UK FINANCE

Companies House consultation response: Corporate transparency and register reform implementation – Powers of the Registrar, Ban on Corporate Directors and Account Filing

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms, we act to enhance competitiveness, support customers and facilitate innovation.

We welcome the opportunity to comment on the proposals announced in the Government's September 2020 consultation response. The banking and finance industry strongly support reform of Companies House (CH) as an important factor in a safer and more transparent financial system. Transparency of ownership is an essential component in the UK's response to tackling economic crime as set out in the Economic Crime Plan, which includes developing a more effective regime through public-private partnerships, investing in new infrastructure and further integration of systems.

To achieve this, an ambitious approach is required that will need to go beyond remedying inefficiencies in the current approach by supporting a transformation in CH's role and capabilities. We therefore welcome the 2020 Spending Review announcement of £20m to support CH reform in order to help maintain momentum but think that further investment is required, including through an increase in company registration fees to help ensure the long-term sustainability of the 5-year reform programme. As part of this, both innovative technology and dynamic information sharing provide an opportunity for the company registrar to play a proactive and enabling role in the Government's fight against economic crime, including supporting more effective approaches to anti-money laundering and countering the financing of terrorism (AML/CFT). Fundamental reform of CH also provides an opportunity to support UK competitiveness through more effective business frameworks and modernised CH services, allowing for the development of new services to support digital innovation and facilitate smaller firms' access to financial services.

First and foremost, ambitious CH reform is needed to address a key vulnerability in the UK regime for fighting economic crime. This vulnerability has been identified by both international and national assessments of the UK's approach to AML/CFT , as well as of the threat from organised and serious crime. While recognising the Government's wish to maintain the speed and competitiveness of CH services – identifying who owns and ultimately controls UK corporate entities is vital to tackling the most pressing economic crime issues facing the UK. These include risks to our international reputation, the integrity of public procurement and democratic processes and other national security

threats. We understand that the Government has at present decided against adopting the 'Jersey model', which requires all company registrations to be through AML/CFT regulated trust and company service providers (TCSPs), given the different UK model of sector-specific regimes for supervision and ongoing work led by OPBAS to raise standards across non-financial sector supervisors. However, we believe that the current reform package should benchmark CH's role and capabilities against good practice from TCSPs and the wider regulated private sector, particularly the approach to new powers to verify, query and amend CH information.

CH reform should aim to support more effective AML/CFT approaches by reducing duplication of know-your-customer requirements, and by enabling more dynamic data sharing to help combat fraud against customers and the public sector. We consider that robust assurance of company data would support transformation of the CH role from a passive recorder to a proactive gatekeeper, such that other gatekeepers in the regulated sector could be notified on live queries and rely on adequately verified CH information when onboarding customers. This type of meaningful reform could streamline customer due diligence administration and allow the banking and finance sector to redeploy resources to higher value activity. This reallocation of effort would be significantly more efficient and result in a greater collective impact on economic crime, offering a return on investment that may justify consideration for project funding under the proposed Economic Crime Levy. There is also scope for a more ambitious approach to the sharing of non-public CH information with the regulated sector, to develop enhanced joint capabilities to identify and disrupt criminal abuse of the register. This potential has been demonstrated by recent collaboration with the banking and finance sector against Covid-related fraud by UK registered companies, and should be pursued through investment in more structured and robust data to facilitate use of automation and analytics.

This type of CH reform to modernise onboarding of corporate customers would have a positive impact on economic growth, encouraging the development of innovative new digital and data services while reducing the administrative burden on small companies seeking access to bank accounts, finance and other AML/CFT-regulated services. Ambitious CH reform could also encourage inward investment to the UK, both by helping to crack down on fraud and by contributing to greater confidence in UK corporate governance and transparency. The accuracy and transparency of beneficial ownership information has become an increasingly important consideration for regulatory risk assessment and international structuring decisions, as seen in 2020 press commentary on the leak of suspicious activity reports from the US Treasury's FinCEN agency. This includes the new EU:UK relationship, where beneficial ownership transparency will be an important part of the common fight against economic crime as well as wider discussions around equivalence. CH reform should also make a full contribution to rebuilding the UK economy, such as developing new services to support the UK's digital and data sector and to simplify the administrative processes for opening bank accounts, applying for finance and other regulated services.

