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Joint Committee on the Draft Registration of Overseas Entities Bill
Palace of Westminster
SW1A 0AA

18th March 2019

Draft Registration of Overseas Entities Bill – Call for Written Evidence

Dear Sir/Madam,

Thank you for the opportunity to support the Joint Committee's scrutiny of this draft legislation. UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

UK Finance support the aims of the Bill as part of wider reforms to the UK's regime for company registration and beneficial ownership transparency, as a critical part of the legal and institutional framework guarding against economic crime. We want the UK to be the safest and most transparent place in the world to do business and for our customers. Doing this cannot be delivered by either the public or private sector on their own, especially in a globally significant financial centre such as the UK. Public-private partnerships on anti-money laundering (AML), fraud and cyber security have proven the value of collaboration.

However, despite significant resource across the private and public sector invested, and all the good initiatives the overall outcomes are less effective than the sum of their parts. Too often we are trying to work around the limitations of the current fragmented system. Beneficial ownership information is one example of this fragmentation, with Companies House not required to conduct the type of AML and know-your-customer (KYC) checks required for regulated company and trust formation companies. As a result the current regime for beneficial ownership registration makes it more difficult for banks to prevent economic crime, duplicates cost and effort across all participants and can lead to increased administrative requirements for the end customer.

This is why we are working with the Government to support reform of beneficial ownership registration for companies, trusts and partnerships, as a key part of a more strategic and holistic approach to tackling economic crime. We are concerned that this new Register should learn lessons from the Register of Persons of Significant Control (PSC Register) and Scottish Limited Liability Partnerships, and provide for credible checks, monitoring and enforcement of non-compliance.

Our evidence focuses on these concerns and we provide specific comments below in line with relevant questions from the call for evidence.

Objectives and Scope

There is a good risk-based rationale for focusing the Bill's new transparency requirements on the purchase of property. The NCA's 2017 National Risk Assessment of Money Laundering and Terrorist Financing explicitly recognises the risks of opaque company ownership being used to facilitate money laundering through property purchases. The Joint Money Laundering Intelligence Taskforce (JMLIT) also has a dedicated workstream focused on the risks that UK property is abused to launder the proceeds of international corruption.

However, the effectiveness of the Bill in preventing and combating the abuse of UK property to launder the proceeds of crime will depend on whether data presented to the Register is credibly checked, monitored and subject to enforcement in cases of identified non-compliance. We do not consider that the current Companies House regime will provide an adequate basis for an effective Register. For example, Companies House checks that data presented to it is valid but does not verify the data through independent sources of information.

Operation of the Register

From the banking and financial services sector perspective, what is important is the quality and accessibility of information required for customer due diligence purposes. Publicity does not necessarily guarantee quality, and research by Transparency International, Global Witness and other organisations indicates that the UK's regime for public registration is currently vulnerable to misuse. Similar concerns have been identified by the mutual evaluation report of the UK by the Financial Action Task Force (FATF) and the Treasury Select Committee's inquiry into economic crime.

We have called for changes to both Scottish Limited partnerships and the PSC Register to close identified vulnerabilities. Poor quality or inaccessible beneficial ownership information makes it more difficult for banks to prevent economic crime, including anti-money laundering, protecting customers from fraud and preventing the facilitation of tax evasion. The current regime also duplicates cost and effort across all participants and can lead to increased administrative requirements for the end customer.

We note that the consultation on proposed reforms to Limited Partnerships included the proposal that presenters should be required to demonstrate that they were registered with an AML supervisory body, and therefore subject to AML regulations for KYC and verification of beneficial ownership. We supported this proposal, noting that the fees to register through a regulated Trust and Company Service Provider (TCSP) were minimal (£40-£100) and not seen as prohibitive, and noting that information supplied by regulated TCSPs can be viewed generally as being more reliable. We recommended that the Government give serious consideration to adopting a similar arrangement for Companies House registrations, while acknowledging the challenges of scaling up such an approach for the generality of company registrations. We do not consider that there would be a significant challenge of scale for the registration of foreign entities in scope of the Bill.

Compliance and Enforcement

We are willing to support enhanced review and monitoring by Companies House, including through support for consideration of innovative technologies, improved targeting of AML risk typologies and through the transposition of new EU requirements (which we understand will be consulted on shortly). However, we consider that it would be more efficient and effective to 'get it right first time' through requiring credible initial checks prior to registration.

We consider that greater transparency of foreign company ownership also needs to be supported by greater consistency in AML supervision across different sectors. This is relevant to the Bill's focus on UK property as accountants, conveyancing lawyers and banks all play key gatekeeper roles in a property transaction chain.

We are supporting Government work to address inconsistencies in the AML regime, as identified in the latest FATF review of the UK. This will build on JMLIT work with other regulated sectors to build a clearer picture of the risks of proceeds of corruption being laundered through UK property.

Yours sincerely

Nick van Benschoten

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