaque corporate structures not only facilitate crime but also hamper the law enforcement response. Register reform and data sharing should help remove a layer of complexity currently facing law enforcement agencies during their investigations in seeking those that control a company. As a result, investigations could be expedited and more efficient for law enforcement agencies.
402. Register reform aims to further increase the transparency of the register enabling better and more efficient investigation of criminality. The reform package also includes other measures, without impacts on business, e.g. data sharing which should increase the effectiveness of law enforcement.
403. The table below provides a logic model of how we envisage these policies will lead to our intended outcomes.

	Problem/Context What is the issue needing to be addressed?	Input What is being changed/invested in?	Output What has been produced?
Powers of the Registrar	The Registrar currently doesn't have an ability to query or remove errors/inaccuracy, or a function covering the 'integrity' of the register. This can have negative impacts on individuals e.g. fraud/wrong information on the register	New powers for the Registrar, including to query information pre and post registration	A change of role for the Registrar to having the opportunity to query and reject information, as well as a new function for the Registrar which underpins the new powers to be conferred under the register reform programme
Identity verification	The current simple company registration framework has been exploited and is being used for criminal purposes through creation of anonymous corporate structures	Requiring identify verification for those owning, controlling and filing on behalf of companies (e.g. directors/PSCs), as well as wider proposals to increase transparency of those owning/running corporate structures	An identity verification system and a register with more accurate information on those setting up, running and controlling companies, as well as assurance there is a verified natural person for every entity registrable with Companies House
ACSPs	Evidence suggests that third parties who set up companies do not always conduct checks to the same standards as when undertaken directly	Require third parties to register with Companies House, be registered with an anti-money laundering supervisory body and to declare appropriate checks have been carried out when filing on behalf of an entity	Assurance that ACSPs are conducting the identity checks to the required standard and are supervised by an anti-money laundering supervisory body
Transparency of ownership	There is insufficient information on those owning companies – for example it can be difficult to identify current shareholders due to the way the information is displayed	Increased information required on those owning/running companies – e.g requiring companies in scope to provide full shareholder names	Better information on the public register of company ownership which is displayed on the public register in a more user-friendly way
Data sharing	Can't currently easily analyse/share data with law enforcement and other agencies which could help identify criminals/those filing false information	Increased ability for Companies House to share its data with relevant bodies	Increased ability to identify/stop and query suspicious filings and the ability to act upon intelligence that information on the register is inaccurate/suspicious
Privacy	In some instances, personal information and "sensitive" address information that is displayed on the public register can enable identity theft and put individuals at risk of physical harm and intimidation	Allowing individuals and entities to apply for the suppression of more personal information	Personal/sensitive information that is suppressed/protected will no longer be displayed on the public register
Financial information	We currently have an overly complex filing framework that causes confusion and error; does not provide sufficient transparency and may be manipulated to facilitate fraud and non-compliance	A package of reforms to simplify the financial information companies need to provide, including reducing the filing options available, requiring more information to be filed and requiring accounts to be filed digitally and to be fully tagged	A more streamlined filing framework that promotes modern digitalised processes and enables more checking of information. This will improve transparency, accuracy and reliability and result in better quality and more valuable financial information on the register



VI. Summary of costs and benefits

404. This section provides a summary of the estimates costs of this policy package (see figure 41). The costs presented on the cover sheets will vary slightly from that in the main text of the Impact Assessment for BIT accounting purposes.

Figure 41: Estimated costs of register reform package

Policy	Impact	Main costs identified	Direct cost to business?	NPV (£m)	EANDCB (£m)
Registrar's powers	Regulatory	Negligible/no costs to business - compliant businesses who do not provide erroneous or fraudulent information should not be impacted	Yes	N/A	N/A
Identity verification	Regulatory	Costs to officers on the register having to understand and undertake identity verification, and new verifications each year	Yes	-88 to -241	10 to 28
ACSPs	Regulatory	Costs to ACSPs to understand the changing requirements on them to set up and form companies	Yes	-0.77 to -1.39	0.09 to 0.16
Transparency of ownership	Regulatory	Cost to all companies to understand they need to submit a one-off list of their shareholders and a small proportion of companies having to identify the full names of its shareholders	Yes	-27.3 to -27.9	3.17 to 3.24
Data sharing	Regulatory	Costs to regulated professionals for increased discrepancy reporting requirements	Yes	-0.49 to -0.98	0.06 to 0.11
Privacy	Regulatory	Negligible/no costs to business - individuals would only ask for their details to be changed or suppressed if the benefits of the action were greater than the costs	Yes	N/A	N/A
Improving financial information on the register	Regulatory	Cost to specific entities to understand the changing requirements on them - such as companies who currently paper file (and needing to buy appropriate software to digitally file)	Yes	-15.3 to -19.6	1.8 to 2.3
Benefits	N/A	Key benefits identified include helping tackle economic and organised crime and increasing the value of Companies House data	No	N/A	N/A
Costs to Companies House	Non-regulatory	Costs to Companies House to implement register reform through their transformation programme	No	N/A	N/A
Total				-132 to -291	15 to 34

VII. Wider impacts

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

Risks

406. The section below outlines wider policy risks we have identified within the policy making process. Risks relating to specific policy areas have been flagged in their respective sections within this assessment.

407. We will continue to monitor these as this policy is implemented and in a subsequent Post-Implementation Review.

Deterring legitimate activity

408. There is a risk that increased transparency and accountability over who owns and controls UK business deters a number of legitimate business opportunities from investing in the UK, as well as impacting the illegitimate business we are seeking to deter.

409. We consider this to be a low risk. We have worked closely with stakeholders to ensure this package of reforms are overall beneficial for business. The vast majority of stakeholders (including those representing companies) throughout the consultation stage were strongly in favour of this package of proposals. We have introduced mitigations through the privacy elements of this policy package for those companies where an increase in transparency will put them at risk. We therefore envisage it is likely that companies behaving illegitimately will be deterred by the increase in transparency requirements.

Reforms failing to achieve objectives

410. There is a risk that the full vision of the reform proposals is not achieved or achieved sub optimally. This would result in not producing more accurate and reliable information on the public register at Companies House. This could in turn leave UK business vulnerable to fraud, money laundering and other economic crimes. Failure to deliver the reforms may also cost business through increased damage to the UK's reputation as a safe and trusted economic environment for people to set up and do legitimate business.

411. We have worked closely with stakeholders to ensure the planned reforms will achieved their required objectives. We will continue to do this throughout the implementation phase of these reforms.

Public sector impact

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

Statutory equality duties

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

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

414. The Department for Business, Energy and Industrial Strategy is subject to the public sector equality duty 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

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

416. We considered potential and likely impacts of the proposal on the three aims of the public sector equality duty. Our findings are provided below.

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

417. The proposals in question largely relate to duties placed on corporate bodies and their interaction with Companies House. They thus largely apply to legal entities and limited

burdens are placed on individuals directly. Individuals can be affected indirectly in a professional capacity and in their role, for example, as a company director or accountant. Such impacts are likely to be minimal at the individual level. We do not have any evidence to suggest that individuals in the most affected professional capacities (such as company directors) are disproportionately likely to fall under the protected characteristic. We thus do not foresee any clear negative impacts on the individual level, and especially no reason to expect any disproportionate negative impact on those protected by the Equality Act 2010.

- 418. We are aware that mandatory electronic filing, although no barrier for most entities, could create disproportionate barriers for those with limited access to the available digital filing solutions or products, or those whose beliefs prohibit them from using these solutions. We will support businesses to make the transition to digital filing, conducting user research to understand any obstacles and barriers, and provide guidance and solutions for all to file their accounts digitally with Companies House. It is worth noting that the legislation will not itself mandate digital filing but will confer on the Companies House registrar a discretionary power to do so, so equalities considerations will apply if and when the registrar proposes to mandate digital delivery of certain filings.
- 419. So, while our overarching aim is to move to a digital-only environment for the many benefits set out in this Impact Assessment, we will keep this in mind when we develop necessary exemptions, which could allow for alternative paper filing in such circumstances.

Aim 1 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None
Pregnancy & Maternity	None
Sexual orientation	None
Sex	None
*Marriage & Civil Partnership	None

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

- 420. Our assessment for aim one largely applies here as well. The company law framework, and the way corporate bodies interact with Companies House, applies equally to all

corporate entities to build, and maintain the overall integrity of the framework. We have not identified any existing barriers to individuals within the framework, and the proposals assessed here do not impose any new barriers on the individual level that would affect individuals or groups with protected characteristics disproportionately.

421. All Companies House Service developments take into account the needs of service users across the range of protected characteristics, and customer strategy currently makes arrangements for those in vulnerable groups. Companies House will continue to do so under these reforms.

Aim 2 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None
Pregnancy & Maternity	None
Sexual orientation	None
Sex	None

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

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

Aim 3 Assessment

Protected Characteristic	Expected Impact
Disability	None
Race	None
Age	None
Gender reassignment	None
Religion or belief	None
Pregnancy & Maternity	None
Sexual orientation	None

Protected Characteristic	Expected Impact
Sex	None

Conclusion

423. We conclude that the measure should have no adverse or disproportionate negative impact on persons or groups with a protected characteristic and no steps need to be taken to advance equality of opportunity and foster good relations because of or in relation to them.
424. The measures under this proposal are not expected to give rise to discrimination, harassment, victimisation, or any other conduct prohibited by or under the Equality Act 2010. Further, they do not make specific or direct provision in respect of any of the protected characteristics, and they are not expected to result in outcomes where people who share particular protected characteristics are treated differently from people who do not. They are not expected to give rise to a direct or indirect impact on individuals because of any protected characteristic they may have.
425. On this basis, we do not consider it is necessary or proportionate to seek further evidence to support this assessment, or to recommend any changes to our existing plans. The department does not intend to monitor in relation to Public Sector Equality Duty specifically, but the department is required to carry out a Post-Implementation Review of the measure five years after it comes into force.