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We develop these views further in our comments on the specific consultation questions below. Our specific recommendations include:

- Applying a risk-based approach to the use of new powers to query, annotate and remove information in a proactive way, such that CH takes more interventionist action to higher risk cases and less against lower risk cases. This should be driven by a 'dynamic risk engine', making timely use of economic crime typologies and intelligence as well as case-specific anomalies, and the development of analytical methods and technology to automate the remediation of non-material anomalies.
- Ensuring reliable and timely interventions against both unanswered queries and inadequate responses, including annotation after an initial failure to provide an adequate response within a reasonable timeframe and removal of register information after a second failure.
- Providing access to sensitive non-public information collected by CH for the regulated sector and their data providers, both through public-private information sharing and privileged access rights to the register. This could include non-public notifications of where information is being queried and any material impact on the CH risk assessment. More generally, we consider that CH reform should be ambitious in seeking opportunities to reduce duplicative requests and customer friction in the regulated sector's due diligence requirements.
- Ensuring that new powers to query and remove director information, and to implement a targeted ban on corporate directors, include CH checks that presented directors are properly authorised for their role in the company. More generally, while these consultations do not address detailed implementation of the proposals for verification of directors and beneficial ownership, we consider that limiting CH checks to verifying individual identities is insufficient to ensure greater accuracy and integrity of the register. We recommend that the CH process includes routine checks to verify that individuals presented as directors or beneficial owners truly hold that relationship to the company.
- Allowing the regulated sector to place reliance on verified CH information when undertaking their own verification of customer information for know-your-customer requirements, including both the identity and the status of directors and beneficial ownership. This amendment to the Money Laundering Regulations could take place once CH is itself verifying or ensuring adequate customer due diligence checks of this information. This could initially be on a targeted basis, with annotation of the register to confirm adequate verification.
- Ensuring that there is clear guidance to the regulated sector on annotation of the register, including CH criteria and thresholds for when annotation is required and when this relates to suspected abuse of the register. There should also be clear AML/CFT supervisory expectations on how this information should be taken into account as part of firms' own RBA.
- Ensuring that new CH powers are developed in alignment with other economic crime information sharing and major infrastructure projects, such as SARs reform and the new payments architecture.
- Include CH reform in the Government's new dialogue with EU institutions and member states in line with the AML chapter of the Trade and Cooperation Agreement, to support cooperation against economic crime and facilitate the flow of cross-border financial services.

If you have any further queries please contact nick.vanbenschoten@ukfinance.org.uk.

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<u>Powers of the Registrar consultation</u>

Chapter 1:-

A risk-based Approach

1. *Q. Do you agree that the querying power should be exercised on a risk-based approach? If you disagree, please explain your rationale.*

- We agree with a risk-based approach (RBA) to queries, as the UK regulated sector applies the same term from international AML/CFT guidance, UK regulations and supervisory expectations. For example, FATF describes the RBA as an approach to allow both countries and their regulated sectors to adopt "a more flexible set of measures in order to target their resources more effectively and apply preventive measures that are commensurate to the nature of risks, in order to focus their efforts in the most effective way".
- Generally speaking, we consider that a RBA to CH powers should not be approached as a method for minimising effort, as it will include queries in marginal but high risk cases as well as not querying in all low risk cases. We assume that a RBA will need to be supported by a dynamic risk engine and investment in innovative approaches to data analytics and technology solutions. We also assume that there will be cases where CH powers should be used in all cases, such as in screening against lists of sanctions designations and fraud databases, and reporting identified cases of deliberate or suspicious misstatements to regulators and law enforcement.
- A RBA to queries should focus on material anomalies, with minor or understood anomalies not queried unless there were exacerbating factors. This would be in line with the approach taken for regulatory reporting of discrepancies of beneficial ownership data. Consideration should also be given to the identification and analysis of repeated and/or linked low-risk issues, to help ensure that CH monitoring does not overlook a collective material anomaly.
- A RBA approach to determining the materiality of anomalies should target priority areas for the integrity of the register and wider public interests. These priorities should include economic crime risks, identified by Public Private Threat Assessments and National Risk Assessments and defined in more detail through typologies and other intelligence products. It should also consider how to address more detailed intelligence identified by law enforcement, supervisors and public-private partnerships, taking account of the need to avoid impacting on ongoing investigations.
- We consider that a RBA could help CH to play a more effective role in the wider fight against economic crime, by allowing CH to focus its resources on the identification and analysis of priority threats. FATF guidance on the RBA for the banking sector notes that

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their approach to the RBA is not a zero-failure regime, and that countries and regulated firms alike should deploy their resources in order to make the best impact on the most significant risks. Ambitious CH reform could help develop the UK's capabilities by investing in sophisticated interrogation of company data, including ongoing dynamic monitoring, screening against lists of known bad actors and comparison to detailed risk typologies.

- Restricted data sharing with the regulated sector can support a RBA to use of CH powers by facilitating wider identification and review of anomalies. This includes stronger collective capabilities to identify and analyse priority threats, as well as spreading the risk of compromise.
- To support general data quality, we also consider that CH should develop a technological solution by which 'non-strategic' errors are remediated in an automated manner.

Querying power: potential scenarios

2. *Q: Are there specific circumstances under which you consider the querying power should be exercised? Please give reasons for your answer.*

- We note that the current consultations do not address the detail of how CH will exercise its future powers to verify the identity of presented directors and beneficial owners. However, based on the CH process of verification outlined in the response to the 2019 consultation, the querying power would need to be used, in line with the RBA, to check whether persons presented as directors and beneficial owners truly hold that relationship with the company.
- However, we also recommend that this information is checked on a routine basis as part of the CH process for verification; e.g.
    - Evidence that a person is authorised to act as a director for the company (organisational chart, board resolution to evidence director's powers, etc);
    - Evidence that a person qualifies as a beneficial owner / person of significant control of the company (evidence of shareholding meeting the statutory 25% threshold, declaration signed by a qualified PSC and verified by external professionals such as a notary or lawyer, etc) , or, conversely, evidence that no person qualifies (evidence of all shareholdings under the statutory threshold, etc);
    - Etc.
- We note that JMLSG industry guidance recommends a RBA to the types of evidence used to confirm the identity of identified beneficial owners of a corporate customer (e.g. JMLSG Part 1, section 5.3.14-15).
- We consider that adequate verification of directors and beneficial ownership is critical to the integrity of the register and wider public policy interests. It could also support more efficient and effective approaches to combating economic crime, by allowing the regulated sector to

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avoid duplicative customer due diligence checks and instead place reliance on verified CH information. For clarity, we are aware that allowing this form of reliance would require an amendment to the Money Laundering Regulations.

- In the majority of cases, it should be possible for CH to use existing technology to support adequate verification, or where relevant to work with economic crime partners to ensure confidence in verification already undertaken by UK regulated TCSPs. If necessary, this could be implemented on a phased basis, initially targeting more routine company applications and annotating the register to confirm where key customer due diligence information has been verified adequately.
- We also note and support the intention to include phased verification of existing directors and beneficial owners. We recommend that this phasing includes an element of RBA prioritisation as well as technology-enabled automation.
- We consider that exercise of the querying power should include circumstances where there are specific indications of higher risk, including indicators from typologies of CH abuse developed by JMLIT, the Joint Fraud Taskforce and industry threat management: e.g.
    - Anomalies of company data with the presented industrial classification code and type of business;
    - Anomalies of company trading status and other data or reporting to the Registrar;
    - Companies with multiple nominee directors or where there are multiple companies at the same registered address;
    - Velocity and volume of changes, such as frequent changes on registered address or company name;
    - Patterns of company behaviour and changes, such as the revival of dormant companies and change in directors;
    - Concentrations of risk, such as a single accountancy firm submitting accounts for tens of thousands of companies;
    - Patterns of behaviour suggesting that unregulated presenters of company information are in fact offering regulated TCSP services;
    - etc.