Competition and innovation impact test

426. The proposed reforms affect all companies across sectors, and we thus have not identified any specific competition and innovation impacts. The proposals will help strengthen the position and protect consumers and businesses who 'do the right thing' from those who aim to abuse the current corporate framework.
427. The 2018 BEIS commissioned research on the value of the companies register found that of the businesses surveyed, 86% used company information to confirm basic information about a company, 71% to carry out due diligence work about a company and 28% to check risk/creditworthiness of a supplier. By having more up to date, accurate data on the companies register it should support business when transacting with one another and thus promote competitive business taking place. Similarly, having more reliable and trustworthy data on the companies register should support business and thus have a positive impact on innovation.

A summary of the potential trade implications of measures

428. There are 12,475 companies incorporated outside of the United Kingdom currently registered at Companies House and approximately 58,592 companies with another company as its Global Ultimate Owner of the United Kingdom.¹³⁹

429. We do not envisage any implications of trade due to these measures. Improving company regulation should signal that the UK as a good place to invest and set up a company. It should also provide greater confidence to foreign entities that the UK companies they trade with are legitimate. Even with the increased requirements due to these reforms, it will remain relatively quick and low cost to set up a company in the UK.

Environmental impacts

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

Human rights

431. By allowing greater scrutiny of companies that are engaging in illicit activities these measures could have an indirect effect on human rights. For example, by reducing the attractiveness of companies as vehicles for money laundering, which is linked to other serious crimes such as people trafficking.

Justice system

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

Impact on small and micro businesses

433. The measures in this reform package will impact small and micro business. Most companies registered with Companies House are small or micro - according to FAME there are around 3.3 million small and micro companies on the Companies House register.¹⁴⁰ This estimate includes all entity types, i.e. companies, partnerships etc.

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

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

¹³⁹ See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021> and analysis of the FAME database.

¹⁴⁰ As per the small company account conditions: <https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts#small-company>

436. Regarding reforming accounts, any evidence for disproportionate impacts is limited. On the contrary, we have investigated random samples of companies that currently file on paper with Companies House, and this did not indicate that these companies are more likely to be small. If anything, our current evidence, and experience suggests that these companies are larger on average, meaning that we do currently not expect a disproportionate impact on small companies from the proposals to mandate electronic filing of accounts.
437. It could also be argued that a more transparent and accurate companies register will be particularly beneficial to small and micro businesses, as they are arguably more likely to rely on Companies House data as a key source of due diligence compared to larger companies who may have the resource to undertake more rigorous checks. The valuing the user benefits of Companies House data asked direct users of the data their annual expenditure on additional company information and data products, of which 18% of respondents answered yes.¹⁴¹ The costs of these additional data products had a mean of £1,640. This reiterates the value in having free, high-quality data available for small and micro businesses.
438. We know that small and micro businesses place a high value on being able to incorporate. Recent published research from BEIS found that the total value of company incorporation to owners of Limited Liability Companies with 0 to 9 employees in the UK is estimated to be approximately £9.6 billion per year.¹⁴² Overall, the study shows that the choice to incorporate is not solely based on financial or administrative burden factors that are within the direct control of business regulation and policymaking. Whilst these factors do matter and at the margin changes in incorporation fee, tax liability, and administrative requirements will impact LLC business formation, a richer set of influences also matter and in some cases are more material to business owners than the direct policy levers.
439. In terms of mitigations, Companies House will work with the small and micro business community to ensure they understand what they need to do to be compliant with these policy changes - for example, through guidance that is relevant and accessible.

¹⁴¹ See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

¹⁴² See: <https://www.gov.uk/government/publications/understanding-the-reasons-for-forming-a-company>

VIII. Monitoring and evaluation

440. The department, working with Companies House, will monitor the impacts following these reforms. This includes monitoring some of the key metrics available, such as number of incorporations, dissolutions, and the frequency with which Companies House data is accessed.
441. Overall, the transformation of Companies House and the measures set out in this reform package will increase our ability to better explore its data will enable us to understand the impact of these policy proposals.
442. We have outlined throughout the Impact Assessment that some of the details of this policy are still being developed and thus the challenges of accurately quantifying the impacts given the primary legislative stage of this assessment. To mitigate this, we have explored a range of costs and outlined that we will continue to build upon this throughout secondary stage and within Post-Implementation Reviews.

Costs to business of the proposals

443. We will monitor and evaluate whether the costs to business estimated were reflective of the impact on business. We will continue to engage with key stakeholders to do this as well as analyse Companies House data e.g. the number of identity verifications, to review our estimates of the current stock and future flow of individuals on the register.

Benefits to business of the proposals

444. As outlined in part V the key benefits are better quality data to support enterprise and supporting the prevention of economic crime.
445. On supporting enterprise, we are likely to repeat the externally commissioned research valuing the data on the company data, which was valued at between £1-3 billion a year. This would test whether the value of the data has increased and include whether identity verification had increased the value of the data. Something to note here is that, to look at willingness-to-pay over time, you want to change as little as possible within the surveys. This could be overcome if the study was re-run with a split sample. Some respondents would get the original study “package”, some respondents would get the new package including identity verification information. That would allow for (a) comparing values over time for any change and (b) understanding the added value of the higher quality data. An increase in the value of this data, due to the changes seen in this policy package, could be seen as a measure of success of this policy.
446. On the prevention of economic crime, we will work with stakeholders, particularly law enforcement on whether the proposals have supported the prevention of economic crime. There are challenges with accurately quantifying the impact of economic crime and within our monitoring and evaluation we will actively explore different approaches to quantify the benefits of these reforms in preventing, or helping to fight, economic crime. Some of the

proposals themselves, such as increased data sharing, will enable us to develop a greater understanding of this.

Title: Limited Partnerships: Reform of Limited Partnership Law IA No: BEIS011(F)-22-BF RPC Reference No: RPC-BEIS-4250(2) Lead department or agency: Department for Business, Energy and Industrial Strategy Other departments or agencies: Companies House	Impact Assessment (IA)			
	Date: 28 March 2022			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Primary legislation			
Contact for enquiries: transparencyandtrust@beis.gov.uk				
RPC Opinion: Fit for purpose (green)				

Summary: Intervention and Options

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
-£21.5m	-£21.5m	£2.2m	De Minimis

What is the problem under consideration? Why is government action or intervention necessary?

The legislation governing limited partnerships has remained largely unchanged for over 100 years. Limited partnerships remain popular business entities for a variety of legitimate purposes, for example, in venture capital. However, several high-profile cases suggest that limited partnerships have been used to facilitate criminal behaviour. The case for government intervention rests on two arguments:

- Upholding the well-established role of the state to address criminal behaviour
- Reducing information asymmetries

What are the policy objectives of the action or intervention and the intended effects?

The government intends to modernise the law on limited partnerships, by aligning it, where viable, to that governing limited companies, which has been regularly reviewed and amended over time. The changes will:

- Increase transparency of limited partnerships
- Deter and disrupt criminal use of limited partnerships, whilst ensuring there is only minimal disruption to legitimate users
- Reduce and eliminate misuse of limited partnerships, including a disproportionately high volume of suspected activity

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

Option 0: Do nothing

Option 1 (preferred): A reform package that requires primary legislation more closely aligning Limited Partnership transparency requirements to those of companies

Option 2: A non-legislative option of additional guidance for limited partnerships to ensure complete and accurate reporting

Option 1 is the only option comprehensive enough to achieve the policy objectives

Will the policy be reviewed? If applicable, set review date: Yes						
Is this measure likely to impact on international trade and investment?			No			
Are any of these organisations in scope?			Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO 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: Lord Callanan,
Parliamentary Under-Secretary of State, BEIS



Date: 28/03/2022

Summary: Analysis & Evidence

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2023	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -21.5

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate			1.8	21.5

Description and scale of key monetised costs by 'main affected groups'
 Increased regulatory burden on business due to:

- Costs of familiarisation
- Costs of initial and ongoing compliance with the policy

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

- Costs to Companies House

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
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 limited partnerships

Key assumptions/sensitivities/risks	Discount rate	3.5%
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Potential policy risks: Risk that illicit activity will be displaced rather than reduced, and that accidental strike-off of legitimate limited partnerships might result in limited partners losing limited liability status. 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, and the implementation period is subject to determination, and we thus had to rely on forecasts for some parameters. There is also no measure for the number of active limited partnerships so actual figures may differ

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 2.2	Benefits: 0.0	Net: 2.2	
			N/A

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I. Background

Background information

Overview

1. In the UK, two main types of partnerships exist. Limited liability partnerships exist in England, Wales, Northern Ireland and Scotland. These are corporate and legal entities that are separate from their partners. Separately, there are limited partnerships, which are the subject of this Impact Assessment.
2. A limited partnership is a partnership made up of two or more partners. The general partner oversees and runs the business while limited partners are not involved in managing the business.¹⁴³ However, the general partner of a limited partnership has unlimited liability for the debt, and any limited partners have limited liability up to the amount of their investment. In Scotland, a limited partnership is an entity in its own right. A subset of limited partnerships are private fund limited partnerships (PFLPs), which allows the limited partnership to benefit from reduced administrative and financial burdens and a clearer regime in relation to the rights that investors can exercise as limited partners without compromising their limited liability status.¹⁴⁴
3. The structure of UK partnerships is set out in the Partnership Act 1890 (the 1890 Act) and in the Limited Partnership Act (the 1907 Act), which introduced a new form of partnership beyond those already available under the 1890 Act.
4. Figure 1 outlines the different types of partnerships/their structures.

¹⁴³ See: <https://www.gov.uk/guidance/set-up-and-run-a-limited-partnership>

¹⁴⁴ These partnerships are a type of LP and will be subject to the reforms outlined in this Impact Assessment.