Application of the new querying power to company names

3. Q: In what circumstances do you think the power should be used in the context of company names? Please provide reasons for your answer.

- We consider that the power should be targeted as proposed in the consultation, where the presented company name presents specific risk indicators from typologies and intelligence for fraud: e.g.

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    - Copycat or spoof companies used to facilitate purchase scams;
    - Anomalies with the FCA register and other regulatory intelligence;
    - Company names that could be easily mistaken for a professionally regulated body (e.g. investment firm, law firm, etc).
- We recognise that it may not be feasible or proportionate for CH to investigate all names prior to registration, however, we recommend that consideration is given to the use of innovative technology to support exception-based review in a small minority of cases. For example, automated screening systems and machine learning technology can help identify sensitive names and other higher-risk indicators that can then be held for manual review.

4. Q: Do you agree that this is an appropriate use of the querying power? Please provide reasons for your answer.

- Yes. Queries support more accurate register data.
- Targeted queries also support a RBA to wider CH procedures, including verification, annotated and removed information, spot checks and enforcement.

5. Q: Is it appropriate to place the onus on the company and/or the applicant to demonstrate that a name is being registered or was registered in good faith?

- Yes. This is in line with existing CH procedures and is a routine business query.

6. Q: Do you agree that the "sensitive words and expressions" regulations should be amended to capture circumstances such as that described above? Other company name loopholes

- Yes. Wider scope to address sensitive words and expressions will reflect criminal innovation and help prevent abuse of the register for fraud.

7. Q: Do you agree that we should close this gap in the way we propose? Are there any other gaps that we should consider?

- Yes, CH should close the gap on sensitive words and expressions as proposed.
- In line with the RBA, CH should also review its procedures for checking and intervening on other sensitive information to ensure adequate scope for addressing other identified risk indicators for fraud and wider economic crime; e.g.
    - Industrial classification codes;
    - Etc.

The querying process and annotation of the register

8. Q: What sanctions do you consider are most appropriate to incentivise compliance with the new requirement to respond to a query raised by the Registrar?

- The reliability and timeliness of interventions are a key factors in incentivising compliance, as well as contributing to the efficiency and effectiveness of the overall regime for tackling financial crime.

- Automation and wider applications of innovative technology can support more proactive and risk-sensitive action by CH, without unduly impacting on the speed of CH services or complaint resolution.
- In line with a RBA, CH could apply a sliding scale of interventions and sanctions, supported by clear, plain language guidance for companies and applicants; e.g.
    - Internal flags visible to CH and other economic crime partners to note that a query is outstanding;
    - Annotation of the register to note that a query is outstanding;
    - Varying the prominence of these flags and annotations, such as by limiting them to the queried information or by displaying them prominently for every query on the company;
    - Heightening the sensitivity of the CH risk engine for checking and intervening in relation to the company, applicant and/or presenter, including spot checks undertaken in line with a RBA;
    - Consistent and publicised sanctions against company officials, directors and beneficial owners who flout the rules, to raise public awareness that providing misleading information to the register is not a victimless crime;
    - Coordination with AML/CFT supervisors in intervening against TCSPs, to support effective action against enablers of economic crime;
    - Set financial penalties for the company, applicant and/or presenter, with stepped escalation beyond relatively short periods;
    - Restriction on the eligibility of the company, applicant and/or presenter to register new companies pending response or resolution of the query;
    - Etc.

Legal effect documents

9. Q: Do you agree that the removal of most documents which have legal effect by virtue of registration at Companies House should be a matter for the courts?

- Yes, provided that CH is able to respond quickly to indications that criminal innovation is exploiting this limitation, such as communicating specific concerns of abuse through prominent annotations on the register and public statements.