Figure 1: Summary of partnerships

Types of partnership	Definition
<p>Limited partnership (EWNILP) England, Wales and Northern Ireland</p>	<p>The 1907 Act allowed for limited liability for one or more of the partners. However, to benefit from one or more partners having limited liability, at least one general partner with unlimited liability must be retained within the partnership.</p> <p>Limited partners are unable to take part in the management of the limited partnership without losing their limited liability. The general partner can be a corporate vehicle with limited liability itself, meaning that the beneficial owner of the corporate vehicle has limited liability in practice.</p> <p>Contracts and agreements are entered into under the names of the individual partners. The partnership itself cannot acquire rights or incur obligations, or hold property, unlike under Scots law. This means credits, debts and legal recourse would be in the name of the partners, not the partnership.</p>
<p>Scottish limited partnership (SLP)</p>	<p>Unlike limited partnerships in England, Wales and Northern Ireland, partnerships under the Partnership Act 1890, Scottish firms are legal persons distinct from their partners. This means that Scottish LPs ('SLPs') themselves can own property, hold rights and assume obligations.¹⁴⁵ They can sue and be sued, and a SLP can be a partner in another partnership or entity. They can also enter into contracts with its partners, who can be creditors or debtors of the partnership.</p>
<p>Limited Liability Partnership (LLP)</p>	<p>These are subject to many of the requirements within the Companies Act 2006, including those relating to accounts and reports. They are also treated like partnerships for most tax purposes providing they are carrying on a business with a view to profit. LLPs are out of scope of this Impact Assessment.</p>

¹⁴⁵ SLPs were traditionally used for agricultural tenancy structures, however changes to land law in Scotland in 2003 mean that the use of SLPs for this purpose is no longer possible. There are still approximately 500 "legacy" tenancies operating on this basis.

5. For the purpose of this Impact Assessment, we will refer to limited partnerships registered in Scotland as 'SLPs', to limited partnerships registered elsewhere in the UK as 'EWNILPs', and to 'LPs' when we refer to all limited partnerships in the UK. PFLPs fall under the same scope. Limited liability partnerships are outside of the scope of this Impact Assessment, as they fall under different legislation with its own basis in the law.
6. All LPs are formed by either an individual or by a 'presenter' who can register the LP in return for a fee. They are often solicitors or accountants or specially formed entities to undertake the role of formation.

The use of LPs

7. The separation of a general partner and limited partners (which are essentially sleeping partners), and tax transparency (meaning that tax is paid by the individual partners and not the partnership) make LPs a very flexible business vehicle. Those registered in Scotland, which benefit from separate legal personality, have further benefits, as detailed above.
8. LPs are used across the UK for varied purposes, for example oil and gas exploration and production, real estate development and film production. They are also used by private equity, real estate and infrastructure managers.¹⁴⁶ The venture capital and private equity industry consider SLPs specifically have become a critical building block in UK private equity structures.

The trend in LP registrations

9. Over the past twenty years, there have been several changes in the trends in the number of EWNILP registrations.¹⁴⁷ However, the actual number of EWNILPs which are currently active is unknown, which we discuss further below.
10. Between 2000 and 2010, the number of SLPs registered increased by 63%, which was roughly in line with the growth rate of companies.¹⁴⁸ After this period, the number of SLPs continued to grow significantly until 2017, from 1,020 SLP incorporations in 2010/11 to 5,706 in 2015/2016, a growth rate of 459%. By

¹⁴⁶ See: <https://www.gov.uk/government/consultations/review-of-limited-partnership-law-call-for-evidence>

¹⁴⁷ We note that Northern Ireland did not become part of the UK register until 2009.

¹⁴⁸ Between 2000/01 and 2009/10, the effective register in Great Britain grew by 63.6%. In October 2009 the Northern Ireland register merged with the register for Great Britain to create a UK Register. UK figures are reported from 2009/10 onwards. See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021>, Table 8

comparison, EWNILP incorporations in the rest of the UK grew by 61% over this same time period.

11. Between 2017 and 2021, the growth rate for SLPs slowed, with the total number on the register increasing by 17%. This period coincided with the requirement for annual confirmation statements for SLPs, which came into effect in 2017.¹⁴⁹
12. Figure 2 shows there was a period of strong growth in the number of SLPs registered between 2010/11 until 2016/2017, in comparison to a relatively steady rate of growth in EWNILPs. SLP growth started to plateau from 2017/18 onwards.
13. Further, several respondents to the call for evidence, who are legitimate service providers, have independently said that they have not seen a significant rise in business in the past few years, which suggests that an increase in normal business activity cannot explain this significant growth. Some respondents have also said they think most of the demand for SLPs comes from overseas. As no further statements are required from LPs, there is only a loose indication of where they are doing business.
14. As of 31 March 2021, SLPs made up over half (64%) the proportion of all 54,604 LPs on the Companies House register. In contrast, companies registered in Scotland make up only about 5% of all 4.4m private UK companies.^{150 151}

¹⁴⁹ Since June 2017 SLPs are required to file a confirmation statement each year. This was introduced as part of the extension of the People with Significant Control (PSC) register and means that SLPs are required to provide details of who their beneficial owners are irrespective of whether they are the partner or how many layers of corporate control are between them and the SLP.

¹⁵⁰ See: <https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021>

¹⁵¹ 4.4m is the value of the effective register. Effective register size is the total register size but excludes companies in the course of dissolution or in the process of liquidation/receivership.

Figure 2: Composition of LPs register by type and incorporations, 2000 to 2021

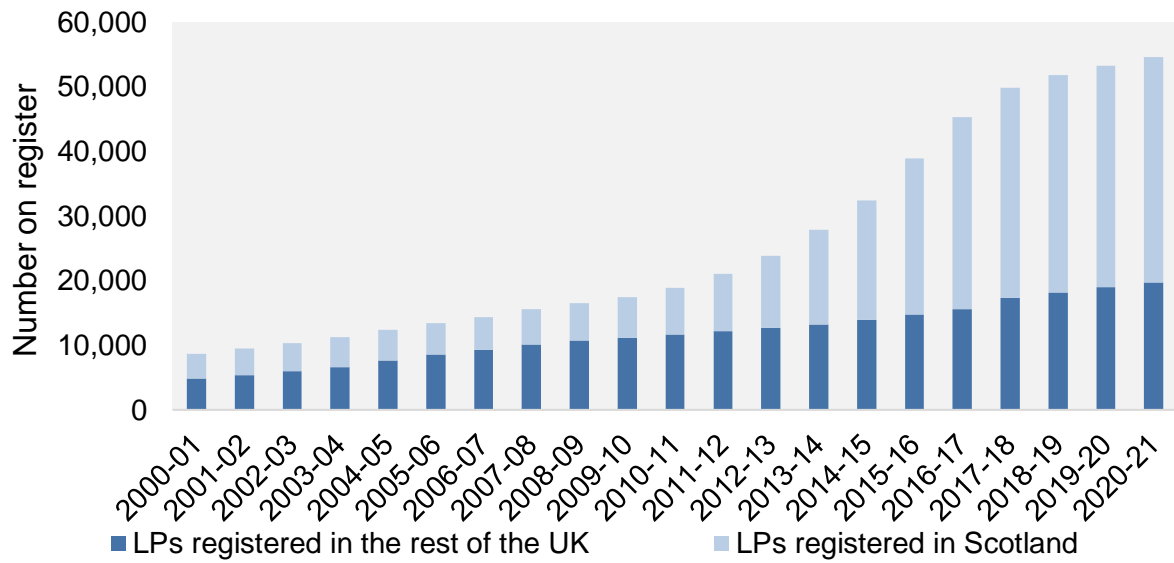
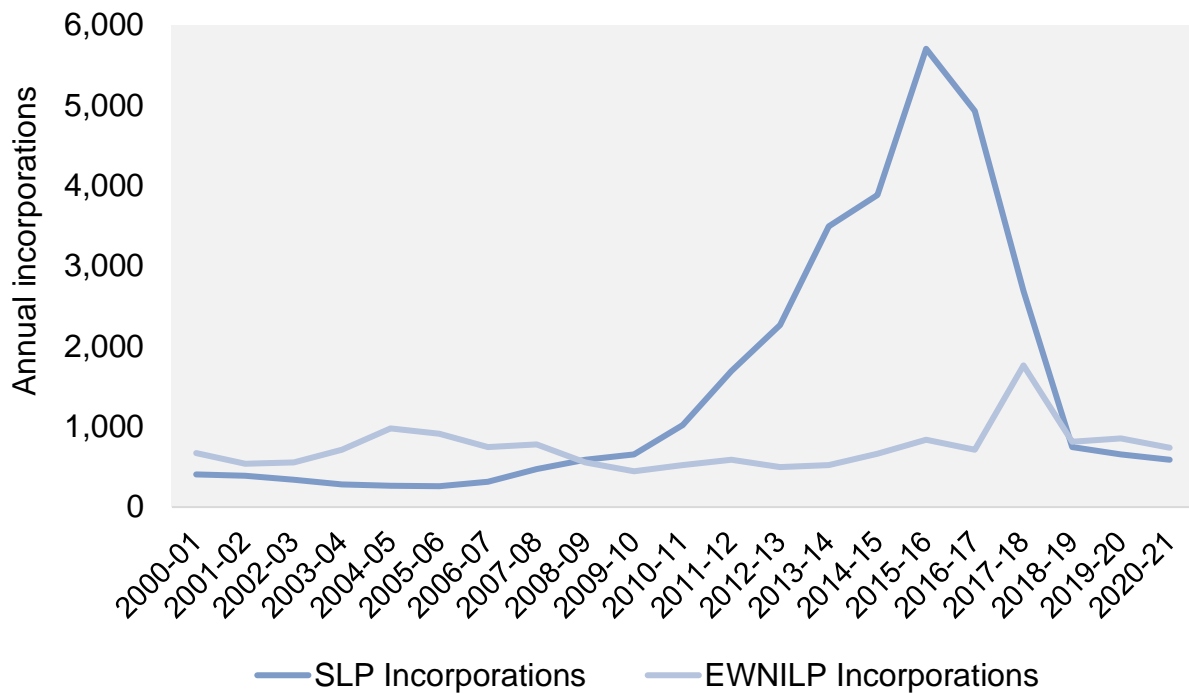


Figure 3: Incorporation of LPs on the Register, 2000 to 2021



Problem under consideration

15. Media reports and responses to the BEIS call for evidence and consultation identified several issues with the current legislative framework.^{152 153}
16. Under the current legislative framework, if you register an LP on behalf of someone else you are a presenter, even if it is just once. If you do it for yourself, you aren't a presenter. The Money Laundering Regulations (MLRs), which govern Trust or Company Service Providers (TCSPs), are unclear as to whether you are a TCSP if you register EWNILPs.¹⁵⁴
17. Currently, presenters who register an LP are required to register with an Anti-Money Laundering (AML) supervisory authority to verify that they conduct adequate due diligence on the LPs that they register. These presenters can offer multiple services in addition to LP formation such as providing service addresses to LPs. Presenters can also be a general partner if it is part of their business model. If the presenter of an LP does not fully comply with the existing rules, it can be very difficult to contact or track down LPs which self-register, as application forms do not require service addresses.¹⁵⁵ These are currently only sought from presenters.
18. Once an EWNILP is formed, they do not currently need to file any further information with Companies House. The requirement to file a confirmation statement – an annual statement to Companies House which confirms the information they hold is up to date – does currently not extend to all other EWNILPs, i.e. those formed outside of Scotland. This, combined with the point in the paragraph above, means we cannot say with accuracy how many active LPs there currently are.
19. The current regulatory framework only requires an LP to register its proposed Principle Place of Business (PpoB).¹⁵⁶ However, there is no requirement for the LP to be physically present at the PpoB and there are several addresses where thousands of LPs are registered. In addition, the PpoB can move outside the

¹⁵² See: <https://www.gov.uk/government/consultations/review-of-limited-partnership-law-call-for-evidence>

¹⁵³ See: <https://www.gov.uk/government/consultations/limited-partnerships-reform-of-limited-partnership-law>

¹⁵⁴ Information on TCSPs can be found here: <https://www.gov.uk/guidance/money-laundering-regulations-trust-or-company-service-provider-registration>

¹⁵⁵ Currently, both presenters and individuals who register more than one (S)LP are required to register with an Anti-Money Laundering (AML) Supervisory Authority to verify that they conduct adequate due diligence on the (S)LPs that they register. Supervisory authorities available here: <https://www.gov.uk/anti-money-laundering-registration>

¹⁵⁶ The location of the PPOB determines which UK jurisdiction it is registered in – for example if it is proposed that the PPOB is in Edinburgh, it must be registered with Companies House in Scotland and is subject to Scots law.

jurisdiction in which it was registered. It is therefore possible for the PpoB to move abroad, including to 'secrecy' jurisdictions with few transparency requirements.

Evidence of misuse

20. Although LPs are used for valuable and legitimate reasons, law enforcement and the media have reported that LPs, and often SLPs, are being misused by money launderers and other criminals.
21. Many of the characteristics which make the LP attractive for legitimate purposes, such as their valuable role in venture capital, also make it vulnerable to misuse. Figure 4 below outlines case studies evidencing the misuse of LPs.

Figure 4: Evidence of misuse of LPs

Case study 1: Misuse of SLP structure¹⁵⁷

Two SLPs, Hilux Services LP and Polux Management LP, channelled \$2.9 billion into the UK between 2012 and 2014, according to bank statements seen by the Guardian as part of a cross-border collaboration with the Organised Crime and Corruption Reporting Project (OCCRP). The money was allegedly used to bribe a senior European politician, legitimate lobbying work for Azerbaijan and purchase luxury goods. SLPs can hold property, enter into contracts, be a debtor or creditor, and sue or be sued, doing so in the name of the partnership, not its partners, creating a beneficial vehicle for money laundering. The two SLPs are registered at the same address, 111 West George Street Glasgow, as well as 800 other SLPs since 2007. The two SLPs share the same general and limited partners: Solberg Business Ltd and Akron Resources Corp. The names of the corporate partners and a signature are the only identifiable information in the registration documents, and the only trace of these vehicles leads to the British Virgin Islands. The nature of the SLPs business is 'wholesale'.

Case study 2: The FinCEN files

In Autumn 2020, thousands of Suspicious Activity Reports from the US Financial Crimes Enforcement Network (FinCEN) were leaked. The reports alleged that 3,267 UK LLPs and LPs were set up for suspicious illicit purposes by registration agents between 1999 and 2017. In general, ownership of these LPs and LLPs was hidden by registering them with owners that were

¹⁵⁷ See: <https://www.theguardian.com/world/2017/sep/04/the-scottish-firms-that-let-money-flow-from-azerbaijan-to-the-uk> & <https://www.transparency.org.uk/publications/offshore-in-the-uk/>

companies based in so called ‘secrecy jurisdictions’ – where companies can be registered without publicly revealing who owns them. This allowed the UK partnerships to be owned and controlled anonymously and potentially used to launder money.¹⁵⁸

Case study 3: Moldovan Bank Fraud

In 2014, \$1bn vanished from three of Moldova’s leading banks, much of it through UK companies. \$1bn was transferred in just two days to a series of UK and Hong Kong registered companies, whose ultimate owners were unknown. A report by Kroll describes how the three banks were taken over by new owners in 2012 who appeared to be unconnected.¹⁵⁹ Some owners bought their shares in the banks using funds from UK LPs. The banks then entered into a series of transactions which Kroll says had ‘no sound economic rationale’. The web of loans emptied them of funds until ‘they were no longer viable as going concerns’. As a result, the Moldovan state was forced to step in to bail out the banks and protect depositors. Moldova is Europe’s poorest country, and the Moldovan government’s action created a hole in the public finances equivalent to an eighth of GDP.¹⁶⁰

22. Additionally, analysis of Companies House data shows evidence of mass registration by some presenters who register multiple (in some instances many hundreds of) SLPs over short time periods. For example, Companies House data shows that between January 2016 and May 2017 the five largest presenters accounted for 56% of SLP registrations, with the top 10 accounting for 75%.¹⁶¹ While some large presenters are reputable law firms with the necessary experience and resources to carry out the required background checks, many of the presenters registering most SLPs do not fit this business profile. It is therefore questionable whether these presenters have the experience, expertise and resource to carry out the required checks.

Call for evidence and consultation

23. In January 2017 BEIS issued a call for evidence entitled, ‘Review of Limited Partnership Law’. We received 44 responses from a wide range of stakeholders, including the finance industry and transparency organisations.
24. Whilst there were very few calls for the government to ban LPs altogether, most stakeholders recognised the importance and value this corporate structure

¹⁵⁸ See: [International Consortium of Investigative Journalists](#)

¹⁵⁹ See: [Kroll – Summary Report for the National Bank of Moldova](#)

¹⁶⁰ See: [BBC – The great Moldovan Bank Robbery](#)

¹⁶¹ This time period acts as an example and was chosen due to data availability. The general observation that mass registrations appear to be driven by a small number of presenters is likely to hold over all relevant time periods.

gives, including in Scotland. The evidence received demonstrated that LPs are used in a wide variety of legitimate business and sectors spread across the economy. The evidence also highlighted some specific and significant weaknesses in the framework that potentially enable criminality.

25. The submissions from the call for evidence and media stories repeatedly pointed out that many LPs are registered at one address and that presenters carrying out mass-registrations were very unlikely to have conducted the money laundering checks required.
26. Following this, on 30 April 2018 BEIS published a consultation.¹⁶² We received 41 responses to the consultation from a wide range of stakeholders, including businesses, representative bodies and non-government organisations.
27. Many respondents from the consultation agreed that presenters of applications for LPs should be required to demonstrate that they are registered with an AML supervisory authority, and several respondents added that the measure would impose only minimal burdens on presenters. Most respondents suggested that applications from overseas should be made by using either a UK-based presenter or a presenter that is supervised by an overseas AML supervisory authority with equivalent requirements.
28. The ability for an LP to move its PPOB outside of the UK is an attractive feature of the LP model for some investors, in particular those which are part of global structures. This was reflected in the consultation responses, where over half of the respondents said that requiring the PPOB to remain in the UK would have a detrimental impact on the venture capital industry and make LPs unattractive to investors.
29. Most respondents either directly supported or did not disagree with the proposal that all LPs should be required to file an annual confirmation statement during consultation. However, many respondents considered that the administrative burden of providing accounting information would be too high and would go beyond what was necessary for meeting the government's objective of increasing transparency. Some respondents pointed out that accounting information might not always be available, and that would depend on whether the partnership was at an active stage in its lifecycle.
30. Almost all respondents supported the proposal to give the Registrar a power to strike off LPs from the register of companies, but to varying degrees. All respondents agreed that it would be desirable to strike off LPs which had been dissolved. There was concern about the impact of striking of an LP in error and the impact that would have on the limited liability of the limited partners.

¹⁶² See: <https://www.gov.uk/government/consultations/limited-partnerships-reform-of-limited-partnership-law>

31. On 10 December 2018 the government response to that consultation was published. The consultation document set out a range of proposals, including stronger controls at the point of registration, identity verification for general partners to help ensure that the identities behind companies were real, requirements for additional information whilst the LP is operating, as well as providing the Registrar with powers to strike off LPs from the register under certain circumstances.

Focus of this Impact Assessment

32. This Impact Assessment assesses the policy proposal at the primary legislative stage. It gives as full assessment as possible. It is possible that there will be further changes at secondary legislation stage. Where the changes are substantial enough to affect the analysis, especially if they could change the status of the measure as being 'de minimis', we will provide an updated assessment of those at the secondary legislation stage.
33. We assess costs over a ten-year appraisal period and present our estimates in terms of present value costs for this period for business (NPV) and equivalent annualised net direct costs to business (EANDCB). As per current regulatory guidance, all costs are given in 2019 prices and this Impact Assessment uses 2023 as the base year for the present value calculation.¹⁶³
34. This legislation falls under the wider Economic Crime Bill, which includes tangential changes to the power and scope of the Registrar in Companies House which complement the reforms for Limited Partnerships (referenced as register reform). The register reform legislation is a package to reform the role of Companies House, including increasing the powers of the company Registrar to query and remove information on the register, introducing identity verification for directors and people with significant control and changing requirements around filing of company accounts. These will be introduced in tandem with those outlined in this Impact Assessment.

¹⁶³ See: <https://www.gov.uk/government/collections/impact-assessments-guidance-for-government-departments>

II. Rationale for intervention

35. The rationales for the policy are:
- Addressing regulatory failures
 - Reducing information asymmetries
 - Reducing negative externalities
36. We explore each of these in turn.