10.Q: We propose that the Registrar should be able to remove certain filings which in future, will give legal effect such as director appointments. Do you have any views on whether the Registrar should have any other role in respect of legal effect filings? What information will be published?

- Yes, we agree that the Registrar should be able to remove director appointments.
- The register could note that a filing with legal effect had been removed for one of a small list of general reasons, such as unresolved queries or enforcement action.

11.Q: Do you agree that the evidence provided as a result of the Registrar's queries should not be published unless it comprises information that would normally be published? Please give reasons for your answer.

- Yes, provided that evidence having a material impact on the risk assessment of the company and/or persons associated with the company is shared with law enforcement, regulatory partners and relevant public-private partnerships such as JMLIT.

- Live queries and any material impact on risk assessment should also be internally flagged to CH and economic crime partners. Economic crime partners would include banking and financial firms and the wider regulatory sector, as access to CH risk data will help these firms deliver more effective customer due diligence and counter-fraud procedures. Economic crime partners would also include data companies that provide screening lists and other regulatory compliance tools.
- CH transformation could support this type of access through the development of new service, including options inspired by Open Banking (e.g. enabling company customers to allow a third party provider to access non-public data via Application Processing Interfaces, for secure sharing with banking and finance providers).

Transparency on the use of the querying power

12. Q: The Registrar will provide an explanation about why the query is being made. What other information would you expect the query to contain?

- Clear and plain language guidance on the consequences of not responding or providing an inadequate response to CH queries. This should include consistent and publicised enforcement against company officers, directors and beneficial owners who flout the rules, as well as TCSPs who provide misleading information.
- Technical guidance for presenters, trust and company service provider (TCSP) agents and other company advisors on the kinds of evidence required, including in relation to information on overseas persons and corporate directors (see our response to Q13 below).

13. Q: What kinds of evidence do you think it would be appropriate for the Registrar to request in support of a response to a query?

- Depending on the query, the Registrar may require documentary evidence from a source independent of the company and persons associated with the company.
- Where information about an overseas person or corporate director is not forthcoming due to local legal restrictions, the Registrar should apply their RBA to consider whether they could accept attestations by a professionally regulated body (e.g. notary public or law firm). Such attestations should provide equivalent information to that required and should not be limited to general undertakings of compliance or legal status.

14. Q: What guidance on the Registrar's use of the querying power would you expect Companies House to publish?

- High-level guidance on the RBA would be appropriate, provided that this did not include any specific operational protocols that could be abused by criminals seeking to subvert CH systems. Public guidance could include general criteria, such as abuse of the register to facilitate fraud, and a short list of illustrative sources of risk indicators, such as the National Risk Assessment for AML/CFT.
- More detailed risk criteria and guidance on the CH approach to annotating or removing information from the register could be provided, through appropriately managed channels, to regulated sector firms and other economic crime partners.Such guidance is important to help avoid misunderstanding of annotated records leading to disproportionate responses by regulated firms and their automated screening systems. CH guidance to the regulated sector

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should include CH criteria and thresholds for when annotation is required and when this relates to suspected abuse of the register.

- Regulated firms also require clear supervisory expectations for how they should take account of this information in their own RBA. Industry are happy to work with CH, the FCA and other economic crime partners to help ensure that this new registry information can be used properly by the regulated sector.

Complaints

15.Q: Do you agree that complaints should be handled using the same process as the current Companies House complaints process? If not, please include reasons for your answer.

- Yes, we agree that complaints should be handled using the same general process, provided that this recognises that a RBA will involve use of judgement and that this would not require routine disclosure of confidential intelligence.

Chapter 2: -

Removal of information

16.Q: Do you agree that the Registrar should have greater powers to remove information? Do you have suggestions for other approaches we could take?

- Yes, we agree that the Registrar should have greater powers to remove information.
- As noted above, we consider that the application of a RBA should include a sliding scale of interventions and sanctions, including internal flagging and public annotations of unanswered queries and other specific concerns over company information; e.g.
  - Where information has been amended to resolve a reported discrepancy;
  - Where a director or corporate director has been removed due to ineligibility;
  - Etc.
- We consider that consideration should be given to the development of a 'bad actor' list of known falsified identities presented to CH, similar to the list published by the FCA of rogue businesses and clone companies.