Addressing regulatory failures

37. Addressing criminal behaviour and establishing and enforcing a set of rules is a primary duty of the state. Where there are deficiencies in the legal framework that enable individuals or entities to commit crimes, which is evident in the case studies outlined above, it could be argued that there is a regulatory failure.
38. Crime imposes significant costs including the damage to the victim's welfare, inefficient resource allocation and a forced redistribution of income, lost economic activity/output, and costs to the criminal justice system, including the police. The Home Office have published estimates of the social and economic costs of organised crime.¹⁶⁴ Social and economic costs were estimated to be £37 billion in 2015/16 prices. These are likely to be an under-estimate as they do not cover all forms of organised crime and do not capture all costs.
39. 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.

Reducing information asymmetries

40. 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.

¹⁶⁴ See:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782656/understanding-organised-crime-mar16-horr103-2nd.pdf

41. UK enforcement agencies have provided examples of the types of activity that can be facilitated using opaque structures. These include crimes such as money laundering. This means money passing through a LP can be of criminal origin and can be used to support further crimes. The anonymity provided by the structure thus makes it challenging for law enforcement agencies to identify the individuals who are engaging in criminal activity. The potential for anonymity offered mean that individuals who ‘stand behind’ LPs can then use their LP as a front, for example, to launder the proceeds of crime and to finance organised crime and terrorism.

Negative externalities

42. Lastly, illicit activity can create negative externalities on licit LPs and the UK’s reputation. Media articles and negative public opinion regarding illicit behaviour can lead to an erosion of trust in LPs, which can ultimately harm legitimate businesses. We also note that a significant amount of abuse of LPs occurs from foreign organised criminal organisations, and this damages international prosperity and undermines the UK’s reputation as a responsible jurisdiction.¹⁶⁵ Misused LPs could unfairly damage reputable LPs, and on a wider scale the reputation of the UK as a reliable place to do business.
43. 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.

Policy objectives

44. The policy objectives are to enhance the transparency around LPs, to limit misuse and ensure they remain attractive for legitimate use. A logic model outlining the intended impacts of this policy is included in the benefits section below.
45. The intended effects are to:
- Deter and disrupt crime, by making it more difficult to use corporate vehicles in the pursuit of crime
 - Deter criminals from money laundering in the UK
 - Preserve the integrity of the financial system
 - Increase the efficiency of law enforcement investigations, particularly in relation to identifying and tracing the proceeds of crime

¹⁶⁵ See: http://www.transparency.org.uk/publications/offshore-in-the-uk/#.WungAOj4_yQ

- Require the same transparency of all UK LPs, in line with global standard

III. Description of options considered

Option 0: Do nothing

46. 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.
47. No additional measures to improve transparency will be considered, and there will be no further burdens on legitimate business.

Option 1 (preferred): A reform package that requires legislative action using primary legislation

48. The preferred option is a package of reforms which aim to improve the integrity of the register, through reform of the legislation surrounding LPs. These measures will enhance regulation and oversight of LPs and stop the misuse of these corporate forms, and therefore more closely aligning them with transparency requirements imposed on companies. This work is split into four strands. These are:
 - Ensuring that only Trust or Company Service Providers (TCSPs), which are supervised for Anti-Money Laundering purposes, are able to present new applications for LPs
 - Requesting information about a LPs connection to the UK (a) on application for registration, and (b) on an ongoing basis
 - Requiring confirmation statements and update statements from LPs in England and Wales, and Northern Ireland and for these to be presented by a TCSP
 - Granting the Registrar, the powers to deregister LPs which are dissolved, which she considers are no longer operating, and where a court orders (for example) that it is in the public interest to wind up and deregister the LP
49. We discuss each of these in turn.

Ensuring that only TCSPs, which are supervised for Anti-Money Laundering purposes, are able to present new applications for LPs.

50. This option will make it mandatory for presenters of new applications for registration of LPs to demonstrate that they are registered with an AML

supervisory authority, i.e. a TCSP, and to provide evidence of this on the application form, in order to ensure that there is an oversight of LPs in place.

51. The government will also be empowered to set out in secondary legislation the standards for an equivalent regime, that would enable the registrar to accept registrations from overseas.

Requesting information about a LPs connection to the UK (a) on application for registration, and (b) on an ongoing basis

52. On an application for registration an LP must provide a proposed PPOB in the UK. LPs are diverse in terms of the ways they are established and used and so the government intends to offer LPs a choice in how to demonstrate their ongoing connection to remaining eligible as a LP. The principle is that the LP's service address must always be in the original jurisdiction of the LP's registration. The government intends to give an LP the following options:

- Retain their PPOB in the original jurisdiction of registration, and maintain this as its service address,
- Provide the address of a general partner that is registered in the original jurisdiction of registration as the LP's service address, or
- Demonstrate that they continue to use the services of an agent that is registered with a TCSP in the original jurisdiction of registration and which has agreed to provide an address as a service address for the LP.

53. The government also considers it necessary for transparency that where a LP does not retain its PPOB in the original jurisdiction of registration, the LP must notify the Registrar of any change in its PPOB and will also be required to notify the Registrar if the way that it demonstrates its ongoing connection to the UK changes.

Requiring confirmation statements and accounting information from LPs in England and Wales, and Northern Ireland

54. The requirement for annual confirmation statements is already mandatory for SLPs.¹⁶⁶ The government considers that the information currently required of EWNILPs on applications for registration should be expanded and be confirmed annually for transparency purposes. It will also enable the government to be

¹⁶⁶ SLP confirmation statements are used to confirm the details of their beneficial ownership information

able to accurately understand the total number of active LPs, and monitor the trends of registrations, dissolutions and business lifespans.

55. Currently, new registrations for LPs in England, Wales and Northern Ireland require:

- The name of the firm
- The general nature of the business
- Address of the proposed principle place of the LP
- The term, if any, for which the LP is to be entered
- The names and signatures of each general partner
- The names, amounts contributed and signatures of each limited partner
- The name of the presenter and the presenter's reference.

56. The government will extend the list to the following information:

- Contact information for all limited and general partners,
- The date of birth and nationality of all limited and general partners that are natural persons, and
- A SIC (standard industrial classification) code, identifying the nature of the LPs business.
- Accounting information (though they will not be asked to submit the accounts themselves in this legislation)

57. The current information required, as well as the requirements that demonstrate an ongoing connection to the UK, will be required to be registered annually.

58. The purpose of the confirmation statement is for the EWNILP to confirm all details on the register are correct. The government will introduce a transitional period and mechanism to enable all existing LPs to submit the additional information and capture information where changes have occurred that have not been registered.

Granting the Registrar the powers to deregister LPs, including those which are dissolved, where the Registrar concludes a LP is no longer operating, or where a court orders that a LP should be wound up in the public interest.

59. The Registrar's new powers will be subject to following a robust notification procedure for deregistration in respect of dissolved LPs and LPs which are no longer carrying on business.

60. The government will design a process that ensures, as far as is possible, that limited partnerships are given due notice that it is being considered for

deregistration. The government recognises that this will need to take account of historic LPs that were registered many years ago. The government will also consider the circumstances when it would be appropriate to restore a LP, and appropriate procedure for the restoration of a LP that has been deregistered.

Option 2: Non-legislative option

61. A non-legislative option is not considered to be enough to effect the changes required.
62. This option would principally be to promote existing guidance among TCSPs. The existing guidance applies to other entities (in addition to LPs) and covers wider money laundering concerns. In addition, different industries have each produced separate guidance documents which aren't necessarily consistent, making interpretation sometimes difficult (for example a TCSP that is an accountancy firm with a legal arm to it might need to refer to sets of guidance from HMRC, the accountancy sector and the legal sector, all of which have subtle differences). Use of the guidance by TCSPs can therefore be inconsistent. There is also a risk that promoting a lack of rule change would only highlight deficiencies in the law to would-be criminals. We would also be unable to confirm how many active LPs are in the economy. Under this option, LPs would remain misaligned with wider transparency measures as well, being out of sync with companies, who are required to annual provide information to the Registrar.

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

Option 0: Do nothing

63. The main cost of no action is to forgo the benefits of action and not addressing the issues outlined previously. This option is not preferred.

Option 1: A reform package that requires legislative action using primary legislation

Estimated number of current LPs

64. As outlined previously, we do not know the current number of active LPs. Our understanding of current levels of demand for LPs is hindered because EWNILPs do not currently need to periodically file with Companies House, and SLPs have only been required to do so since 2017, and given current low requirements more widely on SLPs, some may be non-compliant. Therefore, it is difficult to identify those LPs which are active.
65. Companies House are currently unable to confirm the accuracy of this information as they have no legal recourse to remove an LP from the register. To estimate the potential number of LPs, Companies House have undertaken internal analysis based on the information they currently receive.
66. This information was gathered through a string search within the LP6 transaction description that searches for the matching criteria of 'closed' or 'dissolved' or 'ceased' to try to determine the status of the partnership.¹⁶⁷ When these matches occur, these LPs are assumed to be inactive. This assumption will inevitably be flawed as there is no legal obligation for the EWNILP to inform Companies House when they close, cease or dissolve, which could potentially result in us under counting. This therefore represents a high scenario for the number of LPs we expect to be active.
67. Using this method:
- Companies House analysis show that of the 19,713 EWNILPs registered at 31 March 2021, they consider around 11,010 to be no longer in business.
 - Companies House analysis show that of the 34,891 SLPs registered at 31 March 2021, they consider around 26,350 to be no longer in business.

¹⁶⁷ See: <https://www.gov.uk/government/publications/specify-the-nature-of-a-change-in-the-limited-partnership-lp6>

68. Therefore, their analysis estimates that as of 31 March 2021 there were 8,541 active SLPs and 8,703 EWNILPs. In this Impact Assessment, we will assume this represents a conservative scenario for the number of active LPs, particularly the number of EWNILPs, which emphasises the importance of this policy change in understanding the population of LPs. This is summarised in Figure 5 below:

Figure 5: Estimate of the current number of active and inactive (S)LPs March 2021

	Assumed active	Assumed inactive
SLPs	8,541	26,350
EWNILPs	8,703	11,010
Total LPs	17,244	37,360

Source: Companies House internal analysis, 2022

Estimated flows of new LPs

69. Predicting the number of annual registrations and the number of active LPs over the ten-year appraisal period is difficult for a variety of reasons, most specifically because there is no consistent trend over the last few years, as previously outlined. Additionally, we cannot treat historic growth as a good estimate for future growth in the stock of active LPs, as historic growth rates represent the inflow only, as outflows were never recorded by the register.