Rectification of registered office address

17.Q. Do you agree that the Registrar should close this loophole or are there circumstances where remaining at the default address, or moving to the default address more than once, is warranted?

- Yes, we agree that the Registrar should close the loophole allowing companies to remain at the default address and move to the default address more than once. We consider that these circumstances are indicators of higher risk and that closing the loophole is the most efficient and effective way to mitigate these threats to the integrity of register data.

18.Q. Do you agree that the amount of time a company (or other entity) can be defaulted to the Companies House address be limited to a specified period, e.g. 12 months?

- Yes, we agree that the amount of time should be limited to a set period.

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- However, we consider that the maximum set period should be shorter than 12 months; e.g. 6 months as standard with an option for the Registrar to set a shorter period in exceptional circumstances.

19.Q. What action do you consider should be taken if a company remains at the default address for longer than 12 months?

- Depending on the circumstances, a company remaining at the default address beyond the maximum set period should be removed from the register and, in line with the RBA, there may be a need for further investigation into the applicant and other persons associated with the company.
- If there are exceptional circumstances preventing a legitimate company from demonstrating a registered address, consideration should be given to defining these circumstances narrowly through a special licensing process involving additional checks and verification.

Speeding up processes

20.Q. Do you agree that it is appropriate to reduce the 28-day period? If not, what period do you consider is appropriate and why?

- Yes, we agree that the period for companies to respond to queries from the Registrar should be reduced. We consider that this would be appropriate for all queries relating to information of high risk for facilitation of economic crime; e.g.
    - directors;
    - beneficial ownership;
    - company name;
    - regulated address;
    - company dormancy;
    - Etc.
- We consider that a standard 14-day period could be appropriate in most cases, provided that regulated sector firms are aware that a query has been raised, such as through internal flags to CH and economic crime partners.

21.Q. Do you agree that Companies House should have the ability to remove the name or address of the affected individual while a response is awaited from the company?

- Yes, we agree that the Registrar should have the ability to remove high risk information while awaiting a response, in line with a RBA and the new complaints procedure.

Power to require delivery by electronic means

22.Q: Do you agree that the power to require (or mandate) delivery by electronic means should be conferred from the Secretary of State to the Registrar?

- Yes.

Chapter 3: -

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Rules governing company register

23.Q: We intend to remove the requirement for companies to keep and maintain their own Register of Directors. Do you have any concerns about this approach?

- We have concerns that this approach could reduce the availability of the suite of information required for regulated sector firms' know-your-customer requirements and wider economic crime risk management. As noted in the consultation, company registers include information not available through the public register, such as the full date of birth for directors.
- Relevant requirements of the Money Laundering Regulations include reg 28(3), reg 43(1)(a)(ii). Additional economic crime risk management requirements include name screening against lists of sanctions designations and other lists, where full date of birth is critical to both manage false positives and confirm true positives.
- We consider that, if the Government proceeds with this proposal, supplementary measures are required to ensure that regulated sector firms still have ready access to the suite of information required for economic crime risk management.

24.Q: What impact would changes to the requirement to keep any of the registers in the list above have?

- In addition to the concerns noted above, we note that the removal of this requirement on companies may reduce the awareness and incentives for compliance with company registration rules.
- We also note that the requirement for companies to keep and maintain their own registers of directors is relevant to consideration of UK equivalence with EU anti-money laundering regulation.

25.Q: We may also consider further changes to the election regime for private limited companies which was introduced in 2016. How useful is the election regime for private limited companies?

- No comment.