70. We consider two scenarios.

- In the first (high) scenario we assume that the number of currently active LPs on the register will grow by 5.4% per annum for LPs, similar to the growth rate of EWNILPs and the growth rate of companies over the past 10 years. In essence this scenario assumes that new registrations are comparable to levels observed now (slightly higher) but that no LPs become inactive.
- In the second (low) scenario, we assume that the growth in the size of the active register will be zero. This assumes that the current low levels of registrations are maintained and that the number of LPs becoming inactive equals the number of the LPs created, leaving the stock of active LPs constant.

71. We consider that best estimate is likely to be the low estimate, and therefore use this in our estimates. This is because the overall number of LPs has reduced in recent years and increased transparency requirements may disincentivise some individuals from forming LPs.

New registrations

72. The estimate of new registrations is derived from the average of the past 3 years incorporations data for EWNILPs and SLPs, between 2018-19 to 2020-21. This timeframe has been chosen as it reflects more likely growth rates for LPs, particularly for SLPs, as it the period is after the introduction of annual confirmation statements. These are the number of LPs who will need to comply with the new requirements in each year.
73. Using this approach, figure 6 summarises estimated annual flow based on the above methodology.

Figure 6: Estimated number of new registrations of LPs per year

	Number of new registrations per year
SLPs	666
EWNILPs	803
LPs	1,469

Source: Companies House statistics 2020/21

Unit costs

74. The key categories of potential costs created by this policy change which we have identified are:
- One off familiarisation cost to LPs of the new requirements
 - One off compliance cost to LPs to comply with the new requirements
 - Ongoing costs to LPs to comply with the new requirements
 - Fees to Companies House
 - The wider economic costs of a potential reduction in legitimate activity
 - Costs to Companies House
75. To support our cost assumptions, we use estimates from the Post-Implementation Review of the PSC regime, published in 2019.¹⁶⁸ A quantitative telephone survey was conducted with 500 businesses by IFF research to measure the effects of complying with the PSC regulations.. We will use these recent estimates within this cost assessment.

¹⁶⁸ See: <https://www.gov.uk/government/publications/people-of-significant-control-psc-register-review-of-implementation>

76. While this policy proposal differs from the introduction of the PSC register, we explain below (paragraphs 84-86) why the requirements are sufficiently similar to those introduced by the PSC register.
77. However, there are a number of differences:
- Companies, which are subject to PSC requirements, and LPs are different corporate structures, as are SLPs and EWNILPs. These vehicles are often used for different purposes. For this reason, they are not directly comparable.
 - Companies House does not have any information on the complexity of all LP structures, but it is likely to differ to that of companies. Over 95% of companies are small or micro entities with few directors/PSCs. In contrast LPs are likely to be complex especially where they are used in fund structures.
78. The survey carried out by IFF provides a disaggregation of its results by size and complexity of the firms interviewed:
- On business size:
 - Micro or small: business with less than 50 employees
 - Medium or large: business with 50 or more employees
 - Complexity of ownership structure:
 - Simple: businesses that are the only corporate entity in their ownership chain
 - Reasonably complex: businesses that have one other corporate entity in their ownership chain
 - Complex: businesses that have two or more other corporate entities in their ownership chain or have any element of their ownership chain based overseas
79. For reasons outlined above, we assume that LPs are likely to be more complex on average. We therefore use the estimated mean costs of complex companies for initial PSC submissions and uprate these from 2017 prices to 2019 prices. This is summarised in figure 7 below.

Figure 7: Estimated average compliance costs per entity (in 2019 prices)

Cost	Complex company best estimate (2017)	2019 prices
<i>One off costs</i>		
Familiarisation	£150	£156

Identifying and collecting beneficial ownership information	£124	£129
Providing beneficial ownership information to a central registry	£53	£55
<i>Ongoing costs</i>		
Checking, identifying and collecting new beneficial ownership information	£132	£137
Submitting beneficial ownership information	£34	£36

Source: People of Significant Control (PSC) Register: review of implementation, 2017

80. Given the limited scope of this proposal, we do not believe it would have been appropriate to commission a similar fully tailored survey for this Impact Assessment. The PSC register affects over 90% of corporate bodies - in 2019/20 LPs represented 1.2% of all entities on the register in the UK, assuming all LPs are active.¹⁶⁹ Therefore, the resources used in this appraisal should be proportionate. Additionally, any survey of LPs would have run into issues around identifying the population of active entities and ensuring a reasonable response rate. Therefore, a bespoke survey would not have delivered any more robust cost estimates because of the lack of transparency around LPs. Contacting and receiving representative responses would not have been possible without significant costs.

Familiarisation costs

81. Those affected by the policy changes will have to familiarise themselves with the changes to identify what it is they now must do, and in order to put the necessary processes in place to comply with new regulations.
82. It is likely that the familiarisation does not necessarily happen at the individual (S)LP level for some parts of the policy proposal, but that it will be the legal advisers or other providers of services to LPs that will incur these familiarisation costs (and then pass the cost on to LPs). We have shown that a small number of presenters register most SLPs.

Ensuring that only Trust or Company Service Providers, which are supervised for Anti-Money Laundering purposes, are able to present new applications for LPs.

83. Presenters will need to show they are registered with an AML supervisory authority when registering a LP. This will be one extra question to complete on

¹⁶⁹ See: <https://www.gov.uk/government/publications/companies-register-activities-statistical-release-2019-to-2020/companies-register-activities-2019-to-2020>

the application form, in which presenters will need to provide an AML body number. As the presenter should already be registered with an AML body, this is likely to be a minimal burden. We thus estimate the familiarisation costs on business for this element to be negligible.

Requesting information about a LPs connection to the UK (a) on application and (b) ongoing

84. Presenters and LPs will need to familiarise themselves with the extra information which needs to be supplied and the different ways in which a LP can show its continuing connection to the UK.
85. This regulation is new for all LPs and presenters, who will need to familiarise themselves with these changes. In this sense, it is not dissimilar to the introduction of the PSC register, where presenters of companies and directors needed to familiarise themselves of the regulatory changes. Although the information that needs to be familiarised is different, comparable individuals within companies and LPs will need to understand this information. The PSC review of implementation estimated familiarisation costs of £150 (£156 in 2019 prices) for each complex organisation within the scope of the PSC regime which we apply to all LPs assumed to be active.

Requiring confirmation statements and accounting information from LPs in England and Wales, and Northern Ireland

86. SLPs, are already required to file annual confirmation statements, thus this measure will only affect EWNILPs.
87. In the Fourth-Money Laundering Directive Impact Assessment, the familiarisation costs for SLP confirmation statements were estimated using the Transparency & Trust Impact Assessment estimates of introducing the PSC register.¹⁷⁰ As this brings EWNILP requirements in line with the requirement for SLPs to submit confirmation statements, we again use the familiarisation costs for the PSC Post-Implementation Review from of £150 (£156 in 2019 prices) per entity, as this is the cost that businesses faced following implementation.
88. We have applied the same familiarisation costs for both requesting information about LPs connection to the UK and for requiring confirmation statements annually for EWNILPs, which may risk overestimating the costs of understanding this policy, given that it is likely that presenters and LPs will familiarise with both of these proposals together. Once the implementation of this policy becomes clearer we will revisit this assumption.

¹⁷⁰ See: <https://www.gov.uk/government/publications/company-ownership-transparency-and-trust-impact-assessments> and <https://www.gov.uk/government/publications/people-of-significant-control-psc-register-review-of-implementation>

Deregistration powers for the Registrar

89. We expect familiarisation costs to be low. Essentially, those engaged in an LP need to know that if they are no longer active, they can contact Companies House to inform them, and if they do not, they will be struck off the register. In terms of familiarisation, this should have a negligible cost impact, especially as the strike off procedure proposed will mimic that already in existence for companies.
90. Figure 8 below summarises the per entity costs to derive our best estimates for overall familiarisation costs associated with the proposed reform package.¹⁷¹

Figure 8: Familiarisation cost summary in 2019 prices

Policy element	Cost per entity (2019 prices)	Estimated Number of entities	Total cost
Ensuring that only Trust or Company Service Providers, which are supervised for anti-money laundering purposes, are able to present new applications for LPs	-	-	-
Requesting information about a LPs connection to the UK (a) on application for registration, and (b) on an ongoing basis	£156	17,200	£2,690,000
Requiring confirmation statements from LPs in England and Wales, and Northern Ireland	£156	8,700	£1,360,000
Granting the Registrar the powers to deregister LPs which are dissolved, power to deregister in the event of court order being issued or which the Registrar concludes are not carrying on business or in operation	-	-	-
Total cost			£4,050,000

One off compliance costs

¹⁷¹ The calculations presented in the cost summary boxes are to the nearest thousand. In the final calculations, the exact values will be used.

91. As well as familiarising themselves with the changing requirements, there are one off costs incurred by business to become compliant with this policy.
92. There will only be one off costs associated with the requirement to file annual confirmation statements. This is because:
- Presenters should already be registered with an AML supervisory authority. To be compliant with this policy over time a presenter will have to remain registered and reproduce its registration number when it registers a new LP on the LP5 form.¹⁷²
 - All LPs will need to collect information to prove that they have a service address in the original jurisdiction of registration. Once an LP or a presenter has familiarised themselves with the policy, no further action would need to be taken. There may be some partnerships with a PPOB outside of the UK, that do not carry out business activity in the UK and do not use the services of a UK supervised presenter. These partnerships will have to come to a service agreement with a TCSP to provide an address as their service address, who will probably charge them for this. However, this number of LPs is likely to be very small, and we cannot give a robust estimate of them. Therefore, whilst this may be a potentially significant cost to some, it should be negligible on average and is therefore not monetised.
 - Regarding deregistration powers, we do not believe that there will be any one-off compliance costs to partnerships from providing the registrar with the ability to deregister LPs from the register. There will now be fines associated with non-compliance.

Requiring confirmation statements annually for LPs

93. The proposal to file an annual confirmation statement would only affect new and existing EWNILPs, as SLPs have been subject to this requirement since June 2017. We again use the PIR estimates as the basis of our estimates. The total estimated cost of identifying and collecting beneficial ownership is estimated to be £129 and providing beneficial ownership information to a central registry to £55, thus a total of £184 in 2019 prices, which we use in our calculations (summarised in figure 9 below).

¹⁷² See: <https://www.gov.uk/government/publications/apply-for-a-registration-of-a-limited-partnership-lp5>

Figure 9: One off compliance cost summary in 2019 prices

Policy element	Cost per entity	Number of entities covered	Total cost of this element
Ensuring that only Trust or Company Service Providers, which are supervised for anti-money laundering purposes, are able to present new applications for LPs.	-	-	-
Requesting information about a LPs connection to the UK (a) on application for registration, and (b) on an ongoing basis	-	-	-
Requiring confirmation statements and accounting information from LPs in England and Wales, and Northern Ireland	£184	8,700	£1,600,000
Granting the Registrar the powers to deregister LPs which are dissolved, power to deregister in the event of court order being issued or which the Registrar concludes are not carrying on business or in operation	-	-	-
Total Cost			£1,600,000

Ongoing business compliance costs

94. There will only be ongoing costs associated with the requirement to file annual confirmation statements and accounting information. This is because:

- Presenters should already be registered with an TCSP
- The information needed to prove they are economically active in the UK will be collected via the confirmation statement
- There are no direct requirements on LPs as a result of deregistration

Requiring confirmation statements annually for EWNILPs

95. As previously discussed, this requirement only applies to EWNILPs, as annual filing is already in scope for SLPs. We again use the PSC PIR estimates as the basis for our estimates. We use the total cost of checking, identifying and collecting beneficial ownership at £137 and submitting annual beneficial ownership information to a central registry at £35, thus a total of £173 in 2019 prices.¹⁷³

Ongoing compliance cost summary

96. Figure 10 below summarises the ongoing compliance costs to business.

Figure 10: Ongoing compliance cost summary in 2019 prices

Policy element	Cost per entity	Entities per year over appraisal period	Annual cost
Ensuring that only Trust or Company Service Providers, which are supervised for anti-money laundering purposes, are able to present new applications for LPs	-	-	-
Requesting information about a LPs connection to the UK (a) on application for registration, and (b) on an ongoing basis	-	-	-
Requiring confirmation statements from LPs in England and Wales, and Northern Ireland	£173	8,700	£1,500,000
Granting the Registrar the powers to deregister LPs which are dissolved, power to deregister in the event of court order being issued or which the Registrar concludes are not carrying on business or in operation	-	-	-
Total Cost			£1,500,000

Fees to Companies House

97. Prospective LPs currently pay a fee of £20 for the registration. Using these existing fees, we make the assumption that the cost of providing new

¹⁷³ Values round up to £173.

information to Companies House and the cost of the annual confirmation/update of those details will be £20 in each case. At a secondary legislation stage, we are likely to have more accurate updates of this value. This value should therefore be treated largely as an indication rather than a robust estimate at this stage. As a charge for a service, the fee would not be included within the EANDCB, but will be included in the NPV.

Other costs

Reduction in legitimate activity

98. We do not think that any minor direct increase in costs or burden associated with registration of LPs will create a cost in terms of reduced legitimate business activity. Stakeholders, for example, from the investment community have mentioned repeatedly that the cost associated with registration is largely insignificant to them as the process of registration only forms a very minor cost component of setting up a new limited partnerships structure. The significant legal advice and contracting work can easily go into many thousands of pounds for a complex fund structure, and increasing the burden associated with registration by the costs estimated above would thus be relatively insignificant. On the other hand, presenters providing cheap mass-registration services, often from £12 per limited partnership, will see any marginal increase in regulatory burden as much more significant. In effect, we thus assess that the legitimate activity is likely slightly less cost sensitive. The proposed reform package is carefully balanced precisely to create sufficient barriers to illicit activity while minimising any impact on licit activity.

Costs to Companies House

99. Companies House is undertaking an ambitious transformation programme, which will include delivering this Bill, as well as the wider register reform programme. This transformation will support digital components, processes and skills that will underpin the ongoing delivery of the elements of the reform. Given the close linkages between Companies House transformation and register reform, and linkages between different elements of register reform, it is impossible to allocate transformation costs to individual reform measures. Hence, we treat transformation costs as indivisible. We do though estimate that only a small proportion of these overall costs are attributable to the

implementation of this policy.¹⁷⁴

Benefits (not monetised)

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

- Reputation effects and reduction in information asymmetries
- Reducing illicit activities

Reputation effects and reduction in information asymmetries

101. Having a well-regarded, reputable corporate framework is of significant benefit to the UK, by creating a clear signal to investors that the UK is a safe place to invest. Greater transparency between the Registrar and LPs will make it easier for individuals to identify who they are dealing with and hold these individuals to account. As outlined in the rationale for intervention, an increase in transparency is likely to reduce information asymmetries.

102. We have explained why and how we think the proposed policy changes would contribute towards maintaining and further enhancing the reputation of this framework earlier in the Impact Assessment. However, we do not think it would be proportionate to attempt to monetise: a) the value of a reputable corporate framework and b) what specific contribution these policy changes could make to that overall value. Any such attempts would likely be insufficiently robust, and we have thus not monetised any positive reputation effects.

Reducing illicit activities

103. The policy aims to reduce the ability of criminals to use LPs for illicit gains or as a means by which to launder illicit gains. Transparency 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.

104. 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.

¹⁷⁴ Additionally, we currently envisage Companies House will recover these additional costs through a fee, which we discuss above. Including both the costs to Companies House and the fee would lead to double counting.

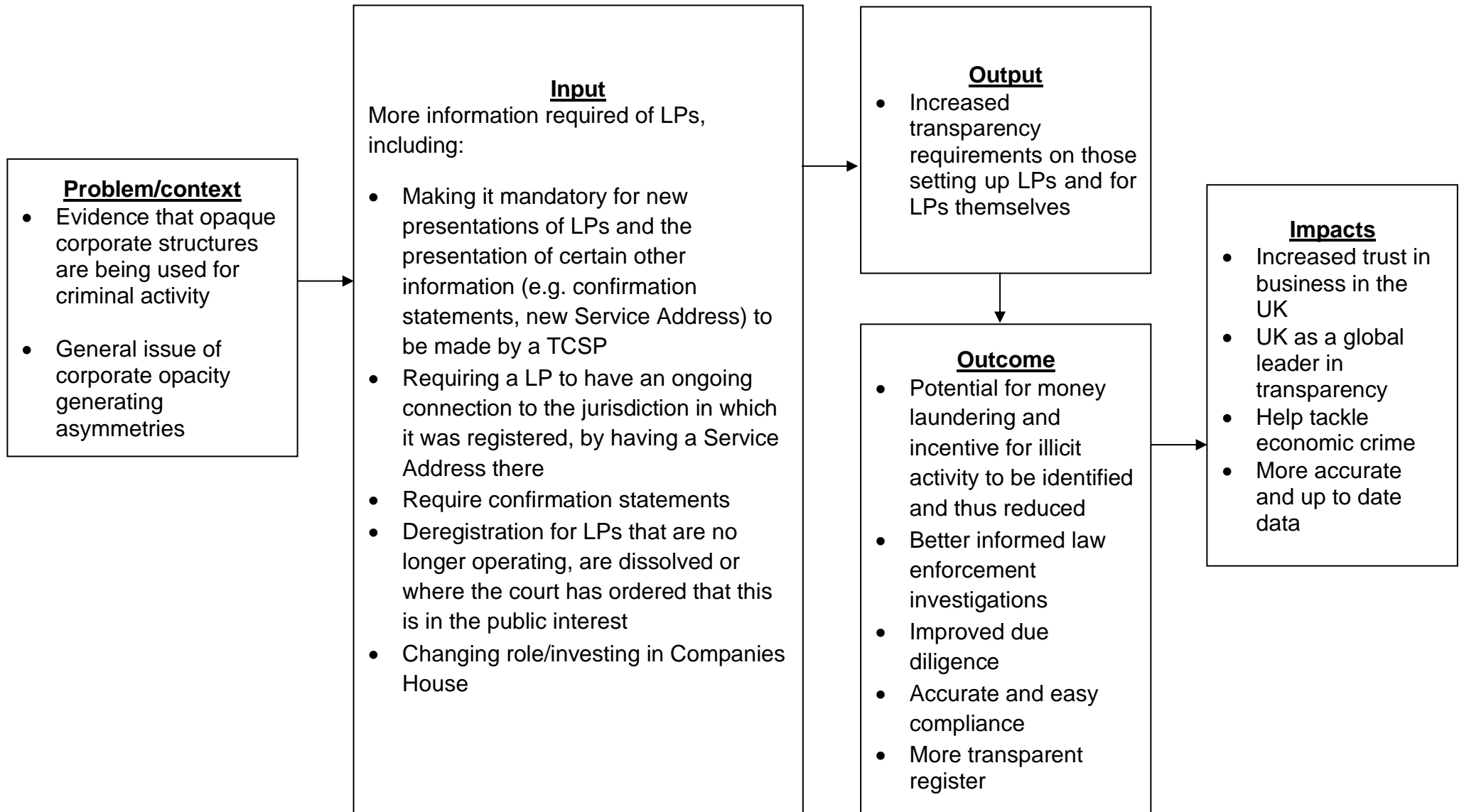
105. Where a crime is deterred, uncovered, prevented or redressed there are a number of direct benefits that can be thought of as the avoidance of costs. Criminal activity has a number of significant negative impacts including the damage to the victim's welfare; inefficient resource allocations and a forced redistribution of income; lost economic activity/output; and costs to the criminal justice system, including the police.