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Implementing the Ban on Corporate Directors consultation

The Principles

1. *Q. In your view, will the proposed 'principles'-based exception deliver a pragmatic balance between improving corporate transparency and providing companies adequate scope to realise the legitimate benefits of the use of corporate directors?*

- We consider that a principles-based exception could support an appropriate balance between corporate transparency and the legitimate benefits of corporate directors. However, this would depend on proper targeting, implementation and enforcement.
- We consider that there are practical challenges to the proposed exception, which increases the reliance placed upon the CH process for verification of directors and beneficial ownership and also raises specific challenges for verification of overseas persons.
- To address the reliance placed upon verification, both in this proposal and more generally, we recommend that the CH process for verification of directors and beneficial ownership should look beyond the identity of the presented persons and verify their relationship to the company (see our response to the Powers of the Registrar consultation, Q2).
- To address specific challenges for overseas persons, we recommend that the scope of the proposed exception should be reconsidered (see our response to Q2, below).

The Scope

2. *Q. Bearing in mind the transparency objective, is the scope of the exception proportionate and reasonable?*

- We consider that further consideration should be given to the 2015 proposal to only allow overseas corporate directors where key information, confirming that its directors are all natural persons, is included in a public register.
- We consider that the 2015 proposal, or a variant on it, could simplify implementation and enforcement of the exception.
- We note that public registers are being established in an increasing number of financial centres, including all EU Member States, the Overseas Territories and the Crown Dependencies. We also note that the US Government are establishing a federal register of companies that, while not publicly available, should enhance enforcement of the existing US ban on corporate directors.

3. *Q. Assuming that ID verification will form a fundamental element of the corporate director regime, what do you see as the arguments for and against allowing LPs and LLPs be appointed as corporate directors? If they are to be allowed, how should the principle of natural person directors apply within these partnership models?*

- We consider that a consistent approach should be applied including to LLPs and LPs, to minimise the scope for criminal exploitation of varied requirements.
- As noted earlier, we recommend that verification of corporate directors should include checks on the relationship of the presented director to the company.

Compliance and Reporting

4. *Q. Do these reporting requirements appear proportionate and reasonable?*

- We support the proposal for a new requirement on any company with a corporate director to assure itself that there are no second step corporate directors and confirm as such in its annual confirmation statement.
- We also support the proposal for a new requirement on companies to notify the Registrar at the end of the transitional period of any existing corporate director which becomes ineligible due to having its own corporate directors.

Impacts

5. *Q. Does the Impact Assessment provide a reasonable assessment of the costs and benefits of the prohibition and possible exceptions? In particular: • Do you have any evidence as to why companies have reduced their use of corporate directors since the primary legislation was passed? • Do you have any evidence on what might be the costs to companies from the proposed restrictions on corporate directors?*

- We support the proposal for the targeted ban to work both 'up' and 'down' the chain of directorships. This will need to be supported through a properly resourced RBA to implementation and enforcement, including work with international partners.
- We note the linkage between these new requirements and the proposal in the Powers of the Registrar consultation to remove the requirement on companies to establish and maintain their own company register. We consider that the rebalanced package of obligations on companies should aim to increase awareness and incentives for companies.

Potential for Extending Corporate Director Principles

6. Q. What are your views on applying the proposed Corporate Director principles more broadly to a) LLPs, and b) LPs, and how would you envisage ID verification operating in those contexts?

- We consider that a consistent approach should be applied including to LLPs and LPs, to minimise the scope for criminal exploitation of varied requirements.

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Improving the Quality and Value of Financial Information on the UK Company Register

NB: Given the specialist focus of much of this consultation, we only address those questions most directly relevant to the fight against economic crime.

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3. Q. What benefits do you envisage for filing once across government?

- We consider that filing once across government will facilitate public sector data matching and reduce the scope for criminals to exploit varying procedures and definitions between different administrative processes.
- Filing once across government, alongside clear legal gateways for more targeted information sharing, could support a reduction in low-value reporting obligations on the regulated private sector. As noted in our response to the 2019 consultation, in a number of areas the government requires regulated firms to report to law enforcement what they, and other parts of the public sector, already know. This results in a displacement of specialist economic crime resources away from more valuable activity.

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15. Q. What other information should Companies House collect that would be useful for:
- Combating economic crime;
- Increasing the value of the information available on the register?