106. 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 ex-ante estimate for any reduction in illicit activity caused by the proposed change.

Logic model

107. The following logic model outlines the core policy objectives, how these translate to inputs, outputs and expected outcome and impacts of the policy.

Figure 11: Logic model: LPs



Costs and benefits of alternative options

108. 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.

V. Monetised impacts on business

109. We have assumed that all costs are direct costs to business. We thus estimate this measure falls into the 'de minimis' exception - where the EANDCB value is below £5 million.
110. The table below summarises these costs and shows that together they have a net present value of around -21.5 and an **equivalent annualised direct net cost to business (EANDCB) of £2.2m per year**. As such, we judge this measure to fall under the 'de minimis' threshold of a £5m EANDCB with a significant level of certainty.
111. This Impact Assessment concerns the primary stage of legislation. Greater detail will be provided on some aspects of the Bill in secondary legislation. Though 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 could change, and assessments at the stage of secondary legislation will update the provided estimates if necessary. An updated assessment at the secondary stage of legislation will include impacts on these entities if they are deemed to be non-negligible.

Figure 12: Summary of monetised regulatory impact on entities

Year of appraisal period	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	
Stock of EWNILPs	8,703	8,703	8,703	8,703	8,703	8,703	8,703	8,703	8,703	8,703	
Stock of SLPs	8,541	8,541	8,541	8,541	8,541	8,541	8,541	8,541	8,541	8,541	
New registrations (EWNILPs)	-	803	803	803	803	803	803	803	803	803	
New registrations (SLPs)	-	666	666	666	666	666	666	666	666	666	
Cost	per entity value (£)	<i>One off cost (£m)</i>									
One off familiarisation cost to LPs of the new requirements	£156 per policy change	£4.05	£0.35	£0.35	£0.35	£0.35	£0.35	£0.35	£0.35	£0.35	£0.35
One off compliance cost to LPs to comply with new requirements	£184	£1.6	£0.15	£0.15	£0.15	£0.15	£0.15	£0.15	£0.15	£0.15	£0.15
		<i>Ongoing costs (£m)</i>									
Ongoing costs to LPs to comply with new requirements	£173	-	£1.5	£1.5	£1.5	£1.5	£1.5	£1.5	£1.5	£1.5	£1.5
Companies House fee	£20	£0.34	£0.34	£0.34	£0.34	£0.34	£0.34	£0.34	£0.34	£0.34	£0.34
NPV (£m)	-21.5										
EANDCB (£m)	2.2										

VI. Risks and assumptions

Potential policy risks

Moving, but not reducing, illegitimate activity

112. Increased scrutiny at the registration stage together with the ability to deregister LPs should deter the use of illegitimate activity. However, closing one avenue for illegitimate activity always bears the risk that criminal activity will not fundamentally be stopped, but just moved, with criminals potentially using different corporate vehicles either inside or outside the UK.

113. There are a number of other countries which have vehicles similar to an LP.

Figure 13: Comparative corporate bodies

Countries/ partnership type	Societe en commandite simple (Lux LP) and Societe en commandite special (Lux SLP)	Delaware LP¹⁷⁵	Jersey & Guernsey
Partnership type	Like the (S)LP, the Lux (S)LP have at least one limited and unlimited partner and have flexibility regarding the vehicle's organisation and functioning	The partnership is a separate legal entity.	
Public Disclosures	Unlike SLPs, the Lux equivalents do not require the names of the limited partners and their contributions, as well as transfers of LP interests ¹⁷⁶	A Delaware LP does not have to register the names of its partners on formation.	A non-public register of limited partnerships must be kept but is not provided to the registrar ¹⁷⁷

¹⁷⁵ See: <http://delcode.delaware.gov/title6/c017/index.html>

¹⁷⁶ See: <https://www.pwc.lu/en/private-equity/current-challenges-luxembourg-limited-partnership.html>

¹⁷⁷ The department's correspondence with BVCA

Legitimate activity moving overseas

114. We are aware from feedback received during the call for evidence that legitimate users, especially in the investment community, could use alternative vehicles available outside the UK. These often have even lower levels of transparency and a significant move towards overseas vehicles would harm the UK's reputation as a leading place for private equity and venture capital. We do not think that the proposals would impose any significant additional burden on such legitimate users that would cause a significant shift in behaviour.

Unintended consequences

115. We have engaged heavily with stakeholders inside and outside government to minimise the risk that the proposed reforms could cause any unintended consequences. For example, the investment community has raised concerns that accidental deregistration of a legitimate and active LP could result in partners losing their limited liability, which could have significant consequences. We believe that the deregistration procedures as proposed would mitigate such risks and would not expose partners to any significant new risk, as the Registrar would be required to follow a robust notification procedure and ensuring any general and limited partners of an LP are given due notice of any deregistration consideration.

Uncertainties in the economic assessment

Number of active LPs

116. A particular uncertainty is that the number of active LPs remains unknown, as minimal information is required of them following registration, therefore we have used best estimates based on Companies House analysis in this Impact Assessment. Following implementation, we will be able to gather more accurate figures surrounding this, which will inform any future assessments of this policy.

VII. Wider impacts

Equalities assessment

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

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

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

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

119. An equality analysis is an important mechanism for ensuring that we gather data to enable us to identify the likely positive and negative impacts that policy proposals may have on certain groups and to estimate whether such impacts disproportionately affect such groups.

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

120. We do not believe that this proposal is likely to affect any of the protected groups disproportionately, as this should only affect law abiding citizens minimally and only in their professional capacity. We do not believe that anyone who is acting legitimately would be affected significantly.

121. We are aware this corporate vehicle is heavily used by citizens of certain jurisdictions, but as we have said previously, we believe that the overall impacts on legitimate users will be largely minimal.¹⁷⁸ We would also like to note that making the corporate framework more credible will make it easier for legitimate users from those jurisdictions to avoid suffering reputational damage.

¹⁷⁸ See: <https://www.bellingcat.com/news/uk-and-europe/2017/11/14/british-governments-attempts-fight-corruption-money-laundering-already-failing/>

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

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

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

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

Competition and innovation impact test

124. The proposed reforms affect only LPs to bring them in line with other company requirements, and we thus have not identified any specific competition and innovation impacts. The proposals will help strengthen the position and protect consumers and businesses who ‘do the right thing’ from those who aim to abuse the current corporate framework.

125. The 2018 BEIS commissioned research on the value of the companies register found that of the businesses surveyed, 86% used company information to confirm basic information about a company, 71% to carry out due diligence work about a company and 28% to check risk/creditworthiness of a supplier.¹⁷⁹ By having more up to date, accurate data on the companies register it should support business when transacting with one another and thus promote competitive business taking place. Similarly, having more reliable and trustworthy data on the companies register should support business and thus have a positive impact on innovation.

Families’ assessment

126. The policy aims ensure LPs are transparent and in line with other company law frameworks. 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.

Environmental impacts

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

Human rights

128. It is likely that these reforms will engage the European Convention on Human Rights (Art 8 – private life; Art 1 of Protocol 1 – free enjoyment of property). BEIS Legal will conduct Human Rights analysis in due course which will set out the precise areas in which the

¹⁷⁹ See: <https://www.gov.uk/government/publications/companies-house-data-valuing-the-user-benefits>

reforms give rise to human rights interferences, and the bases on which those interferences can be justified as necessary and proportionate and thus lawful.

Justice system

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

Small and micro businesses assessment

130. The standard definition of small and micro businesses does not apply neatly to LPs because these partnerships are often better characterised as contractual agreements between businesses for a specific economic activity rather than a business. Although an LP may appear in a similar structure to a small business, with one general and limited partner, like that of a director in a company, they can be vastly different. The partners are often other vehicles themselves, and in many instances used for investment purposes. The concept of employees, therefore, does not often apply.

131. Due to limited reporting requirements we cannot readily provide an assessment of sizes of LPs.¹⁸⁰ However, where they are used for the purpose of investment vehicles, the sums involved will often mean that these partnerships could not reasonably be described as “small”, and individual investment companies involved are typically also large. We have indeed argued that LPs are often used within significant fund structures. However, when used in private-equity and venture capital those companies benefitting from the investment will sometimes be start-ups at the early stage of their development, which could well be “small”. And where limited partnerships are still used in the agricultural sector, they are likely to be used by small businesses (farms).

132. Whilst we thus acknowledge that limited partnerships will in some instances be used by small and micro businesses, and that small and micro businesses can benefit from investment originating from fund structurers using LPs, we do not have robust data to provide a more detailed assessment.

133. In any case, the exemption of small and micro businesses would not be feasible as it would undermine the overarching policy objective of increasing transparency and reducing the likelihood of misuse of limited partnership structures.

¹⁸⁰ We attempted to do so using the FAME database but were unable to clearly identify LPs which were ‘small’ using the same definition as companies. Due to limited reporting requirement this led to low values being returned.

VIII. Monitoring and evaluation

134. The department, working with Companies House, will monitor LPs following the reform. By increasing the transparency surrounding LPs, we will be able to observe how many EWNILPs are active and gather further information about them.

135. We will also continue working with stakeholders in this area to gather an understanding on how the reforms have affected them directly.

Costs to businesses

136. We will monitor and evaluate whether the costs to business estimated were reflective of the impact on business. We will continue to engage with key stakeholders to do this as well as analyse Companies House data e.g. the number of active LPs, to review our estimates of the current stock and future flow on the register.

Benefits to businesses of the proposals

137. As outlined in **part V** the key benefits are better quality data to support transparency and supporting the prevention of economic crime.

138. By increasing the transparency around LPs, there will be greater and more accurate information available on the register, allowing businesses and individuals a greater level of trust in the information provided. We can measure this by the number of LPs on the register who present the required information.

139. When looking at deterrent and disruption of criminal use of LPs, while ensuring there is only minimal disruption to legitimate users, we will work with stakeholders, particularly law enforcement on whether the proposals have supported the prevention of economic crime.

Measuring risk and unintended consequences

140. The monitoring and evaluation process will also seek understand any unintended consequences from implementation and the impacts of these.