- CH data should be structured into selectable and searchable formats, to support data mapping and the identification of commonality of data across company filings (e.g. individuals with multiple directorships). The quality and accessibility of CH data is often as important as the scope of this data, but there is currently important CH data that is not in searchable formats (e.g. third party agent / TCSP, accountant, etc).
- We consider that it would help combat economic crime for the register to note where companies do not hold a UK bank account, and for applications to dissolve or make a company dormant to include confirmation of whether the company held an overseas bank account. Typologies of money laundering include UK shell companies without a UK bank account or UK business activity, and where companies reported dormant or dissolved continuing trading through overseas bank accounts.
- We consider that restricted access to new information could help maintain applicant confidence and willingness to disclose potentially sensitive information. We consider that privileged access for the regulated sector and their data companies could provide a middle way, between full publicity on the one hand and on the other hand preventing access to information to help support regulatory compliance. We also consider that privileged access for the regulated sector and their data companies would help to reduce delays and duplicative queries in the customer due diligence process.

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21. Q. How do you think that the current small company filing options could be amended to help combat economic crime whilst maintaining a simple filing system for small entities?

- As noted above, we consider that it would help combat economic crime for the filing system to note where companies, including otherwise exempted small companies, do not hold a UK

bank account and/or has no UK tax filings. Typologies of money laundering include UK shell companies without a UK bank account or UK business activity.
- We also consider that single filing and public sector data sharing could help identify high-risk anomalies where companies file as a small company but subsequently process a significantly high value of funds through their bank accounts (e.g. millions of pounds and up).

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24. Q. What are your views about the general premise that checks should be conducted on all accounts prior to them being accepted as fit for filing on the public register?

- We support the general premise that checks should be conducted on all accounts prior to filing on the public register. This should include the approach to CH reliance on the verification of UK-regulated agents, as some trust and company service providers will establish shelf companies for sale.
- In line with a RBA, the approach to these checks could be more or less intensive. Consideration could be given to allowing time-critical registration of lower risk information (e.g. no directors or beneficial ownership) pending completion of checks within a short defined period, provided that this was made clear through annotation of the register.

25. Q. Additional checks will be limited. Bearing in mind resource and expertise constraints, can you provide examples of what information Companies House should check as a priority and how it can be checked?

- Fraud and tax evasion typologies include misrepresentation of company trading status, including dormancy and insolvency;
- Detailed intelligence from law enforcement, regulators and public-private partnerships, taking account of the need to avoid impacting on ongoing investigations;
- Data matching, targeting public sector information sharing and typology-led data analytics by CH, HMRC and other public bodies could help identify material discrepancies suggesting misrepresentation of this type of information;
- This type of cross-public sector sharing and analysis could also help review Information relevant to smaller firm filing exemptions (e.g. turnover, number of employees), and identify potential anomalies and other indicators of fraud.

26. Q. Examples of suspicious activity in a company's accounts may be incomplete, inconsistent or apparently misleading information. Can you provide examples of information in a company's accounts that may be an indicator of suspicious activity?

- General risk indicators include:
  - Small company filing but assets are significantly larger;
  - Token figures reported (e.g. amount held in bank £1);
  - Anomalously large transactions;
  - Round sum amounts;
  - Amounts just below thresholds for additional disclosures and regulation;
  - Disproportionately large or small turnover compared to the trading sector norm;
  - Anomalously large write-offs, including disproportionate asset depreciation;
  - Etc.
- Specific examples include:
  - Repayment of loans is through inwards from company's own account with other banks – indicating funds borrowed from other banks being utilised for repayment;

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- Circular movement of funds wherein funds are received from one entity and immediately transferred to another (both receiver and payee being the same in all the cases);
- Funds (e.g. term loans) disbursed immediately credited to other bank account of the company (i.e. the same not utilised for the purpose for which funds were granted);
- Letter of Credit issued in the name of a related party being discounted by the related party and funds remitted back to the client account, indicating that the non-funded facility was converted into a funded facility;
- Large value of funds transferred to company promotors / directors personal account or payments made to individuals who are not associated with the entity.

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